

KPN

Annual Report 2011



KPN, a leading supplier of ICT services in the Netherlands, offers consumers fixed and mobile telephony, internet and television. In the business market, KPN provides a broad range of ICT products and services, making it the market leader in the Netherlands. And thanks to our successful Challenger strategy and multi-brand policy, our market share in the German and Belgian mobile markets has grown steadily in recent years.

KPN has a clear aim of being the best-in-class service provider. We aim to offer products and services that are simple to use and help customers achieve personal goals or business objectives. We've been bringing people together for over 125 years. Our technologies and our services enable people to share the special moments in their lives. That's where our strength lies.

CONTENTS

Introduction			Financial Statements	Corporate Financial Statements	
Introduction by the CEO	2	Governance	Consolidated Financial Statements		137
2011 at a glance	4	Risk management		Corporate Income Statement	137
Who we are and what we do	6	Regulatory developments	Consolidated Statement of Income	Corporate Balance Sheet	138
Key Figures	10	Report by the Supervisory Board	Consolidated Statement of Comprehensive Income	General notes to the Corporate Financial Statements	139
Strategy 2011–2015	12	Consolidated Statement of Financial Position	Notes to the Corporate Balance Sheet	140
.....		Remuneration and Organizational Development Report	Consolidated Statement of Cash Flows	
Report by the Board of Management		63	Consolidated Statement of Changes in Group Equity	Other Information	
Information about the KPN share	18		General notes to the Consolidated Financial Statements	Independent Auditor's Report	143
Group performance and outlook 2012	20		Notes to the Consolidated Statement of Income	Proposed appropriation of result	144
Our activities and performance	24		Notes to the Consolidated Statement of Financial Position	Subsequent events	144
Innovation and Investment	36		Notes to the Consolidated Statement of Cash Flows	Legal structure	145
			Other Notes to the Consolidated Financial Statements	
				Glossary of terms	146

The annual financial and sustainability reports are growing closer together. This year, for the first time, the Introduction section in each of the reports is identical. Two separate reports are still needed because of the differing target groups, but they are inextricably bound up with each other.



WE HELP
OUR
CUSTOMERS
TO MEET
THEIR PERSONAL
GOALS OR
BUSINESS
OBJECTIVES

TO MAKE A
DIFFERENCE FOR
OUR CUSTOMERS
AND SOCIETY,
WE HAVE TO
IMPROVE
RELENTLESSLY,
DOING THINGS
BETTER TODAY
THAN YESTERDAY,
AND EVEN
BETTER
TOMORROW



Eelco Blok, CEO

2011 was in many ways both turbulent and inspiring. We announced our strategy for 2011–2015, in which our ambition to become the best service provider in the Netherlands takes center stage. And we continued with our successful Challenger strategy in Germany and Belgium. Through our high quality networks we will give even more value to customers and society.

The departure of Ad Scheepbouwer in April signaled the start of my period as CEO. Mr. Scheepbouwer's retirement marked an impressive ten-year period in which KPN was transformed into one of the best-performing telecom companies in Europe.

I am proud to have the opportunity of steering the KPN ship. More than ever before, we want to gain a reputation as a genuine service provider that puts its customers first, while remaining one of the best-performing telecom companies. The contribution of teamwork cannot be overemphasized; I am convinced that all KPN employees together determine KPN's successes. KPN is a healthy company with stretching customer and social ambitions.

For KPN Group, the first part of 2011 was dominated by the preparations for the 2011–2015 strategy that we presented in May. In the months leading up to it we held extensive discussions with customers, employees, shareholders and analysts. This consultation process gave us valuable and refreshing insights, helped us to see our Company in the way others look at us and confirmed our view that a new direction is absolutely essential if we are to remain successful in the years ahead. The 2011–2015 strategy is one of evolutionary change, preserving the strengths of our heritage. The new direction of our Company will enable us to respond to market trends and the wishes of our customers. Additionally, we plan to make our position in society even stronger. As part of our ambition to

become the best service provider in the Netherlands and to continue to be a strong Challenger abroad, we have expanded our investment programs, focusing on a turnaround in the Netherlands to improve our quality, service and technology.

The ailing economy had an adverse effect on our sector. In the business market, companies postponed or reduced their ICT investments. In the consumer market, our market shares and revenues were under pressure. We saw a further rise in the use of mobile apps, so consumers sent considerably fewer SMS messages and made fewer calls. With our new mobile tariffs, we were the first Dutch provider to respond to that trend. Some of the initial results of the new propositions are positive, however more time must elapse before their impact is fully visible. The sharp growth in the number of Interactive TV and the Fiber-to-the-Home customers was positive, thanks in part to several product and service innovations. The explosive growth in data traffic brings us commercial opportunities on the one hand, and makes our climate neutrality target for 2020 a great challenge and an absolute necessity. In 2011, compliance was an important theme both inside and outside KPN, including an investigation by NMa and increased OPTA supervision. For 2012, we decided to intensify our compliance programs.

The growth figures for our mobile activities in Germany and Belgium were once again excellent: more customers, higher service revenues and increased market shares. This success is the result of the Challenger strategy that we introduced five years ago, enabling the two countries to generate between them 30%

of the total sales of the KPN Group in 2011. In the years to come we will continue our Challenger strategy so as to further strengthen our position. And, we see opportunities to apply some of the Challenger mentality in the Netherlands as well. In November, we confirmed this intention by appointing Thorsten Dirks to the Board of Management. He made a substantial contribution to the Challenger formula in Germany.

KPN has some of the best networks in the sector and we aim to utilize the quality of our networks to support our customers. Guaranteed security of ICT facilities is becoming increasingly crucial, and we are helping organizations to empower their people to be able to work independently of time and place, which is the norm at KPN. Despite the economic downturn, companies' interest in green ICT and energy-saving ICT applications has remained high. In the Netherlands and Belgium we only purchase green power. And thanks to the many KPN employees acting as volunteers, we have brought thousands of people in touch with one another via the KPN Mooiste Contact Fonds.

We signed on to the United Nations Sustainability Platform, the Global Compact, herewith taking on the obligation to contribute towards achieving the Millennium Development Goals for 2015 set by the United Nations.

Those activities and our recalibrated social ambitions, which we aim to gear more closely to our everyday operations, confirm our role in society and the contribution we want to make. Our financial results and corporate social responsibility go hand-in-hand with this. Thanks to the wide range of our products and services, we make a vital contribution to the Dutch economy, of which we are very proud. The unique combination of our staff, our knowledge and our resources will enable us to make a difference for our customers and society; we have to improve relentlessly, doing things better today than yesterday and doing them even better tomorrow and thereafter.

Eelco Blok

Chairman of the Board of Management and CEO

KPN's strategy 2011–2015 targets three principles:

1

STRENGTHEN

We will strengthen our market positions in the Netherlands by an enhanced focus on product and service quality, a more efficient organization and a tighter policy on costs.

2

SIMPLIFY

We will create a nimble organization by simplifying the organizational structure and by offering a clearer set of products and services in both the business and consumer markets in the Netherlands.

3

GROW

We aim to increase our customer base for fixed and mobile telephony and we see particularly good opportunities for the fiber network. We will continue our Mobile International Challenger strategy in the coming years.

KPN obtains first prize in the 2010 Transparency Benchmark of the Ministry of Economic Affairs, Agriculture and Innovation, winning De Kristal, the award for the most transparent social report in the Netherlands.

At the Annual General Meeting of Shareholders, Eelco Blok is appointed KPN's new CEO, in succession to Ad Scheepbouwer who led the Company for the previous ten years. Eelco Blok announces that improving customer service is one of the key areas he will focus on.



Based on the principles Strengthen, Simplify and Grow, Eelco Blok announces the strategy for 2011–2015. Greater customer satisfaction and a leading role in the radically changing ICT market are top priority.



KPN is the first telco to participate in the Climate Savers Program of the World Wildlife Fund. In this program, companies agree ambitious targets on energy savings and the use of renewable energy. In 2011 KPN uses 100% renewable electricity in the Netherlands and Belgium.

Roll-out of the mobile broadband networks is accelerated to support the growing data use by customers in Belgium and Germany.



Accelerated change in customer behavior in the mobile market, increasing price pressure and rationalization in the business market and insufficient cost reductions adversely impacted performance in the Netherlands. KPN has to issue an adjusted EBITDA outlook for 2011.

JANUARY

FEBRUARY

MARCH

APRIL

MAY

JUNE

2011 was an eventful year for KPN, alternating between news of major and minor importance. We published our strategy for the coming years, we announced an outlook adjustment and our activities were frequently the subject of public debate. These two pages feature a selection of KPN news.



KPN welcomes its 500,000th customer for Interactive TV. At the beginning of 2011, customer numbers stood at only 300,000. KPN now has a TV market share of 17%.

KPN acquires the high frequency license for the Belgian market, allowing it to pursue its roll-out of fast data services for customers and partners. The license lasts for 15 years and takes effect on July 1, 2012.

KPN announces new mobile propositions for consumers, in a move marking KPN's response to the sharp rise in mobile internet usage. Later in the year, KPN also announces new tariffs for the business market.

Getronics disappears as a separate brand name in the Netherlands. The Getronics activities are rebranded to KPN Corporate Market.

NMa starts an investigation regarding possible collusion of mobile operators on propositions in the mobile market.

Regulator OPTA announces to put KPN on close supervision further to alleged violations of obligations based on the Telecommunications Act.

In the third quarter of 2011, E-Plus welcomes its 22 millionth customer. Our German subsidiary continues the rapid upward trend of the last few years.



KPN wins the Sponsor of the Year trade prize, testimony to the fact that various forms of sponsorship across a variety of categories can create effective mutual reinforcement. In the 'community' category, KPN's Mooiste Contact Fonds obtains the First Prize.

In November, KPN announces its intention to acquire four fiber service providers and also confirms new arrangements to expand its stake in Reggefiber in the coming years. The number of households that KPN can serve with fiber services has grown sharply. In December, KPN connects its 100,000th fiber customer.

With its listing on the Dow Jones Sustainability Europe Index, KPN is ranked amongst the most sustainable European telecommunications companies for the second year in a row.

JULY

AUGUST

SEPTEMBER

OCTOBER

NOVEMBER

DECEMBER



In a world in which communication is ever more advanced, more accessible and faster, we aim to go on doing what we have been doing well for over 125 years: enabling contact, empowering people to connect with each other.

Our mission is to provide our millions of consumer and business customers with high quality communication products and services.

We deploy a multi-brand policy to meet the needs of different customer groups. This permits us to differentiate by price, product and service and allows the customer to select the brand and tariff that suits them best. In addition, we offer our business customers a wide range of ICT services, whether they are a locally based small or medium enterprise business or a multinational corporation operating across the globe.

Satisfied customers create the basis for profitable growth, which in turn allows us to create value for our shareholders. We believe that, with proud and motivated staff, we can achieve excellent quality and great customer satisfaction. Only then can we offer our customers the best products and services.

We are very aware of our responsibility to society. An optimally functioning and reliable ICT infrastructure is crucial for the efficient running of a modern society: without the internet everything grinds to a halt. This places a major social responsibility on KPN. Security and privacy are top priorities. We also realize that we can use our technology to enable contact for those for whom contact is not, or no longer, a given.

We promote the New Way of Working, i.e. flexible working hours and location, and so helping our customers save time and money. We have made the New Way of Working KPN's standard approach to work, as much as possible, in the same way as we make unceasing efforts to save energy and to ensure its renewable sourcing.

Organizational structure

KPN's organizational structure that was in place until the end of 2011 is shown over these two pages.

In the summer of 2011, we began work on the detailed arrangements for the plans for a new divisional structure which we implemented on January 1, 2012. The new divisional structure is run by the Executive Committee where all Dutch and international operations are represented. The new structure will facilitate a more direct and efficient management and is in line with the strategic plans for a simpler organization that enables us to respond better to changes in the ICT world. A key change is the split of the Consumer Segment into two new Segments, Consumer Residential (internet, television and fixed telephony) and Consumer Mobile (mobile telephony and mobile internet). ITNL and Wholesale & Operations are combined into the segment NetCo.

KPN GROUP IN 2011

→ The Netherlands

Consumer:

With fixed and mobile telephony, internet and television, KPN offers consumers a wide range of communication, information, entertainment as well as commercial services.

→ Mobile International

Germany:

E-Plus is the successful Challenger network operator with its own brands (such as E-Plus and BASE) and partner brands in Germany.



Business:

KPN offers its small and medium sized business customers a complete portfolio of services, from fixed and mobile telephony and internet to data networks, workspace management and data centers.

Wholesale & Operations:

Wholesale & Operations is responsible for KPN's operational activities for the Dutch networks (both fixed and mobile) and for KPN's wholesale customers in the Netherlands.

KPN Corporate Market:

KPN Corporate Market (formerly Getronics in the Netherlands) offers KPN's largest corporate customers global ICT services and is the market leader in the Netherlands in the area of end-to-end infrastructure and network-related ICT solutions.

iBasis:

Via iBasis, KPN is a leading player in the international wholesale voice market. iBasis carries international phone calls worldwide.

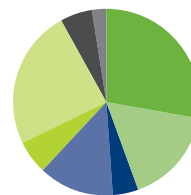
Belgium:

KPN Group Belgium is the successful Challenger network operator with its own brands (such as BASE) and partner brands in Belgium.

Rest of the World:

KPN Spain, KPN France (sold in December) and Ortel Mobile are virtual network operators offering mobile services through own brands and partner brands. Ortel Mobile focuses principally on the multicultural market segments in the Netherlands, Germany, Belgium, France and Spain, and recently started operating in Switzerland.

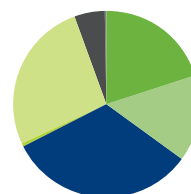
Revenues



€13,022m

(2010: €13,324m)

EBITDA



€5,138m

(2010: €5,476m)



WE TAKE
PRIDE IN OUR
NETWORKS
THAT ARE
RECOGNIZED
AS THE MOST
STABLE IN THE
NETHERLANDS

The KPN organization

KPN is a public limited company formed under Dutch law ('naamloze vennootschap') with a two-tier structure consisting of the Supervisory Board and the Board of Management. The Board of Management manages KPN's strategic, organizational and financial matters and appoints senior management. The Supervisory Board is charged with the supervision and advisory of the Board of Management. Membership of the Board of Management went through a number of changes in 2011: Eelco Blok took over the chairmanship from Ad Scheepbouwer in April. In November, Thorsten Dirks became a member of the Board of Management. After having been a member for five years, Baptist Coopmans announced his intention to leave KPN on April 1, 2012. CFO Carla Smits-Nusteling announced at the beginning of January 2012 that she has decided to pursue her career outside KPN, effective April 1, 2012. On December 31, 2011, the members of the Board of Management were Eelco Blok (CEO), Carla Smits-Nusteling (CFO), Thorsten Dirks and Baptist Coopmans.

Customer is king

In the 2011–2015 strategy, service provision is the focal point for everything we do. We plan to continue improving our service, cut waiting times and solve problems in one go. In short, we want to show customers that they are welcome and valued at KPN. For that reason, our staff members with direct customer contact will determine the success of KPN more than ever before. Our 1,600 retail staff, 3,000 contact center agents and 450 service engineers are the public face of KPN in the Netherlands. Via our website and social media we approach our customers in a personal way.

The Net Promoter Score (NPS), with which we measure customer satisfaction, helps us to make continuous improvements to our service. The NPS figure shows the degree to which potential and current customers allow themselves to be influenced by the recommendations and experiences of existing customers when it comes to choosing brands or products. The growing popularity of social media platforms and comparison websites reinforce this. We view customer satisfaction as being so important that the NPS is one of the criteria used to determine the bonuses paid to employees.

Strong brands

We have a varied customer base, which calls for a suitable range of products and services. For this reason KPN has, alongside the KPN brand, a number of other consumer brands: Hi, Telfort, XS4ALL and Simyo. German customers may choose from BASE, E-Plus, Simyo, Ay Yildiz and more. Belgian customers may choose, for example, BASE and Simyo. With Ortel Mobile we serve our mobile customers in the Netherlands, Germany, Belgium, Spain, France and Switzerland. In the business market we also have a number of strong brand cards, such as XS4ALL, Atlantic Telecom, Yes Telecom, Gemnet and Talk&Vision. Globally, we are one of the largest providers of wholesale telephony services to other companies with our iBasis brand.

Our products and services

For consumers at home, the fixed line telephone connection serves as the basis for our fixed services: internet, interactive television and fixed telephony. KPN also offers television across the ether with Digitenne. With the roll-out of fiber in the Netherlands by Reggefiber, more and more households are taking advantage of this advanced technology.

KPN has 35 million mobile customers in Europe who may choose between various types of mobile subscriptions. Thanks to the very rapid growth in smartphone ownership and smartphone features, mobile internet usage has become commonplace, driving explosive growth in data usage. We are responding to this with new mobile propositions for the consumer and business markets.

In the business market, we help small and large companies with total ICT solutions. We offer them total integration of speech, data, fixed and mobile services. KPN also offers government and the healthcare and education sectors an array of ICT applications.

KPN Corporate Market (previously known as Getronics in the Netherlands) assists multinationals with services such as workspace management, connectivity solutions and data centers. We work using the Global Service Delivery Model that is designed to furnish an excellent, high-quality service across the world.

Everything depends on the quality of our networks

We take pride in our networks that are recognized as the most stable networks in the Netherlands. It forms the backbone for all KPN's mobile and fixed services. This has led us to invest EUR 1.5 billion, out of total Capex investment of 2.0 billion, in our Dutch, German and Belgian networks in 2011, anticipating in particular the major growth in data traffic, especially in mobile data traffic.

With the roll-out of the fiber network with our partner Reggefiber, the infrastructure in the Netherlands will change to a hybrid infrastructure over the coming years. Using fiber as the main data conduit, KPN can offer greater bandwidth and very high data speeds. At several locations in the Netherlands we can now achieve 500 Mb per second, much more than cable could ever offer. We believe in fiber as the network of the future. That is why, at the end of 2011, we announced our intention to take over four fiber service providers and confirmed new arrangements to expand our stake in our fiber partner Reggefiber in the coming years.

Because a major part of the Netherlands has yet to gain fiber access, the existing copper network remains indispensable for the time being for the purposes of delivering fixed services. We have made major upgrades to our copper network over recent years to enable high data speeds and we will continue to do so.

Team KPN

We are convinced that the synergy of all individual employees determines success: team sense, team spirit and team work are the key words. As an employer, KPN looks for commitment and professionalism from its employees. We offer employees a package of modern working conditions, with the New Way of Working.

Skilled, fit and talented

We believe it is important for employees to continue to develop themselves and to keep their knowledge and skills sharp and up-to-date. We therefore offer them the possibility of adding to or enlarging their skill set within a specific area of skills. All members of staff coming under the KPN's collective labor agreement in the Netherlands also receive their own annual deployability budget they may use for their permanent development. We invest in keeping all our staff members fit. Any KPN employee may have his physical and mental fitness tested and – dependent on the result – improve his health.

We run a talent program in order to attract and hold on to graduates and those with higher professional education. We have also a diversity program to improve the male-female balance within our Company.

Our social themes

With our listing in the Dow Jones Sustainability Europe Index and the Transparency Benchmark (First Prize in 2010, fourth position in 2011), we prove that we are making good steps in the field of Corporate Social Responsibility (CSR). The CSR themes that we chose in 2007, primarily focused on our own operations. When the strategy 2011–2015 was formulated, we simultaneously renewed these CSR themes to five social themes: best ICT infrastructure, healthcare of the future, new way of working and living, energy efficiency and security and privacy.

For more details, please refer to the Sustainability Report 2011.

OUR CORE VALUES

Personal, Simplicity, Trust

In our aim of being the best service provider, three core values are a common theme throughout the Group: personal, simplicity and trust.

We strive for a simple organization that contributes to an uncomplicated, easy-to-understand range of products and services and optimal service levels. Every employee having direct client contact is expected to be available, accessible and clear. We give our customers help that is personalized, dedicated and that creates trust. We do what we promise our customers. And through our socially responsible activities, we demonstrate our involvement in society.



Putting KPN's 2011 performance in perspective

Customer satisfaction¹ (NPS)

2007	2008	2009	2010	2011
N/A	N/A	-6	-13	-14

Reputation (Ranking in the Netherlands)

17 th	16 th	17 th	16 th	12 th
2007	2008	2009	2010	2011

Energy consumption (in petajoule)

4.6	5.5	5.7	5.5	5.3
2007	2008	2009	2010	2011

Performance indicators

Every year, KPN sets itself a number of specific objectives. We measure our performance using financial and non-financial Key Performance Indicators (KPIs), which help us to manage the organization. They also form the basis for the variable remuneration granted to the Board of Management and to senior executives. In 2011, we introduced customer satisfaction, reputation and energy consumption as new, non-financial KPIs that help us in monitoring if we are on track to achieve our ambition to become the best service provider in the Netherlands in 2015.

Furthermore, as part of this ambition, we aim to increase our 'First time right' score. We are developing a measurement tool to monitor 'First time right' performance in the end-to-end service chains.

Customer satisfaction

In 2009, we introduced the Net Promoter Score (NPS) as a tool for measuring customer satisfaction. We regularly survey a representative customer group in the Consumer and Business Market in the Netherlands to calculate this score. The key question asked is whether customers would recommend KPN to friends or family.

Reputation

An excellent reputation is a prerequisite for us to become the best service provider in the Netherlands. KPN uses RepTrak to monitor this KPI. RepTrak maintains a list of Dutch companies and their reputational scores.

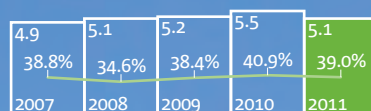
Energy consumption

As a major energy consumer, KPN will do everything in its power to increase its energy efficiencies. With the sharp rise in data usage, setting energy consumption as a KPI is as logical as it is imperative and efficient energy consumption is indispensable. We see it as our responsibility to inform customers about cutting down on energy consumed by our ICT equipment.

Revenues and other income
(in billions of EUR)



EBITDA (in billions of EUR)
EBITDA margin



Free cash flow
(in billions of EUR)



Earnings per share²
(EUR)



Capital expenditure
(in billions of EUR)



Net debt/EBITDA



Number of FTEs as of December 31



- 1) No data available prior to 2009.
- 2) Earnings per share in 2007 and 2009 include tax gains of EUR 1.2 billion and EUR 0.7 billion, respectively, regarding recognition of additional deferred tax assets at E-plus.

Financial KPIs

Healthy financial management of the business is critical to success and financial KPIs are heavily weighted in the scale of management compensation. Revenues and other income, EBITDA, EBITDA margin, free cash flow and the number of full-time employees paint a picture of the size of the business and of our financial performance.

Significant market shares	2011	2010
Broadband Netherlands ¹	40%	41%
TV Netherlands ¹	17%	15%
Mobile Netherlands ²	46%	47%
Mobile Germany ²	15.9%	15.7%
Mobile Belgium ²	~19%	>18%

- 1) Based on subscriber numbers at year-end
- 2) Based on service revenues

Prospects for 2012

To strengthen our activities in 2012 we are going to expand and accelerate the initiatives and investments that we announced in May 2011, thereby responding to the changing market conditions. Consequently, 2012 will be a year of transition for our Dutch operations. At the end of 2012, we aim to stabilize our market share in the Dutch mobile consumer market, while it is expected that the broadband market share will bottom-out. The objective of the investments is to achieve a sustainable profit level in the future for our Dutch operations. Additionally, we will continue to target quality improvements and simplification. In so doing we aim to raise customer satisfaction and our reputation to a higher level. Due to market trends – which are putting our revenue model under pressure – and our decision to speed up investment, profit and cash flow in the transitional year

2012 will be lower than in 2011. At the same time, the general macroeconomic picture is very turbulent and uncertain. This increases the need to maintain a good balance between strategic investments, remuneration to shareholders and a solid financial position.

In May 2011, one month after taking up his duties as CEO, Eelco Blok presented the KPN strategy for 2011–2015, based on three principles: strengthen, simplify and grow.

New opportunities, new ambitions, major challenges

We use this corporate strategy to respond to the trends and new technologies in the telecom industry. Customers are communicating more and more via social media and increasingly advanced apps. Mobile internet is growing explosively, as is data usage, and the telecom and ICT landscape is continuously developing.

Paralleling this, we observe trends in society that significantly impact our industry. ICT is the vital artery of our economy with more and more information, often confidential, being processed across the internet. This places still higher requirements on continuity, security safeguards and network privacy and the internet, whether mobile or fixed. There is an aging population, placing greater strains on healthcare. ICT can play an ever increasing part in creating greater efficiency in this industry. People want to work efficiently, free of the boundaries of time and place, and to combine private and business tasks. Here too, ICT has an important part to play.

Against the background of these developments, the 2011–2015 strategy is directed at improving our quality, service and technology. In this way, we want to become the best service provider in the Netherlands and strengthen our market positions. The focus with Mobile International will be on balancing revenue growth and EBITDA margin and continued investment in the mobile broadband network.

We think and operate through the perspective of our customers' needs in our quest to realize our ambitions. Our aim is to offer an excellent service, delivering high-quality products and services. The KPN network, the Company's backbone, is at the heart of this and we shall continue investing in our copper, fiber and mobile networks.

KPN will modify its organizational structure to realize all its plans and to achieve greater vigor and efficiency. Employees will be given greater responsibility and an enhanced role to provide customers with an even better service. A rigorous and responsible approach to costs is a key part of the new strategy: investing where indispensable, saving where possible. Our employees play a crucial role in our aim of becoming the best service provider, they embody the three core values of personal, simple and trustworthy. Our aim is for these characteristics to distinguish us as a service provider. This leads to our conviction that teamwork forms the basis of success.

We focus on our core qualities and outsource non-core operations to specialized companies, in the Netherlands and abroad. This will result in the reduction of between 4,000–5,000 FTEs at KPN by 2015. Some of these will be recreated by our partners. Employees whose tasks are relocated abroad, for example to India, will be given assistance and counseling in their search for new employment.

Our role in society plays an important part in achieving our objectives. In line with the new strategy, we decided in 2011 to expand our social focus.

Alongside our efforts in the New Way of Working, Responsible Energy Use and People Connected we see our social contribution as coming mainly from our network. With the quality of our network and with a focus on optimal security and privacy, we want to promote innovation and efficiency in healthcare.

KPN speeds up implementation of its strategic plans

When KPN's annual results were presented on January 24 of this year, CEO Eelco Blok focused on the changing external environment. Counterbalancing the successes of Interactive TV and fiber services and the strong growth in the German and Belgian markets, performance in the Netherlands did not meet our expectations. Declining market share in the mobile telephony and broadband markets in the Netherlands, and tough conditions in the business market have impacted our financial results.

To tackle these developments, KPN is accelerating its investment strategy in 2012 to strengthen the market positions in the Netherlands. Additional investments will be made in the mobile and fixed networks (copper and fiber). This decision benefits not only the service we provide to the customer, but also enables us to compete with the cable companies and other mobile providers. Major cost reductions are also an absolute necessity if we are to make the organization more efficient. This means that the number of jobs will still have to be cut by 4,000–5,000 by the year 2015, but we have accelerated the reduction program. Furthermore, there will be no repurchase program in 2012. Through these measures, we are adopting our plans so that KPN will come out of the 2012 transition year a stronger company.

WITH OUR
STRATEGY
WE ARE FIT
TO RESPOND
TO NEW
TRENDS AND
TECHNOLOGIES



On May 10, we presented our Strengthen, Simplify, Grow strategy and ambitions towards our goals in 2015. In 2011 we made the first steps towards these goals with our strategic initiatives.

STRATEGY 2011–2015 AT A GLANCE

Strategic initiatives

Consumer Wireline	<ul style="list-style-type: none"> • Improve, innovate and differentiate TV and broadband propositions • Improve customer service and delivery processes • Expand addressable market with VDSL upgrades and FttH roll-out in promising areas • Target commercial investment using a regional approach
Consumer Wireless	<ul style="list-style-type: none"> • Further development of data-centric propositions • Convergence of Fixed and Mobile offerings • Expansion of distribution footprint • Growth in value-added services (e.g. apps)
Business / Corporate Market	<ul style="list-style-type: none"> • Focus market footprint on the Netherlands • Develop SME/SoHo Challenger brand and improve distribution via Business Centers • Continued investment in fixed, mobile, and data center infrastructure • Invest in growth areas (unified communications, secure managed devices, private Cloud and service aggregation) • Targeted focus on verticals such as health and financial services
Germany	<ul style="list-style-type: none"> • Grow Challenger model through value for money data offerings and private label smartphone offerings • Roll-out mobile broadband network (HSPA+) and start with LTE pilots • Continue multi-brand strategy via own brands and partner brands • Further exploit regionalized commercial approach
Belgium, Rest of World, iBasis	<ul style="list-style-type: none"> • Grow Challenger model through value for money data offerings in Belgium • Accelerate growth of Ortel Mobile and assess options for KPN Spain • Focus on scale of iBasis in wholesale voice and build VAS capabilities for long-term value creation
Cost Leadership	<ul style="list-style-type: none"> • Start offshoring and outsourcing initiatives (back office, network and IT) • Accelerated implementation of efficiency programs to reduce FTEs
Simplification, quality and reputation	<ul style="list-style-type: none"> • Simplify invoices and letters to customers • Reduce delivery times for broadband and TV • Improve help desk experience and provide online self-care environment on KPN.com • Introduce XL-stores as local service points as well as 'in-home' integration services formula
Financial framework	<ul style="list-style-type: none"> • Commitment to minimum credit ratings of Baa2 and BBB • Net debt / EBITDA ratio between 2.0x and 2.5x



Objectives and ambitions 2015

Status 2011

- | | |
|--|--|
| <ul style="list-style-type: none"> • Regain broadband market share of >45% • Growth of TV market share • Increase in the number of Revenue Generating Units per connection from 1.9 to ~2.4 • Improve quality | <ul style="list-style-type: none"> • Broadband market share remained under pressure • Improved TV proposition and continued growth of TV market share • Copper network prepared for pair bonding, commercial launch in Q2 2012 • FttH roll-out on track |
| <ul style="list-style-type: none"> • Successful migration of voice-centric to data-centric propositions • Sustained mobile market share in the Netherlands of >45% | <ul style="list-style-type: none"> • Market position remained under pressure • New data-centric propositions launched in September with positive initial results • Expansion of own distribution, 11 new shops opened |
| <ul style="list-style-type: none"> • Step-by-step integration of Business and Corporate Market • Remain a leading business and ICT player in the Netherlands | <ul style="list-style-type: none"> • Getronics rebranded to KPN Corporate Market in the Netherlands • Agreement to sell Getronics International to focus on core footprint • Continued impact from migration from legacy to IP-based portfolio • Business market size declining due to price pressure, continued rationalization and macroeconomic impact • Significant steps in outsourcing and offshoring in Corporate Market |
| <ul style="list-style-type: none"> • Growth of service revenue market share to >20% • EBITDA margin of 35%–40% | <ul style="list-style-type: none"> • Mobile broadband network roll-out ahead of schedule • Focus on strengthening backhaul, with backhaul sharing on regional level • Successful expansion of addressable market by developing new regions with additional shops |
| <ul style="list-style-type: none"> • Growth of service revenue market share in Belgium to 20%–25% • EBITDA margin of 35%–40% in Belgium • Accelerated growth of Ortel Mobile • Maintain Top 5 position for iBasis | <ul style="list-style-type: none"> • Mobile broadband network roll-out accelerated in Belgium • Data growth in Belgium via own and partner brands • KPN France sold |
| <ul style="list-style-type: none"> • Reduction of 4,000–5,000 FTEs through outsourcing and offshoring • Capex efficiency and procurement savings with annual savings of ~EUR 100 million as of 2012 • Improve cost flexibility in the Netherlands | <ul style="list-style-type: none"> • Accelerated restructuring program reducing ~1,400 FTEs at KPN Corporate Market |
| <ul style="list-style-type: none"> • Increased ‘First time right’ score in service chains to 85–95% • Large step-up in customer satisfaction • Reduce number of customer complaints • Top 10 reputation ranking in the Netherlands | <ul style="list-style-type: none"> • Initial progress in 2011: improving delivery process in IPTV, less calls to call centers and simplified letters to customers |
| <ul style="list-style-type: none"> • Commitment to attractive dividend policy • Returning excess cash to shareholders • Sustainable financial framework | <ul style="list-style-type: none"> • € 0.85 dividend proposed for 2011 • EUR 1 billion share repurchase program finalized in September • Net debt / EBITDA at 2.3x at year-end 2011 |



**REPORT BY
THE BOARD OF
MANAGEMENT**



KPN attaches great importance to transparent and regular communication with its shareholders, other capital providers and their intermediaries.

Presentations for, and meetings with, investors and analysts are held on a regular basis, including those in connection with the announcement of KPN's results. Analyst and investor meetings and conference calls were organized after the publication of the quarterly results and broadcasted live via internet to ensure that all groups of investors receive the same information at the same time. In all these activities, KPN's management is supported by the Investor Relations department, which is at the investors' and analysts' disposal on a daily basis.

Listings and Indices

Since June 13, 1994, KPN's ordinary shares have been listed on Euronext Amsterdam (ticker: KPN). On April 4, 2008, KPN delisted its American Depositary Receipts (ADRs) from the New York Stock Exchange. KPN replaced its ADR program with a Level I ADR program, which allows investors to trade KPN ADRs in the United States on the Over-The-Counter market (ticker symbol: KKPNY).

KPN shares are included amongst others in the following leading Indices (weightings at December 31, 2011): AEX 5.6%, EURO STOXX Telecommunications Index 9.9%, STOXX Europe 600 Telecommunications Index 5.3% and MSCI Euro 0.7%.

Share ownership

Capital Research and Management Company notified the AFM on August 8, 2011 that they held 10.10% in KPN's ordinary share capital. To KPN's knowledge, no other shareholder owned 5% or more of KPN's outstanding shares as at December 31, 2011.

On January 11, 2012, Capital Research and Management Company notified that they held 15.11% of the voting rights related to KPN's ordinary share capital. On January 25, 2012, Capital Income Builder Inc. notified that they held 5.08% of KPN's ordinary share capital, excluding voting rights.

Shareholder remuneration

KPN remains committed to an attractive dividend policy and returning excess cash to shareholders via share repurchases. Excess cash depends on strategic investments (e.g. spectrum auction, fiber), business performance, the broader macroeconomic environment and a solid financial framework. KPN remains committed to minimum credit ratings of Baa2 and BBB (currently Baa2 and BBB+) respectively and continues to target a net debt to EBITDA ratio between 2.0–2.5x. This financial framework allows KPN to continue with its policy of accommodating an attractive dividend policy, whilst maintaining flexibility to grow and invest in its business.

KPN Shareholding

Estimated geographic breakdown
(based on institutional holdings)

United States	35 – 40%
United Kingdom	20 – 25%
Netherlands	5 – 10%
France	5 – 10%
Germany	5 – 10%
Rest of World	15 – 20%

Source: Thomson Shareholder ID Q4 2011

Dividend

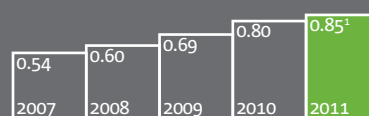
KPN proposed to declare a cash dividend of EUR 0.85 per share in respect of the year ended December 31, 2011, of which EUR 0.28 was paid out as an interim dividend in August 2011. The proposed dividend for 2011 will be presented for approval to the Annual General Meeting of Shareholders to be held on April 12, 2012, and, upon approval, the ex-dividend date will be April 16, 2012 and the final dividend will be paid out as from April 24, 2012.

KPN intends to pay a dividend per share of EUR 0.90 over the fiscal year 2012. An announcement on the 2013 dividend will be made with the full-year 2012 results release.

Share repurchases

KPN intends to return excess cash to shareholders via share repurchases. The requirement to balance investments, including possible strategic investments such as spectrum and fiber, shareholder remuneration and a prudent financing policy in a period of macroeconomic uncertainty means there will be no share repurchase program in 2012. Later in 2012, and into 2013, there will be more clarity on these strategic investments and the success of the transition in the Netherlands.

Dividend per share (EUR)



1) The proposed dividend for 2011 consists of a cash dividend of EUR 0.85 per share of which EUR 0.28 was paid out as an interim dividend in August 2011.

Under the share repurchase program announced on January 26, 2011, KPN repurchased 96.7 million shares at an average price of EUR 10.34 for a total amount of EUR 1 billion (for details see table). During 2011, a total of 141.1 million ordinary shares, which were acquired in 2011 and 2010, were cancelled. The number of outstanding shares as at December 31, 2011, amounted to 1,431,522,482, representing a reduction of around 43% of outstanding shares since the start of share repurchases in March 2004.

The number of shares repurchased under the share repurchase program as announced on January 26, 2011 is as follows:

Period	Number of shares purchased under the program	Average price paid per share in EUR	Amount of share repurchases made under the program (in EUR)
January	–	–	–
February	2,595,548	11.71	30,398,431
March	12,633,159	11.71	147,970,105
April	9,492,069	11.29	107,124,640
May	24,251,523	10.40	252,266,278
June	13,566,116	10.03	136,047,256
July	3,970,046	9.63	38,216,673
August	17,818,998	9.44	168,273,713
September	12,401,468	9.65	119,702,904
Total	96,728,927	10.34	1,000,000,000

Exchange controls

There are no legislative or other legal provisions currently in force in the Netherlands or arising under KPN's Articles of Association restricting transfers to holders of its securities not resident in the Netherlands. Cash dividends payable in euro on ordinary shares may be officially transferred from the Netherlands and converted into any other currency.

There are no limitations, neither under the laws of the Netherlands nor KPN's Articles of Association, on the right of non-residents of the Netherlands to hold or vote KPN's shares.

Obligations to disclose holdings

Pursuant to the Dutch Financial Supervision Act ('Wet op het financieeltoezicht' or 'Wft'), legal entities as well as natural persons must immediately notify the Dutch Authority for the Financial Markets (AFM) when a shareholding equals or exceeds 5% of the issued capital. The AFM must be notified again when this shareholding subsequently reaches, exceeds or falls below a threshold. This can be caused by the acquisition or disposal of shares by the shareholder or because the issued capital of the issuing institution is increased or decreased. Thresholds are: 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%. The AFM incorporates the notifications in the public register, which is available on its website. Failure to disclose the shareholding qualifies as an offense, and may result in civil penalties, including suspension of voting rights and administrative penalties.

Financial calendar 2012

April 12, 2012: Annual General Meeting of Shareholders

April 16, 2012: Ex-dividend listing of shares

April 24, 2012: Start of payment of 2011 final dividend

April 24, 2012: Publication of results for the first quarter of 2012

July 24, 2012: Publication half year results 2012

October 23, 2012: Publication of results for the third quarter of 2012

January 23, 2013: Publication of results for the full year 2012

Note that these dates may be subject to change.

Share price 2009–2011
(EUR)



Source: Bloomberg, prices rebased to KPN share price of EUR 10.38 on January 1, 2009

GROUP PERFORMANCE

- Financial results in line with full-year outlook
- The Netherlands overall performance not meeting our expectations
- Positive trends in IPTV and FttH
- Continued strong performances Germany and Belgium
- Outlook 2012 lower, reflecting transition year

Performance versus outlook 2011

KPN's business continued to be impacted in 2011 by regulatory pressure and macroeconomic headwinds, while industry trends had a negative impact on KPN's overall performance. The accelerated change in customer behavior in Consumer, increasing price pressure and continued rationalization in Business, and an acceleration of commercial and operational investment to strengthen the Dutch businesses led to an adjustment of the initial 2011 EBITDA outlook of EUR 5.5 billion to EUR 5.3 billion (excluding restructuring) at the time of the Q1 2011 results release.

In 2011, we achieved our outlook on EBITDA (EUR 5.3 billion excluding restructuring) and Free Cash Flow (EUR 2.4 billion).

The overall performance of the Netherlands did not meet our expectations, however the international businesses showed a strong performance at attractive margins. Capex was at the high end due to accelerated investment to strengthen the domestic businesses and investment in the roll-out of mobile broadband networks in Germany and Belgium.

Revenues and other income

(In millions of EUR)	2011	2010	Δ
KPN Group	13,163	13,398	-1.8%
Consumer	3,735	3,940	-5.2%
Business	2,373	2,424	-2.1%
Wholesale & Operations (national)	2,688	2,799	-4.0%
Other gains/losses, eliminations ¹	-2,032	-2,159	-5.9%
- Dutch Telco business	6,764	7,004	-3.4%
iBasis Group	977	912	7.1%
Corporate Market	1,901	1,966	-3.3%
Other gain/ losses	-554	-549	-0.9%
- The Netherlands	9,088	9,333	-2.6%
Germany	3,236	3,241	-0.2%
Belgium	781	785	-0.5%
Rest of World	307	267	15%
Other ¹	-116	-108	-7.4%
- Mobile International	4,208	4,185	0.5%

1) Mainly elimination of intercompany revenues.

Our Group revenues and other income were down 1.8% or EUR 235 million lower due to a decline in the Netherlands while Rest of World and iBasis showed increasing revenues. The negative impact on Group revenues from regulation was EUR 486 million and the net positive impact of incidentals was EUR 63 million. The incidentals in 2011 relate to the increase in sale of towers compared to 2010.

Dutch Telco continued to show a revenue decline, mainly due to regulatory effects and difficult market conditions. Consumer wireless has been dealing with an ongoing change in customer behavior and intensive competition. At Consumer wireline the broadband market share was under pressure, with PSTN/ ISDN losses stabilizing, however positively impacted by increased IPTV additions. Furthermore, in FttH areas we see higher broadband market share. The Business Segment and Corporate Market (Getronics) saw a steady market share performance combined with continued price pressure. Despite a severe regulatory impact, revenues and other income at Mobile International remained flat.

EBITDA

(In millions of EUR)	2011	2010	Δ
KPN Group	5,138	5,476	-6.2%
KPN Group (excl restructuring)	5,268	5,475	-3.8%
Consumer	1,037	1,121	-7.5%
Business	781	819	-4.6%
Wholesale & Operations (national)	1,675	1,719	-2.6%
Other	31	41	-24%
- Dutch Telco business	3,524	3,700	-4.8%
iBasis Group	31	32	-3.1%
Corporate Market	4	158	-97%
Other gain/losses	-1	-2	-50%
- The Netherlands	3,558	3,888	-8.5%
Germany	1,353	1,374	-1.5%
Belgium	273	271	0.7%
Rest of World	10	-19	n.m.
- Mobile International	1,636	1,626	0.6%

Our Group EBITDA decreased by 6.2% or EUR 338 million. EBITDA was negatively impacted by regulation of EUR 203 million, a negative impact from restructuring of EUR 130 million mainly at Corporate Market (Getronics) and a net positive impact from incidentals of EUR 36 million. Next to a book gain of EUR 100 million from tower sales the EBITDA included a loss of EUR 30 million following the announced divestment of Getronics International.

Other financial data

(In millions of EUR)	2011	2010	Δ
Operating result	2,549	3,250	-22%
Finance income and expenses	-754	-916	-18%
Share profit of associates and joint ventures	-24	-31	-23%
Profit before income tax	1,771	2,303	-23%
Income taxes	-222	-508	-56%
Profit for the period	1,549	1,795	-14%
Cash flow from operating activities	4,003	3,808	5.1%
Capital expenditures²	2,047	1,809	13%
Proceeds from real estate	156	84	86%
Tax recapture E-Plus	337	345	-2.3%
Free cash flow	2,449	2,428	0.9%

2) Including property, plant and equipment.

Operating results

EBIT decreased EUR 701 million (22%), mainly as a result of an impairment related to Corporate Market (Getronics) of EUR 298 million, lower EBITDA of EUR 338 million and higher amortization of spectrum licenses and software of EUR 79 million.

Finance income and expenses

Net finance costs in 2011 decreased by EUR 162 million to EUR 754 million, mainly due to the tender and new bond issue in September 2010 (EUR 97 million) and as a result of a lower bond position following scheduled redemptions.

Income taxes

KPN has formalized an 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%. The agreement has retroactive effect to January 1, 2007. The application of the innovation tax facilities resulted in a one-off benefit of EUR 118 million mainly reflecting the period 2007 to 2010. Compared to last year this resulted in a significant lower tax charge, also lower due to lower profit before tax.

Due to the application of the innovation tax facilities, KPN's effective tax rate in the Netherlands will be reduced from the statutory tax rate of 25% to approximately 20%. The effective tax rate for the Group is expected to be approximately 20% in 2012 and onwards.

The effective tax rate in 2011, corrected for the one-off innovation tax benefit for the years 2007 to 2010 and the non-deductible goodwill impairment of Corporate Market (Getronics), amounted to 17.2% (2010: 21.8%). The effective tax rate in 2011 is lower than the expected effective tax rate of 20%, mainly due to the reassessment of the valuation of the deferred tax asset in E-Plus, which led to an increase of the deferred tax asset.

Net profit

Net profit amounted to EUR 1,549 million, a 14% decline following the decline in operating results which is partly offset by positive effects of innovation tax facilities and lower financing costs.

CAPEX

Group Capex amounted to EUR 2,047 million and increased compared to 2010. The increase is related to the accelerated high-speed data network roll-out in both Mobile International and the Netherlands. At the Netherlands the increase also relates to continued upgrades of the mobile and fixed networks, investment in the wireline propositions, increased spend on customer premises equipment and expansion of the distribution footprint.

Free cash flow

Free cash flow in 2011 amounted to EUR 2,449 million, which is EUR 21 million above last year. Proceeds from the innovation tax facilities of EUR 316 million and lower interest payments of EUR 99 million were offset by a full-year EBITDA decrease of EUR 338 million and higher Capex of EUR 238 million. The EBITDA and change in provisions were impacted by EUR 130 million charges to restructuring provisions.

Pension position

As at December 31, 2011, the average coverage ratio of the KPN pension funds in the Netherlands was 101% (2010: 105%). The pension regulator in the Netherlands (the Dutch Central Bank) has decided that the discount rate used to calculate the coverage ratio is, as of December 31, 2011, to be based on a quarterly average rather than the interest rate at the end of the quarter.

In 2011 an amount of EUR 30 million related to recovery payments was made. Based on the coverage ratio at September 30, 2011 of 96%, an additional cash payment of EUR 21 million is required in Q1 2012. Based on the coverage ratio at December 31, 2011 an additional cash payment of EUR 19 million is required in Q2 2012.

Funding profile strengthened by issuance of new long-dated bonds

In July 2011, KPN signed a new EUR 2.0 billion revolving credit facility with a tenor of five years and two one-year extension options. The facility replaces the previous EUR 1.5 billion revolving credit facility, thereby extending the maturity profile from August 2013 to July 2016 while obtaining competitive conditions. The size of the credit facility has been increased to EUR 2.0 billion. The facility will be used for general corporate purposes and working capital.

On September 8, 2011, KPN issued a Eurobond for an amount of EUR 500 million, with a ten-year maturity and a fixed coupon of 4.50%. The bond has been placed with a broad range of institutional investors across Europe.

In November, 2011 KPN issued a GBP 400 million bond with a maturity of 15 years and a fixed coupon of 5.00%. The GBP bond has been swapped into a notional amount of EUR 467 million with a Euro-equivalent coupon of 5.02%. Both bonds were issued under KPN's Global Medium Term Note program and are listed on NYSE Euronext Amsterdam.

As at December 31, 2011, the average maturity was 7.3 years. The average interest rate on the nominal bonds was 5.3%.

Equity position

At December 31, 2011, total equity amounted to EUR 2,930 million. Reference is made to Note 29 in the Financial Statements for further information.

Non-financial data

	2011	2010
Energy consumption (in PetaJoule)	5.3	5.5
Reputation	12th place	16th place
Customer satisfaction (NPS)	-14	-13
Number of FTE	30,941	30,599

Energy

With the sharp rise in data usage, efficient energy consumption is indispensable. In the Netherlands and Belgium energy consumption completely consists of green energy (2010: Netherlands 77%, Belgium: 34%), in Germany the usage of green energy increased to 50% (2010: 29%). Our energy consumption in 2011 decreased by 3.6% compared to 2010.

Reputation

We measure our reputation based on the RepTrak ranking, an annual study of the reputation of the world's largest companies. In April 2011, KPN took 12th place, an improvement of four places compared to April 2010. During 2011 KPN was included in various privacy, security and compliance debates in The Netherlands, which drew negative attention to our reputation. KPN has given full cooperation in these matters and has emphasized the importance of compliance, privacy and security.

Customer satisfaction

We use the Net Promoter Score (NPS) to measure customer satisfaction. The key question asked is whether customers would recommend KPN to friends or family. In 2011, the NPS was -14, a decrease compared to 2010. We failed to achieve our NPS target, that of increasing the score by at least 8 percentage point in 2011. This shows that our service provision is not yet at the desired level. Our immediate reaction was to start a KPN-wide quality program. The debates about net neutrality, deep packet inspection, the NMa investigation and tighter regulation by OPTA had an adverse effect on NPS in 2011.

Number of FTEs

The number of FTEs amounted to 30,941 FTEs in 2011, an increase of 1.1% compared to 2010. The increase related to Mobile International caused by growing business. To further lower the cost base in the Netherlands, KPN announced an FTE reduction program of 4,000–5,000 FTEs as part of its new strategy. The program consists of outsourcing, offshoring and efficiency improvements. For KPN Group restructuring costs of EUR 130 million have been recorded in 2011.

OUTLOOK 2012

For 2012 the outlook on Free Cash Flow and EBITDA is lower than 2011, reflecting 2012 as a transition year. KPN remains committed to its 'Strengthen – Simplify – Grow' strategy as announced in May 2011. In the Netherlands, the focus is on strengthening its activities and leading market positions. KPN will keep investing internationally to grow its Challenger businesses and continue to outperform its competitors. A Group-wide focus on simplification, quality and reputation will drive customer satisfaction in the swiftly changing telecom and ICT markets. KPN will accelerate and expand its investment strategy in 2012 to further strengthen its Dutch businesses. The accelerated investment strategy is three-fold, consisting of; (1) investment in the fixed network through a hybrid fiber and copper strategy, and in the mobile network via HSPA evolved and LTE; (2) adjusting to changing customer behavior by further improving mobile propositions and; (3) improving the underlying cost structure. The restructuring program in Dutch Telco will be accelerated and the remaining provisions are expected to be taken this year. In 2012, KPN aims to stabilize market share in Consumer wireless and keep the Business market share stable, while it is expected that the broadband market share will bottom-out. This accelerated investment strategy will ensure sustainable profit levels in the Netherlands going forward.

In the international businesses, the successful investment strategy to stay ahead of growing customer demand for more and faster data services will be continued. KPN will keep focusing on balancing revenue growth with margins.

At a Group level, for the 2012 outlook, ranges are given for EBITDA, FCF and Capex. EBITDA (excluding restructuring costs) is expected to amount to EUR 4.7–4.9 billion, while free cash flow is expected to be between EUR 1.6–1.8 billion. Capex is expected to be between EUR 2.0–2.2 billion for 2012.

KPN remains committed to an attractive dividend policy and returning excess cash to shareholders via share buybacks. Excess cash depends on strategic investments (e.g. spectrum auction, fiber), business performance, the broader macroeconomic environment and a solid financial framework. Therefore, the net income cap on total shareholder remuneration introduced in 2011, is no longer applicable. The dividend per share for 2011 is confirmed at EUR 0.85, with a final payout of EUR 0.57 in April 2012. The dividend outlook for 2012 is confirmed at EUR 0.90 per share, 5 cents higher compared to 2011. The requirement to balance investments, including possible strategic investments such as spectrum and fiber, shareholder remuneration and a prudent financing policy in a period of macroeconomic uncertainty means there will be no share buyback program in 2012. Later in 2012, and into 2013, there will be more clarity on these strategic investments and the success of the transition in the Netherlands. An announcement on the 2013 dividend will be made with the full-year 2012 results release. KPN remains committed to minimum credit ratings of Baa2 (Moody's) and BBB (Standard & Poor's) and continues to target a net debt to EBITDA ratio between 2.0–2.5x.

CONSUMER

We offer consumers a renewed portfolio of voice, internet and TV services in a continuously changing market. We provide this portfolio on both our mobile and fixed networks.

Against a backdrop of strong competition and an unprecedented rapid transformation into an interactive data-centered world, we continued to exploit a multi-brand approach, based on premium brands KPN and XS4all and the youth/budget brands Hi and Telfort.

Increasing speed and adding new functionalities are key to improving customer experience and win market share in consumer wireline. At wireless, a successful migration from volume-based bundles to integrated voice/data bundles is crucial to sustaining market share in a highly dynamic market.

Environment and competition

At wireless, the change in customer behavior, leading to the substitution of voice and SMS by data and the ongoing competition from Vodafone and T-Mobile was visible throughout 2011. Our wireless customer base slightly fell to 5.3 million customers, of which 3.1 million are postpaid and 2.2 million prepaid. Also our wireless market share in the Netherlands (in terms of service revenues) declined from 47% in 2010 to 46% in 2011. In 2011, our wireline business remained under pressure from cable competition (Ziggo, UPC). Our broadband market share decreased from 41% to 40%. In fiber areas, however, our market share is approximately 6% higher and amounted to 46%.

Our strategy in action

Improve and differentiate our wireline propositions

A major topic in the broadband market is the growing demand for interactive functionalities. To address this trend, we are continuously working to enhance and complement our product lines with innovative services. Examples are the major enhancement in TV (such as IPTV on laptop and tablet, extending VoD portfolio), the acceleration of FttH activations and introduction of Spotify for premium customers. In 2011 our TV market share increased to 17% (2010: 15%) and we reached over 500,000 customers. Also, in December we connected our 100,000th fiber customer.

Launch data-centric propositions

Another theme is the increasing dominance of smart phones and tablets in the mobile arena, leading to an explosive growth in data traffic. Mobile data in the Netherlands continued to grow at 112% over 2011 and signalling traffic grew at about 234%. New mobile data propositions have been launched differentiated by quantity, speed and service with due observance of net neutrality. Data volume pricing increased within the propositions and subscriber acquisition costs were managed down.

The initial results of the new mobile data propositions are positive, however more time must elapse before the impact is fully visible. In 2012, the propositions will be made more competitive to support market share and further steps will be taken to make the portfolio future proof.

Optimize distribution and improve service experience

To bring the service to an even higher level, we will increase the number of our stores in the Netherlands from 239 at the end of 2011 to around 285 in 2012. Call centers are to be organized differently and specialist agents will solve customers' problems in one go, transforming our call centers into helpdesks to increase customer satisfaction.

With this strategy our goal is to reach a market share of more than 45% in broadband by 2015. The objective for Mobile the Netherlands is sustaining a mobile service revenue share of more than 45%.

Products and services

Voice, internet and TV services

We further enhanced our service footprint for higher-speed Internet and (HD) IPTV service by building out a hybrid broadband infrastructure based on VDSL and FttH. In 2011, a 500 Mbps up and download speed FttH product was launched.

In 2011, TV on tablet and laptop, multi-room IPTV and a new IPTV user interface were introduced. Our IPTV product came available for the XS4all and Telfort brands, which supported an increase in net adds to 271,000 in 2011.

Wireless services

In September 2011, new integrated data/voice/SMS propositions were launched. Special attention was given to advising customers about data usage and bundles in the new tariff structure, to help them choose the most appropriate propositions for their mobile usage requirements.

Our Dutch Mobile Wholesale activities offer flexible customized platforms which ensure that partners can successfully introduce their own mobile propositions in the market. In particular, revenue of the cultural and messaging segment declined due to price pressure. Around 2.5 million end-users are connected to the KPN network via our mobile wholesale partners.

Financial review

(In millions of EUR, unless indicated otherwise)	2011	2010	Δ
– Voice wireline	500	597	–16%
– Wireless services (excluding Mobile Wholesale)	1,690	1,833	–7.8%
– Internet wireline	999	1,027	–2.7%
– Mobile Wholesale	215	229	–6.1%
– Other (incl. intercompany revenues)	331	254	30%
Revenues and other income	3,735	3,940	–5.2%
Operating expenses	2,977	3,074	–3.2%
– of which: depreciation, amortization and impairments	279	255	9.4%
EBITDA	1,037	1,121	–7.5%
EBITDA margin	27.8%	28.5%	

Revenues and other income declined by 5.2% in 2011, including a regulatory impact of EUR 101 million. For wireless the decline was mainly a result of changing customer behavior and market share pressure. Data usage continued to rise due to the increased usage of communication apps. Both outgoing SMS and voice minutes per customer decreased as well as prepaid revenues.

Wireline revenues benefited from the strong growth in IPTV, but continued to show declining voice revenues. KPN's broadband market share remained under pressure from churn in the single- and dual-play market in the copper areas due to competition on speed, partly offset by successful growth in the triple-play segment and FttH areas. Demand aggregation was successful in 50 areas. In addition in KPN FttH areas the number of FttH activated increased to 102 thousand (2010: 41 thousand).

In the fourth quarter of 2011, we reached an agreement to acquire four FttH ISPs with approximately 110 thousand customers, subject to regulatory approval.

Mobile Wholesale revenues were adversely affected by increasing competition in a previously fast-growing cultural segment and by losing customer bases of MVNOs migrating to non-KPN networks, largely offset by sustained growth at other MVNOs such as Simyo.

EBITDA declined by 7.5% in 2011 as cost reductions were not sufficient to mitigate the impact from regulation, changing customer behavior and price pressure. Cost efficiency was backed by ongoing cost reduction initiatives such as First-Time-Right programs. The EBITDA margin slightly declined in 2011 to 27.8%, compared to 28.5% in 2010.

Operating highlights	2011	2010	Δ
VoIP access lines (in thousands)	1,382	1,299	6.4%
Net line loss excl. WLR (in thousands)	–170	–165	3.0%
TV customers (in thousands)	1,400	1,197	17%
ARPU wireless blended (in EUR)	24	24	–
Wireless customers ¹ (in thousands)	5,338	5,599	–4.7%
SAC/SRC per subscriber (in EUR) ¹	150	167	–10%

1) Excluding Mobile Wholesale NL.

BUSINESS

We offer business customers a complete portfolio of services, from voice and internet (wireline and wireless) to a range of data network services.

Environment and competition

IP technology provides the ideal future-proof foundation for new ways of communicating, such as mobile banking, videoconferencing, e-learning and electronic payments, enabling a new way of working.

The increasing broadband and smartphone penetration in the market for small enterprises accelerates the transition from old to new portfolios and brings the concept 'work where you want' within reach. Our main competitors are Vodafone, T-Mobile, Tele2, UPC and Ziggo. Although the competition is strong we see many opportunities to offer new services to our customers to improve their business.

Despite the increasing competition in this market, wireless service revenues market share remained stable.

Our strategy in action

Simplify portfolios

In 2011 we launched new propositions which offer integrated services. In line with customer demands, these propositions offer mobile and fixed telephony or workstations in one package. This contributes to a better and simplified service delivery to (the IT management of) our business customers.

Improvement of quality of service

Our quality of service has improved following the introduction of the 'call me now' service and the webchat functionality for all users of KPN.com on the domain's billing, user questions and failures. During the last months of 2011 we saw an increase of the Net Promoter Score of kpn.com, caused by the introduction of these services. Additionally, we have defined clear goals to improve the service experience of our customers from 2012 onwards, for instance the introduction of a single point of contact for our business customers. For the Large Enterprise segment, an increased direct sales force was established in 2011 and will continue in 2012, in order to improve our customer contact intensity. Next to that we have introduced a new business model in the Medium Segment. This business model focuses on closer cooperation between our direct sales force and external business partners. Both initiatives will enable us to increase our share of wallet in the Large Enterprise and Medium segments.

Increase focus on new domains

Together with the Corporate Market Segment and external parties we strengthen the vertical approach to launch new services in healthcare, education, local government and SME services. We participate in several eHealth initiatives which enable self-care and independent living. In 2011 we launched a new service, called the 'SME Workspace.' This service offers all relevant workplace IT in one package.

In the SOHO and SME Segment, we will strengthen our market position with the 'value for money' brands Atlantic Telecom and Telfort Business.

Products and services

Voice and internet wireline services

We offer fixed-line telephony access services and Internet over analogue lines (PSTN), digital lines (ISDN) and increasingly over IP-based connections (VoIP).

Wireless services

Furthermore we offer a wide range of mobile communication solutions both in voice and data. Currently, there is a rapid increase in customer demands for wireless e-mail solutions and internet access, driven by a sharp rise in the number of smartphones (such as BlackBerry, Windows Mobile, iPhone and Android), tablets and mobile internet cards.

In the Machine-to-Machine (M2M) market we have a strategic partnership with Jasper Wireless. KPN offers M2M solutions in the pan-European and local markets.

Data network services

Finally, we offer a wide range of data/network communication services ranging from traditional data services to modern Virtual Private Network services (such as IP-VPN, Ethernet VPN) and internet access services. We also provide our business customers with the KPN Corporate Market and ApplicationNet portfolio, e.g. workspace, data center and consultancy services.

An example of product and service innovation is the 'SME Workspace'. This innovation enables entrepreneurs to buy all relevant workplace IT in one package. We invest in the software and make sure that the licenses are always up to date. We are investing in growing ICT services jointly with Corporate Market (Getronics), such as unified communications, secure managed devices, private Cloud and service aggregation.

Financial review

(In millions of EUR, unless indicated otherwise)	2011	2010	Δ
– Voice and internet wireline	942	980	–3.9%
– Data network services	383	411	–6.8%
– Wireless services	884	881	0.3%
– Other (incl. intercompany revenues)	164	152	7.9%
Revenues and other income	2,373	2,424	–2.1%
Operating expenses	1,706	1,703	0.2%
– of which: depreciation, amortization and impairments	114	98	16%
EBITDA	781	819	–4.6%
EBITDA margin	32.9%	33.8%	

In 2011 we experienced a decline in revenues and other income, driven by pressure on traditional services in wireline and competition in wireless voice, partly offset by the growth in wireless data. Revenues and other income decreased by EUR 51 million or 2.1% including a regulatory impact of EUR 68 million. Furthermore, the revenues were positively effected by the acquisition of Atlantic Telecom (EUR 47 million) and the internal transfer of Yes Telecom (EUR 29 million) from Rest of World to Business.

EBITDA decreased by EUR 38 million, resulting in an EBITDA margin of 32.9% in 2011, compared to 33.8% in 2010. The EBITDA was affected by increased sales of smartphones resulting in increased SAC/SRC levels.

Wireless service revenues remained flat. For mobile data, both customer base and usage increased, leading to mobile data revenue growth. The ARPU decreased to EUR 42 compared to EUR 46 in 2010 as it was negatively impacted by regulation and the mix effect of voice versus M2M and data customers.

While traditional wireline services showed a stable decline in access lines and traffic revenues due to rationalization, Business DSL and managed data services showed a solid performance. The migration from traditional to IP-based services continued steadily, with lower prices and margins. The decline in access lines was compensated by the acquisition of Atlantic Telecom and new pricing schemes on traditional services.

Operating highlights	2011	2010	Δ
Access lines voice (in thousands)	1,285	1,368	–6.1%
Business DSL (in thousands)	176	161	9.3%
Leased lines (in thousands)	13.5	18.6	–27%
ARPU wireless blended (EUR)	42	46 ¹	–8.7%
Wireless customers (in thousands)	1,957	1,774 ¹	10%

1) Restated due to reclassification of MMS subscribers.

WHOLESALE & OPERATIONS

We provide network services and facilitate the infrastructure needs of both our retail segments and wholesale customers with a strong emphasis on operational excellence.

Our objectives are to be a best-in-class network operator with high productivity, network migration to IP and to grow our wholesale business. Through Wholesale & Operations, we operate an open access network model and we are a dedicated wholesale partner for all providers that need connections to their clients.

Environment and competition

In 2011 consumer wireless was impacted by a change in customer behavior. The increase in usage of communication apps spurred considerably during 2011, declining voice and SMS traffic and rising data usage. We experienced a strong increase in data users, with the average data usage per customer also increasing.

At wireline services, the trend seen in previous years continues whereby ISDN/PSTN connections continued to decline. For the broadband connections the providers' demand is shifting from traditional copper-based networks to fiber-based networks.

Both impacted the revenues of Wholesale and Operations.

Parts of our Wholesale services are regulated. Regulated services by OPTA are services to grant access to our local copper loop, wholesale services for fixed telephony and wholesale services on leased lines.

Our strategy in action

Expanding and upgrading the network and introducing new technologies

In 2011 new technologies were rolled out which significantly increased the broadband bandwidth on copper for subscribers and enable commercial roll-out of multi-room HD TV. We are on track with the VDSL upgrades, including pair bonding. At the end of 2011, we are able to deliver guaranteed speeds > 40 Mbps to around 40% of Dutch households.

We believe that fiber to the home (FtTH) is the best possible fixed infrastructure for excellent service delivery to our customers and thus long-term value creation. At the end of 2011, we introduced the first propositions with 500 Mbps upload and download speed.

Focus on network quality

An essential step in maintaining the top quality mobile network is the network modernization program. This program will replace the existing GSM radio network by a state-of-the-art radio network capable of providing both enhanced GSM services and improved UMTS data services. This will enhance the indoor coverage of the UMTS (voice and data) network nation-wide and further improve the network quality we provides to our customers. Additionally, we are upscaling LTE pilots, the next generation high-speed mobile data network, to support a number one mobile network in the Netherlands.

Rationalization of the legacy networks

Further rationalization of our legacy networks continues. Our aims are a timely phase-out of legacy networks, reducing the variety of networks and related costs, and minimizing continuity risks. The further off-load of the legacy ATM-network towards future-proof Ethernet was continued in 2011.

Products and services

National Wholesale Services

Our copper and fiber network are open networks, on which telecom operators and service providers could offer their own services to end customers. We offer components to wholesale customers to successfully service their end customers and services for business customers such as triple-play products.

We offer a variety of services of the value chain from just a physical access connection to a full service concept whereby the wholesale customer adds its marketing and sales to the end customer.

Network and Services

Our infrastructure is going through a radical change. By further migrating to fiber and rolling-out the VDSL network, we aim to become an even more highly efficient network operator. In the coming years, we will focus on accommodating the increasing capacity requirements on our mobile as well as our fixed networks.

Infrastructure

Wireline network

Fiber network

The fiber-optic network provides unlimited data transport to multinationals or smaller companies that need a high bandwidth. Upload and download speeds are equally fast (symmetrical) and we can offer our customers options for expansion such as high-definition TV, electronic payment transactions, data networks, and video conferencing.

The roll-out of the fiber network to the home (Ftth) is done through our joint venture Reggefiber Group B.V. which operates on the basis of an open-access model. We have a minority share of 41% in Reggefiber Group B.V. with the other shares held by Reggeborgh. In November 2011, the joint venture agreement with Reggeborgh was amended. In the amended structure, we hold the option to increase ownership to 60% based on a defined time-line as opposed to solely on operational milestones under the original arrangements.

Refer to note 12 of the Financial Statements for further details on Reggefiber.

Copper network

We have been successfully operating high-quality copper networks for over a century and continued to invest in 2011 in this network. Investments were made in new technologies, such as VDSL and ADSL2+, VDSL pair-bonding to enable to achieve speeds of up to 40 Mbps. The roll out of VDSL outer-rings and VDSL upgrades of the last Central Offices (CGB3) is on target. At the end of 2011 we enabled more than 3.4 million households for > 40 Mb speeds. In addition, the introduction program of VDSL Bonding is on plan.

Wireless network

To move from a voice- to a data-centric portfolio, the quality and speed of the wireless network are important differentiators. Mobile data continued to grow at 112% over 2011, and signalling traffic grew at about 233%.

Ethernet connectivity via fiber optics was introduced as part of our future-proof mobile network architecture. HSPA 7.2 and HSPA 14.4 coverage were further expanded.

New equipment was installed in the radio and core network domains, heavily expanding the available network capacity. The number of sites connected to fiber optics was expanded to 3,100, and approximately 460 extra sites increased the UMTS coverage ultimo 2011 to 93.8% population coverage. About 34% of our mobile voice traffic is carried by our UMTS network.

Financial review

(In millions of EUR, unless indicated otherwise)	2011	2010	Δ
Revenues	2,567	2,760	-7.0%
Other income	121	39	>100%
Revenues and other income	2,688	2,799	-4.0%
Operating expenses	1,878	1,938	-3.1%
– of which: depreciation, amortization and impairments	865	858	0.8%
EBITDA	1,675	1,719	-2.6%
EBITDA margin	62.3%	61.4%	

Revenues and other income declined 4% mainly as a result of the ongoing decline in traditional services and regulation. National traffic volumes for originating and terminating voice services decreased throughout 2011 which was partly compensated by higher international traffic volumes. The decline in traditional ISDN/PSTN connections continued in 2011 but was compensated by an increase in wholesale broadband connections.

The revenue decline was offset by cost reductions driven by further FTEs decline and some efficiency improvements in our operations. Revenues and other income were positively impacted by the sale of mobile towers of EUR 100 million compared to EUR 37 million in 2010. This resulted in an EBITDA margin of 62.3% compared to an EBITDA margin of 61.4% in 2010.

In 2011, further progress was made with the roll out the fiber network. Reggefiber Group B.V. increased its Homes Passed (HP) base to approximately 951 thousand by the end of 2011 (2010: 658 thousand). The homes activated at Reggefiber reached 277 thousand (2010: 41 thousand).

Operating highlights	2011	2010 ¹	Δ
Access lines retail voice (in thousands)	2,627	3,032	-13%
MDF access lines (in thousands)	3,564	3,689	-3.4%
– of which: line sharing (in thousands)	1,040	1,268	-18%
Unbundling, estimates (in millions)	1.0	1.2	-17%
– Shared unbundled lines (in millions)	0.2	0.4	-50%
– Fully unbundled lines (in millions)	0.8	0.8	–

1) Restated as a result of a change in calculation of MDF access lines.

CORPORATE MARKET (GETRONICS)

Our ambition is to be the preferred supplier for total ICT services for the corporate enterprise market, providing high operational quality and the best solutions for the specific needs of our customers. KPN Corporate Market offers end-to-end solutions centered around workspace management, connectivity solutions and data centers.

Environment and competition

We are market leader in a highly competitive Dutch market. The business markets in the Netherlands are continuously impacted by economic headwind, resulting in significant price pressure. IT projects and investment are being postponed especially in the banking and the government sector, waiting for revival of the overall financial situation.

Our strategy in action

In the Netherlands, we are concentrating on retaining and strengthening our market leadership by leveraging our services aggregator advantage, stimulating the New Way of Working and utilizing the potential to widen our IT and telecom service provisioning amongst our customers.

In January 2012, we announced the divestment of Getronics International as part of KPN's proven strategy of strengthening its global delivery capabilities for major international clients through partnerships (subject to customary closing conditions). As a founding member of the Getronics Workspace Alliance (GWA), we will remain committed to offering consistent global IT support through a formal network of IT service companies.

Cost-effectiveness and quality of service

To maintain our leading position in the ICT market and to counter the effects of price pressure and adverse market conditions, we have accelerated the implementation of our offshoring program and developed an additional restructuring program to further reduce our operating costs. The combined programs will result in a staff reduction of approximately 2,000–2,500 FTEs.

In 2011 we started our offshore strategy together with our Indian partner Mindtree. KPN Corporate Market and Mindtree are two service partners with complementary core competencies, offering state-of-the-art infrastructure and new technology solutions. Our customers will benefit from efficiency improvements, quality and an increased global footprint. This way we support them in remaining competitive in their markets.

Our Cloud strategy: services aggregation

We focus on the Cloud services aggregator role: A Cloud services aggregator has an intermediary role in Cloud computing. As aggregator we make it easier, safer and more productive for companies to navigate, integrate,

consume, extend and maintain Cloud services, particularly when they span multiple, diverse Cloud services providers.

The services aggregation role enables us to logically bundle our services with those of third parties. This provides CIOs, IT management and end-users the opportunity to buy, provision, support and manage current and future Cloud, non-Cloud, and connectivity services easily, securely and at their own pace. In addition to service aggregation and private Cloud, we focus on growth areas such as unified communications and secure managed devices.

Customer focus

Corporate Market has a customer-focused client organization. We monitor customer loyalty permanently through our own Net Promoter Score monitoring and through external surveys. In 2011, we significantly improved our customer satisfaction scores. Our customers expect that this positive trend will continue, which indicates customers trust that we have a consistent approach and continuous commitment for excellent customer service.

Products and services

Workspace management

We see workspace as the virtual and physical environment where people access, create and share information to deliver business value, on any scale at any location. Employees expect more freedom in how, where and when to work, balancing work and private life and bringing consumer and home experiences to the enterprise.

We provide different service models so clients can bridge existing legacy with new Cloud-based services containing standardized IT capabilities (services, software, or infrastructure) delivered via internet technologies in a pay-per-use, self-service way. Together with the Business Market Segment, we sell and deliver packaged online, hybrid and traditional workspace services in the Netherlands in all segments ranging from midmarket to the corporate enterprise market. An example of our workspace service is Workspace Online, a standardized pay-per-use Software as a Service solution, with Microsoft Office 365 as online productivity options available on-demand.

Data centers

The data center is the engine for businesses in a web-connected world. This becomes even more pronounced as Cloud and virtualization increase in importance for international enterprises. We are facilitating the development of traditional workspace management portfolio to more Cloud-based solutions. Corporate Market is responsible for all KPN data center resources.

Data Center services are under increasing scrutiny from the perspective of sustainability, and our green data centers can now both service customers' growing need for virtual access to storage and processing, and also help to significantly reduce carbon emissions.

Connectivity services

The next step up from Workspace services and data centers requires connectivity services that enable companies to exchange information effectively and securely. World-class connectivity between employees, customers, partners and suppliers has become business-critical as media-rich communication achieves increasing business penetration. During 2011, the relationships and synergies between Corporate Market and other members of the KPN Group continued to develop. The rise in demand for collaborative video-conferencing and the increased business need for optimized and integrated IT and telecommunications services led to focused and collaborative business development between Corporate Market, Talk and Vision, and KPN International.

Consulting services

Consulting services is driven by the desire to improve workforce productivity at acceptable cost. This objective looks at both an organization's IT staff and at non-IT staff. Consulting services uses formal, standard-based tools and methods to undertake meaningful analysis and produce practical and executable recommendations. Advice on the New Way of Working and Cloud strategy, for example, helps our customers establish improvement and transformation programs which fully take into consideration the need to respond differently to the requirements of different employee communities.

Financial review

(In millions of EUR, unless indicated otherwise)	2011	2010	Δ
Netherlands	1,472	1,505	-2.2%
International	489	487	0.4%
Other (incl. eliminations)	-65	-32	>100%
Revenues	1,896	1,960	-3.3%
Other	5	6	-17%
Revenues and other income	1,901	1,966	-3.3%
Operating expenses	2,348	1,959	20%
– of which: depreciation, amortization and impairments	451	151	>100%
EBITDA	4¹	158	-97%
EBITDA margin	0.2%	8.0%	

1) Excluding restructuring costs of EUR 96 million and the loss on held for sale classification of Getronics International of EUR 30 million, EBITDA amounted to EUR 130 million.

Triggered by the changes in the ICT market, expected future adverse market conditions and fierce price pressure, the annual impairment testing led to an impairment of tangible assets, goodwill and other intangible assets totalling to an amount of EUR 298 million.

In 2011, we generated revenues and other income of EUR 1,901 million compared to EUR 1,966 million in 2010. This revenue decline occurred primarily in the Netherlands with a decline of 2.2%, while International showed a growth of 0.4%.

Revenue and other income were impacted by the remaining challenging market conditions with price pressure and clients postponing investment. Our market share remained stable in a highly competitive market.

In 2011, EBITDA amounted to EUR 4 million compared to EUR 158 million in 2010.

KPN announced the divestment of Getronics International. The related assets and liabilities were classified as held for sale as at December 31, 2011, whereby the measurement of the asset and liabilities, at the lower of carrying amount and fair value less cost to sell, resulted in a loss of EUR 30 million.

IBASIS

Through iBasis, we are a top player in the international wholesale voice market, terminating international phone calls on a worldwide basis. We offer our carrier customers a range of global call termination products, as well as a portfolio of value-added data services for mobile operators.

Environment and competition

Our main challenges are to maintain margins and market share despite increasing price and margin pressure.

The international wholesale voice market is a commodity business that requires low-cost infrastructure and efficiencies that result from large-scale traffic volume. With our global footprint and approximately 26 billion minutes of voice traffic annually, we have maintained our position as one of the five largest carriers of international voice traffic in the world. Our main competitors include AT&T, BICS, Deutsche Telecom, Tata and Verizon. In addition to its technology leadership in Voice-over-Internet-Protocol (VoIP) and global network footprint, we have continued to expand our presence in two of the fastest-growing segments of global telecommunications — mobile services and consumer VoIP.

Our strategy in action

Our strategy is to leverage our global IP infrastructure and expertise, sophisticated back office systems, and substantial scale to provide superior international communications services to fixed and mobile operators worldwide. In 2011 we also focused resources on developing innovative new services and capabilities such as IPX and HD Voice, to address emerging opportunities in global communications and establish new, profitable revenue streams.

Products and services

We offer a comprehensive voice product portfolio: Value Voice, Direct Voice, Certified Voice and Premium Voice. The four products offer a progression of code coverage, pricing and features formulated to meet the varied requirements of fixed carriers, mobile operators, consumer voice over broadband carriers, and prepaid calling card service providers. In the mobile market, we offer a portfolio of value-added mobile data services, called Mobile Matrix, which includes global signaling, mobile messaging and roaming to enhance mobile operators' average revenue per user and customer loyalty. This product portfolio competes effectively in all international voice markets and gives particular strengths in the fastest-growing segments of VoIP and mobile.

Financial review

(In millions of EUR, unless indicated otherwise)	2011	2010	Δ
Revenues and other income	977	912	7.1%
Operating expenses	966	905	6.7%
– of which depreciation, amortization and impairments	20	25	–20%
EBITDA	31	32	–3.1%
EBITDA margin	3.2%	3.5%	

Revenues and other income increased by 7.1% to EUR 977 million in 2011, despite an unfavorable currency effect of EUR 29 million. Revenues increased in 2011 and we maintained our position as one of the five largest carriers of international voice traffic in the world.

In 2011, minutes of customer traffic increased to 26.2 billion minutes, up 8.7% over 2010. In addition, average revenue per minute remained fairly stable in 2011, despite increasing competitive pressure.

EBITDA amounted to EUR 31 million in 2011, compared to EUR 32 million in 2010. The slightly lower EBITDA reflects the increased price and margin pressure in the international voice market, which effect was partially offset by maintaining tight controls on operating expenditures.

Operating highlights	2011	2010	Δ
Minutes International (in billion)	26.2	24.1	8.7%
Average revenue per minute (EUR cents)	3.7	3.8	–2.6%

GERMANY

In Germany, we are the third largest mobile telecommunications network operator offering ‘value for money’ mobile services. Specific market segments are targeted through multiple own brands and wholesale partnerships.

We expand distribution through own and partner shops, online distribution and exclusive wholesale channels. We focus on regionalization, which means where we expand our addressable market by moving into geographical regions and market segments that are currently underrepresented. The network roll-out is based on those services that are in demand of consumers.

Environment and competition

Four mobile network operators, all holding spectrum licenses, are currently active in the German mobile telecommunications market: T-Mobile, Vodafone, O2 and E-Plus. The two largest mobile telecommunications providers are T-Mobile and Vodafone. All operators currently expand capacity to absorb the growth in mobile data.

Next to the German independent service providers such as Freenet/Mobilcom, numerous branded resellers like Medion, Blau, Fonic, Congstar, Klarmobil or Tchibo sell products and services, normally exclusively, making use of one network operator.

Our strategy in action

Simplify portfolios

Our activities focus on the Mein BASE offering. This Mein BASE offer is simple and flexible for the customer. The offer gives our customers the opportunity to select options such as ‘internet flat’ and ‘SMS flat’ for a fixed fee according to their needs, with the flexibility to adjust these options on a monthly basis. We will launch a new ‘Base Plus’ proposition in 2012., supporting further growth in data revenues. Furthermore, we expanded our partner portfolio with branded resellers NABU and Metro.

Mobile broadband network

HSPA network is being rolled out following customer demand and based on a regional strategy. We believe we have strong growth opportunities in data and aim to obtain a fair market share in data revenues. Corresponding with the strong growing adoption of mobile data products, E-Plus has ramped up roll-out activities. HSDPA roll-out is ahead of schedule, we expect more than 80% of the population will be covered with up to 42 Mbps in 2012. In addition in 2011, four LTE trial areas are implemented. The commercial roll-out will start in urban areas depending on capacity needs and customer demands.

Products and services

We offer various tariff structures with our multi-brand strategy: E-Plus brand with bundle packages like Time & More, BASE offering flat-fee packages, Simyo as web-only

prepaid mobile operator and Ay Yildiz with a tailor-made offering for Turkish-speaking people. Wholesale solutions for an increasing number of partners are offered which act as branded resellers, including Medion, WAZ, MTV, NABU and MVNOs like Versatel, NetCologne and Ecotel.

In 2011, we had a strong increase in data propositions in our customer base related to the Mein BASE product with a mobile data offer, consisting of smartphone and the ‘internet flat’ option which was introduced in November 2010. The customer can choose between different smartphones and package volumes.

Financial review

(In millions of EUR, unless indicated otherwise)	2011	2010	Δ
– Service revenues (wireless)	3,098	3,092	0.2%
– Hardware and other revenues	138	149	–7.4%
Revenues and other income	3,236	3,241	–0.2%
Operating expenses	2,533	2,528	0.2%
– of which: depreciation, amortization and impairments	650	661	–1.7%
EBITDA	1,353	1,374	–1.5%
EBITDA margin	41.8%	42.4%	

Revenues and other income decreased EUR 5 million or 0.2%, while service revenues were up 8% when corrected for the negative impact from regulation of EUR 226 million. Service revenue growth was driven by the Mein BASE proposition, a strong regional focus and the wholesale partnerships. Our market share increased slightly from 15.7% in 2010 to 15.9% in 2011.

We were able to reach a strong EBITDA margin of 41.8% in 2011 leading to an EBITDA of EUR 1,353 million. Corrected for the regulatory impact of EUR 116 million, EBITDA increased by 7.6%. With strong postpaid net adds of 424 thousand and 1,866 thousand prepaid net adds, the customer base is over 22 million customers.

Operating highlights	2011	2010	Δ
Wireless customers (in thousands)	22,717	20,427	11.2%
Net adds (in thousands)	2,290	1,440	59%
Total traffic (minutes in millions)	37,275	34,896	6.8%
ARPU blended (EUR)	12	13	–7.7%
SAC/SRC blended (EUR)	47	47	–

BELGIUM

In Belgium, we are the third largest mobile telecommunications provider. We are offering ‘value for money’ mobile services. Specific market segments are targeted through multiple own brands and wholesale partnerships.

Environment and competition

The key competitors in the Belgian mobile communication market are Belgacom Mobile (Proximus) and Mobistar. Belgacom Mobile is a wholly-owned subsidiary of Belgacom, the incumbent telecommunications provider in Belgium. France Telecom holds a majority stake in Mobistar. Belgacom Mobile remains the market leader in Belgium with Mobistar, as the runner-up, at a clear distance. KPN Group Belgium being the third-largest provider, is the Challenger in the Belgian mobile market.

Our strategy in action

Challenger with regional approach

We aim to continue our profitable growth based on the proven Challenger strategy. We employ a regional approach (Brussels, Flanders, Wallonia) focused at expanding the addressable market by moving into regions and market segments that are currently under-represented, with a heavy focus on distribution through our own channels and wholesale partners.

Accelerated network investment

We believe we have strong growth opportunities in data. We have accelerated the roll-out of our high-speed mobile data network at the lowest cost-to-serve. Following this accelerated high-speed mobile data roll-out, we continue to offer commercial high-speed mobile voice and data services in most of the major and intermediate cities.

Products and services

We offer, under a variety of brands, a portfolio of voice and data products and services in Belgium that offer “value for money” and simplicity. BASE is our retail brand for prepaid and postpaid products. BASE Business offers products for the business market (SoHo-SME) and under the Ay Yildiz brand, we offer prepaid and postpaid products for the Turkish-speaking community. In 2011, we launched two new rate packages focusing on specific segments: BASE Check which is targeting the youth segment and BASE C which offers a flexible solution for our prepaid and postpaid retail customers. Together with our partner RTL, KPN Group Belgium launched Contact Mobile with a special focus on the Walloon area and we continued to grow JIM Mobile with our partner VMMA.

Financial review

(In millions of EUR, unless indicated otherwise)	2011	2010	Δ
– Service revenues (wireless)	687	684	0.4%
– Hardware and other revenues	94	101	–6.9%
Revenues and other income	781	785	–0.5%
Operating expenses	648	636	1.9%
– of which: depreciation, amortization and impairments	140	122	15%
EBITDA	273	271	0.7%
EBITDA margin	35.0%	34.5%	

Revenues and other income in Belgium were down EUR 4 million or 0.5% compared to 2010, impacted by the divestment of the B2B and Carrier business in 2010 of EUR 10 million and regulation of EUR 60 million. Service revenues corrected for regulatory impact increased by 10%. The increase is a combined result of a strong regional focus, an increasing number of shops, the good performance of the simplified BASE proposition and a good take-up of flat-fee data bundles. Our market share increased from >18% in 2010 to ~19% in 2011.

EBITDA increased by EUR 2 million or 0.7% compared to 2010, despite a regulatory impact of EUR 35 million. On the basis of cost leadership, the EBITDA margin over 2011 has grown to 35%, an increase of 0.5%. Net adds amounted to 403 thousand in 2011, resulting in 4.1 million customers by the end of 2011.

In November 2011, KPN Group Belgium obtained a license to use 2x15 MHz (30 MHz) in the 2.6 GHz spectrum band in Belgium for a consideration of EUR 15 million. With these high frequencies, we will be able to continue the roll-out of high-speed mobile data, including services based on next generation mobile technology (LTE) over time, and to serve our many customers and partners in Belgium. The license will become available as at July 1, 2012 and will expire in 2027.

Operating highlights ¹	2011	2010	Δ
Wireless customers (in thousands)	4,131	3,728	11%
Net adds (in thousands)	403	150	>100%
Total traffic (minutes in millions)	6,119	5,706	7.2%
ARPU blended (EUR)	14	16	–12.5%
SAC/SRC blended (EUR)	19	19	–

1) Relating to Mobile business only.

REST OF WORLD

We offer mobile services, targeted at specific market segments through our own 'value for money' brands and partner brands. Rest of World includes Ortel Mobile, KPN Spain and Magnum.

Environment and competition

We believe in a Challenger strategy aimed at market leadership in various market segments which are underserved by the major MNOs. For Rest of World this is executed through an 'asset light' approach, based on Mobile International's multi-brand and commercial and technical partnership principles to offer 'value for money' services. We expect further growth in the European MVNO markets, fueled by the no-frills and online segments, as well as by the growing multi-cultural population.

In all its markets, Ortel has started facing tougher competition from its main rivals Lebara and Lyca Mobile. In Spain we compete for market share with small local MVNOs as well as major MNOs.

Our strategy in action

In line with our strategy of focusing on accelerating Ortel Mobile's growth outside its domestic markets, KPN France was sold in Q4. The sale of KPN France resulted in a book profit of EUR 10 million in Q4.

The strategy for the different operating companies is based on the challenger principles and business model as successfully deployed in Belgium and Germany:

- Accelerate growth via the expansion to new European markets through leveraging the differentiated business model, while increasing synergies across markets by addressing cross-border cultural communities.
- Enable flexible and low-cost mobile services across markets for KPN's brands and international partners through our Magnum MNVO platform.

Products and services

Ortel Mobile

We offer value for money prepaid mobile services to the multi-cultural communities across various European markets through KPN and partner networks. We differentiate through an understanding of our customers' needs, strong distribution capabilities and reliable partnerships.

KPN Spain and KPN France

In Spain we offer 'value for money' prepaid and postpaid mobile services through the Orange Spain network, targeting specific market segments via our own Simyo brand and wholesale partners.

At the end of 2011, we sold our subsidiary KPN France to Bouygues Telecom. KPN France provided mobile services through the Bouygues Telecom network to some 180 thousand French customers under the Simyo brand. Customers have not been affected by the sale.

Magnum

Our international MVNO platform, implemented in partnership with Huawei, enables increased flexibility at lower costs for our own international brands (e.g. Simyo, Ortel) and wholesale partners in Rest of World.

Financial review

(In millions of EUR, unless indicated otherwise)	2011	2010	Δ
Revenues and other income	307	267	15%
Operating expenses	317	294	8%
– of which: depreciation, amortization and impairments	20	8	>100%
EBITDA	10	-19	n.m.
EBITDA margin	3.3%	-7.1%	

The revenue and EBITDA developments compared to 2010 reflect the strong growth of Ortel Mobile in new markets and increased profitability from KPN Spain as well as a book profit from the sale of KPN France of EUR 10 million. Revenue and other income increased by 15%, while EBITDA is up EUR 29 million.

Ortel Mobile has recorded significant revenue growth in France and Spain following the footprint expansion in 2010. Within the existing footprint, Ortel's focused execution of the strategy through selective acquisition, promotions and strengthened distribution has significantly increased customer quality and profitability. As part of its expansion strategy, Ortel Switzerland was launched on October 5, 2011.

In today's society communication is key, and it is KPN's goal to enable customers to enrich their work and leisure time with the range of communication services it offers. To maintain growth, KPN's innovation and Capex investments are aimed at the customer and to anticipate their changing needs and requirements.

Capital expenditures

In 2011, KPN spent EUR 2,047 million (2010: 1,809 million). Following the increase of investments under the 'Strengthen-Simplify-Grow' strategy, full-year Capex increased by EUR 238 million due to increased investments in the Netherlands and at Mobile International. In the Netherlands, KPN invested in the fixed and mobile network to expand capacity and improve speed. In addition, the wireline proposition was improved by implementing a new user interface and by introducing the possibility of multi-room and multi-screen use of IPTV. Capex for customer equipment increased following the uptake in IPTV customers. During the year, we expanded our distribution footprint by adding shops in line with our strategy.

In Germany and Belgium, KPN invested over EUR 500 million in the wireless infrastructure. Capex increased due to an accelerated high-speed data network roll-out in both countries to capture data growth and grow our market share in data service revenues. Higher IT investments were made to enable a shorter time-to-market at Mobile International.

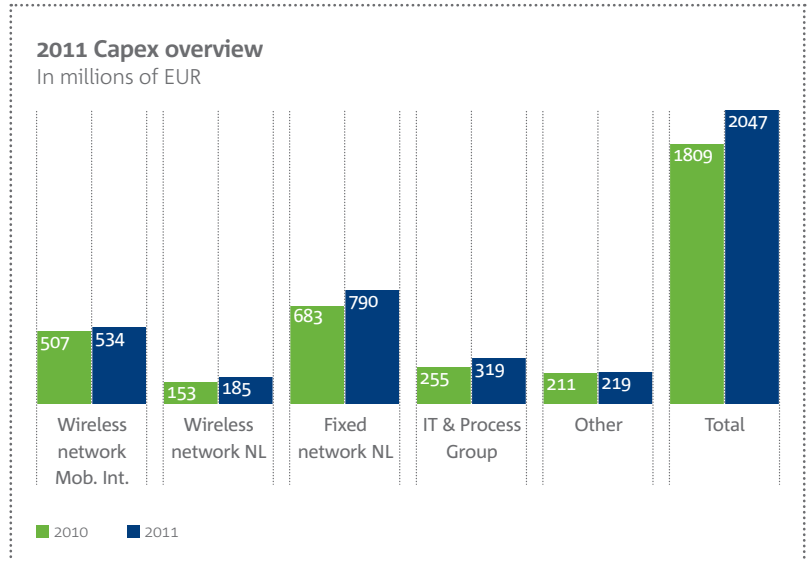
Infrastructure and network innovation

Fixed infrastructure (the Netherlands)

Our fixed infrastructure in the Netherlands is of vital importance for our strategic objective to reach a minimum of 45% broadband market share. To achieve this objective we invest in a hybrid FttH and VDSL-based network, expanding the addressable market for the services that we deliver over these All-IP networks. All-IP is considered KPN's largest and most important innovation project. The use of All IP networks enables more efficient, effective and scalable usage of the telecom infrastructure, providing larger bandwidth and higher speeds.

In 2011, we made further investments in upgrading copper (VDSL). New technologies have been rolled out which significantly increased the broadband bandwidth on copper for subscribers and enabled the commercial roll-out of multi-room HD TV. We are on track with the VDSL upgrades, including pair bonding that is planned for a commercial roll-out in Q2 2012. At the end of 2011, we were able to deliver guaranteed downlink speeds of over 40 Mbps to around 40% of Dutch households.

In the long term we aim to distinguish ourselves from our competitors through the use of fiber in the access network that is being rolled out through our joint venture Reggefiber.



Mobile infrastructure (the Netherlands, Germany, Belgium)

In the Netherlands, our mobile network ambition is to operate a best-in-class network that provides a superior customer experience, both in voice and data services. To be able to handle the mobile data growth we continued to expand the capacity of our mobile network by installing new equipment in the radio and core network. Ethernet connectivity via fiber optics was introduced as part of our future-proof mobile network architecture. The number of sites connected to fiber optics was expanded to 3,100.

With approximately 460 extra sites, the UMTS coverage ultimo 2011 increased to 93.8% population coverage. About 34% of our mobile voice traffic is carried by our UMTS network. HSPA 7.2 and HSPA 14.4 coverage was further expanded. In 2012, we will start upgrading 2.5G sites to 3G. We will also be upscaling our next generation mobile technology (LTE) pilots to support our number one mobile network position in the Netherlands.

The Challenger strategy in Germany and Belgium is being extended into mobile data. We continued our efforts in accelerating the mobile data network roll-out on a selective regional basis through strategic partnerships, ensuring lower cost-to-serve and supporting the network roll-out speed. At the end of 2011 96% of the UMTS sites in Germany were HSDPA enabled.

In Germany, E-Plus has become the first MNO to operate a base station without using any German grid electricity.

Together with our partner Nokia Siemens Networks we set up a 'green' base station site that relies on a combination of solar and wind power, supported by fuel cell and deep cycle battery technology. Electricity grid-independent base stations can be used at locations lacking an affordable energy grid connection to cover 'white spot' areas and increase the broadband penetration. In addition, the environment-friendly site operation and remote energy management help to achieve zero CO₂ emissions during the operation, supporting E-Plus' target to increase energy efficiency by 5% by the year 2012, and by 20% by the year 2020.

Product and services innovation

KPN believes in a world where IP technology provides the ideal future-proof foundation for new ways of communicating, like phone calls over the Internet, videoconferencing, e-learning and electronic payments, enabling the New Way of Working. The use of IP technologies opens the door to new possibilities in such fields as in-store marketing, property surveillance and payments. KPN is brainstorming with other companies on how they can use such solutions. KPN is also delivering and implementing the underlying technology necessary to create the new applications.

A significant part of KPN's innovation projects covers the improvement and renewal of KPN's product and services portfolio. Random examples of product and services innovations are the following:

Interactive TV (Consumer)

In 2011, we improved the iTV (KPN's IPTV service) functionality by introducing the possibility of multi-room HD TV and multi-screen solutions for the laptop and tablet. We believe iTV can be a key differentiator to improve customer experience and satisfaction. On the back of the copper upgrade (VDSL) we were able to increase the addressable market for multi-room HD TV in the Netherlands.

New mobile subscriptions (Consumer)

In a response to the sharp rise in mobile internet usage and the increasing use of messaging apps, we introduced new mobile subscriptions for consumers in the Netherlands. The new subscriptions offer a combination of voice minutes, SMS and mobile data with speeds of up to 14.4 Mbps and are differentiated by volume, data speed and access to our WiFi hotspots.

Mobile data usage apps (Consumer)

Following the increased use of mobile internet and apps, we introduced apps under the KPN and Hi brands that can help our customers to monitor their data usage.

Innovation expenditure

The expenditure (operating expenses) related to these innovations in 2011 amounted to more than EUR 150 million in the Netherlands (2010: EUR 140 million). In 2011 approximately 3,000 employees in the Netherlands were involved in projects and activities to innovate KPN's infrastructure, to create new products and services and improve processes.

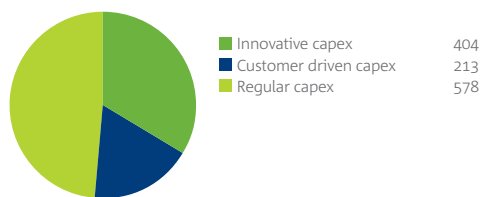
Patent applications and intellectual property rights

KPN's current portfolio of intellectual property rights consists of approximately 13 registered core trade mark and 350 patent families. KPN takes the necessary steps to protect its intellectual property rights and generates value from these rights where appropriate. In order to protect these rights, KPN currently uses a combination of patents, trade marks, service marks, trade secrets, copyrights, database protection, confidentiality agreements with its employees and third parties and protective contractual provisions. Approximately 50 of the patents which KPN owns are declared essential for the commercial exploitation of telecom communication technology and services.

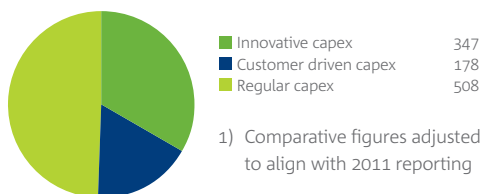
KPN continues to invest in the growth of its intellectual property rights portfolio, among others through KPN's targeted long-term research and development program in close cooperation with TNO Telecom.

Capex spent Dutch Telco

2011



2010¹



CORPORATE GOVERNANCE

Compliance with the Dutch Corporate Governance Code

The Dutch Corporate Governance Code finds its statutory basis in Book 2 of the Dutch Civil Code and applies to KPN as KPN has its registered office in the Netherlands and its shares are listed on a stock exchange.

The Corporate Governance Code defines a company as a long-term form of collaboration between the principal organs of a company. For KPN, these organs include the Board of Management, the Supervisory Board and the Annual General Meeting of Shareholders ('AGM'). The Board of Management values and considers the interests of the various stakeholders involved, supervised by the Supervisory Board. Good Corporate Governance results in effective decision-making in a manner which enhances shareholder value and enables a company to maintain a culture of integrity, transparency and trust.

The current Dutch Corporate Governance Code entered into force on January 1, 2009. In December 2011, the Dutch Corporate Governance Code Monitoring Committee presented its report on compliance with the Dutch Corporate Governance Code in 2011, particularly regarding appointments of managing directors, composition and functioning of the Supervisory Board, voting and communication of foreign shareholders and the quality of explanation of non-application of the corporate governance principles. KPN fully endorses the underlying principles of the Dutch Corporate Governance Code which is reflected in a policy that complies with the best practice provisions as stated in the Dutch Corporate Governance Code. KPN fully complies with the provisions of the Dutch Corporate Governance Code.

For a limited period in 2011, KPN did not apply the following principle:

II.2.4: "if options are granted, they shall, in any event not be exercised in the first three years after the date of granting. The number of options to be granted shall be dependent on the achievement of challenging targets specified beforehand."

Even though the current share plans are fully compliant with the Code, KPN did not apply provision II.2.4 on those options granted to Mr. Scheepbouwer before the Code came into force. At the time of Mr. Scheepbouwer's appointment, KPN and Mr. Scheepbouwer agreed that the Supervisory Board could annually grant Mr. Scheepbouwer unconditional options. Stock options already granted before 2008 have been respected. As Mr. Scheepbouwer stepped down from his position on April 6, 2011, this deviation from the Code no longer exists since that date.

In addition, KPN does not fully apply the following principle:

II.2.8: "the remuneration in the event of a dismissal may not exceed one year's salary (the 'fixed' remuneration component). If the maximum of one year's salary would be manifestly unreasonable for a Management Board member who is dismissed during his first term of office,

such Board member shall be eligible for severance pay not exceeding twice the annual salary."

Mr. Dirks joined the Board of Management of KPN on November 8, 2011. Mr. Dirks' employment contract contains a non-competition clause for which he will, as required by German law, receive compensation equal to 50% of his (German) salary during a maximum period of 12 months. In case of a termination of his German contract he will receive this compensation on top of the severance pay of one year's base salary that may be due under KPN's remuneration policy.

Furthermore, given the short, remaining period between his appointment and the end of the year 2011, Mr. Dirks continued to be eligible for the variable incentives for 2011 as agreed under his former contract. As of January 2012, his compensation package is fully in line with KPN's remuneration policy as adopted by the Annual General Meeting of Shareholders.

KPN's application of the Corporate Governance Code is available on the website (www.kpn.com) under the section Investor Relations, Corporate Governance.

Legal structure of the Company

Under Section 6, Part 4 of Book 2 of the Dutch Civil Code, the rules for large companies ('structuurvennootschap') are mandatory for KPN. As such, KPN has a two-tier management structure with a Board of Management and a Supervisory Board. New legislation to amend the rules on management and supervision within Dutch companies (the 'Act on management and supervision'), including the possibility of introducing a one-tier management structure for Dutch NVs (public limited liability companies) and BVs (private limited liability companies), was adopted on May 31, 2011 and is expected to enter into force on July 1, 2012.

Under Dutch corporate law, shareholders are entitled to approve decisions of the Board of Management that have a Company-transforming effect. Moreover, they are entitled to approve the remuneration policy and share (option) plans. Also, they are entitled to appoint members of the Supervisory Board upon proposal by the Supervisory Board and to dismiss the Supervisory Board.

Currently, legislation is still pending on shareholder rights such as raising the threshold for proposing items to the shareholders meeting and decreasing the threshold for disclosure obligations for shareholders regarding their voting and capital interest. KPN closely monitors these developments. Where relevant, changes in legislation will be implemented in KPN's Articles of Association. The Articles were last amended on May 3, 2007.

None of KPN's shareholders hold special rights and no restrictions apply to the exercise of voting rights. For further information, please see 'Share capital' under 'Shareholders' rights', and 'Restrictions on non-Dutch shareholders' rights' later in this section.

On the basis of The Dutch Financial Supervision Act (Wet op het financieel toezicht (Wft)), The Dutch Authority for Financial Markets (AFM) supervises the financial reporting by Dutch listed companies.

Management

Supervisory Board

The Supervisory Board oversees strategic and commercial policy-making by the Board of Management and the way in which it manages and directs KPN's operations and affiliated/associated companies. Members of the Supervisory Board are appointed by the AGM upon binding nomination by the Supervisory Board. The Central Works Council has an enhanced right to recommend persons for nomination up to one-third of the Supervisory Board.

The Supervisory Board must nominate the recommended persons unless it is of the opinion that 1) any such person would be unsuitable to fulfill the duties of a Supervisory Board member, or 2) such appointment would cause the Supervisory Board to be improperly constituted.

According to the Articles of Association, the Supervisory Board must consist of at least five and not more than nine members. KPN's Supervisory Board currently consists of seven members. Members of the Supervisory Board resign according to a schedule set by the Supervisory Board. A member steps down at the first AGM following his four-year term in office. In line with the revised Code, members can be reappointed twice, leading to a maximum term in office of 12 years. The Supervisory Board nominates Mr. van Bommel for appointment as member of the Supervisory Board. The nomination will be put on the agenda of the AGM on April 12, 2012. With the appointment of Mr. van Bommel, the Supervisory Board will be reinforced with an experienced financial expert.

The Supervisory Board has determined its 'profile', defining the basic principles for the composition of the Supervisory Board. All nominees for election to the Supervisory Board

must fit within this profile. According to this profile, the Supervisory Board must be composed in such a way that members of the Supervisory Board are able to operate independently of each other and of the Board of Management. The profile was amended at the 2010 AGM in order to fully comply with diversity principles in the Dutch Corporate Governance Code. The profile is available on the website www.kpn.com under the section Investor Relations, Corporate Governance.

The by-laws of the Supervisory Board contain, among other things, rules regarding the members' duties, powers, working methods and decision-making, what decisions by the Board of Management it must approve, training and conflict handling. The by-laws are available on the website www.kpn.com under the section Investor Relations, Corporate Governance. The composition of the Supervisory Board did not change in 2011. At the AGM of April 6, 2011, Mr. Streppel, Mr. Bischoff and Ms. Hooymans were reappointed for a four-year term. Mr. Van Rooij, Chief Legal Officer and company secretary acts as secretary to the Supervisory Board.

Committees of the Supervisory Board

Three committees assist the Supervisory Board: the Audit Committee, the Remuneration and Organizational Development Committee and the Nominating and Corporate Governance Committee. The committees consist of members of the Supervisory Board. They report their findings to the Supervisory Board, which is ultimately responsible for all decision-making. The tasks of these committees are laid down in charters which are available on KPN's website. Further information on the activities of the committees in 2011 can be found in the 'Report of the Supervisory Board' and on the website www.kpn.com under the section Investor Relations, Corporate Governance.

Composition of the Supervisory Board

Name	Year of birth	Start of term	End of current term	Committees
J.B.M. Streppel (Chairman)	1949	May 12, 2003, April 17, 2007* April 6, 2011*	2015	Chairman Nominating and Corporate Governance Committee; Member Remuneration and Organizational Development Committee
A.H.J. Risseeuw	1936	May 2, 2001, April 12, 2005* April 7, 2009*	2013	Member Nominating and Corporate Governance Committee; Member Remuneration and Organizational Development Committee
M.E. van Lier Lels	1959	May 2, 2001, April 12, 2005* April 7, 2009*	2013	Member Audit Committee
M. Bischoff	1942	May 12, 2003, April 17, 2007* April 6, 2011*	2015	Member Audit Committee
C.M. Hooymans	1951	April 17, 2007 April 6, 2011*	2015	Member Nominating and Corporate Governance Committee; Member Remuneration and Organizational Development Committee
R.J. Routs (Vice-Chairman)	1946	April 7, 2009	2013	Chairman Remuneration and Organizational Development Committee; Member Nominating and Corporate Governance Committee
D.J. Haank	1953	April 7, 2009	2013	Chairman Audit Committee

* Reappointment.

SUPERVISORY BOARD



J.B.M. Streppel



A.H.J. Risseeuw



M.E. van Lier Lels



M. Bischoff



C.M. Hooymans



R.J. Routs



D.J. Haank

J.B.M. Streppel

Mr. Streppel was appointed as a member of the Supervisory Board on May 12, 2003, and has been the Chairman of the Supervisory Board since April 13, 2010. His current (third and final) term expires in 2015. Mr. Streppel chairs the Nominating and Corporate Governance Committee and is a member of the Remuneration and Organizational Development Committee. Mr. Streppel is the former Chief Financial Officer of AEGON N.V. and is a member of the Supervisory Board of Van Lanschot N.V., member of the Board of the Holland Financial Center and non-executive director of the RSA Group Ltd. He is Chairman of the Shareholders Communication Channel, Chairman of the Monitoring Committee Corporate Governance Code and Chairman of the Board of Duisenberg School of Finance. Mr. Streppel is a Dutch citizen.

A.H.J. Risseeuw

Mr. Risseeuw was first appointed as a member of the Supervisory Board on May 2, 2001. His current (third and final) term expires in 2013. Mr. Risseeuw is member of the Nominating and Corporate Governance Committee as well as of the Remuneration and Organizational Development Committee. Mr. Risseeuw was the Chairman of the Supervisory Board of KPN from September 10, 2001 till April 13, 2010. He has held various management positions with Dutch international companies and is the former President of Getronics N.V. He is Chairman of the Supervisory Boards of the Groeneveld Groep B.V. Mr. Risseeuw is a Dutch citizen.

M.E. van Lier Lels

Ms. Van Lier Lels was first appointed as a member of the Supervisory Board on May 2, 2001, and her current (third and final) term expires in 2013. She is a member of the Audit Committee. Ms. Van Lier Lels held various management positions with Dutch international companies and is the former Chief Operating Officer of Schiphol Group. She is a member of the Supervisory Boards of USG People N.V., TKH Group N.V., Reed Elsevier N.V. and Maersk B.V. She is the chairman of the Supervisory Council of The Netherlands Society for Nature and Environment and a member of the Council for Transport and Waterways. Ms. Van Lier Lels is a Dutch citizen.

M. Bischoff

Mr. Bischoff was appointed as a member of the Supervisory Board on May 12, 2003, and his current (third and final) term expires in 2015. He is a member of the Audit Committee. Mr. Bischoff, a former member of the Management Board of DaimlerChrysler, is currently Chairman of the Supervisory Board of Daimler AG. Furthermore, he is a member of the Supervisory Boards of Fraport AG, SMS GmbH and Voith AG and a non-executive member of the Board of Directors of Unicredit. Mr. Bischoff is a German citizen.

C.M. Hooymans

Ms. Hooymans was appointed as a member of the Supervisory Board on April 17, 2007 and her current (second) term expires in 2015. She is a member of the Remuneration and Organizational Development Committee, as well as the Nominating and Corporate Governance Committee. Ms. Hooymans is a member of the Management Board of TNO and a member of the Supervisory Board of Rabobank Vallei en Rijn. Furthermore, she is a member of the Board of the Radboud Foundation (Radboud University and Radboud University Medical Center) and a member of the Dutch Government's Advisory Council for Science and Technology. Ms. Hooymans is a Dutch citizen.

R.J. Routs

Mr. Routs was appointed as a member of the Supervisory Board on April 7, 2009 and has been the Vice Chairman of the Supervisory Board since April 13, 2010. His term expires in 2013. Mr. Routs chairs the Remuneration and Organizational Development Committee and is a member of the Nominating and Corporate Governance Committee. From 2004 until his retirement in 2008, Mr. Routs was an executive board member at Royal Dutch Shell PLC. Before that he held various (senior) management positions at this company in the USA, Canada and the Netherlands. Mr. Routs is Chairman of the Supervisory Board of DSM, Chairman of the Supervisory Board of Aegon N.V., member of the Board of Directors of Canadian Utilities, and member of the Boards of AP Moller-Maersk Denmark, KPM-Kymmuna Finland and AECOM. Mr. Routs is a Dutch citizen and resides in Switzerland.

D.J. Haank

Mr. Haank was appointed as a member of the Supervisory Board on April 7, 2009 and his term expires in 2013. He is the Chairman of the Audit Committee. Mr. Haank is currently CEO of Springer Science+Business Media (Springer). Mr. Haank holds several supervisory and advisory positions, including those of member of the Supervisory Board of NUON and MSD Netherlands B.V. and the Supervisory Council of the Dutch broadcast association TROS. Before his appointment at Springer, Mr. Haank was the CEO of Elsevier Science and Executive Board Member of Reed Elsevier PLC. Mr. Haank is a Dutch citizen.

The business address of each of the members of the Supervisory Board is Maanplein 55, 2516 CK, The Hague, the Netherlands.

BOARD OF MANAGEMENT



E. Blok



C.M.S. Smits-Nusteling



T. Dirks



J.B.P. Coopmans

Composition of the Board of Management

Name	Position	Year of birth	Start of term	End of current term
E. Blok	Chief Executive Officer	1957	June 2006/2010*	2014
C.M.S. Smits-Nusteling	Chief Financial Officer	1966	November 2009	2012**
T. Dirks	Board member	1963	November 2011	2015
J.B.P. Coopmans	Board member	1965	September 2006/2010*	2012***

* Reappointment.

** Mrs. Smits-Nusteling will leave KPN on April 1, 2012.

*** Mr. Coopmans will leave KPN on April 1, 2012.

The Board of Management, supervised and advised by the Supervisory Board, manages KPN's strategic, commercial, financial and organizational matters and appoints senior managers. The Supervisory Board appoints and discharges members of the Board of Management and establishes their individual remuneration within the boundaries of the remuneration policies approved by the AGM and the recommendations by the Remuneration and Organizational Development Committee.

Currently, the Board of Management consists of four members. In 2011, Mr. Scheepbouwer left the Board of Management. At the end of the year, Mr. Dirks was appointed as a member of the Board of Management. Mrs. Smits-Nusteling and Mr. Coopmans will leave the Board of Management on April 1, 2012. Mr. Coopmans and Mrs. Smits-Nusteling are as of January 1, 2012 no longer involved in decision making and management of KPN. On the basis of contractual arrangements, Mr. Coopmans and Mrs. Smits-Nusteling are not accountable vis-à-vis the Supervisory Board for decisions of the Board of Management as of January 1, 2012.

E. Blok

As of the AGM in April 2011, Mr. Blok is the Chairman of the Board of Management and Chief Executive Officer.

Elco Blok was appointed as a member of the Board of Management on June 1, 2006 and was responsible for KPN's Fixed division until January 1, 2007. Until February 1, 2010, he was Managing Director of the Business, Getronics and Wholesale & Operations Segments (including iBasis). As of February 1, 2010, Mr. Blok assumed responsibility for KPN's international operations, comprising Mobile International and iBasis, KPN's wholesale international voice traffic carrier. He assumed the additional role of Chief Operating Officer in October 2010.

Mr. Blok joined KPN in 1983 and has had various management positions, including as director of KPN's Carrier Services, Corporate Networks and Fixed Net Operator, and he was responsible for Corporate Strategy & Innovation. More recently he was Chief Operating Officer of KPN's former Fixed division. He was previously, from April until December 2004, a member of KPN's Board of Management. He is a member of the Supervisory Board of Reggefiber Groep B.V., he is a member of the Board of ICT Office and he is a member of the Cyber Security Council.

C.M.S. Smits-Nusteling

Mrs. Smits-Nusteling is a member of the Board of Management and Chief Financial Officer.

Carla Smits-Nusteling was appointed as a member of the Board of Management on November 3, 2009. She assumed the responsibilities of Chief Financial Officer on September 17, 2009. Mrs. Smits-Nusteling joined KPN in 2000 and held various (financial) management positions. More recently, she was Director of Corporate Control. Before she joined KPN, she held various financial and operational management positions at TNT. As of April 1, 2012, Mrs. Smits-Nusteling will leave KPN.

T. Dirks

As of November 8, 2011, Mr. Thorsten Dirks is a member of the Board of Management and is responsible for the international mobile activities within the KPN Group. He is also the Chief Executive Officer of E-Plus and Mobile International.

Mr. Dirks joined E-Plus in 1996, having previously held management positions with Orbitel Mobile Communication (Vodafone/Ericsson) and Vebacom. He joined the E-Plus board of management in 2001. In his time at E-Plus, Mr. Dirks has held the posts of General Manager Business Support & Innovation Management, Executive Director Product & Process Innovation and General Manager of Innovation, IT and Operations. He has been Chief Executive Officer of E-Plus since January 2007 and Chief Executive Officer of KPN Mobile International since May 2011.

J.B.P. Coopmans

Mr. Coopmans is a member of the Board of Management and is responsible for strategic programs on quality, reputation and brand.

Baptiest Coopmans was appointed as a member of the Board of Management on September 11, 2006 and was responsible for KPN's Consumer Segment in the Netherlands until January 1, 2007. Until February 1, 2010, he was Managing Director of the Consumer Segment and the unit IT in the Netherlands. As of February 1, 2010, Mr. Coopmans' responsibilities had been extended to the whole of KPN's Dutch Telco activities. As of April 2011, Mr. Coopmans was responsible for strategic projects relating to quality, reputation and brand. As of April 1, 2012, Mr. Coopmans will leave KPN.

Mr. Coopmans held various (commercial) management positions at Unilever. In 1998 he was appointed Managing Director of Diversey Lever. In September 2000 he was appointed chairman of the Board of Iglo Mora and as of 2004 he was chairman of the Board of Unilever in Mexico.

Auditor

The external auditor is responsible for the audit of the financial statements. The external auditor reports to the Board of Management, the Audit Committee and the Supervisory Board to discuss audit findings pertaining to quarterly and annual financial results. The external auditor attends the AGM to answer questions pertaining to the auditor's report as included in the Annual Report. The Audit Committee approves every engagement of the external auditor, which requires pre-approval by the internal auditor as delegated authority in order to avoid potential breaches of the external auditor's independence. Both the external and internal auditor attend all Audit Committee meetings. The AGM appoints the external auditor on a yearly basis, upon recommendation by the Board of Management and the Supervisory Board.

Shareholders' rights

Share capital

The KPN authorized capital stock totals EUR 1,440,000,000, divided into 3 billion ordinary shares of EUR 0.24 each and 3 billion Class B preferred shares of EUR 0.24 each. As of December 31, 2011, a total of 1,431,522,482 ordinary shares were outstanding.

Dutch law prohibits KPN from casting a vote on shares it holds. The ordinary shares and Class B preference shares carry the right to cast one vote each. For a description of the preference shares, please see 'The Foundation Preference Shares B KPN'. The ordinary shares are registered or payable to bearer. Shareholders may request the Company to convert their registered shares to bearer shares but not vice versa.

Purchase of shares in the Company's own capital

The shareholders have authorized the Board of Management (for a period of 18 months until October 6, 2012) to purchase shares in the Company's own capital at a price per share of at least EUR 0.01 and at most the highest of (i) the Quoted Share Price plus 10% and (ii), if purchases are made on the basis of a program entered into with a single counterparty or using a financial intermediary, the average of the Volume Weighted Average Share Price during the course of the program. The Quoted Share Price is defined as the average of the closing prices of KPN shares as reported in the official price list of Euronext Amsterdam N.V. over the five trading days prior to the acquisition date. The Volume Weighted Average Share Price is defined as the volume weighted average price of trades in KPN shares on Euronext Amsterdam N.V. between 9:00 am (CET) and 5:30 pm (CET) adjusted for block, cross and auction trades.

Any such purchase requires the approval of the Supervisory Board. Votes may not be cast on purchased shares and they do not count towards determining the number of votes required at a General Meeting of Shareholders. KPN may only purchase shares in its own capital if the shares are fully paid-up and the distributable part of the shareholders' equity is at least equal to the purchase price. The Board of Management was authorized to cancel up to 10% of the issued capital. In practice, this meant that KPN could acquire up to 10% of its own issued shares, cancel these shares, and acquire a further 10%.

Annual General Meeting of Shareholders (AGM)

Within six months of the end of a fiscal year, an AGM is held, where the discussion of the Annual Report and approval of the Financial Statements are put on the agenda. Other General Meetings of Shareholders are held as often as the Supervisory Board or Board of Management deem necessary. The Board of Management and the Supervisory Board determine the agenda of the AGM. Shareholders who individually or collectively represent at least 1% of the issued capital have the right to propose items for the agenda. Every shareholder has the right to attend an AGM in person or through written proxy, to address the meeting and to exercise voting rights. For further information on the AGM, see www.kpn.com/ir.

Adoption of Financial Statements and discharge of responsibility

Within four months from the end of every fiscal year, the Board of Management prepares Financial Statements accompanied by an Annual Report. The Financial Statements are submitted to the Supervisory Board for approval. The Supervisory Board submits the approved Financial Statements to the AGM for adoption together with the Annual Report for discussion. At the same time, the Board of Management submits the approved Financial Statements to the Central Works Council for information purposes. Adoption of the Financial Statements does not automatically discharge the Board of Management or the Supervisory Board from liability. This requires a separate resolution by the AGM.

Dividends

Under the Articles of Association, the Class B preference shares carry preferred dividend rights. Subject to the approval of the Supervisory Board, the Board of Management will determine what proportion of the profit remaining after satisfaction of these preferred dividend rights will be appropriated to the reserves. The Board of Management may decide to allocate the complete remainder to the reserves. Any remaining profit resulting after this appropriation is available for distribution on the ordinary shares. The decision to pay out a dividend is made by the AGM, upon proposal by the Board of Management with the approval of the Supervisory Board. In addition, the Board of Management may, subject to approval by the Supervisory Board, decide to pay out the entire dividend on ordinary shares in shares instead of in cash. Subject to Supervisory Board approval and certain legal requirements, the Board of Management may furthermore decide to pay out interim dividends on ordinary shares. Please see section 'Information about the KPN share – Dividend' on page 18 for more information.

Amendment of the Articles of Association; dissolution; legal merger; demerger; reduction of capital

The AGM may pass resolutions to effect a merger, split-up or dissolution of the Company or amend its Articles of Association only upon a proposal by the Board of Management. The Supervisory Board must approve such a proposal. An absolute majority of the votes cast is required to adopt such a shareholders' resolution.

Liquidation

In the event of dissolution or liquidation, the assets remaining after payment of all debts will be divided among shareholders in the following way: the holders of issued and outstanding Class B preference shares will first receive the par value paid for the shares and any amount owed by way of dividend on the shares, in so far as not already paid out in previous years. Secondly, the remaining amount will be distributed to holders of ordinary shares in proportion to the total number of shares possessed by each holder.

Restrictions on non-Dutch shareholders' rights

Under KPN's Articles of Association, there are no limitations on the rights of non-resident or foreign shareholders to hold or exercise voting rights in respect of its securities, and there are no such restrictions under Dutch corporate law.

Insider transactions

The table below provides an overview of transactions in 2011 by members of KPN's Board of Management and Supervisory Board. As of the moment a member of the Board of Management or Supervisory Board has stepped down as member, the obligation to notify the Authority Financial Markets of any transactions in KPN securities ceases to exist.

January 26	E. Blok	Exercise of 398,054 share options, of which 360,054 shares were sold	Average selling price shares: EUR 11.57
January 28	A.H.J. Risseeuw	Bought 2,630 KPN shares	EUR 11.39
February 2	M. Bischoff	Bought 9,000 KPN shares	EUR 11.68
April 6	E. Blok	Award of 95,000 conditional restricted KPN shares	EUR 0
April 6	C.M.S. Smits-Nusteling	Award of 66,000 conditional restricted KPN shares	EUR 0
April 6	J.B.P. Coopmans	Award of 66,000 conditional restricted KPN shares	EUR 0
April 13	E. Blok	Exchange of 30,745 restricted KPN shares for 30,745 unconditional shares upon fulfillment of performance criterion	EUR 0
April 13	C.M.S. Smits-Nusteling	Exchange of 2,376 restricted KPN shares for 2,376 unconditional shares upon fulfillment of performance criterion	EUR 0
April 18	E. Blok	Exchange of 63,502 conditional KPN shares for 95,253 unconditional shares upon fulfillment of performance criterion. Sale of 48,410 shares for income tax settlement related to vesting of shares	EUR 0 Average selling price shares: 11.78
April 18	J.B.P. Coopmans	Exchange of 55,219 conditional KPN shares for 82,829 unconditional shares for income tax settlement related to vesting of shares	EUR 0 Average selling price shares: 11.78
September 1	J.B.P. Coopmans	Exchange of 31,683 restricted KPN shares for 31,683 unconditional shares upon fulfillment of performance criterion	EUR 0

Subcode 'Inside Information'

KPN employees that have access to inside information through the exercise of their employment, profession or duties, including members of the Board of Management or Supervisory Board, are subject to the Subcode 'Inside Information'. This Subcode, which is connected to the Company Code, contains rules for possession of and transactions in KPN securities by such employees.

The Foundation Preference Shares B KPN ('Stichting Preferente Aandelen B KPN')

According to its Articles of Association, the statutory goal of the Foundation Preference Shares B KPN (the 'Foundation') 'is to protect KPN's interests (which includes the interests of stakeholders, such as customers, shareholders and employees), by, amongst others, protecting KPN from influences that may threaten the continuity, independence and identity.' Consequently, in the event of any circumstances where the Company is subject to influences as described above and taking public security considerations into account, the Board of the Foundation may decide to exercise the call option (as described below), with a view to enabling the Company to determine its position in relation to the circumstances as referred to above, and seek alternatives. The Board of the Foundation is of the opinion that under normal circumstances it should not exercise its voting rights for longer than a limited period. The Board of the Foundation

considers it undesirable for the Board of Management to ignore a shift in the balance of power in the AGM over an extended period of time per event. It is furthermore undesirable that the Board of Management would (be able to) use anti-takeover measures to further the personal interests of individuals involved with the Company.

The members of the Board of the Foundation are J.H. Schraven (Chairman), P. Bouw (vice-Chairman), P. Wakkie, H. Zwarts and J.E.F. Klaassen. The Board of Management and the members of the Board of the Foundation share the view that the Foundation is independent from KPN in accordance with parts c and d of the first subsection of article 5:71 of the Dutch Act on financial supervision.

The views of the Board of the Foundation, summarized above, have been published at the Foundation's website (www.prefs-KPN.nl).

The Foundation has a call option, which is not limited in time, to acquire a number of Class B preference shares from KPN not exceeding the total issued amount of ordinary shares, minus one share and minus any shares already issued to the Foundation.

Upon exercise of the call option, 25% of the nominal value of EUR 0.24 per Class B preference share needs to be paid by the Foundation. The Board of Management can decide to request the Foundation to pay the remainder. Such decision is subject to the approval of the Supervisory Board.

KPN defines risks as any uncertainties regarding the achievement of its main objectives under the ‘Strengthen–Simplify–Grow’ strategy.

In this section, the risk appetite, principal risks and the Internal Risk Management and Control System are described.

Risk appetite

In January 2012, the Board of Management discussed and updated the risk appetite of KPN Group. Risk appetite is defined as the total impact of risk that KPN is willing to accept in the pursuit of its (strategic) objectives. The risk appetite was discussed and determined by means of an internally developed dashboard. In the dashboard several risk themes were defined like financial, business, compliance and security themes. For each theme the Board of Management rated, in a range varying from high to low, their willingness to accept the underlying risks.

Based on these ratings, the risk appetite of KPN is expressed in several ways, such as:

- Avoiding unnecessary risks that affect the quality of customer services and network availability;
- Maintaining a well-diversified portfolio of product/market combinations;
- Focusing primarily on expansion in developed markets;
- A prudent financing policy by covering refinancing obligations well ahead;
- A minimum credit rating of BBB with Standard & Poor’s and Baa2 with Moody’s; and
- Maintaining a robust framework of controls to prevent:
 - material errors in the financial statements;
 - breaches of applicable laws and regulations, such as telecommunications and privacy laws;
 - information security incidents (for both Company information and customer information);
 - material incidents in safeguarding of the Company’s assets.

KPN is recognized for its drive for quality, consistency and financial discipline. The Board of Management stimulates entrepreneurship within KPN and encourages Segments to seek opportunities to achieve the strategic objectives by taking controlled risks, within the risk appetite as determined for KPN Group.

Principal risks

Taking risks is inherent in doing business and the successful management of these risks delivers return to KPN’s stakeholders. The table on pages 48 and 49 shows the principal strategic, operational, financial, financial reporting, regulatory and compliance risks KPN is facing and mitigating factors and initiatives taken to manage these risks. These risks could prevent KPN from achieving its objectives and mitigating factors and initiatives are taken to manage these risks. This is not intended to be an extensive analysis of all risks affecting KPN’s business. The principal risks are presented in random order.

The risks of the economic downturn especially, may have significant impact on KPN’s performance and results in 2012. In the business plans for the next three years, KPN has included scenario analyses (like Monte Carlo simulations) to estimate the possible impact of the worsened economic climate on the Company’s revenues, EBITDA, cash flow and financial framework for 2012 and following years. Based on these scenario analyses, KPN has defined contingency plans to mitigate the impact of the economic crisis as much as possible.

Internal Risk Management and Control System

KPN’s Internal Risk Management and Control System is designed to avoid or mitigate rather than to eliminate the risks associated with the realization of KPN’s strategic, operational, financial, compliance, regulatory and financial reporting objectives. It provides reasonable but not absolute assurance against material misstatement or loss. To manage risks in general, KPN has combined elements of KPN’s existing internal Risk Management and Control System into an overall control framework, which satisfies the relevant criteria as set forth by the Committee of Sponsoring Organizations of the Treadway Commission (based on the Integrated Internal Control Framework). Some key components are described below.

Tone at the top

The attitude and behavior of the Board of Management serves as a good example for all KPN employees. Consistently maintaining the proper ‘tone at the top’ establishes the foundations for effective risk management. Good governance and integrity is a continuously recurring theme on the agenda of ‘top management’.

In 2011, a number of additional initiatives were taken, further underlining the ‘tone at the top’. In October 2011, an integrity workshop was organized for top 70 management of KPN the Netherlands. In this workshop (which will also be held next year), several integrity dilemmas were presented and discussed by the participants. As a follow-up to this integrity workshop, integrity meetings for all KPN employees will be rolled out in 2012.

In May 2011, KPN held an Ethics and Compliance Survey to address the various cultural and awareness elements of the Compliance Charter. The results of the Survey were discussed with the Board of Management and with the top 70 management in the Netherlands during the integrity workshop. A new Ethics and Compliance Survey will be held in 2012.

Code of Conduct

KPN is conscious of its social and ethical responsibilities and wishes to ensure that work practices across the Company are in compliance with the law and regulations and consistent with social and ethical norms. For this purpose, KPN has a Code of Conduct, which sets out the key values: personal, trust and simplicity. KPN can be held accountable for its performance by all of its stakeholders (customers, shareholders, employees, business associates, competitors, environmental organizations, international business relations and the community in the broadest sense). The Code of Conduct is available on the KPN website (www.kpn.com).

KPN continuously communicates and updates its Code of Conduct and underlying compliance policies, based on new and changed regulation, using training such as e-learning.

Internal Audit function

Internal Audit (KPN Audit) provides assurance to both the Board of Management and Audit Committee concerning the 'In Control' status of KPN's Segments and processes. The Chief Auditor reports to the Chief Executive Officer (CEO) and has unrestricted access to the Board of Management and the Audit Committee. KPN Audit conducts its activities in a risk-based manner and in close cooperation with the external auditor, based on a continuous evaluation of perceived business risks. Auditors have unrestricted access to all documents and records, properties and staff.

KPN Audit plays an important role in assessing the quality and effectiveness of KPN's internal Risk Management and Control System. The Internal Audit function conducts systematic and ad hoc financial, IT and operational audits and special investigations. Furthermore, KPN Audit conducts periodic reviews on the quality of 'GRIP' which is described in more detail below. Audit findings are discussed with responsible management, including directly responsible Board members, and every quarter the main findings are reported and discussed with the Board of Management and the Audit Committee.

Business planning and review cycles

In order to fulfill KPN's strategy, the Board of Management and the management of the various Segments discuss and define the targets and objectives. The targets and objectives are detailed in a business plan which covers a three-year period. This is the basis for operational plans per Segment. During the monthly reviews management of each Segment discuss Segment performance with the relevant Board of Management member as well as KPN's CEO and CFO. Progress over time and performance compared to the business plan are discussed. Management of the Segments also provides the Board of Management with a letter of representation regarding the reliability of the reporting and compliance with prescribed policies.

As of Q3 2011 the business risk management approach of KPN (formerly known as Strategic Business Risk Assessment (SBRA)) is fully integrated in the Planning and Control cycle. This implies that every quarter segments perform a 'most likely' forecast six quarters ahead on their

main financials and key performance indicators (the 'Rolling Forecast'). Combined with the Rolling Forecast, Segments identify the main risks and opportunities, so a bandwidth around expected performance can be determined. These risks and opportunities are discussed during the business reviews with the Board of Management.

Business Control Framework

The Business Control Framework (BCF) contains all corporate policies and guidelines that are mandatory for KPN units. The BCF is the cornerstone of KPN's Group governance. The BCF policies support the control and governance of the KPN Group, not only for reliable financial reporting, but also for compliance with laws and regulations and the realization of KPN's objectives.

Financial Risk Management

The financial risks associated with the use of financial instruments are managed by KPN's Treasury department under policies approved by the Board of Management (also part of the BCF). These policies are established to identify and analyze financial risks faced by KPN, to set appropriate risk limits and controls, and to monitor adherence to those limits. These written policies cover specific areas such as currency risks, interest rate risks, counterparty risks and liquidity risks. Treasury identifies, evaluates and manages financial risks in close cooperation with KPN's operating entities.

In 2010 and 2011, the Treasury policies were reviewed and aligned with the overall Treasury risk framework. The Treasury risk framework and updated policies have been approved by the Board of Management. More information regarding Financial Risk Management at KPN can be found in Note 29 of the notes to the Financial Statements.

GRIP

KPN has an integrated risk management approach called 'GRIP', an acronym for Governance & compliance, Risk management, Internal control and Processes. GRIP is built on three pillars:

- Internal control over financial reporting;
- Compliance Risk Assessment framework (CRA);
- Security function.

The CFO of KPN reviews compliance of the segments with the requirements of the GRIP framework and discusses emerging issues and their timely resolution. KPN is continuously improving the effectiveness and efficiency of the internal control frameworks. In 2011 KPN started a project to further enhance the integrated risk management approach; the new approach is expected to be implemented in the course of 2012.

In January 2012, the Board of Management performed an annual risk assessment to identify the main strategic risks of the Company, that will also give focus on the main attention areas for GRIP in next years.

PRINCIPAL RISKS

Risk	Description and impact	Mitigating factors and counter measures
Increased competition, especially in mobile and broadband market	Mobile	
	<ul style="list-style-type: none"> Significant increase of investment in customer acquisition and retention costs by the competition: this could put further pressure on KPN's market share in the mobile market in the Netherlands or may increase KPN's acquisition costs. New market entrants may lead to a loss of KPN's mobile market share or results. Increase of competitive landscape for Mobile International; competition based on price, subscription options, coverage (including data) and service quality could lead to price pressure and lower market share. 	<ul style="list-style-type: none"> Maintain balance between profitability and incentives to customers Innovation of products and services Expand distribution footprint Investment in quality Maintain balance between profitability and incentives to customers Innovation of products and services Multi-brand strategy Expand distribution footprint Multi-brand strategy Further enhance regionalization strategy in Germany and Belgium Acceleration of mobile data penetration in Germany and Belgium Improved postpaid propositions
	Broadband	
Reputation	<ul style="list-style-type: none"> Significant increase of investment in infrastructure by cable companies and improvement of their triple-play portfolio: this could put further pressure on KPN's market share in the broadband market. Fiber roll-out may not meet expectations and activations may fall behind, not reaching the required coverage ratio. This could lead to an impairment of the investment in Reggofiber and increased liabilities related to the options. 	<ul style="list-style-type: none"> Investments to upgrade KPN network speed to make copper more competitive Ramp-up of fiber roll-out; intensify marketing of FttH and iTV Improve quality of service and execution power Scaling of delivery processes Demand aggregation
	Business Market and Corporate Market	
	<ul style="list-style-type: none"> The Dutch business markets are dominated by only a few players in which KPN acts as an incumbent. A new market entrant or further price competition can lead to loss of the KPN business market share. 	<ul style="list-style-type: none"> Improving sales effectiveness Corporate Market and Business market e.g. by means of a sector approach Maintain balance between profitability and incentives to customers
New technologies and introduction of new products and services in mobile and fixed markets	<ul style="list-style-type: none"> KPN's relationship with its customers, regulators and supervisors could be damaged due to compliance (e.g. security, privacy), operational issues and quality-related incidents. These incidents may include breach of legislation, lack of information security, network failure or insufficient client service or transparency. Such incidents would have a negative impact on KPN's reputation and customer satisfaction. 	<ul style="list-style-type: none"> Proactivity in communication with OPTA Benchmark network quality and maintain investment level in network Execution of 'First-Time-Right' programs Focus on drivers to improve Net Promoter Score Improving and maintaining a robust control framework dedicated to complying with Telco regulation (CRA framework)
	<ul style="list-style-type: none"> New disruptive technologies and the introduction of new products or services in the market may influence KPN's business model and profitability in the long run. The introduction of new products and services such as new propositions may not be successful and/or timely. This could result in a loss of market share. 	<ul style="list-style-type: none"> Develop new business models and new pricing models Monitoring developments in technology and new market developments Develop strategic partnerships Monitoring developments in technology and new market developments Maintain multi-brand strategy with differentiated propositions and develop fallback scenarios
Internal risks	<ul style="list-style-type: none"> Business continuity and security: KPN's technical infrastructure and IT, as perceived by the customers, may be vulnerable to damage or service interruptions, theft or loss of information (caused by power supply interruptions, cyber attacks and other similar events). Furthermore, the mobile infrastructure has to be well equipped to handle the expected data growth in the coming years. 	<ul style="list-style-type: none"> Monitor performance of technical infrastructure and IT Back-up and recovery plans in case of emergencies Benchmark network quality Maintain investment level in network Increase network cooperation between countries Strengthening the IT infrastructure and continued implementation of an enhanced security policy
	<ul style="list-style-type: none"> Legacy IT systems: legacy IT systems may negatively impact business continuity, flexibility, innovation power, information security and quality of services. 	<ul style="list-style-type: none"> Phase-out of legacy systems and investing in new integrated systems Develop road map towards new IT organization and IT target architecture

Risk	Description and impact	Mitigating factors and counter measures
Internal risks <i>(continued)</i>	<ul style="list-style-type: none"> Supplier and outsourcing/offshoring risks: KPN could depend too heavily on the ability to obtain adequate supplies of telecommunications equipment, related software and IT services; KPN's contractors' ability to build and roll-out telecommunications networks on schedule, and suppliers' ability to deliver dependable technical support. This could lead to inability to deliver the required services at the right quality level. Key talent: KPN may not be able to recruit, keep and invest in talents at leadership level and specialised technical levels. This could negatively affect the quality of the work performed by certain functions. 	<ul style="list-style-type: none"> Create supplier default scenarios Strong demand organization that defines, enforces and monitors compliance with terms of contracts with suppliers and outsourcing parties Well-defined outsourcing process (toll gates, risk analyses, etc.) Prepare retransition plans Continued attention to leadership development Benchmarking of remuneration programs and on retention measures Continue to invest in professional education via the internal professional academies Good reputation as an employer
Acquisition of spectrum	<ul style="list-style-type: none"> Possible participation in frequency auction in the Netherlands 2012 and Germany (2013): KPN may not be able to acquire the required frequency blocks or may have to pay too high a price for the acquired spectrum. 	<ul style="list-style-type: none"> Thorough preparation by experienced KPN team and external experts; extensive simulation of auctions that offer a good view on potential auction outcomes Use alternative combinations of spectrum and advanced techniques to meet required technology
Regulatory compliance	<ul style="list-style-type: none"> New regulations (e.g. related to MTA and roaming) could impact KPN's future operations and results. 	<ul style="list-style-type: none"> Proactivity in communication with OPTA and EU Dialogue with regulators on predictable and pro-competitive (wholesale-based) regulation to minimize interventions in retail markets, consistently over time
Financial risks <i>(— some resulting from abovementioned risks)</i>	<ul style="list-style-type: none"> KPN may not be able to maintain its Net debt / EBITDA ratio within the self-imposed financial framework, due to higher net debt levels and/or lower profitability. In that case, KPN would probably not be able to maintain its current credit rating, which could negatively impact pricing and availability of financing sources. Return on Capital: High investments in fiber, copper or mobile infrastructure (e.g. to handle the expected growth in data) may not be recovered due to lower revenues or results. Group equity position may be negatively impacted by impairments of goodwill (specifically Corporate Market, E Plus) or lower results (or even could lead to Group equity lower than self-imposed minimum thresholds). Continuing gloomy macroeconomic conditions: If economic climate would continue to decline, this could lead to lower revenue growth and lower results (especially within Business Market and Corporate Market), and may lead to an impairment of goodwill of E-Plus and Corporate Market. Continued uncertainty in financial markets and the Euro zone, which could negatively impact pricing and availability of KPN's funding sources. Pensions: Specifically for the Defined Benefit schemes of KPN, (unexpected) movements in interest rates, equity values, inflation rates and mortality rates could lead to volatility in KPN's equity, cash and P&L. At the end of 2011, KPN faced coverage deficits leading to additional payments relating to most defined benefit plans and increasing P&L charges. Further negative economic developments and turbulence in the financial markets could result in additional cash outflow. Furthermore, if new accounting standards for pensions are endorsed by the EU, this will lead to higher volatility in KPN's equity position as from 2013. 	<ul style="list-style-type: none"> Monitoring and forecasting of metrics used by rating agencies KPN committed to minimum credit rating of BBB and Baa2 at S&P and Moody's respectively If Net debt / EBITDA ratio would temporarily rise outside the financial framework, KPN would take measures to swiftly and actively improve the ratio Well considered decision making, based on business cases Minimize risks in business cases, e.g. by risk sharing models Continuous monitoring of performance and decision on counter measures, if necessary Change shareholder remuneration policy (dividend and share buyback) Improve results of KPN Group Issuance of new shares Innovation, develop new propositions Swift response to new market developments and trends Cost-cutting initiatives, outsourcing and offshoring Disposal of dilutive assets Maintain a strong liquidity position Upcoming bond redemptions financed well ahead Diversification in funding sources, e.g. tapping different currencies Monitoring counterparty limits and strengths Counterparty risk reduced with credit mitigating clauses in derivative contracts and reduced excess cash Close monitoring of the development of the pension funds, including coverage ratios Implementation of a project team to evaluate KPN's pension risks, determine the strategy and investigate risk-mitigating options

Internal control over financial reporting

Following KPN's delisting from the NYSE in 2008, the Sarbanes-Oxley Act section 404 (SOx) is no longer applicable. As the Board of Management attaches great value and reliance on a high standard of internal control over financial reporting, KPN continued scoping, design and effectiveness testing of the internal control measures, developed under the SOx program, using the integrated GRIP framework. The controls within GRIP are tested and assessed for effectiveness by dedicated staff year-round. Each quarter KPN assesses the overall effectiveness of the GRIP framework before publication of the quarterly figures. The overall evaluation conclusions are in line with the observations discussed in the Board Report of the external auditors as part of their audit of the 2011 Financial Statements.

Compliance Risk Assessment framework

KPN has an integrated Compliance Risk Assessment framework (CRA). The CRA framework oversees risks related to the Dutch Telecommunications Act, Competition law and Privacy regulations. For these risks, required processes and controls have been implemented and are continuously monitored. This means that the compliance controls are tested and assessed for effectiveness by dedicated staff all year round. Each quarter KPN assesses the overall effectiveness of the CRA framework.

KPN proactively reported potential incidents and interpretation issues to OPTA during 2011. Based on the Charter ('Handvest') with OPTA, KPN has provided OPTA with quarterly reports on compliance performance indicators.

Security function

The Security function enables KPN to protect people, services, brand values and assets, including information, from harm, in order to prevent unexpected loss, damage or legal sanctions and to ensure the continuity of its business. The security function does so by producing and maintaining the security policy, governing policy implementation and measuring and reporting on security compliance to the Board of Management. Additionally, the security function provides security-related services to the KPN organization, such as Security awareness programs, security incident management, investigations and legal interception.

In 2010 and 2011, KPN further improved security policy compliance by implementing and integrating a 'Security and Continuity Control Framework' in the existing GRIP framework, processes and supporting tooling. In 2012, KPN will design and roll out a new and enhanced Security policy called 'Information Risk Management (IRM)'. The objective of IRM is to further protect the Company against (new) security risks and to strengthen the security controls.

Disclosure Committee

The Disclosure Committee examines all relevant reports on financial information which are disclosed externally, to ensure that they are accurate, timely and complete. In this perspective, the Committee reviews the disclosure controls and procedures. Based on the findings, the Disclosure Committee advises the Board of Management, the Audit Committee and the Supervisory Board. As in 2010, in 2011 the Committee consisted of the directors of Corporate Control, Corporate Treasury, Internal Audit, Corporate Legal, Corporate Communication, Investor Relations, Public Affairs, the Secretary to the Board of Management and the finance directors of the Segments. The Committee met periodically in 2011 and reviewed disclosure controls and procedures and proposed public disclosures.

Control Statement and Responsibility Statement

The Board of Management is responsible for KPN's internal risk management and control system. This system is designed to manage the risks that may prevent KPN from achieving its objectives. However, this system cannot provide absolute assurance that material misstatements, fraud and violations of laws and regulations can be avoided. The Board of Management reviewed and analyzed KPN's:

- Strategic, operational, financial, financial reporting and regulatory & compliance risks, as discussed in the paragraph 'Principal risks'; and
- The design and operating effectiveness of the internal risk management and control system, as discussed in the paragraph 'Internal Risk Management and Control System' of this Annual Report.

The outcome of this review and analysis was shared with the Audit Committee and Supervisory Board and discussed with KPN's external auditors.

With reference to best practice provision II.1.5 of the Dutch Corporate Governance Code, the Board of Management, to the best of its knowledge, believes that the internal risk management and control system, with regard to financial reporting, worked properly in 2011 and that the internal risk management and control system provides a reasonable assurance that the financial reporting does not contain any errors of material importance.

The Board of Management is continuously improving the quality of the internal risk management and control system. The Company has envisaged the following focus areas for 2012:

- Further strengthen the information security control framework within KPN Group (Information Risk Management); and
- Further optimize the control framework for regulatory compliance in the Netherlands.

With reference to section 5.25c paragraph 2c of the Financial Markets Supervision Act, the Board of Management states that, to the best of its knowledge:

- The annual financial statements of 2011 give a true and fair view of the assets, liabilities, financial position and profit or loss of KPN and its consolidated companies; and
- The Annual Report gives a true and fair view of the position as at December 31, 2011, the development during 2011 of KPN and its Group companies included in the annual financial statements, together with a description of principal risks KPN faces.

The Hague, February 17, 2012

E. Blok

*Chairman of the Board of Management
and Chief Executive Officer*

T. Dirks

*Member of the Board of Management
and Chief Executive Officer KPN Mobile International*

C.M.S. Smits-Nusteling

*Member of the Board of Management
and Chief Financial Officer*

J.B.P. Coopmans

*Member of the Board of Management
and Managing Director Strategic Programs Simplification,
Quality, Reputation & Branding*

Telecommunications regulations are, to a large extent, based on EU regulations and directives, but the application is national and depends on national market characteristics. Therefore the regulatory treatment of KPN's activities in different countries differs. KPN chooses a pro-competition strategy in all countries where it is active.

The Digital Agenda for Europe and the deployment of next generation access networks

In April 2010, the European Commissioner for Digital Agenda published 'the Digital Agenda for Europe'. The document outlines policies and actions to maximize the benefit of the digital economy by 2020 for European citizens. The announced actions include a strengthened European policy for spectrum (e.g. aimed at allocating additional spectrum for mobile internet access), targets for broadband penetration in the EU and the promotion of next generation access networks ('NGAs'). Following the publication of a Recommendation on regulated access to NGAs, European Commissioner Kroes organized a CEO round table, involving CEOs of various market parties in electronic communications and ICT markets to seek support and an action plan for the Digital Agenda goals, in which KPN's CEO participated. As a follow-up, the Commission started a consultation on a recommendation on costing in relation to NGAs in September 2011, which is aimed to lead to another Recommendation by end of 2012.

Implementation of European Regulatory Framework 2009

The European directives for the regulation of electronic communications services, as amended in 2009, were to be implemented by EU Member states by May 25, 2011. Many member states, amongst which the Netherlands, Belgium and Germany had not implemented the new regulatory framework by that date. The European Commission announced infraction procedures to be started by the end of January 2012.

In the Netherlands the legislative process is in a final phase. During the discussion in the Dutch Parliament various (consumer protection related) amendments were added to the proposal, including a provision on net neutrality. By law it will be forbidden to hinder or slow down applications and services on the internet, unless in specifically listed situations (such as necessary network management and security). Providers of internet access services will not be allowed to make tariffs for internet access services dependent on the services and applications which are offered or used. The Netherlands will thereby be the first EU country with regulation on net neutrality that exceeds requirements for transparency on network management. The Act will enter into force only after it has been approved by the Dutch Senate ('Eerste Kamer').

In Germany, in October 2011, the Bundestag agreed upon a revision of the telecoms act (which is necessary to transpose the revised EU telecoms directives into German law) while the approval of the Bundesrat is awaited in February 2012 at the earliest. On net neutrality, the draft foresees an empowerment of the government to adopt a net neutrality regulation in the future. Such regulation would inter alia have to take account of respective EU law provisions. Thus, the draft foresees a number of consumer protection provisions, most notably a prohibition to charge for waiting loops when some premium services are called ('Kostenlose Warteschleifen').

In Belgium, the implementation in Belgian Law on Electronic Communication is expected to come into force by early Q2 2012 at the latest. The Belgian Parliament will vote on the amendments of the Law on Electronic Communications in early 2012. One of the most important amendments is that consumers will be able to terminate their telecommunication contract at no cost as from the sixth month after the starting date of the contract.

Market analyses decisions fixed markets (the Netherlands)

In 2011, OPTA conducted a new analyses of the fixed telecommunications markets in the Netherlands, aimed at replacing the current decisions, which came into force on January 1, 2009. New decisions based on this recent market analyses partially took effect on January 1, 2012. The remainder of the decisions are ultimately due to be announced by OPTA for Q2 2012, as described hereunder. Until new decisions enter into force the existing decisions remain effective.

The decisions for 2009–2011 were characterized by deregulation of end-user markets and tightening of KPN's wholesale obligations to facilitate this deregulation. The wholesale obligations imposed upon KPN included access obligations and tariff regulation for copper as well as on fiber networks (except for an obligation for wholesale broadband access on FttH) and the introduction of a strict margin squeeze preventing rule of conduct. All of the relevant decisions are or have been subject to appeals to the Trade and Industry Appeals Tribunal ('College van Beroep voor het bedrijfsleven' or CBb). The appeals to the decisions that have been decided upon by the CBb have resulted in (partial) annulment of OPTA's decisions, mainly based on conclusion of the court that OPTA had insufficiently proved the definition of the relevant markets on which these decisions were based:

- In 2009 – and upon renewal of the decision of OPTA again on May 3, 2011 – the CBb annulled OPTA's market analyses decisions on the unbundled local loop market, because OPTA without sufficient grounds have included unbundled local loop access to FttO (ODF access) and FttH networks (ODF access) in the same product market. In its 2011 decision the CBb left the regulation for unbundled access to copper and FttH in place.
- In 2010, the CBb annulled OPTA's market analyses decision on leased lines. The markets for leased lines remains unregulated until new decisions enter into force in 2012.
- In 2010, the CBb annulled OPTA's market analyses decision on broadcast (cable) networks, which thereby remains unregulated.
- On May 3, 2011, the CBb concluded that the annulment of the decision on the market for unbundled access of that date should lead to annulment of the decision on the wholesale broadband market. The CBb left the regulation for the wholesale broadband market in place except for High Quality WBA.
- On September 30, 2011, the CBb partially annulled OPTA's market analyses decision on the fixed telephony market in so far as OPTA had withdrawn retail regulation for the business market as of January 1, 2010 and ordered OPTA to take a new decision on that market.

The tariffs for KPN's regulated wholesale services during the regulatory period 2009–2011 are part of separate decisions, which are still subject to appeal.

On June 23, 2011, OPTA published the first results of its third round analyses of the fixed markets for the period 2012–2014. In a phased approach, OPTA published draft decisions – and amendments thereof – for consultation during the second half of 2011. On December 29, OPTA published a new decision on the market for unbundled access to copper and FttH, in which KPN and Reggefiber are regulated. Compared to the decisions of 2008/2009, OPTA introduced a safety cap regulation for unbundled access tariffs based on existing cost-oriented tariffs, rather than based on a renewed cost calculation, but on the other hand strengthened some of the non-discrimination obligations. On the same date OPTA published the decision that it will no longer regulate (cable) television services.

Based on the draft decisions that have been consulted it is expected that in the market for voice telephony for 'single lines' the regulation might be lessened (with safety caps for wholesale line rental and carrier(pre)selection), but in the markets for two and more lines, retail regulation for KPN will be re-introduced in the form of anti-price squeeze regulation. OPTA has announced not to regulate Wholesale broadband access (low quality) and FttO access any longer, but intends to regulate Wholesale broadband access (high quality) and leased lines. The exact details of regulation, however, will only be known after final decisions are published, ultimately in Q2 2012.

The regulation of the markets of fixed and mobile call termination were combined in a decision of OPTA of July 7, 2010. For fixed call termination, OPTA imposed a glide path for the period until September 1, 2012, to a symmetric tariff level of EUR 0.36 ct/min for all operators, reflecting 'pure BULRIC' tariffs levels as defined in a cost model developed for OPTA. On August 31, 2011, the CBb partially annulled OPTA's decision, on grounds that a pure BULRIC cost model is not in line with the Telecommunications Act. The CBb therefore ordered OPTA to set new tariffs for fixed call termination based on 'plus BULRIC' and to review certain costs included in the model. On November 7, 2011, OPTA published for consultation a draft decision in which the tariff was set at EUR 0.37 ct/min as of September, 2012, including an amended glide path. A final decision is expected by February 2012.

Market analyses decisions mobile markets (mobile call termination)

In Germany, Belgium and the Netherlands, KPN has been designated as having significant market power in the markets for call termination on its individual mobile networks. Apart from various obligations in relation to transparency and the obligation to offer direct interconnection upon reasonable request, in all countries tariff regulation is part of the decisions of regulators.

The following table provides details of the current tariffs and the status of the decisions:

(Tariffs in EUR ct/min, as of the dates specified)			
the Netherlands¹	January 1, 2011	September 1, 2011	September 1, 2012
All mobile operators	4.20	2.70	2.40
<hr/>			
Germany²	December 1, 2010 – November 30, 2012		
T-Mobile	3.38		
Vodafone	3.36		
E-Plus	3.36		
O2 (Germany)	3.39		
<hr/>			
Belgium³	January 1, 2011	January 1, 2012	January 1, 2013
Base	4.76 (4.90 after indexation)	2.92 (3.11 after indexation)	1.08
Proximus	3.83 (3.94 after indexation)	2.46 (2.62 after indexation)	1.08
Mobistar	4.17 (4.29 after indexation)	2.62 (2.79 after indexation)	1.08

- 1) OPTA decision of July 7, 2010 (amended by CBb decision of August 31, 2011).
- 2) BNetA decision of November 30, 2010.
- 3) BIPT decision of June 29, 2010 (appeal procedure running).

With their decisions the National Regulatory Authorities of Belgium and the Netherlands adhered to the EU Commissions Recommendation on the regulatory treatment of fixed and mobile termination rates of May 7, 2009. The Commission recommended applying a 'pure BULRIC approach', which no longer takes account various costs which had so far been considered when setting MTRs.

In the Netherlands OPTA applied a glide path towards the tariffs defined by the pure BULRIC cost models (1.20 ct/min). In its decision of August 31, 2011, the CBb partially annulled OPTA's decision, on grounds that a pure BULRIC cost model is not in line with the Telecommunications Act. The CBb therefore set the tariffs based on 'plus BULRIC' costs that were also modeled by OPTA at 2.40 ct/min.

In Belgium BIPT imposed an asymmetric glide path between Proximus (Belgacom), Mobistar and BASE. KPN Group Belgium has launched both a suspension and an annulment procedure against the decision. The request for suspension, which focused on the fact that BIPT has awarded a glide path to Proximus and Mobistar, instead of forcing them immediately to the pure LRIC-based MTA of EUR 1.08 ct/min, was rejected on formal grounds. The annulment procedure is pending and was pleaded in mid-December 2011. A decision of the court is expected in the course of Q1 or Q2 2012.

As to the German 2010 mobile call termination markets decisions, the court has dismissed all preliminary proceedings by all market parties. It is unlikely that there will be court decisions on the merits before BNetzA's decisions will elapse on November 30, 2012. As to its upcoming 2012 decisions, BNetzA has commissioned a bottom-up cost model to WIK Consulting which aims at evaluating pure LRIC costs of the German MNOs and to thereby enable the regulator to implement the EU Commission Recommendation as of December 1, 2012. In this context, one has again to proceed from the assumption that BNetzA will publish its respective mobile call termination markets decision only on November 30, 2012.

Supervision by OPTA

The Dutch National Regulatory Authority OPTA put KPN on close supervision as at December 21, further to alleged violations of obligations based on the Telecommunications Act. KPN's business conduct comes under increased scrutiny, specifically in cases concerning possible non-compliance with non-discrimination requirements (i.e. specific requirements fostering a level playing field under which KPN is to deliver Wholesale services to each operator and to its own business segments under equal conditions).

International roaming on mobile networks

Based on the EU Roaming Regulation (as amended in 2009), additional tariff reductions for roaming calls were implemented in 2011. For data roaming only, a maximum wholesale tariff is regulated. Retail data roaming tariffs are not regulated, but by March 1, 2010 the Regulation required operators to offer tariffs caps to customers for data roaming (with at least a cap of EUR 50), which cap had to be implemented by July 1, 2010 for all customers who did not opt out.

On July 6, 2011 the European Commission presented a proposal to further amend the Roaming Regulation. The proposal includes a further glide path for regulated roaming rates and structural measures, including wholesale access and the obligation to separate retail roaming services from national services. These structural measures should be available by July 2014 and will ensure that further tariff regulation would no longer be necessary in the future. The proposal will be decided upon by the European Council and Parliament during the first half of 2012. In Parliament a glide path to lower tariffs has been proposed, which will be part of the discussions.

Licenses for mobile communications (the Netherlands)

In the Netherlands, KPN holds licenses for GSM900, DCS1800, UMTS, 2.6 GHz, DVB-T (Broadcast) and a number of licenses of minor significance. The GSM900 and the DCS1800 licenses will end on February 25, 2013. Rules for a simultaneous auction of 800, 900 and 1800 spectrum for mobile communications (to be conducted in October 2012) were published on January 6, 2012. At the request of Parliament, parts (2*10 MHz) of the 800 spectrum and (2*5 MHz) of the 900 spectrum will be reserved for at least two new operators. The licenses will have a duration until 2030, in line with the 2.6 GHz licenses auctioned in 2010.

Licenses for mobile communications (Germany)

BNetzA's 900 MHz Frequency Investigation

On November 21, 2011, BNetzA published its final decision on the distribution of 900 MHz frequencies in the German mobile market ('Frequenzverteilungsuntersuchung'). Based on the assumption that only E-Plus will reform its 900 MHz frequencies to offer both GSM 900 and UMTS 900 services, BNetzA finds that the current distribution of 900 MHz frequencies is not distorting competition in the German mobile market and that it will therefore not reallocate those frequencies until December 31, 2016. E-Plus is evaluating whether to challenge this decision in court.

900 / 1800 MHz usage rights as of January 1, 2017

On November 21, 2011, BNetzA also started proceedings to clarify which demand interested market players will have as of January 1, 2017 for the 900 and for those 1800 MHz frequencies which will expire on December 31, 2016. In its respective call for demand substantiation, BNetzA has stated that it would only decide upon a potential spectrum cap for 900 MHz frequencies in case scarcity is found. Interested parties had to substantiate their demands until January 16, 2012, which E-Plus did.

Licenses for mobile communications (Belgium)

In Belgium, KPN Group Belgium holds licenses for DCS1800, GSM 900 and UMTS. Under the law of March 15, 2010, the existing 2G licenses will be renewed until 2021 in return for an additional license fee of approximately EUR 52,000 per month per MHz for the 900 MHz band (for KPN Group Belgium, this amounts to approximately EUR 96 million for a renewal from July 2013 until March 2021). Operators can choose to pay the additional license fee either at the beginning of the renewal period or pro-rata on an annual basis. KPN Group Belgium disagrees with imposing an additional license fee for its GSM-license, insofar as KPN Group Belgium considers that its GSM-license should be tacitly renewed until July 2018 at no additional license fee. KPN Group Belgium launched a procedure before the Belgian Constitutional Court against the law of March 15, 2010. On July 15, 2011, the Belgian Constitutional Court referred questions on the interpretation of the Authorization Directive to the European Court of Justice.

On August 2, 2011, BIPT announced that it had granted the fourth 3G license to Telenet Tecteo Bidco NV/SA, i.e. the only candidate for this license.

On November 28, 2011, KPN Group Belgium obtained a license to use 30 MHz FDD in the 2.6 GHz spectrum band in Belgium for a consideration of EUR 15 million. The license will become available as at July 1, 2012 and will expire in 2027. In total, 155 MHz were successfully auctioned for a total amount of EUR 77.8 million. Belgacom (40 MHz FDD for EUR 20 million), Mobistar (40 MHz FDD for EUR 20 million) and BUCD (45 MHz TDD for EUR 22.5 million) also obtained spectrum in the 2.6 GHz band.

It is expected that the auction for 800 MHz spectrum will not be held before 2013.



REPORT BY THE SUPERVISORY BOARD





Highlights

- Challenging circumstances
- Eelco Blok new CEO
- New strategy 2011–2015

Challenging circumstances

In 2011 the market circumstances were challenging with continued economic and financial turmoil. Moreover, in the telecom arena, the environment was challenging with, for example, changing customer behavior in the consumer mobile business in the Netherlands and continued regulatory impact. In the business market, due to economic circumstances, demand slowed down. The consequential effects on KPN's performance were closely followed by and debated in the Supervisory Board.

Eelco Blok new CEO

The Supervisory Board was pleased that at the shareholders' meeting of 6 April 2011 the appointment of Eelco Blok as CEO of KPN came into effect (succeeding Mr. Scheepbouwer) and the Board reiterated its confidence that Mr. Blok has the knowledge and experience to lead KPN. Mr. Blok started under difficult circumstances, with an adjustment of the EBITDA outlook caused by negative trends in the Netherlands. The Supervisory Board fully supported the steps taken by Mr. Blok and the Board of Management to respond to these circumstances and is confident that they will bring the expected results to strengthen the business, in the planning period 2012–2015.

The Supervisory Board was also pleased to welcome Mr. Dirks to the Board of Management of KPN. He will add substantial experience of the international mobile business, as well as outstanding knowledge of innovation, networks and IT. At the end of the year Mr. Coopmans and Mrs. Smits-Nusteling announced their resignation from the Board of Management.

During the past years Mr. Scheepbouwer, Mr. Coopmans and Mrs. Smits-Nusteling have made significant contributions to the success of KPN.

New strategy 2011–2015

The Supervisory Board was involved in the strategic review process Mr. Blok and his team performed, which resulted in the new KPN strategy 2011–2015. In this process a number of priorities to strengthen, simplify and grow the business were identified. In the Netherlands, the focus would be on strengthening KPN's activities to further improve its leading market positions. Internationally, KPN would keep investing to grow its Challenger business and to continue to outperform the market. A Group-wide focus on simplification, quality and reputation would drive customer satisfaction in a swiftly changing telecom and ICT market. Furthermore, KPN stayed committed to sustainable shareholder remuneration within a prudent financial framework. The Supervisory Board fully approved the outcome of the strategy review process and was pleased that the interests of customers, employees and shareholders were well balanced.

It was also announced that in the period from 2011 to 2015 KPN would further simplify its organization: fewer management tiers, greater efficiency and more direct control. In order to concentrate on service provision, KPN would outsource back-office processes to specialist companies. These measures ensured that costs could be lowered and that quality could be improved, resulting in a reduction of 4,000–5,000 jobs in the strategy period. In this matter the Supervisory Board monitored that the quality of service would not be compromised and that well defined processes would be followed for the outsourcing trajectories.

The Supervisory Board is confident that all the strategic choices made will contribute to a robust KPN and will closely follow the execution of the new strategy.

In line with the strategy, the Supervisory Board supported the establishment of an Executive Committee in which all businesses in the Netherlands and abroad are represented. The Supervisory Board will meet with the members of this committee on a regular basis.

The Netherlands

The consumer wireless business in the Netherlands was faced with lower than expected revenues following an accelerated change in customer behavior and competition in the value for money segment. With the availability of advanced, fast mobile broadband networks and the adoption of smartphones more and more consumers are making use of online social media and mobile apps to communicate (thereby replacing the traditional voice and SMS usage). To respond to this revenue trend, KPN moved from voice- to data-centric mobile portfolios and introduced new mobile propositions for consumers in the Netherlands under its KPN and Hi brands with a wider selection of data bundles. The Supervisory Board monitored these developments as well as the adequacy of the measures taken.

In the broadband market everything revolves around triple play (internet, telephony and television). The Supervisory Board closely followed the initiatives taken to improve KPN's broadband and TV market share, which were based on two important pillars: i) improving and differentiating the TV and broadband propositions and ii) expanding the addressable market with a hybrid VDSL and Fiber-to-the-Home network strategy. In this context, the Supervisory Board discussed at length KPN's commitment to Fiber-to-the-Home, resulting in the intended acquisition of fiber service providers, the intended acquisition of Reggefiber's wholesale operator and the announced amendments to the Reggefiber joint-venture agreement with Reggeborgh. The Supervisory Board also welcomed KPN's wireline innovation road map geared towards differentiated propositions, including the roll-out of multi-room IPTV as well as IPTV Online with functionalities on laptop and tablet.

The Supervisory Board was kept informed on the developments in the Business Segment, which operated in an environment of price pressure and rationalization. Such environment was addressed with new customer retention management. Also, KPN continued to invest in the quality

of services, infrastructure and data centers. The mobile portfolio was simplified, in line with customers' wishes. In all, the share of market as maintained.

In the large corporate sector KPN continued to experience difficult market circumstances, but was able to maintain its market position. In order to align the cost base with the lower revenue level, a restructuring program was introduced and accelerated. The Supervisory Board monitored the restructuring, including off-shoring programs. The Supervisory Board also paused on the lessons learned from the Getronics acquisition and followed the integration developments, including the rebranding of Getronics into KPN Corporate Market. Since it is not expected that in the near future the large corporate market sector will reach demand levels prior the crisis, the Supervisory Board supported the impairment of part of the KPN Corporate Market assets following the acquisition of Getronics in 2007.

The Supervisory Board was pleased that – even though headwind was experienced as described above – the business in the Netherlands made progress in strengthening the business. The Supervisory Board also fully supported the ambitious quality program implemented throughout the businesses in the Netherlands, with the aim to drive customer satisfaction and reputation. The program included elements such as product portfolio rationalization and simplification. Visible results were already recognized in decreasing call ratios and shortened delivery times.

Mobile International

The Supervisory Board supported E-Plus in pursuing its successful Challenger strategy, thereby responding to the rising popularity of mobile internet. E-Plus used the frequency space it acquired in 2010 to meet the demand for mobile data services. The accelerated roll-out in Germany of a mobile broadband network on a regional basis was started and KPN continued to invest in high-quality mobile services, including internet. In Belgium too, KPN accelerated the roll-out of a mobile broadband network and internet services were being offered via strong in-house brands and partner brands. These developments resulted in a high underlying service revenue growth with strong margin performance in both Germany and Belgium.

The Supervisory Board took note of the clear growth opportunities for Ortel Mobile: the changing demographic composition of Europe makes it possible for Ortel Mobile to operate in new markets outside the existing regions. The Supervisory Board also took note of the fact that KPN France was sold to Bouygues Telecom.

As for iBasis – a top-five player in the international telephone services sector – the Supervisory Board was confident with the aim to continue growing and creating value in the long term.

Corporate Social Responsibility

When the strategy 2011–2015 was formulated, the Supervisory Board realized that for an enhanced reputation of KPN it is a necessity to be recognized as the best service provider in the Netherlands and the best Challenger in Germany and Belgium. Therefore the Corporate Social

Responsibility (CSR) policy was simultaneously renewed in 2011, resulting in five social business themes in which KPN shows leadership in society with its ICT and its in-house activities, and where KPN is in continuous dialogue with external stakeholders. The themes are: best ICT infrastructure, healthcare of the future, new way of working and living, energy efficiency and security and privacy.

Due to the consistent policy and considerable achievements in 2009, 2010 and 2011 regarding CSR of the Company as a whole, in January 2011, KPN became Number 1 in the transparency benchmark of the Dutch Ministry of Economic Affairs, Agriculture & Innovation. KPN was also listed again in the Dow Jones Sustainability Europe Index in 2011. Also, the Supervisory Board agreed on the incorporation of non-financial targets in the LTI bonus herewith reinforcing sustainable acting of the company.

Meetings of the Supervisory Board

The Supervisory Board met on 13 occasions in 2011, of which nine were regularly scheduled meetings and the remaining were ad hoc meetings (by telephone). Mr. Streppel acted as Chairman of the Supervisory Board, Mr. Routs was Vice-Chairman. Most Supervisory Board meetings were held jointly with the Board of Management. The Company's Chief Legal Officer and Company Secretary, Mr. Van Rooij, acted as secretary to the Supervisory Board. Throughout the year, the Chairman of the Supervisory Board was in close contact with the Chief Executive Officer, and the Chairman of the Audit Committee was in close contact with the Chief Financial Officer.

The attendance of Supervisory Board meetings was 91%. No members were frequently absent. On certain occasions, in line with the Articles of Association of the Company, the Supervisory Board took resolutions outside of a meeting, if this was required due to urgency or the matter did not require discussion in a meeting.

Independence

Throughout the year, all members of the Supervisory Board were independent from the Company within the meaning of the Dutch Corporate Governance Code; the composition of the Supervisory Board was such that the members were able to act critically and independently of one another and of the Board of Management and any particular interests. See Note 32 'Related-Party Transactions' in the Consolidated Financial Statements.

For a description of the organization and structure of KPN's Supervisory Board, see 'Corporate Governance' starting on page 38.

Activities of the Supervisory Board

During its meetings and contacts with the Board of Management, the Supervisory Board discussed the results achieved and plans for next financial periods, strategic decisions that required the approval of the Supervisory Board, the functioning and remuneration of the Board of Management and all other relevant matters brought to its attention. In reviewing proposals, the Supervisory Board discussed with the Board of Management the business case for the proposal, the risks involved and possible alternatives to the proposal.

The financial performance was extensively discussed at the Supervisory Board meetings preceding the publication of the quarterly and annual results and meetings at which the business plan was discussed. During the business plan review, the Supervisory Board paid special attention to the stress test which had been performed by management in respect of the financial framework. A thorough analysis of upside and downside risks combined with the likelihood of occurrence of such risks had indicated that there was more risk to arrive at the boundaries of the financial framework. However, KPN is still committed to the minimum credit rating of Baa2 (Moody's) and BBB (S&P), which ratings were also taken into account in the outlook on shareholder remuneration. In the discussions regarding the financial performance of KPN, the Audit Committee, who had already reviewed the financial performance prior to the meeting, advised the full Supervisory Board on the most relevant matters. The Company's external auditor, as well as relevant members of senior management, attended the Audit Committee meetings and presented their findings over the preceding quarters.

As mentioned above, the Supervisory Board engaged in a substantive discussion on KPN's strategic direction beyond 2011, especially in the meetings prior to the announcement of KPN's strategy 2011–2015 on May 10, 2011. The Board is engaged in a continuing strategic dialogue with the Board of Management, whereby the Board discussed specific strategic proposals and weighed them against alternative options.

During the year a couple of changes were made to the composition of the Board of Management. The Supervisory Board was pleased to inform the General Meeting of Shareholders of its intention to appoint Mr. Dirks as member of the Board of Management, following a nomination process prepared by the Nominating and Corporate Governance Committee. The Supervisory Board also convened on the departure of Mr. Coopmans (as of April 1, 2012). The terms of Mr. Coopmans' departure were agreed satisfactorily for both parties. Mrs. Smits-Nusteling informed the Supervisory Board that she had ultimately come to the conclusion that she could not agree with the internal governance of the Company in the new executive structure. Mrs. Smits-Nusteling will leave the Company as of April 1, 2012.

On important technical, societal and regulatory developments, the Supervisory Board received regular updates through experts in the relevant topics, and

through visits to the Company's operations. The geographical as well as the business scope of the KPN portfolio was considered by the Supervisory Board during the year. The Supervisory Board also kept itself abreast of the views of (major) shareholders. Prior to the Annual General Meeting of Shareholders, members of the Supervisory Board discussed the remuneration policy with (representatives of) institutional investors.

The Supervisory Board discussed various acquisition opportunities. The acquisitions of (i) network operator and service provider Caiwest, (ii) four fiber service providers owned by Reggefiber and Reggeborgh, and (iii) Reggefiber's wholesale operator, and the divestment of mobile towers received Supervisory Board approval.

The Supervisory Board continued to keep itself abreast of the developments in the KPNQwest lawsuit that was initiated in the Netherlands eight years after the bankruptcy of KPNQwest, after it was dismissed by the US court.

The Supervisory Board furthermore discussed and approved various matters relating to the financing of KPN, such as the amended EUR 2 billion revolving credit facility, the EUR 500 million Eurobond maturing in 2021 and the EUR 400 million Sterling bond maturing in 2026. In addition, the Supervisory Board discussed and approved the granting of both a full-year 2010 dividend (January) and an interim 2011 dividend (July) and a €1 billion share-buy-back program for 2011 (including the acceleration thereof). The Supervisory Board also addressed banking risks in light of the financial crisis.

The Supervisory Board kept itself informed on IT matters (both governance of IT and computer security), stimulating the Board of Management to keep this matter high on their agenda.

The Supervisory Board also attached a lot of weight to the relationship with regulators. The Supervisory Board was kept informed on the effectiveness of the implementation of the Compliance Charter with the Independent Post and Telecommunications Authority of the Netherlands (OPTA) and discussed the sharpened supervision by OPTA (as of the end of December 2011) with the Board of Management.

Members of the Supervisory Board attended meetings of the Central Works Council. Meetings with the Board of Management's executive teams were organized throughout the year. Outside these meetings the Chairman of the Supervisory Board met the Chairman of the Central Works Council also informally.

The Supervisory Board conducted a self-assessment regarding its performance in 2011, as well as on the interaction with the Board of Management. This internal self-evaluation was based on interviews with each member of the Supervisory Board and the Board of Management conducted by independent consultants – and plenary discussions. The outcome of the self-assessment was generally positive, whereby the probing role of the Supervisory Board was highlighted. Some suggestions for improvement of Board dynamics were made.

Committees of the Supervisory Board

As set out in section 'Corporate Governance, starting on page 38, the Supervisory Board has three Committees; the Audit Committee, the Remuneration and Organizational Development Committee and the Nominating and Corporate Governance Committee. All three Committees met separately throughout the year. Their main considerations and conclusions were shared with the full Supervisory Board.

Audit Committee

In 2011, the Audit Committee consisted of three Supervisory Board members, Mr. Haank (Chairman), Mr. Bischoff, and Ms. van Lier Lels. Mr. Bischoff is considered to be a financial expert within the meaning of the Dutch Corporate Governance Code. The Audit Committee met on six regularly scheduled meetings, all of which were also attended by the CFO, Director Corporate Control and by the internal and external auditor. The Committee also met separately with the external auditor. As of April 2011, the Corporate Secretary of the Board of Management, Mrs. van Dam-Debruyne, acted as the Audit Committee's secretary (before April, Mrs. van Buren acted in this capacity).

The Audit Committee reviewed and discussed in particular all financially relevant matters that were presented to the Supervisory Board. These items included the Annual Report, the quarterly results, reports by the internal and external auditor as well as the Disclosure Committee, the Company's budgets and projections. The Audit Committee kept a close oversight on KPN's financing policy and profile during this economically challenging year, as well as on the business plan risks.

Furthermore, the Audit Committee paid specific attention to the continuation of the internal control framework and risk management systems of the Company. This 'GRIP' framework is basically a continuation of the earlier implemented SOx framework. The Audit Committee received an update on 'GRIP' in each meeting. The Committee also discussed other topics that were within its scope of attention, most notably compliance, fraud management, application of IT in financial processes and taxation, such as the innovation box agreement with the Dutch tax authorities.

The Audit Committee discussed the matters included in the Board Reports of the external accountant. Also, the Committee was satisfied with the good performance evaluation of the external auditor, as performed by senior management.

The Audit Committee carried out its self-assessment by means of an extensive questionnaire, the results of which were discussed during the first meeting of the Audit Committee in 2012.

Remuneration and Organizational Development Committee

The Remuneration and Organizational Development Committee currently has four members, Mr. Routs (Chairman), Mr. Streppel, Mr. Risseeuw and Ms. Hooymans.

The Committee assist the Supervisory Board with establishing and reviewing the Company's pay policy to ensure that members of the Board of Management are compensated consistently with that policy. Next to that, the Committee supervises and counsels the Company on Organizational & Management Development and reviews the succession plans for the members of the Board of Management and other senior managers.

The Committee re-assessed the Company's remuneration policy, leading to a proposal in 2011 for a number of amendments. The underlying principles of the proposed amendments were predominantly based on shifting the emphasis of the variable compensation towards the longer term, to simplify the long-term incentive grant ('LTI') and to add non-financial elements to the LTI, such as energy reduction and reputation-related targets. In view of the competitive remuneration developments in the market combined with an increased workload and responsibility for Supervisory Board members, the remuneration policy of the Supervisory Board was also re-assessed by the Committee, leading to a proposal to adjust the remuneration levels of the Supervisory Board. The proposals to amend both the Company's remuneration policy and the remuneration levels of the Supervisory Board were approved by the General Meeting of Shareholders on April 6, 2011.

The Committee met eight times in 2011, with all members present at each meeting. Consistent with its charter, the Committee has also been involved (next to the re-assessment of the Company's remuneration policy) in several other aspects, such as:

- Defining the level of payout for individual members of the Board of Management as part of the STI plan 2010 and LTI plan 2010;
- Setting the targets and performance criteria for the STI 2011 and LTI 2011 (including the energy reduction target for 2011–2013 as part of the non-financial targets);
- Recommending the agreed upon terms and conditions with regard to changes in the composition of the Board of Management;
- Reviewing the Company's efforts and achievements in the domain of talent management for senior management.

Further details on the activities of the Remuneration and Organization Development Committee are provided in the 'Remuneration and Organizational Development Report' starting on page 63.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee currently has four members: Mr. Streppel (Chairman), Mr. Routs, Mr. Risseeuw, and Ms. Hooymans. The purpose of the Nominating and Corporate Governance Committee is to recommend individuals to the Supervisory Board for nomination as members of the Board of Management, to support the Supervisory Board in adopting high standards and practices for the corporate governance structure, to lead the Board of Management in its periodic review of its performance, and to oversee the Company's activities in the areas of environmental and corporate responsibility.

The Nominating and Corporate Governance Committee met eight times during 2011. The Committee provided its views on the new top structure of the Company and the proposed individual appointments. Consistent with its charter, the Committee discussed and reviewed the size and composition of the Supervisory Board. Next to that, some amendments to the terms and reference and the Directors & Officers policy were reviewed and defined by the Committee. The composition of the Board of Management changed in 2011 following the appointment of Mr. Dirks in November 2011 as member of the Board of management. For an overview of all members of the Board of Management and Supervisory Board, see 'Corporate Governance' starting on page 38.

Financial Statements

The Financial Statements for the year ended December 31, 2011, were prepared by the Board of Management and approved by the Supervisory Board. The Report of the Independent Auditor, PricewaterhouseCoopers Accountants N.V., is included in the 'Other Information' on page 143.

The Supervisory Board recommends to the AGM to adopt these Financial Statements, as well as the proposed cash dividend in respect of 2011 of EUR 0.85 per share.

Finally, the Supervisory Board would like to thank all shareholders for their trust in the Company and all employees and management for their dedication and effort.

The Hague, February 17, 2012

J.B.M. Streppel

A.H.J. Risseeuw

M.E. van Lier Lels

M. Bischoff

C.M. Hooymans

R.J. Routs

D.J. Haank

Message to shareholders

We are pleased to present to you the report of the Remuneration and Organizational Development Committee ('the Committee').

The Committee assists the Supervisory Board with establishing and reviewing the Company's pay policy to ensure that members of the Board of Management are compensated consistently with that policy. In addition, the Committee supervises and counsels the Company on Organizational & Management Development and reviews the succession plans for the members of the Board of Management and other senior managers.

We aim to foster an action-oriented culture aimed at delivering results, and our pay programs therefore emphasize variable pay and long-term value creation. The target pay aims at 30–40% of pay in base salary, and 60–70% in variable pay in order to maintain a strong alignment with the Company's annual financial performance goals and long-term value creation strategy. In our judgment, this relationship and ratio between base salary and performance-related pay adequately reflects the balance between the Company's objectives and its entrepreneurial spirit. Moreover, we are confident that in general the level and structure of the Board of Management pay is in line with management development goals and pay differentials within the Company.

During 2010, the Company's remuneration policy was re-assessed, leading to amendment proposals. The underlying principles of the proposed amendments were predominantly based on shifting the emphasis of the variable compensation more towards the longer term, to simplify the Long-Term Incentive grant and to add

non-financial targets to the LTI, such as energy reduction and reputation related targets. In view of the competitive remuneration developments in the market combined with an increased workload and responsibility for Supervisory Board members, the remuneration policy of the Supervisory Board was also re-assessed during 2010, resulting in a proposal to adjust the remuneration levels of the Supervisory Board. The proposals to amend both the Company's remuneration policy and the remuneration levels of the Supervisory Board were both approved by the General Meeting of Shareholders on April 6, 2011.

Besides assessing management performance and setting targets for the coming years, topics discussed by the Committee included the balance between risk and reward and alignment with the Company's strategic objectives and the Company's efforts and progress in the domain of talent management for senior executives in the organization.

On behalf of the Supervisory Board, we are committed to preserving your confidence and trust by presenting an accountable and transparent implementation of our pay policy that further aligns the interests of our Board of Management with those of our shareholders and other stakeholders.

The Chairman and members of the Remuneration and Organizational Development Committee are appointed by the Supervisory Board.

The Committee currently consists of Mr. Routs (Chairman), Mr. Risseeuw, Mr. Streppel and Ms. Hooymans.

For convenience purposes, we have structured this report as follows:

Part:	Provides:
A. Executive pay at a glance	Highlights of KPN's pay policy (through questions and answers)
B. Duties and activities of the Committee	Insight into the topics discussed by the Committee during 2011
C. Executive pay policy – detailed overview	In-depth insight into KPN's pay policy for the Board of Management
D. Details of actual payout	Insight into actual payout levels for the Board of Management over 2011
E. Supervisory Board pay	Insight into KPN's pay policy for the Supervisory Board

A. Executive Pay at a glance

What are the objectives and principles of KPN's pay policy?

Objectives:	Principles:
Attracting and retaining the necessary leadership talent	Paying competitively
Driving performance that generates long-term profitable growth	Paying for performance
Promoting behavior that reinforces the business strategy and desired culture	Differentiating by experience and responsibility
Encouraging customer satisfaction and teamwork across KPN	
Strongly linking rewards to shareholder value creation	
Complying with best practice in corporate governance	
General acceptance by all stakeholders	

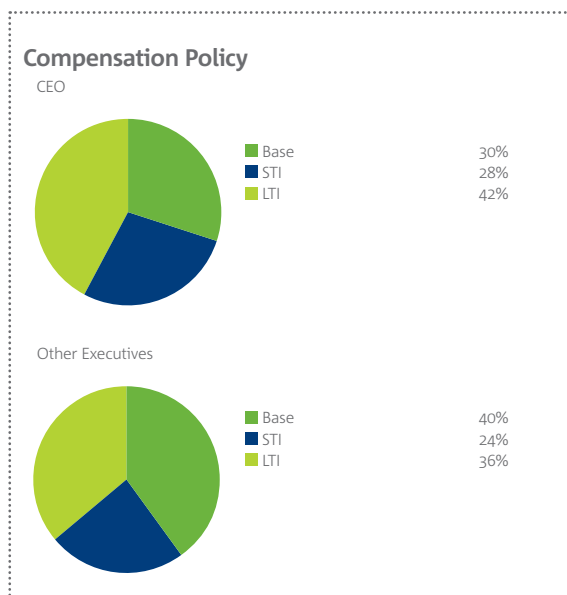
How are executives rewarded?

The pay mix for executives consists of the following four elements:

Component	Form	Fixed / variable	Drivers
Base salary	Cash		Experience and responsibility
Benefits (primarily pensions)	Funded by cash-related payments	Fixed	Market-competitive standards
Short-Term Incentive (STI)	Cash		Performance – assessed through annual financial and non-financial targets
Long-Term Incentive (LTI)	Conditional shares	Variable	Performance – assessed through relative TSR (peer group consists of companies with whom we compete for investor preference) and non-financial parameters

What is the ratio between fixed and variable reward?

The ratio between fixed and variable pay is influenced by the extent to which targets are met. The top pie chart represents the pay mix for the CEO in case of an on-target performance, whereas the bottom pie chart represents the pay mix for the other Board members in case of an on-target performance.



How is the level of compensation established?

KPN's pay levels are benchmarked with other companies in order to ensure that KPN's total level of compensation, based on the pay mix, is in line with KPN's pay policy and objectives, as described above. In order to benchmark pay levels, KPN uses an employment peer group of companies against which KPN competes for talent. The peer employment group consists of the largest Dutch AEX-listed and European sector-specific companies.

The advice of an independent external consultant (separate from the consultant used by the Company) is used by the Committee to ensure an objective benchmark for KPN's levels of pay.

Are incentives aligned with strategy?

On May 10, 2011, KPN presented its new strategy for the coming years until 2015. KPN aims to strengthen, simplify and grow its businesses. The focus of the new strategy will be on improving quality, service and technology, to become the best service provider and strengthen its market position in the Netherlands. Internationally, the focus will be on further growth in revenues and profitability. The goals and objectives of the new strategy are reflected in the short-term targets (both financial and non-financial) and long-term targets (both financial and non-financial), which are used to compensate executives for their performance.

Is the level of variable compensation aligned with the Company's risk profile?

KPN aligns incentives with its long-term Company strategy, but it also needs to focus on short-term success in order to achieve further growth. The Company's risk profile is embedded in the short-term and long-term incentive structure which is assured by KPN's standards of internal control over financial reporting.

What was rewarded to executives?

The bar chart below shows the actual components of pay. All figures are in thousands of euro.

Strategic Goals of

'Strengthen – Simplify – Grow':

KPN has set a number of key objectives for 2011–2015:

- Growing broadband market share in the Netherlands to more than 45%
- Sustained mobile service revenue market share in the Netherlands of more than 45%
- Maintaining its position as leading business and ICT player in the Benelux
- Simplification and quality management leading to a 'first time right' range of 85–95%, a large step up in Net Promoter Score and a top 10 Dutch reputation ranking
- Service revenue market share in Germany of more than 20% with a 35–40% EBITDA margin
- Service revenue market share in Belgium of 20–25% with a 35–40% EBITDA margin
- Accelerate Ortel growth at Rest of World, continued value creation at iBasis
- Continuing attractive dividend policy.



Rewards to the members of the Board of Management

(In thousands of EUR)

Member	Year	Base	STI	Conditional LTI	Pension Cost
Eelco Blok	2011	767	198	1086	122
	2010	650	767	680	108
Thorsten Dirks ¹	2011	97	158	24	
	2010	481	370	445	52
Carla Smits-Nusteling	2011	606	104	754	76
	2010	481	370	445	52
Baptiest Coopmans	2011	596	102	754	90
	2010	592	420	617	62

■ Base ■ STI ■ Conditional LTI ■ Pension Cost

1) Remuneration since appointment as Board member in November 2011

B. Duties and activities of the Committee

Duties of the Committee

The Committee assists the Supervisory Board with:

- Establishing and reviewing the Company's pay policy (based amongst others, on national and international benchmark standards);
- Ensuring that members of the Board of Management are compensated consistently with that policy;
- Reviewing and, if appropriate, recommending changes to the pay of the Supervisory Board;
- Supervising and counseling the Company on Organizational and Management Development;
- Holding an annual review of senior managers; and
- Reviewing the succession plans for the members of the Board of Management and other senior managers.

Members of the Supervisory Board regularly liaise with senior management below Board level.

In performing its duties, the Committee is assisted by an external remuneration consultancy firm (separate from the consultant used by the Company). The Committee is fully independent in the execution of its assigned responsibilities and ensures that the external remuneration consultancy firm acts on the instructions of the Committee and on a basis in which conflicts of interest are avoided.

Activities during 2011

The Committee met eight times in 2011, with all members present at each meeting. Consistent with its charter, the Committee has been involved in several aspects, such as:

- Reviewing the pay policy and recommending adjustments subject to adoption by the Annual Meeting of Shareholders, taking into account KPN's risk profile, pay trends in the Netherlands and abroad as well as trends in Corporate Governance;
- Reviewing the need for adjustments in pay levels (where applicable, and in order to ensure a consistent pay structure for the individual members of the Board of Management);
- Proposing targets and performance criteria for the STI plan 2011 and LTI plan 2011 and ensuring that the targets are in line with the basic principles and objectives of the pay policy;
- Monitoring the internal and external auditing of the results and procedures to verify the mathematical accuracy of the STI and LTI plans;
- Recommending the agreed upon terms and conditions with regard to changes in the composition of the Board of Management;
- Defining the energy reduction target for 2011–2013 as part of the non-financial targets for the LTI plan 2011;
- Reviewing the terms of reference of the Committee and provide input for any proposed adjustments;
- Reviewing whether performance of the Committee is in line with the Committee's charter;
- Preparing the Remuneration and Organizational Development Report to be included in KPN's Annual Report;
- Reviewing and ensuring the Company's efforts and achievements in the domain of talent development for senior management.

C. Executive pay policy – detailed overview

Objectives of KPN's pay policy

KPN is dedicated to foster a strongly action-oriented culture aimed at delivering results. KPN's pay programs therefore emphasize variable pay and long-term value creation. KPN's plans are designed to achieve the following objectives:

- Attracting and retaining the necessary leadership talent in order to sustain and expand KPN's unique competencies and capabilities;
- Driving performance that generates long-term profitable growth;
- Promoting behavior that reinforces the business strategy and desired culture;
- Encouraging teamwork across business units and functional areas;
- Strongly linking rewards to value creation for shareholders and other stakeholders
- Complying with best practice in corporate governance; and
- General acceptance by all stakeholders

Principles of KPN's pay policy

KPN's pay policy is guided by three broad principles:

- 1) Paying competitively: this is achieved through benchmarking against an employment-market peer group consisting of companies with whom KPN generally competes for talent;
- 2) Pay-for-performance: target pay aims at 30–40% of pay in base salary, and 60–70% in variable pay in order to maintain a strong alignment with the Company's annual financial performance goals and long-term value creation strategy; and
- 3) Differentiating by experience and responsibility: this is achieved through alignment of the pay with the responsibilities, relevant experience, required competence and performance of individual jobholders. Consequently, there can be substantial differentials in pay levels, despite employees having similar job titles.

These principles apply to all levels of senior management. The Company's pay policy is compliant with the relevant legal requirements and the principles of the Dutch Corporate Governance Code.

Composition of employment-market peer group and market assessment

To ensure the overall competitiveness of KPN's pay levels, these levels are benchmarked against an employment market peer group. The Committee uses one peer group consisting of AEX-listed companies and European sector-specific companies. The table below shows the current composition of KPN's employment peer group:

Employment peer group	
AkzoNobel NV	Randstad Holding NV
DSM NV	Royal Philips Electronics NV
Heineken NV	Unilever NV/Plc
Reed Elsevier NV/Plc	Portugal Telecom SA
Royal Ahold NV	Swisscom
Belgacom SA	Vodafone Group Plc
BT Group Plc	Cap Gemini

The Committee regularly reviews the peer group to ensure that the composition is still appropriate. The composition of the peer group might be adjusted as a result of mergers or other corporate activities.

It should be noted that KPN ranks, on average, between the median and upper quartile level in terms of revenues, market capitalization and number of employees. This relative size of KPN is taken into account when determining whether KPN 'pays competitively'.

Base salary

The Committee determines appropriate base salary levels based on KPN's relative positioning in the peer group. In line with KPN's pay-for-performance principle, base salary is targeted at the low end of the market-competitive range. Each year the Supervisory Board considers whether circumstances justify an adjustment in base salary within the market-competitive target range for individual members of the Board of Management.

Short-Term Incentives (STI)

General

At the beginning of each year, the Supervisory Board sets financial and non-financial target ranges for the Board of Management. These ranges are based on the Company's business plan. At the end of the year, the Supervisory Board reviews the Company's performance against the target ranges. The Company's external auditor has been engaged to perform procedures to verify a consistent application of the approved calculation method, the mathematical accuracy of the STI calculations and a reconciliation of the source data used in the financial statements. Members of the Board of Management are eligible for an annual cash incentive only if Company performance is at or above the predetermined ranges.

Objectives

The objective of this STI scheme is to ensure that the Board of Management is well incentivized to achieve Company performance targets in the shorter term. Specific details on targets cannot be disclosed for all performance measures, as this would require providing commercially sensitive information.

Component	Form of compensation	Value determination	Targets	Payout at threshold performance	Payout at or above maximum performance ¹
STI	Cash	'On-target' incentive equals 90% of base salary for the CEO and 60% of base salary for the other members of the Board of Management. The 'on-target' incentive is used as input for the market-competitive benchmark against the employment market peer group.	Targets typically are Revenue, EBITDA, Profit before Tax, Free Cash Flow and various measures of compliance and risk management, quality, market share, reputation and employee engagement.	25% of the 'on-target' incentive (i.e. 22.5% of base salary for the CEO and 15% of base salary for the other members of the Board of Management). Payout below threshold performance: 0% of the 'on-target' incentive.	150% of the 'on-target' incentive (i.e. 135% of base salary for the CEO and 90% of base salary for the other members of the Board of Management).

1) Maximum including the effect of the discretionary factor.

Performance incentive zone

The target ranges for financial and operational performance comprise:

- A 'threshold' below which no incentive is paid;
- An 'on-target' performance level at which an 'on-target' incentive is paid; and
- A 'maximum' at which the maximum incentive is paid.

The STI is designed to strike a balance between the Company's risk profile and the incentive to achieve ambitious targets. The payout methodology is based on a payout approach for each of the financial and non-financial targets.

The Supervisory Board's ability to apply a discretionary factor ranges between 0.7 (i.e. cutting the cash incentive by 30%) and 1.3 (i.e. increasing the cash incentive by 30%). With this discretionary factor, the Supervisory Board is able to express the assessment of the overall individual performance of each member of the Board of Management. The ability to apply a discretionary factor does not increase average achievement levels. It does, however, allow the Supervisory Board some discretion in differentiating on the basis of individual contributions to Company performance.

The Supervisory Board has the discretionary authority to reward extraordinary management achievement that outperforms the regular business plan(s) and has created

substantial additional value for the Company and its shareholders. Other than that, discretion both upwards and downwards can be applied by the Supervisory Board if the outcome of the STI scheme would produce an unfair result or if the outcome would not be considered to reflect the basic objectives and principles of pay as outlined in this section.

Actual payout levels

For 2011, amongst other targets, Revenues were above threshold, broadband market share was below threshold and Profit before Tax was below threshold. The Supervisory Board considers the STI amounts awarded to the CEO and the members of the Board of Management a fair reflection of their contribution to the performance of the Company during 2011.

Long-Term Incentives (LTI)

General

In addition to the base salary and the short-term annual cash incentive described above, a long-term incentive based on performance shares is used to ensure that the interests of management are aligned with those of its long-term (or prospective) shareholders and to provide an incentive for members of the Board of Management to continue their employment relationship with the Company.

The number of shares granted under this plan is based on fixed numbers as shown in the following table.

Component	Form of Compensation	Value determination	Drivers	On target	Scenario maximum (position 1 to 3 in peer group and maximum performance on non-financial targets)
Long-term share-based compensation	Shares	CEO: 95,000 shares with deferred dividend Other members of the Board of Management: 66,000 shares with deferred dividend	For 75% based on Total Shareholder Return (TSR) and 25% based on non-financial parameters (energy reduction and reputation)	100% of the granted shares vest	200% of the granted shares vest
Special LTI ¹⁾	Shares	50% of base salary	TSR and 'Back to Growth' targets	Top 3 position in the peer group ranking, 'Back to Growth' targets	200% of the granted shares vest

1) As presented in the 2009 AGM, the Supervisory Board agreed to an uplift to the LTI entitlements for 2009 and 2010 in order to reflect the high ambitions of the 'Back to Growth' strategy.

As from 2011, the number of shares that actually vest is conditional on the extent to which the returns to KPN shareholders outperform the returns to shareholders of a peer group of Western European telecommunications companies (75% weighting) and for 25% on the achievement of the assigned non-financial parameters. The actual vesting of the 2009 and 2010 LTI plans are solely based on KPN's relative TSR performance. It is felt that comparing KPN with a wider group of companies (either geographically or with other industries) is not meaningful. Variations in returns would most likely be attributed largely to macroeconomic events and/or sector shifts rather than to variations in management actions. Therefore, benchmarking TSR achievements relative to other, similar companies emphasizes rewarding for specific KPN performance. The non-financial parameters set for 2011 are based on energy reduction targets and a reputation dashboard. Please refer to KPN's Sustainability Report 2011 for detailed information about the energy reduction targets. Vesting of the non-financial parameters will only take place if KPN's ranking position in the TSR peer group is at least position 7.

Vesting is also subject to the condition that the member of the Board of Management has not resigned within three years of the date of the initial grant.

The performance period of the LTI plan is set at three years. The Committee uses scenario analysis to estimate the possible outcomes of the value of the shares vesting in coming years and decides whether a correct risk incentive is set for the Management Board members with respect to the overall level of pay and pay differentials within the Company.

In addition to the information provided in the Remuneration Report, please refer to Note 3 of the Consolidated Financial Statements for a further description and valuation of the option and share plans.

Performance-measuring and peer group performance

Vesting of the shares is for 75% conditional on KPN's relative shareholder return and for 25% based on non-financial parameters. The table below provides an overview of KPN's performance peer group to determine KPN's relative shareholder return.

Companies included in the peer group

Belgacom SA	Telecom Italia Spa
BT Group Plc	Telefonica SA
Deutsche Telekom AG	Telekom Austria AG
France Telecom SA	Telenor ASA
Hellenic Telecom (OTE)	TeliaSonera AB
Portugal Telecom SA	Vodafone Group Plc
Swisscom AG	KPN NV

The table below provides an overview of the final ranking of the 2009 share plan that vests in 2012.

Position	Top 8 vesting % existing share plan	Top 8 ranking companies for 2009 share plan (vests in 2012)
Position 1	200% of the shares vest	Telenor ASA
Position 2	200% of the shares vest	Vodafone Group Plc
Position 3	200% of the shares vest	BT Group Plc
Position 4	175% of the shares vest	TeliaSonera AB
Position 5	150% of the shares vest	Portugal Telecom SA
Position 6	125% of the shares vest	Swisscom AG
Position 7	100% of the shares vest	Telefonica SA
Position 8	No vesting takes place	KPN NV

Please note that the peer group used for relative TSR reflects the relevant competitive market in which KPN competes for investor preference. As such, it is different from the employment-market peer group, which is used to determine pay levels for the CEO and members of the Board of Management. The peer group may be adjusted if an individual company no longer qualifies as a relevant peer company.

Performance incentive zone

Since 2008, the design of KPN's LTI plan ensures that shares are rewarded for 'above average' returns while no shares are rewarded for 'below average' returns. Once vested, the shares will have to be held for a minimum period of two years. An exception to this rule is made for shares that are sold to cover income tax obligations in relation to the vested shares (typically the value taxed as income equals the amount of shares vested multiplied by the share price at the time of vesting).

The external remuneration consultant calculates the end-of-year TSR peer group position and the number of shares vested and makes certain that calculations are performed objectively and independently.

The Supervisory Board has the discretionary authority to reward extraordinary management achievement that outperforms the regular business plan(s) and has created substantial additional value for the Company and its shareholders. Other than that, discretion both upwards and downwards can be applied by the Supervisory Board if the outcome of the LTI incentive scheme would produce an unfair result or if the outcome would not be considered to reflect the basic objectives and principles of pay as outlined in this section.

It is KPN's policy to remunerate management in the event of a change of control in a manner which encourages management to take into account the interests of all stakeholders of the enterprise as is required under Dutch law. An amendment to the remuneration of the members of the Board of Management in case of a change in control was adopted by the AGM in April, 2010.

Actual payout levels

KPN's performance over the period 2009–2011 resulted in the 8th position in the TSR performance peer group with respect to the 2009 share award, which does not lead to vesting of the granted shares in April 2012.

Special LTI

As presented in the 2009 AGM, the Supervisory Board agreed to an uplift of the LTI entitlements for 2009 and 2010 in order to reflect the extremely high ambitions of the 'Back to Growth' strategy. This will result in an uplift of 50% of the LTI value determination for members of the Board of Management. The uplift in LTI will be rewarded if the challenging financial targets in 2009 and 2010 are met and KPN would reach a number 1, 2 or 3 position in the TSR peer group ranking. The uplift for 2009 is not rewarded. After the three-year performance period at the end of 2012 the Committee will review if the uplift for 2010 will be rewarded.

Claw-back clause

The Supervisory Board has committed itself to the claw-back clause since 2009. This clause provides for the ability to recover variable pay based on incorrect financial or other data.

Benefits

Pensions

Members of the Board of Management are eligible for a defined contribution pension plan with a contribution based on the fiscal defined contribution table that corresponds to a retirement age of 65 and an annual accrual rate of 2.25%. Mr. Dirks will remain eligible for pension benefits (combined defined benefit and defined contribution) as part of his current German pension arrangement with a retirement age of 65.

Additional arrangements

The additional arrangements, such as expense allowances, use of cellphones and Company car provisions needed for the execution of their roles, are broadly in line with other companies of similar size and complexity, as well as with market practice.

Loans

Company policy does not allow loans to be granted to members of the Board of Management.

Terms of employment

All members of the Board of Management have a permanent employment contract for an indefinite period of time.

Members of the Board are appointed for a period of four years, which is in line with requirements of the Dutch Corporate Governance Code.

Severance arrangements

Severance payments for the CEO and members of the Board of Management are aligned with the Dutch Corporate Governance Code (one year base salary), with the exception of Mr. Dirks. Please refer to the 'Change in composition and responsibilities of the Board of Management' section of this report for further explanation.

Change in composition and responsibilities of the Board of Management

Mr. Blok became Chief Executive Officer on April 6, 2011.

The appointment of Mr. Dirks as a member of the Board of Management came into effect as of KPN's EGM on November 7, 2011. Mr. Dirks is Chairman of the Board of Management (Geschäftsführung) of E-Plus and CEO of Mobile International. The conditions of Mr. Dirks' contract largely fit within KPN's remuneration policy as approved by the General Meeting of Shareholders. Given his current and continued position as Chairman of the Board of Management of E-Plus his aggregated remuneration package will be implemented with two contracts: his current contract with E-Plus (as amended) and a separate contract with KPN.

Mr. Dirks will earn a total base salary of EUR 650,000 per year. Furthermore, he is eligible to short- and long-term variable incentives, which are dependent on the performance of KPN versus the Company's financial and/or non-financial targets. He will be subject to German social security arrangements, including retirement benefits.

The conditions deviate in two respects from KPN's remuneration policy. Given the short remaining period until the end of 2011, Mr. Dirks continued to be eligible for the variable incentives for 2011 as agreed under his current contract. These incentives put more focus on the shorter term, but – dependent on the level of realization of the targets – do not substantially deviate from the amounts he could receive under the incentive schemes foreseen under the remuneration policy. Mr. Dirks' existing German contract furthermore contains a non-competition clause for which he will, as required by German law, receive compensation equal to 50% of his (German) salary (base and short-term incentive) during a maximum period of 12 months. In case of termination of his German contract he will receive this compensation on top of the severance pay of 12 months base salary as may be due in accordance with KPN's remuneration policy and the Dutch Corporate Governance Code.

Mr. Coopmans will leave the Company by mutual agreement with the Supervisory Board as at April 1, 2012. Mr. Coopmans will receive a severance payment compliant with the Dutch Corporate Governance Code amounting to one year's base salary (EUR 590,000). Mrs. Smits-Nusteling will leave the Company as at April 1, 2012 and at her request a severance payment will not be applicable. Any conditional shares granted under the LTI plan that have not yet vested will be treated in accordance with the applicable plan rules.

Outlook for 2012

No material adjustments to the pay policy are considered for 2012.

D. Details of actual payout

The pay of the current members of the Board of Management is set out below.

Name	Year	Salary & Social Security (EUR)	STI ³ (EUR)	LTI: Share awards ¹ (EUR)	Pension costs ² (EUR)	Total (EUR)
E. Blok						
	2011	766,884	197,936	1,085,850	122,000	2,172,670
	2010	650,215	767,126	679,914	108,100	2,205,355
T. Dirks⁴						
	2011	97,126	158,226	–	23,749	279,101
C.M.S. Smits-Nusteling						
	2011	606,467	104,120	754,380	76,000	1,540,967
	2010	481,465	370,090	444,559	51,544	1,347,658
J.B.P. Coopmans						
	2011	596,467	102,384	754,380	90,000	1,543,231
	2010	592,298	420,098	617,155	62,124	1,691,675
Total current members						
	2011	2,066,944	562,666	2,594,610	311,749	5,535,969
	2010	1,723,978	1,557,314	1,741,628	221,768	5,244,688

- 1) The fair value per share of the 2011 grant was EUR 11.43 (excluding the deferred dividend). Please refer to the 'Long-term incentives' section of this report for a further explanation. Under IFRS the fair value of the share based awards is charged to the P&L over the vesting period. In 2011, cost recognized for shares and share-based awards amounted to EUR 806,182 for Mr. Blok (EUR 785,419 in 2010), EUR 366,603 for Mrs. Smits-Nusteling (EUR 203,583 in 2010), EUR 678,635 for Mr. Coopmans (EUR 668,107 in 2010) and EUR 25,159 for Mr. Dirks.
- 2) The pension costs relate to the premiums paid or service cost. Interest charges and investment yields are not allocated on an individual basis. Since 2006, Board of Management members are eligible for a defined contribution pension plan with a contribution based on the fiscal defined contribution table that corresponds to a retirement age of 65 and an annual accrual rate of 2.25%. Mr. Dirks will remain eligible for pension benefits as part of his current German pension arrangement.
- 3) Actual STI that relates to performance in the current year but paid out in the following financial year. For 2011, amongst other targets, Revenues were above threshold, broadband market share was below threshold and Profit before Tax was below threshold.
- 4) Remuneration since appointment as Board member in November 2011

The pay of the former members of the Board of Management is provided below.

Name	Year	Salary & Social Security (EUR)	STI (EUR)	Exit Payment (EUR)	LTI: Share Awards (EUR) ¹	Pension costs (EUR)	Total (EUR)
A.J. Scheepbouwer							
	2011	503,235	–	–	–	–	503,235
	2010	1,006,461	1,322,160	–	1,096,502	–	3,425,123
S.P. Miller							
	2010	586,705	–	2,227,319	–	97,439	2,911,463

- 1) Under IFRS the fair value of the share based awards is charged to the P&L over the vesting period. In 2011, cost recognized for shares and share-based awards amounted to EUR 318,436 for Mr. Scheepbouwer (EUR 1,332,365 including option cost in 2010) and no cost for Mr. Miller (EUR 535,765 in 2010).

The following table summarizes the shares/share-based awards granted to current and former members of the Board of Management, granted (un)conditional shares/share-based awards held by them during 2011, granted shares sold during 2011, and granted (un)conditional shares/share-based awards held by them as of December 31, 2011.

	Grant date	Current status	Number of shares granted as of January 1, 2011	Number of shares/share-based awards granted, vested or sold in 2011 ¹⁻²	Number of shares/share-based awards as of December 31, 2011	Total Pre-tax fair value of shares on grant date ³ (EUR)	Pre-tax market value of shares on vesting date or end of lock-up in 2011 (EUR)	/End of lock-up period in 2011
E. Blok	04/06/2011	Conditional	–	95,000	95,000 ²	1,085,850 ¹		end of lock-up 4/6/2016
	04/15/2010	Conditional	76,053	–	76,053	679,914		end of lock-up 4/15/2015
	04/09/2009	Unconditional	79,420	–79,420	– ⁶	671,893	– ⁶	– ⁶
	04/17/2008	Conditional	63,502	–16,659	46,843	908,079	1,094,304 ⁶	end of lock-up 4/17/2013
	04/13/2006 ⁵	Unconditional	30,745	–30,745	–	365,154	362,791	end of lock-up 4/13/2011
T. Dirks	04/06/2011 ⁵	Conditional	–	27,600	27,600	315,468 ¹		n.a.
	04/15/2010 ⁵	Conditional	30,547	–	30,547	273,090		n.a.
	04/09/2009 ⁵	Unconditional	40,976	–40,976	– ⁶	346,657		n.a.
C.M.S. Smits-Nusteling	04/06/2011	Conditional	–	66,000	66,000 ²⁻⁶	754,380 ¹		end of lock-up 4/6/2016
	04/15/2010	Conditional	49,727	–	49,727 ⁶	444,559		end of lock-up 4/15/2015
	11/03/2009	Unconditional	4,871	–4,871	– ⁶	41,209	– ⁶	– ⁶
	04/09/2009 ⁵	Unconditional	17,017	–17,017	– ⁶	143,964	– ⁶	n.a.
	04/17/2008 ⁵	Unconditional	11,280	–11,280	–	161,304	199,656 ⁶	n.a.
	04/13/2006 ⁵	Unconditional	2,376	–2,376	–	28,241	28,037	end of lock-up 4/13/2011
J.B.P. Coopmans	04/06/2011	Conditional	–	66,000	66,000 ²⁻⁶	754,380 ¹		end of lock-up 4/6/2016
	04/15/2010	Conditional	69,033	–	69,033 ⁶	617,155		end of lock-up 4/15/2015
	04/09/2009	Unconditional	74,586	–74,586	– ⁶	630,998	– ⁶	– ⁶
	04/17/2008	Conditional	55,219	–14,486	40,733	789,632	951,572 ⁶	end of lock-up 4/17/2013
	11/09/2006	Unconditional	31,683	–31,683	–	374,315	316,196	end of lock-up 09/01/2011
A.J. Scheepbouwer ⁴	04/15/2010	Unconditional	180,941	–180,941	–	1,096,502 ²	– ⁶	– ⁶
	04/09/2009	Unconditional	323,276	–323,276	–	1,568,964	3,252,152	end of lock-up 7/1/2011
	04/17/2008	Unconditional	354,242	–354,242	–	2,988,031	3,563,675	end of lock-up 7/1/2011

1) The shares granted to the Board members represent 14% of the total number of shares and share-based awards granted in 2011 to all employees. On the grant date (April 6, 2011) the KPN share price quoted EUR 12.24 (closing price) while the fair value of each granted share was EUR 11.43 for Members of the Board of Management.

2) The 2011 grant numbers do not include any deferred dividend during the vesting period. The deferred dividend during the vesting period will be additional granted in shares.

3) Value is calculated by multiplying number of share awards by the fair value.

4) Former member.

5) Not granted in capacity as Board member.

6) The 2008 share-based award had a vesting percentage of 150%, the 2010 share award for the former CEO had a vesting percentage of 0%. The 2009 share-based award has a vesting percentage of 0%. At the date of termination of the employment contract, the 2010 and 2011 LTI grant of both Mrs. Smits-Nusteling and Mr. Coopmans will forfeit for 13/36 and 25/36 respectively.

See Note 3 of the Consolidated Financial Statements for a description of the share plan.

The following table summarizes the options granted to current and former members of the Board of Management under previous policies, granted options exercised by them during 2011, and unexercised options held by them as of December 31, 2011. Options issued carry an entitlement to one KPN share.

	Grant date	Vesting date	Expiration date	Number of options as of January 1, 2011	Number of exercisable options	Options exercised during the year	Number of options as of December 31, 2011	Exercise price
E. Blok	04/14/2005 ¹	04/14/2008	04/13/2013	201,370	–	–201,370 ²	–	6.73
	04/16/2004	04/16/2007	04/15/2012	196,684	–	–196,684 ²	–	6.45
T. Dirks	/	/	/	–	–	–	–	–
C.M.S. Smits-Nusteling	/	/	/	–	–	–	–	–
J.B.P. Coopmans	/	/	/	–	–	–	–	–
A.J. Scheepbouwer ³	04/19/2007	04/19/2010	04/18/2012	165,410	165,410	–	165,410	12.09
	04/13/2006	04/13/2009	04/12/2011	215,278	–	–215,278 ²	–	9.29

1) Options not granted in capacity as Board member.

2) in 2011, The pre-tax market value of exercised options is EUR 1,798,885 for Mr. Blok and EUR 537,592 for Mr. Scheepbouwer.

3) Former member.

The exercise price of the options equals the market value of KPN's share on the grant date. These options are performance related. As contractually agreed at the time of appointment, the stock options for the former CEO are not linked to performance. See Note 3 of the Consolidated Financial Statements for a description of the option plans.

Stock ownership Board of Management

The table below shows the shares held by members of the Board of Management (including vested shares in lock-up period).

Number of shares	December 31, 2011	December 31, 2010
E. Blok	115,875	31,032
T. Dirks	–	–
C.M.S. Smits-Nusteling	2,376	2,376
J.B.P. Coopmans	72,416	31,683
A.J. Scheepbouwer ¹	152,147	829,665
Total	342,814	894,756

1) Former member. Number of shares at the date of step down from the Board of Management.

Share ownership relates to normal shares. In 2006, Mr. Coopmans privately purchased 200 options on 100 shares on the stock market.

In 2011 a share ownership recommendation was introduced whereby the members of the Board of Management are encouraged to acquire Company

shares equal to one times the annual fixed compensation for members of the Board of Management (excluding CEO) and two times the annual fixed compensation for the CEO. Retained shares as part of the LTI will be included in the share ownership recommendation.

E. Supervisory Board Pay 2011

The Committee is responsible for reviewing and, if appropriate, recommending changes to the pay of the Supervisory Board. Any recommended changes to Supervisory Board pay must be submitted to the AGM for approval. In view of the competitive remuneration developments in the market combined with an increased workload and responsibility for Supervisory Board members, the remuneration policy of the Supervisory Board was re-assessed during 2010, resulting in a proposal to adjust the remuneration levels of the Supervisory Board. This proposal was approved by the General Meeting of Shareholders on April 6, 2011. Please refer to the table for further details. Members receive an additional fee if a meeting is held in a country other than the member's country of residence.

Shareholdings in the Company held by Supervisory Board members serve as a long-term investment in the Company and help to align their interest with those of KPN's other shareholders. No Supervisory Board member is granted stock options or shares as a form of pay. No member of the Supervisory Board held any stock options in the Company. As a policy, the Company does not provide loans to its Supervisory Board members.

The table below shows the payout to Supervisory Board members in 2011 and fixed Committee fees on an annual basis. The remuneration levels were adjusted as of April 6, 2011 (AGM).

Amounts in EUR	Fees 2011
Chairman Supervisory Board	94,722
Vice Chairman of the Supervisory Board	66,042
Member Supervisory Board	58,681
Chairman Audit Committee	20,000
Member Audit Committee	10,000
Chairman Remuneration and Organizational Development Committee	10,000
Member Remuneration and Organizational Development Committee	5,000
Chairman Nominating and Corporate Governance Committee	10,000
Member Nominating and Corporate Governance Committee	5,000

The table below shows the actual fee received by each member of the Supervisory Board.

Amounts in EUR	Membership fees 2011	Committee fees 2011	2011 Total	2010 Total
J.B.M. Streppel	94,722	15,000	109,722	89,337
A.H.J. Risseeuw	58,681	10,000	68,681	73,510
M.E. van Lier Lels	58,681	10,000	68,681	65,000
M. Bischoff	58,681	10,000	68,681	65,000
C.M. Hooymans	58,681	10,000	68,681	65,000
R.J. Routs	66,042	15,000	81,042	68,585
D.J. Haank	58,681	20,000	78,681	72,170

The pay of the former Supervisory Board members is provided below.

Amounts in EUR	Membership fees 2011	Committee fees 2011	2011 Total	2010 Total
D.I. Jager	–	–	–	18,584

Stock ownership Supervisory Board

The table below shows the shares held by members of the Supervisory Board.

Number of shares	December 31, 2011	December 31, 2010
J.B.M. Streppel	–	–
A.H.J. Risseeuw	50,000	47,370
M.E. van Lier Lels	–	–
M. Bischoff	9,000	–
C.M. Hooymans	–	–
R.J. Routs	–	–
D.J. Haank	8,117	8,117
Total	67,117	55,487



FINANCIAL STATEMENTS

CONTENTS

Financial Statements		Corporate Financial Statements	137
Consolidated Financial Statements	78	Corporate Income Statement	137
Consolidated Statement of Income	78	Corporate Balance Sheet	138
Consolidated Statement of Comprehensive Income	79	General notes to the Corporate Financial Statements	139
Consolidated Statement of Financial Position	80	Notes to the Corporate Balance Sheet	140
Consolidated Statement of Cash Flows	82	
		Other Information	
Consolidated Statement of Changes in Group Equity	83	Independent Auditor's Report	143
General notes to the Consolidated Financial Statements	84	Proposed appropriation of result	144
Notes to the Consolidated Statement of Income	92	Subsequent events	144
Notes to the Consolidated Statement of Financial Position	103	Legal structure	145
		
Notes to the Consolidated Statement of Cash Flows	123	Glossary of terms	146
Other Notes to the Consolidated Financial Statements	123		

CONSOLIDATED STATEMENT OF INCOME

Amounts in millions of EUR, unless otherwise stated	2011	2010
Revenues [1]	13,022	13,324
Other income [2]	141	74
Total	13,163	13,398
Own work capitalized	-116	-101
Cost of materials	1,005	911
Work contracted out and other expenses	4,503	4,560
Employee benefits [3]	1,874	1,932
Depreciation, amortization and impairments [4]	2,589	2,226
Other operating expenses [5]	759	620
Total operating expenses	10,614	10,148
Operating profit	2,549	3,250
Finance income	32	19
Finance costs	-690	-860
Other financial results	-96	-75
Financial income and expenses [6]	-754	-916
Share of the loss of associates and joint ventures [12]	-24	-31
Profit before income tax	1,771	2,303
Income taxes [7]	-222	-508
Profit for the year	1,549	1,795
Profit attributable to non-controlling Interests [20]	-	2
Profit attributable to equity holders [19]	1,549	1,793
Earnings per share after taxes attributable to equity holders for the year in EUR [8]		
- Basic	1.06	1.15
- Fully-diluted	1.06	1.15

[..] Bracketed numbers refer to the related notes to the Consolidated Financial Statements, which form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in millions of EUR, unless otherwise stated	2011	2010
Profit for the year	1,549	1,795
Other comprehensive income:		
Cash flow hedges:		
Gains or (losses) arising during the period [19]	109	30
Income tax [19]	-28	-8
	81	22
Currency translation adjustments:		
Gains or (losses) arising during the period [19]	-14	4
Income tax [19]	-	-
	-14	4
Fair value adjustment available for sale financial assets:		
Unrealized gains or (losses) arising during the period [19]	-5	-8
Impairment charge through profit and loss	13	-
	8	-8
Other comprehensive income for the year, net of income tax	75	18
Total comprehensive income for the year, net of income tax	1,624	1,813
Total comprehensive income attributable to:		
Equity holders	1,624	1,811
Non-controlling interests	-	2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

Amounts in millions of EUR	December 31, 2011	December 31, 2010
NON-CURRENT ASSETS		
Goodwill	5,575	5,733
Licenses	2,495	2,818
Software	852	819
Other intangibles	290	385
Total intangible assets [10]	9,212	9,755
Land and buildings	705	875
Plant and equipment	5,704	5,619
Other tangible non-current assets	116	130
Assets under construction	1,008	890
Total property, plant and equipment [11]	7,533	7,514
Investments in associates and joint ventures [12]	261	284
Loans to associates and joint ventures [12]	127	33
Available-for-sale financial assets [16]	48	53
Derivative financial instruments [26]	169	17
Deferred income tax assets [7]	1,831	1,918
Trade and other receivables [13]	261	236
Total non-current assets	19,442	19,810
CURRENT ASSETS		
Inventories [14]	123	153
Trade and other receivables [15]	1,607	1,867
Income tax receivables [7]	1	27
Cash and cash equivalents [17]	990	823
Total current assets	2,721	2,870
Non-current assets and disposal groups held for sale [18]	224	57
TOTAL ASSETS	22,387	22,737

[..] Bracketed numbers refer to the related notes to the Consolidated Financial Statements which form an integral part of these Consolidated Financial Statements.

Group Equity and Liabilities

Amounts in millions of EUR	December 31, 2011	December 31, 2010
GROUP EQUITY		
Share capital	344	377
Share premium	6,717	8,184
Other reserves	-127	-709
Retained earnings	-4,004	-4,352
Equity attributable to equity holders [19]	2,930	3,500
Non-controlling interests [20]	-	-
Total Group equity	2,930	3,500
NON-CURRENT LIABILITIES		
Borrowings [21]	11,641	11,359
Derivative financial instruments [26]	229	250
Deferred income tax liabilities [7]	793	956
Provisions for retirement benefit obligations [22]	441	608
Provisions for other liabilities and charges [23]	397	404
Other payables and deferred income [24]	155	225
Total non-current liabilities	13,656	13,802
CURRENT LIABILITIES		
Trade and other payables [25]	3,804	3,982
Borrowings [21]	1,458	1,178
Derivative financial instruments [26]	-	1
Income tax payables [7]	218	152
Provisions for other liabilities and charges [23]	129	106
Total current liabilities	5,609	5,419
Liabilities directly associated with non-current assets and disposal groups classified as held for sale [18]	192	16
TOTAL EQUITY AND LIABILITIES	22,387	22,737

[.] Bracketed numbers refer to the related notes to the Consolidated Financial Statements which form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Amounts in millions of EUR	2011	2010
Profit before income tax	1,771	2,303
Adjustments for:		
– Net finance cost [6]	754	916
– Share-based compensation [3]	-15	-17
– Share of the profit of associates and joint ventures [12]	24	31
– Depreciation, amortization and impairments [4]	2,589	2,226
– Other income	-137	-66
– Changes in provisions (excluding deferred taxes)	-209	-336
Changes in working capital relating to:		
– Inventories	14	-52
– Trade receivables	24	27
– Prepayments and accrued income	64	19
– Other current assets	12	-41
– Trade payables	150	246
– Accruals and deferred income	-151	-88
– Current liabilities (excluding short-term financing)	-20	-36
Dividends received [12]	1	1
Income taxes paid	-231	-589
Interest paid	-637	-736
Net Cash flow provided by operating activities	4,003	3,808
Acquisition of subsidiaries, associates and joint ventures (net of acquired cash)	-23	-106
Disposal of subsidiaries, associates and joint ventures	-2	63
Investments in intangible assets (excluding software)	-27	-337
Investments in software	-463	-411
Investments in property, plant and equipment	-1,584	-1,398
Disposals of intangible assets (excluding software)	9	-
Disposals of software	1	1
Disposals of property, plant and equipment	176	103
Loans to associates and joint ventures	-75	-65
Other changes and disposals	2	1
Net Cash flow used in investing activities [27]	-1,986	-2,149
Share repurchases	-1,000	-1,000
Dividends paid	-1,200	-1,152
Proceeds from exercised options	5	13
Proceeds from borrowings [21]	2,159	991
Repayments of borrowings and settlement of derivatives [21]	-1,702	-2,484
Other changes	-10	-2
Net Cash flow used in financing activities [28]	-1,748	-3,634
Changes in cash and cash equivalents	269	-1,975
Net Cash and cash equivalents at the beginning of the year [17]	682	2,652
Exchange rate differences	-1	5
Changes in cash and cash equivalents	269	-1,975
Net Cash and cash equivalents at the end of the year [17]	950	682
Cash classified as held for sale [18]	-36	-17
Bank overdrafts	76	158
Cash and cash equivalents [17]	990	823

[..] Bracketed numbers refer to the related notes to the Consolidated Financial Statements which form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY

Amounts in millions of EUR, except number of shares	Number of subscribed shares	Share capital	Share premium	Other reserves	Retained earnings	Equity attributable to owners of the parents	Non- controlling interests	Total Group equity
Balance as of January 1, 2010	1,628,855,322	391	8,799	-370	-4,982	3,838	3	3,841
Share based compensation [3]	-	-	-	-	3	3	-	3
Exercise of options [3, 19]	-	-	-	14	-	14	-	14
Shares repurchased	-	-	-	-1,000	-	-1,000	-	-1,000
Dividends paid	-	-	-	-	-1,152	-1,152	-	-1,152
Shares cancelled [19]	-56,245,438	-14	-615	629	-	-	-	-
Purchased from non-controlling interests [20]	-	-	-	-	-14	-14	-5	-19
Comprehensive income for the period	-	-	-	18	1,793	1,811	2	1,813
Balance as of December 31, 2010	1,572,609,884	377	8,184	-709	-4,352	3,500	-	3,500
Share based compensation [3]	-	-	-	-	1	1	-	1
Exercise of options [3, 19]	-	-	-	7	-	7	-	7
Shares repurchased	-	-	-	-1,000	-	-1,000	-	-1,000
Dividends paid	-	-	-	-	-1,202	-1,202	-	-1,202
Shares cancelled [19]	-141,087,402	-33	-1,467	1,500	-	-	-	-
Comprehensive income for the period	-	-	-	75	1,549	1,624	-	1,624
Balance as of December 31, 2011	1,431,522,482	344	6,717	-127	-4,004	2,930	-	2,930

[.] Bracketed numbers refer to the related notes to the Consolidated Financial Statements which form an integral part of these Consolidated Financial Statements.

The aggregate amount of current and deferred tax recorded directly in equity in 2011 was EUR 28 million negative (2010: EUR 8 million negative).

General notes to the Consolidated Financial Statements

General information

KPN is the leading telecommunications and ICT service provider in the Netherlands, offering wireline and wireless telephony, internet and TV to consumers and end-to-end telecom and ICT services to business customers. KPN Corporate Market (previously Getronics) operates a global ICT services company with a market-leading position in the Benelux, offering end-to-end solutions in infrastructure and network-related IT. In Germany and Belgium, KPN pursues a challenger strategy in its wireless operations and holds number three market positions through E-Plus Gruppe and KPN Group Belgium. In Spain, France and Switzerland KPN offers wireless services as an MVNO through its own brand Ortel. KPN provides wholesale network services to third parties and operates an efficient IP-based infrastructure with global scale in international wholesale through iBasis.

Koninklijke KPN N.V. (KPN or the Company) was incorporated in 1989 and is domiciled in the Netherlands. The address of its registered office is Maanplein 55, 2516 CK, The Hague. KPN's shares are listed on Euronext Amsterdam. Following the delisting of KPN's shares on the New York Stock Exchange (NYSE) in 2008, KPN's shares can be traded in the United States, only as American Depository Receipts on the over-the-counter market.

The Financial Statements as of and for the year ended December 31, 2011 of Koninklijke KPN N.V. were approved for issue by both the Supervisory Board and the Board of Management on February 17, 2012.

The Financial Statements are subject to adoption by the Annual General Meeting of Shareholders on April 12, 2012.

Significant accounting policies

The significant accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

KPN applies International Financial Reporting Standards ('IFRS') as adopted by the European Union.

As the corporate financial information of KPN is included in the Consolidated Financial Statements, the Corporate Income Statement is presented in abbreviated format in accordance with Section 402, Book 2 of The Netherlands Civil Code.

The Consolidated Financial Statements have been prepared under the historical cost convention, as modified for the revaluation of available-for-sale financial assets, and the accounting of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

Consolidated financial information, including subsidiaries, associates and joint ventures, has been prepared using

uniform accounting policies for similar transactions and other events in similar circumstances.

Changes in accounting policies and disclosures

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after January 1, 2011 that had a material impact on KPN.

The following standards, interpretations and amendments became effective as from January 1, 2011, which did not have a material impact on KPN's 2011 financial statements, but could be of impact on KPN's financial position, results and/or disclosures in the coming years:

- IFRS 1 (amendment), 'First-time adoption of IFRS – Limited exemption from comparative IFRS 7 disclosures for first-time adopters'. Provides the same relief to first-time adopters as was given to current users of IFRSs upon adoption of the amendments to IFRS 7. Also clarifies the transition provisions of the amendments to IFRS 7. This standard did not have an impact on KPN's financial statements since KPN already applies IFRS.
- IAS 32 (amendment), 'Financial instruments: Presentation – Classification of rights issues'. Amended to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.
- IAS 24 (revised 2009), 'Related party disclosures'. Amends the definition of a related party and modifies certain related-party disclosure requirements for government-related entities.
- IFRIC 14 (amendment), 'IAS 19 – The limit on defined benefit assets, minimum funding requirements and their interaction'. Removes unintended consequences arising from the treatment of pre-payments where there is a minimum funding requirement. Results in pre-payments of contributions in certain circumstances being recognized as an asset rather than an expense.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. Clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially.

Consolidation Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which KPN has the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether KPN controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to KPN and are deconsolidated from the date on which KPN's control ceases.

KPN uses the acquisition method of accounting to account for business combinations. The consideration paid is measured at the fair value of the assets transferred,

equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration paid includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, KPN recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the Consolidated Statement of Income.

Intercompany transactions, balances and unrealized results on transactions with subsidiaries are eliminated.

Associates and joint ventures

Investments in entities in which KPN can exert significant influence but which KPN does not control (including joint ventures), generally accompanying a shareholding of between 20% and 50% of the voting rights, are accounted for by the equity method of accounting and are originally recognized at cost. The Group's investments in associates and joint ventures include goodwill identified upon acquisition, net of any accumulated impairment.

The Group's share of its associates' post-acquisition profits or losses is recognized in the Consolidated Statement of Income, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other receivables for which settlement is neither planned nor likely to occur in the foreseeable future, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized results on transactions with associates are eliminated to the extent of KPN's share in associates and joint ventures.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer ("CEO"), which is the chief operating decision maker according to IFRS 8.

Foreign currency translation

Functional and presentation currency

Items included in the financial information of each of KPN's entities are measured using the currency of the primary economic environment in which the entity operates

("the functional currency"). The consolidated financial information is presented in euro (EUR), which is the functional currency of the company and the group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Consolidated Statement of Income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Exchange differences on non-monetary assets and liabilities are reported as part of the fair value gain or loss. Accordingly, exchange differences on non-monetary assets and liabilities such as financial assets recorded at fair value through profit or loss are recognized in the Consolidated Statement of Income as part of the fair value gain or loss. Exchange differences on non-monetary assets such as investments in equity instruments classified as available for sale are included in the available-for-sale assets reserve in Group Equity in the Consolidated Statement of Financial Position.

Exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are taken to Other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate at the balance sheet date.

Subsidiaries

In the Consolidated Financial Statements, the results and financial position of all the subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- 1) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- 2) Income and expenses for each income statement are translated at average exchange rates; and
- 3) All resulting exchange differences are recognized as a separate component within equity (currency translation reserve, being a part of other reserves).

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 these Consolidated Financial Statements. The accounting estimates and judgments that are deemed critical to KPN's financial statements relate to the determination

of deferred tax assets for loss carry forwards and the provision for tax contingencies (see Note 7), the determination of fair value less costs to sell and value in use of cash-generating units for goodwill impairment testing (see Note 10), the depreciation rates for the copper and fiber network (included within property, plant and equipment) (see Note 11), the assumptions used to determine the value of the call/put arrangements of Reggefiber Group (see Note 29), the assumptions used to determine the provision for retirement benefit obligations and periodic pension cost, such as discount rate, return on plan assets and benefit increases (see Note 22) 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 (Note 31). Also reference is made to Note 29 'Capital and Financial Risk Management' which discusses KPN's exposure to credit risk and financial market risks.

Actual results in the future may differ from those 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.

Income Statement

Revenue recognition

Revenue comprises in the ordinary course of business the fair value of consideration received or receivable for the sale of goods and services. Revenue is recognized when it is probable that the economic benefits associated with a transaction will flow to KPN and the amount of revenue and the associated costs can be measured reliably. Revenues are presented net of value-added tax, rebates and discounts and after eliminating sales within the Group.

Traffic fees are charged at an agreed tariff for a fixed duration of time or capacity and are recognized as revenue based upon usage of KPN's network and facilities.

Recognition of revenues for prepaid cards is based on actual airtime usage or the expiration of the obligation to provide service which is generally set forth in the general terms and conditions of the specific contract.

Subscription fees generally consist of periodic charges and are recognized as revenue over the associated subscription period.

One-off connection fees and other initial fees are not a separate unit of accounting and their accounting treatment is therefore dependent on the other deliverables in the sale arrangement (see revenue arrangements with multiple deliverables).

Sales of peripheral and other equipment are recognized when all significant risks and rewards of ownership of the goods are transferred to the buyer, which is normally at the date the equipment is delivered to and accepted by the customer.

Services regarding designing, building, deploying and managing ICT solutions are provided on a time and material basis or as a fixed-price contract with contract terms generally ranging from less than one year to three years. Revenue from time and material contracts is recognized at the contractual rates as labor hours are delivered and direct expenses are incurred. Revenue from contracts involving design, build and deploy services is recognized under the percentage-of-completion (POC) method unless the outcome of the contract cannot be estimated reliably. Under the POC method, revenue is recognized based on the costs incurred to date as a percentage of the total estimated costs to fulfill the contract. Revenue from fixed-price contracts involving managed services is recognized in the period the services are provided using a straight-line basis over the term of the contract. When the outcome of the contract cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred.

Royalty income mainly relates to patents and is recognized as revenue in the period in which the patents are used.

KPN presents revenue gross of costs when the Group acts as the principal in the arrangement and net of costs when the Group acts as agent.

Revenue arrangements with multiple deliverables

Revenue arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet certain criteria. The arrangement consideration must then be allocated among the separate units of accounting based on their relative fair values. If the fair value of the delivered item exceeds the cash received at the time of delivery, revenue is recognized up to the cash received. Any connection fee proceeds not allocated to the delivered equipment are deferred upon connection and recognized as service revenue over the customer contract period unless KPN has the obligation to continue providing services beyond that period in which case the expected customer service period is used.

For wireless services, any consideration allocated to the sale of peripheral and other equipment, up to the amount of non-contingent cash received, is recognized as revenue when all significant risks and rewards of ownership of the equipment are transferred to the buyer.

For multiple element arrangements that comprise only one unit of accounting and include an up-front connection fee, amounts representing connection fees are deferred and recognized pro-rata. Deferred connection fees are amortized over the customer contract period. Costs associated with these arrangements are expensed as incurred.

Other income

Other income includes gains on the sale of property, plant and equipment and gains on the disposal of subsidiaries, associates and joint ventures.

Leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made by KPN as lessee under operating leases are charged to the income statement on a straight-line basis over the period of the lease (net of any incentives received from the lessor). If a sale and leaseback transaction results in an operating lease, the profit or loss is calculated at the fair value of the assets sold and recognized in the Consolidated Statement of Income immediately.

Leases where the lessee has substantially assumed all the risks and rewards of ownership are classified as finance leases. KPN as lessee under finance leases recognizes the leased assets on the balance sheet at the lower of the fair value and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables in the balance sheet. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term. If a sale and leaseback transaction results in a finance lease, any excess of sale proceeds over the carrying amount is deferred and recognized in the Consolidated Statement of Income over the lease term.

In case KPN acts as lessor in a finance lease, the transaction is accounted for as a normal sale and the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is deferred and recognized as interest over the lease term. In case KPN acts as lessor in an operating lease, the assets remain on the balance sheet of KPN and are depreciated over the asset's useful life. The lease payments received from the lessee are recognized as revenue on a straight-line basis over the lease period.

Share-based compensation

KPN operates a number of share-based compensation plans, both equity and cash settled. The fair value of options or shares granted to employees is recognized as costs over the vesting period of the options or shares. The costs are determined based on the fair value of the options and shares and the number of options or shares expected to vest. On each balance sheet date, KPN determines if it is necessary to revise the expectation of the number of options or shares that will vest. Liabilities with respect to cash-settled share-based compensation are recognized as a liability and remeasured at each balance sheet date through the Consolidated Statement of Income.

Operating expenses

Operating expenses are determined based on the accounting principles that are applied to the related balance sheet items and are allocated to the year to which they incurred.

Subscriber acquisition and retention costs are expensed as incurred. The most common subscriber acquisition costs are handsets and dealer fees. The cost of a handset is expensed when the handset is sold. The sale could be an

individual sale or a multiple-element sale with a subscription. In both cases the handset is expensed when the costs are incurred. In a case where a handset is leased out, it depends on the lease form (operating or finance) whether the costs are expensed as incurred or capitalized and depreciated over the expected lifetime (see 'leases' above).

Operating profit

Operating profit is defined as a measure of KPN's earning power from operations, equal to earnings before deduction of finance income, finance costs, other financial results, share of the profit of associates and joint ventures, and income taxes.

Taxation of profit or loss

The corporate income tax charge recognized in the Consolidated Statement of Income is based on the income for financial reporting purposes in accordance with the prevailing tax regulations and rates taking into account non-taxable income and non-deductible expenses for tax purposes as well as the valuation of deferred tax assets.

Balance Sheet**Intangible assets****Goodwill**

The excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates and joint ventures is included in investments in associates and joint ventures.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

Goodwill is tested annually for impairment and whenever there is an indication that the intangible asset may be impaired. Goodwill is carried at cost less accumulated impairment losses. Goodwill is impaired if the recoverable amount of the cash-generating unit or groups of cash-generating units to which it is allocated is lower than the book value of the cash-generating unit or groups of cash-generating units concerned. The recoverable amount is defined as the higher of the cash-generating unit's fair value less cost to sell and its value in use. Impairment losses on goodwill are not reversed.

In case of disposal of a business which was part of a cash-generating unit, goodwill is allocated to that business and included in gain or subsequently impaired as part of the result on the sale in case of a loss.

Licenses

Licenses are valued at cost less amortization and impairment. Amortization is calculated according to the straight-line method and is incorporated as from the date that services can be offered (available for use).

The amortization period for licenses equals the useful life, but is limited to the expiration date of the licenses ranging from 10 to 50 years. Licenses are reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset concerned may not be recoverable. An impairment loss is recognized for the amount by which the asset's book value exceeds its recoverable amount. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use. Impairments are reversed if and to the extent that the impairment no longer exists.

Licenses not yet available for use are tested annually for impairment and whenever there is an indication that the intangible asset may be impaired. Licenses are only tested as part of a cash-generating unit as licenses do not generate independent cash flows.

Borrowing cost is capitalized on licenses if the use of the license is dependent on construction of a related network, during the construction phase of the network, and up to the time that services can first be rendered on a commercial basis.

Software

Internally developed and acquired software, not being an integral part of property, plant and equipment is capitalized on the basis of the costs incurred, which include direct costs and directly attributable overhead costs incurred. Software is amortized over the estimated useful life of three to five years.

Software is reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset concerned may not be recoverable. An impairment loss is recognized for the amount by which the asset's book value exceeds its recoverable amount. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use. If software was under construction, software qualifies for interest capitalization if material.

Research and development

Costs incurred on development projects are recognized as intangible assets when it is probable that KPN will achieve economic benefits in the future, considering their commercial and technological feasibility, and costs can be measured reliably. Research and other development expenditures are recognized as an expense as incurred. Development costs that have a finite useful life and that have been capitalized are amortized from the date that services can be offered on a straight-line basis over the period of their expected useful life.

Capitalized development projects are reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset concerned may not be recoverable. An impairment loss is recognized for the amount by which the asset's book value exceeds its recoverable amount. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use.

Other intangibles

Other intangible fixed assets such as customer relationships and trade names acquired in business combinations are capitalized at fair value at acquisition date and are amortized using the straight-line method over an estimated useful life of 4 to 20 years.

Property, plant and equipment

Property, plant and equipment are valued at cost less depreciation and impairment. The cost includes direct costs (materials, direct labor and work contracted out) and directly attributable overhead costs. If property, plant & equipment were under construction, an asset qualifies for interest capitalization when an asset with a significant value is constructed and the construction period exceeds one year.

Asset retirement obligations are capitalized as part of the cost of tangible fixed assets and expensed as either depreciation over the asset's estimated useful life or as impairment charges. The estimated useful lives of the principal property, plant and equipment categories are as follows:

Land	No depreciation
Buildings	14 to 33 years
Network equipment	3 to 7 years
Network infrastructure	11 to 20 years
Vehicles	10 years
Office equipment	4 to 10 years

Property, plant and equipment is depreciated using the straight-line method, based on the estimated useful life, taking into account residual value. Land is not depreciated. Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset concerned may not be recoverable. An impairment loss is recognized for the amount by which the asset's book value exceeds its recoverable amount. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Financial assets

Financial assets include investments in companies other than subsidiaries and associates, financial receivables held for investment purposes and other securities.

KPN classifies its financial assets in the following four categories:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments (not applicable in 2010 and 2011); and
- Available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the financial assets at initial recognition and assesses the designation at every reporting date.

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and created by KPN by providing money, goods or services directly to a debtor, other than:

- Those KPN intends to sell immediately or in the short term, which are classified as held for trading; and
- Those for which KPN may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

Loans and receivables are carried at amortized cost, or cost if there is no maturity, less an allowance for uncollectibility with changes in carrying value (amortization of discount/premium and transaction costs) recognized in the Consolidated Statement of Income under finance income or finance costs. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. Loans and receivables are included in Trade and other receivables in the Consolidated Statement of Financial Position.

Available-for-sale financial assets

Available-for-sale financial assets are carried at fair value with unrealized gains and losses (except for impairment losses) recognized in Other Comprehensive Income until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in Other Comprehensive Income is taken to the Consolidated Statement of Income for the period. Impairment losses occurred are recognized directly in the Consolidated Statement of Income for the period.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active and for unlisted securities, KPN establishes the fair value by using valuation techniques. These include the use of recent arm's-length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value. Subsequently, KPN measures all derivative financial instruments based on fair values derived from market prices of the instruments or valuation techniques such as present value discounted cash flows. Gains and losses arising from changes in the fair value of the instruments are recognized in the Consolidated Statement of Income as other financial results during the period in which they arise to the extent that the derivatives have no hedging designation or they are ineffective.

In general, KPN designated derivatives related to loans as either cash flow hedges or fair value hedges. KPN applies hedge accounting as this recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item (borrowings) and/or forecasted transactions.

KPN documents at the inception of transactions the relationship between the derivative and the underlying loan, as well as the objective of the risk management and the strategy for undertaking transactions. In the documentation it is also stated whether the hedge relationship is expected to be highly effective – at inception and on an ongoing basis – and how the effectiveness is tested.

Changes in the fair value of a highly effective derivative, that is designated and qualifies as a fair value hedge, along with the loss or gain on the hedged item that is attributable to the hedged risk, are recorded in the 'other financial results' in the Consolidated Statement of Income.

Changes in the fair value of a highly effective derivative, that is designated and qualifies as a cash flow hedge, are recorded in Other Comprehensive Income for the effective part, until the profit or loss are affected by the variability in cash flows of the designated hedged item. The ineffective part of the cash flow hedge is recognized in 'other financial results' in the Consolidated Statement of Income.

If an underlying transaction has ceased to be a highly effective hedge or in case of early redemption of the hedged item, KPN discontinues hedge accounting prospectively which means that subsequent changes in the fair value are recognized in the Consolidated Statement of Income, under 'finance costs'. The cumulative amount recorded in Other Comprehensive Income is amortized over the remaining duration of the derivative in case of a cash flow hedge.

The full fair value of the derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the remaining maturity is less than 12 months.

Deferred income taxes

Deferred income tax assets and liabilities arising from deductible or taxable temporary differences between the value of assets and liabilities for financial reporting purposes and for tax purposes and deferred income tax

assets related to carry forward losses are stated at nominal value and are calculated on the basis of corporate income tax rates enacted or substantially enacted as of the balance sheet date. Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences and tax loss carry forwards can be utilized. Deferred income tax assets and liabilities are netted if there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity and there is an intention to settle on a net basis.

Inventories

Inventories of resources, parts, tools and measuring instruments, and finished goods are valued at the lower of cost or net realizable value. The cost of inventories is determined using the weighted average cost. Net realizable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

Transition expenses relating to fixed-price contracts involving managed ICT services are capitalized and subsequently recognized in the Consolidated Income Statement on a straight-line basis during the period the services are provided, taking into account the number of office seats included in the service contract during the term of the contract. Transition expenses consist primarily of the labor and other cost of personnel directly engaged in performing the transition, third-party services, products and other cost which will be charged to the customer. Transition expenses are capitalized if it is probable that they will be recovered and are classified under inventories.

Trade and other receivables

Receivables are initially recognized at fair value, and subsequently measured at amortized cost using the effective interest rate method less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The provision is set up through the Consolidated Statement of Income (as other operating expenses). When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the Consolidated Statement of Income.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within borrowings in current liabilities on the Consolidated Statement of Financial Position and are not deducted from cash and cash equivalents.

Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. If fixed assets are transferred to held for sale, depreciation and amortization ceases.

Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

When a Group entity purchases own equity instruments (treasury shares), the consideration traded is deducted from other reserves at trade date until those shares are cancelled, reissued or disposed of. Upon subsequent sale or reissue of such shares, any consideration received is included in other reserves.

Group equity is divided into two categories: equity attributable to equity holders and non-controlling interests. The first category refers to the Company's owners, whereas non-controlling interests represent shares issued by a Group's subsidiary to the shareholders.

Transactions with non-controlling interests are treated as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Since KPN already controls the acquired entity no additional purchase price allocation is performed. Gains or losses on disposal of a non-controlling interest in a subsidiary are also recorded in equity.

Dividends to be distributed to the equity holders are recognized as a liability in the period in which the dividends are approved by the shareholders.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the Consolidated Income Statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless KPN has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

When bonds are repurchased with the issue of new bonds, the expenses related to the old bonds, including tender premiums, are expensed as incurred unless the new bonds are placed with the same holders and the change in the net present value of the cash flows is less than 10%. Otherwise these expenses are capitalized and amortized over the term of the new bonds.

Provisions for retirement benefit obligations

Pension obligations

The liability recognized in the Consolidated Statement of Financial Position in respect of all pension and early retirement plans that qualify as defined benefit obligation, is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. KPN uses actuarial calculations (projected unit credit method) to measure the obligations and the costs. For the calculation, actuarial assumptions are made about demographic variables (such as employee turnover and mortality) and financial variables (such as future indexation and the discount rate). The discount rate is determined by reference to market rates. These are interest rates of high-quality corporate bonds that are denominated in the currency in which the benefit will be paid and that have terms to maturity, approximating the terms of the related liability.

Actuarial gains and losses are recognized in Consolidated Statement of Income for the portion that these exceed the higher of 10% of the defined benefit obligation and 10% of the fair value of plan assets ('corridor approach'). The excess is recognized over the employees' expected average remaining working lives.

Past service costs are recognized immediately in the Consolidated Statement of Income, unless the entitlements to the adjusted benefits depend on the employee's future service (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period. Gains or losses on the curtailment or settlement of a defined benefit plan are recognized on the date of the curtailment or settlement. For pension plans that qualify as a defined contribution plan, KPN recognizes contributions to such plans when an employee has rendered service in exchange for those contributions.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. KPN recognizes termination benefits when KPN is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

Other long-term employee obligations

These employee benefits include jubilee or other long-service benefits, long-term disability benefits and, if they are not fully payable within 12 months after the end of the period, bonuses and deferred compensation. The expected costs of these benefits are accrued over the period of employment using an accounting method similar to that for defined benefit pension plans, except that actuarial gains and losses and past-service costs are recognized immediately.

Provisions for other liabilities and charges

Provisions such as asset retirement obligations, restructuring costs and legal claims are recognized when KPN has a present legal or constructive obligation as a result of past events; and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Statement of Cash Flows

The Statement of Cash Flows is prepared using the indirect method. Cash flows denominated in currencies other than the euro are translated at average exchange rates. Cash flows relating to interest and taxes on profits are included in the cash flow from operating activities. The cost of newly acquired Group companies and associated companies, insofar as paid for in cash, is included in the cash flow from investing activities. Cash flows resulting from Group companies acquired or disposed of are disclosed separately.

Recent accounting pronouncements

The International Accounting Standards Board (IASB) has issued a number of new standards and interpretations, and amendments to existing standards many of which will become effective on or after January 1, 2013 and still need to be endorsed by the EU. These have not been applied in preparing these 2011 Consolidated Financial Statements. The new standards, interpretations and amendments may have an effect on the information to be disclosed in KPN's Consolidated Financial Statements of 2012:

- IFRS 9, 'Financial instruments' (issued in November 2009 and October 2010): This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The standard is not applicable until 1 January 2015. It is expected that the new requirements will not have a material impact on KPN's financial statements.
- IAS 19 'Employee benefits' was amended in June 2011 (IAS 19R). The revised IAS 19 standard no longer allows the deferred recognition of actuarial gains and losses and past service costs. Instead, actuarial gains and losses should be recognized in Other Comprehensive Income and past service costs in the Consolidated

Statement of Income as they occur. Secondly, the interest cost and expected return on plan assets will be replaced with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). Thirdly, companies are required to disclose more detailed information on specific risks in their defined benefit plans. IAS 19R is applicable as from January 1, 2013 and must be applied retrospectively with a restatement of comparative numbers. This means that all unrecognized actuarial losses and past service cost at January 1, 2012 will be recognized at once, leading to a reduction in equity attributable to equity holders. Furthermore, the estimated pension cost in 2012 will decrease. For details regarding the unrecognized actuarial losses, reference is made to Note 22.

- IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The standard is not applicable until January 1, 2013. It is expected that the new requirements will not have a material impact on KPN's financial statements.
- IFRS 11, 'Joint arrangements' focuses on two types of joint arrangement: joint operation and joint ventures. Joint operation arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts of its interest. Proportional consolidation of joint ventures is no longer allowed. The standard is not applicable until January 1, 2013. It is expected that the new requirements will not have a material impact on KPN's financial statements.
- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard is not applicable until January 1, 2013 but is available for early adoption. It is expected that the new requirements will not have a material impact on KPN's financial statements.
- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The standard is not applicable until January 1, 2013 but is available for early adoption. It is expected that the new requirements will not have a material impact on KPN's financial statements.

The IASB has issued Exposure Drafts on several topics in which significant changes on accounting and disclosures are proposed. If the current proposals lead to new or amended standards, the changes will have a substantial impact on KPN's financial statements in the coming years. KPN specifically monitors the developments of the exposure drafts on the following topics: 'Revenue recognition' and 'Leasing'. Based on the current planning of the IASB these projects are expected to lead to new revised standards in 2012 or later. The effective date of the revised standards is also under discussion.

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

[1] Revenues

Amounts in millions of EUR	2011	2010
Rendering of services	12,388	12,801
Sale of goods	488	397
Royalties and other revenues	146	126
Total revenues	13,022	13,324

Rendering of services include traffic fees and subscription fees for the usage of KPN's networks, one-off connection fees and other initial fees and revenues from designing, building, deploying and managing ICT solutions which are provided on a time and material basis or as a fixed-price contract. The sale of goods includes peripheral and other equipment.

Reference is made to the Note 34 'Segment Reporting' for more information about revenues.

[2] Other income

Amounts in millions of EUR	2011	2010
Gains on the sale of property, plant and equipment	123	48
Other gains	18	26
Total other income	141	74

Gains on the sale of property, plant and equipment mainly included sale and lease back transactions. Other gains included result on sale of KPN France EUR 10 million and Pharma Partners EUR 5 million in 2011. In prior year other gains included gains from the sale a part of the dark fiber business of KPN Eurorings for EUR 14 million.

[3] Employee benefits

Amounts in millions of EUR	2011	2010
Salaries and wages	1,558	1,611
Pension charges (incl. Social Plan 2001)	125	128
Social security contributions	191	193
Total employee benefits	1,874	1,932

Reference is made to Note 34 'Segment Reporting' for further information on the average number of employees.

Board of Management and Supervisory Board

The Remuneration and Organizational Development Report included in this Annual Report on pages 63 to 74 contains required information comprising 'D: Details of actual pay-out for 2011' and 'E: Supervisory Board Pay 2011', which are deemed part of these financial statements.

Share option plans

KPN has granted stock options on its shares to members of the Board of Management, Senior Management and employees in the Netherlands with a collective labor agreement. As all remaining share option plans vested in 2010, no costs are booked in 2011 (EUR 28,000 in 2010, included in salaries and wages).

All options granted are granted with an exercise price equal to market share price at grant date, are equity-settled and are forfeited when employees leave KPN for reasons other than retirement, disability or death (except for some personnel plans). The other main features of the option plans are:

	Share capital	Exercise price (in EUR)	Maximum term	Exercisable (years after grant date)	Vesting period	Profits in escrow if exercised within 3 years ¹	Performance related ²
2004	Management	6.45	8 years	3 years	3 years	–	yes
	Management	6.45	8 years	3 years	3 years	–	no
	Management Belgium	6.45	8 years	3.7 years	3 years	–	no
2005	Management	6.73 – 7.18	8 years	3 years	3 years	–	yes
	Management	6.73	8 years	3 years	3 years	–	no
	Management Belgium	6.73	8 years	3.7 years	3 years	–	no
2007	CEO (former)	12.09	5 years	immediate	3 years	yes	no

- 1) If options are exercisable immediately, the profits from any exercise prior to the third anniversary of the date of issue will be held in escrow until the third anniversary of the issue, at which time such profits will be released to the relevant option holder, provided that the option holder remains employed by KPN.
- 2) The number of options that vested after the three-year vesting period depended on KPN's Total Shareholder Return (stock appreciation plus dividend pay-out; TSR) relative to a peer group of European telecommunication companies.

Summary of options outstanding as of December 31, 2011

Granted in:	Number outstanding December 31, 2011	Exercise price per option	Weighted average remaining contractual life (years)	Weighted average fair value	Number outstanding December 31, 2010
2004	311,434	6.45	0.3	3.16	560,018
2005	431,382	6.73–7.18	1.3	2.73	732,335
2006	–	–	–	–	215,278
2007	165,410	12.09	0.3	1.70	165,410
Total	908,226				1,673,041

Summary of the changes in outstanding options

	2011		2010	
	Number of options	Weighted average exercise price per option in EUR	Number of options	Weighted average exercise price per option in EUR
Outstanding at the beginning of the year	1,673,041	7.50	3,702,971	7.07
Options granted	–	–	–	–
Options additional (TSR based)	–	–	–	–
Options exercised	–764,815	7.36	–1,937,912	6.71
Options expired	–	–	–	–
Options forfeited	–	–	–92,018	6.70
Outstanding at the end of the year	908,226	7.62	1,673,041	7.50
– of which: exercisable	908,226	7.62	1,673,041	7.50

The actual number of options is adjusted, for the actual vesting percentages after the performance period. The average KPN stock price in 2011 was EUR 10.31. The fair value of each option is estimated at the date of grant using a binomial model.

Performance share plan

Since 2006, KPN has granted shares and share-based awards on its shares to members of the Board of Management, and Senior Management.

The Performance Share Plan ('PSP') was reviewed at the end of 2006 in light of changing Dutch tax regulations that became effective as of January 2007. As a result, the type of settlement from the PSP changed from equity-settled to cash-settled as of 2007 onwards. The structure and value of this element of pay for each individual did not change. The change in type of settlement was approved by the Annual General Meeting of Shareholders in April 2007. In April 2008 shareholders approved an adjustment of the PSP from a cash-settlement to an equity-settlement for members of the Board of Management.

The conditionally granted PSP award will vest after three years if the employee is still employed with KPN. The vesting is subject to whether the Company achieves a pre-set level of TSR relative to a peer group of telecommunication companies with which the Company competes. The performance vesting period of the shares granted to the former CEO in 2008 and 2009 was one year and the shares could not be sold until July 2011.

An exception to the holding period is made with respect to shares that were sold upon vesting to cover the tax obligation on the vested shares. The cash-based PSP awards will be settled in cash and no holding restrictions apply.

The main features of the awards granted under the PSP plan to KPN management are summarized below:

		Maximum term	Settlement type	Vesting period	Holding period after vesting of/until
2006	Board of Management (excl. CEO), Senior Management	5 years	Equity	3 years	2 years
2007	Board of Management, Senior Management	3 years	Cash	3 years	–
2008	CEO	Until July 2011	Equity	1 year	Until July 2011
	Board of Management (excl. CEO)	5 years	Equity	3 years	2 years
	Senior Management	3 years	Cash	3 years	–
2009	CEO	Until July 2011	Equity	1 year	Until July 2011
	Board of Management (excl. CEO)	5 years	Equity	3 years	2 years
	Senior Management	3 years	Cash	3 years	–
2010	CEO	Until July 2011	Equity	1 year	Until July 2011
	Board of Management (excl. CEO)	5 years	Equity	3 years	2 years
	Senior Management	3 years	Cash	3 years	–
2011	Board of Management	5 years	Equity (including deferred dividend)	3 years	2 years
	Senior Management	3 years	Cash	3 years	–

The number of share-based awards which vest depends on KPN's TSR position ranking relative to its peer group of European telecommunications companies (including KPN). Since 2011 vesting is for 75% based on relative TSR and for 25% based on non-financial performance measures i.e. energy reduction targets and a reputation dashboard. The list of companies included in the peer group and the vesting schedule can be found under 'Long-term incentives' in the 'Remuneration and Organizational Development Report' section.

The total compensation expense associated with the PSP was EUR 2 million in 2011 (2010: EUR 12 million) and the related liability (for cash-settlement) at December 31, 2011, was EUR 6 million (2010: EUR 39 million). This liability is included under Other payables and deferred income. During 2011 KPN granted 1,857,502 shares and share-based awards under the PSP 2011 (2010: 2,165,104) to members of the Board of Management and Senior Management.

The following table presents the number of shares and share-based awards under the PSP for the year ended December 31, 2011.

Number of shares and share based awards	Total at December 31, 2009	Granted/ additional vesting ⁴	Exercised	Forfeited	Total at December 31, 2010 ³	Granted/ additional vesting ²	Exercised	Forfeited	Total at December 31, 2011 ³⁻⁵	– of which: Non-Vested
2006 Shares	772,818	–	–	–	772,818	–	-772,818	–	–	–
2007 Share-based awards	1,308,200	1,058,997	-2,334,896	-32,301	–	–	–	–	–	–
2008 Share-based awards Senior Management	1,602,675	10,597	–	-76,797	1,536,475	717,244	-2,140,829	-112,890	–	–
2008 Shares Board of Management	550,270	–	–	-77,307	472,963	59,361	-444,748	–	87,576	–
2009 Share-based awards Senior Management	2,121,242	5,381	–	-148,624	1,977,999	68,471	–	-2,046,470 ⁴	–	–
2009 Shares Board of Management	471,079	107,759	–	-96,685	482,153	–	-323,276	-158,877 ⁴	–	–
2010 Share-based awards Senior Management	–	1,789,350 ¹	–	-56,086	1,733,264	49,310	–	-115,432	1,667,142	1,667,142
2010 Shares Board of Management	–	375,754 ¹	–	–	375,754	–	–	-180,941	194,813	194,813
2011 Share-based awards Senior Management	–	–	–	–	–	1,630,502 ¹	–	-27,100	1,603,402	1,603,402
2011 Shares Board of Management	–	–	–	–	–	227,000 ¹	–	–	227,000	227,000

- 1) On the basis of 100% grant. The 2011 share numbers of the Board of Management do not include any deferred dividend during the vesting period.
- 2) At grant date the fair value is calculated using a Monte Carlo Simulation model. At April 6, 2011, the fair value was EUR 11,43 for the 2011 share based award, and EUR 11,43 for the 2011 share grant for Members of the Board of Management (deferred dividend not included in the fair value)
- 3) At December 31, 2011, the fair value of each cash-settled share-based award was measured based on the most recent available share price of KPN and its performance compared to peer companies at the moment of valuation (i.e. closing share prices as at December 31, 2011). At December 31, 2011, the fair value was EUR 0 for the 2009 share based award, EUR 3.46 for the 2010 share based award and EUR 6.60 for the 2011 share based award.
- 4) At the end of 2011, KPN held the 8th position with respect to the 2009 share grant which did not lead to vesting of the shares. The exercised shares relate to the 2009 share grant for the former CEO (1 year vesting period).
- 5) In the figures the uplift to the LTI entitlements is not included. The uplift will result in a LTI value determination of 125% (instead of 75%) of base salary for the members of the Board of Management. The uplift in LTI will be granted if the financial targets in 2009 and 2010 are met and KPN will reach a number 1,2 or 3 position in the TSR peer-group ranking. Please refer to the Remuneration and Organizational Development Report for further explanation on the uplift to the LTI entitlement.

The fair value of each share at the grant date is determined using the following assumptions:

	2011 PSP	2010 PSP
Risk-free interest rate based on euro governments bonds for remaining time to maturity of 2.7 years	2.6%	1.8% (former CEO 1.1%)
Expected dividend for KPN (based on one year's historical daily data preceding the date of award)	6.4%	6.3%
Expected volatility (2011 grant based on 2.7-years' daily historical daily data)	24.8%	27.6% (former CEO 16.4%)
Share price at date of award (closing at grant date)	EUR 12.24	EUR 11.46

After vesting, the holder is able to sell a number of unconditional granted shares (equity-settled) only up to the amount necessary to settle the wage taxes liability relating to the profit made on the stock compensation plan.

[4] Depreciation, amortization and impairments

Amounts in millions of EUR	2011	2010
Impairment of goodwill	154	2
Amortization of other intangible assets [10]	859	788
Impairment of other intangible assets [10]	35	24
Total amortization and impairments of goodwill and other intangible assets	1,048	814
Depreciation of property, plant and equipment [11]	1,400	1,400
Impairments and retirements of property, plant and equipment [11]	140	9
Total depreciation and impairments of property, plant and equipment	1,540	1,409
Impairment of assets held for sale [18]	1	3
Total	2,589	2,226

[..] Bracketed numbers refer to the related notes.

Impairment Corporate Market (previously Getronics)

During 2011, continued adverse market trends and price pressure negatively impacted the performance and outlook of Corporate Market (previously Getronics). As a result the triggering event analysis and regular annual impairment testing resulted in an impairment of both non-current assets and goodwill of Corporate Market. As part of the new strategy implemented as of May 2011, the international businesses of Getronics are considered non-core. Taking into account the fact that these businesses could be sold separately and are able to generate cash flows independently the following CGUs were defined for impairment testing as at December 31, 2011 of the non-current assets other than goodwill:

- 1) Netherlands;
- 2) Belgium, Luxemburg, United Kingdom and the rest of the world;
- 3) Latin America.

In a first step, the non-current assets (excluding goodwill) were tested at the level of the lowest cash generating unit for which specific triggering events were identified. The recoverable amount of these assets is its fair value less costs to sell, which is based on the future cash flows. For Getronics International the selling price of these businesses on the active market has been used. The impairment tests resulted in an impairment of EUR 28 million on other intangible assets and an impairment EUR 116 million on property, plant and equipment.

In a second step, following the impairment of the individual assets, the goodwill allocated to Corporate Market (previously Getronics) has been tested for impairment which resulted in an impairment of EUR 154 million. For detailed information reference is made to Note 10.

Other impairments and depreciation

In 2010, impairment of other intangible assets mainly concerned the impairment of software development costs.

Depreciation and impairments on property, plant and equipment are detailed as follows:

Amounts in millions of EUR	2011	2010
By classification:		
Land and buildings	162	93
Plant and equipment	1,297	1,235
Other tangible fixed assets	74	78
Assets under construction	7	3
Total	1,540	1,409

[5] Other operating expenses

In 2011 Other operating expenses comprised addition to the restructuring provision in the amount of EUR 130 million. In 2010, other operating expenses comprised release of provisions for other liabilities and charges and doubtful debts in the amount of EUR 49 million. For more details, reference is made to Note 23.

Costs of research and development are included in Other operating expenses and amounted to EUR 57 million in 2011 (2010: EUR 82 million). No development costs were capitalized during 2011 and 2010, except for software development (see Note 10).

Auditor's fees

The fees listed below relate to the procedures applied to the Company and its consolidated group entities by PricewaterhouseCoopers Accountants N.V., the Netherlands, the external auditor as referred to in Section 1(1) of the Dutch Accounting Firms Oversight Act (Dutch acronym: Wta), as well as by other Dutch and foreign-based PricewaterhouseCoopers individual partnerships and legal entities, including their tax services and advisory groups:

Amounts in millions of EUR	2011	2010
Financial statements audit fees	9.0	9.9
Other assurance fees	2.3	1.3
Tax fees	1.3	0.9
All other fees	0.5	0.2
Total	13.1	12.3

The total fees of PricewaterhouseCoopers Accountants N.V., the Netherlands, charged to the Company and its consolidated group entities amounted to EUR 10.2 million in 2011 (2010: EUR 9.8 million).

The financial statements audit fees include the aggregate fees billed in each of 2011 and 2010 for professional services rendered for the audit of KPN's annual financial statements and annual statutory financial statements of subsidiaries or services that are normally provided by the auditor in connection with the audits. The 2011 financial statements audit fee includes EUR 1.5 million related to the prior year's audit (2010: EUR 1.9 million).

The other assurance fees include the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of KPN's financial statements and are not reported under audit services. This includes revenue and IT related assurance services.

The tax category includes tax advisory and compliance services.

Other fees relate to permitted services not included in the above categories.

[6] Financial income and expenses

Amounts in millions of EUR	2011	2010
Finance income	32	19
Interest on borrowings	-662	-827
Interest on provisions	-9	-11
Other	-19	-22
Finance costs	-690	-860
Amortizable part of hedge reserve [19]	-6	-11
Ineffective portion of cash flow hedges	-	-
Ineffective portion of fair value hedges	-36	-17
Exchange rate differences	-4	2
Other	-50	-49
Other financial results	-96	-75
Total	-754	-916

[.] Bracketed numbers refer to the related notes.

In 2011, interest on borrowings included a non-cash amount of EUR 26 million (2010: EUR 30 million) relating to previously capitalized debt issue costs and similar costs which are amortized over the duration of the respective bonds. Interest on borrowings in 2010 included EUR 97 million of costs regarding the tender on outstanding Eurobonds. These costs included a tender premium of EUR 90 million and EUR 7 million of additional amortization.

With regards to the Reggefiber call/put arrangements to acquire 100% of the shares over time, KPN has recorded EUR 55 million in other financial results (2010: EUR 46 million). Refer to Note 12 and Note 29 for further information on the call/put arrangements.

In 2011, a loss of EUR 14 million was recognized in the Consolidated Statement of Income (other other financial results) related to available for sale financial assets (2010: nil).

[7] Taxation

For Dutch tax purposes, KPN Mobile and Koninklijke KPN are separate fiscal unities. The German activities (E-Plus) of KPN form a German partnership transparent for German tax purposes and a permanent establishment for Dutch tax purposes held by KPN Mobile.

KPN Mobile fiscal unity

An agreement in 2004 with the Dutch tax authorities allowed KPN Mobile to offset a EUR 11.5 billion tax loss related to E-Plus against its 2002 Dutch taxable result. This loss had to be recaptured in later years by adding EBITDA of E-Plus to the taxable income of KPN Mobile. For the tax payments on this recapture a deferred tax liability has been recognized. This deferred tax liability is reduced by the taxes paid over EBITDA of E-Plus which were EUR 332 million in 2011 (2010: EUR 345 million). As per December 31, 2011, the deferred tax liability for the recapture amounted to EUR 519 million. Full recapture is expected to be realized in the course of 2013.

Koninklijke KPN fiscal unity

In 2006, KPN signed a compliance covenant ('Handhavingsconvenant') with the Dutch tax authorities to self-assess and transparently discuss KPN's current and potential future tax issues. A few issues were outstanding at December 31, 2011, of which the deductibility of the loss of approximately EUR 110 million relating to the liquidation of a foreign entity and the timing of the deductibility of cost regarding the tender of outstanding bonds of approximately EUR 90 million are by far the most significant. KPN regards the liquidation loss as tax deductible which has not been accepted by the tax authorities. KPN has recorded the cost of the tender at once whereas the tax authorities are of the opinion that the cost should be spread over the lifetime of the new bonds. No tax receivable for the potential deductibility of the liquidation loss has been recognized nor any accrual for the other outstanding issues.

In 2011, KPN has reached an agreement with the Dutch tax authorities with regard to the application of the so called 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%. The agreement has retroactive effect to 1 January 2007. The application of the innovation tax facilities resulted in a one-off benefit of EUR 118 million mainly reflecting the period 2007 to 2010. KPN's effective tax rate in The Netherlands was reduced from the statutory tax rate of 25% to approximately 20% in the year 2011 as a result of the application of the innovation tax facilities.

E-Plus

In Germany, the income tax consists of trade tax ('Gewerbesteuer') and corporate tax ('Körperschaftsteuer'). E-Plus has considerable loss carry forwards for both trade tax and corporate tax. For tax purposes, certain past impairments of goodwill and licenses were not recognized and therefore are amortized over the remaining useful lives (deductible temporary differences). In Germany, taxable income in a certain year, exceeding EUR 1 million, can only be offset for 60% against tax loss carry forwards. Trade tax and corporate tax is payable over the remaining 40% of taxable income. Information about the available tax loss carry forwards is given on page 101.

At December 31, 2011, a deferred tax asset (DTA) of EUR 1,710 million was recognized of which EUR 801 million relates to estimated future tax savings due to available tax loss carry forwards and EUR 909 million for estimated future tax savings due to the realization of temporary differences. E-Plus determines the DTA by estimating future taxable income, taking into account various uncertainties in future cashflows.

Other entities

There are several other entities in the Netherlands which are separately liable for income taxes. In most other countries in which KPN and Getronics operate, tax loss carry forwards are available and therefore no income tax is payable except when minimum taxation rules are applicable.

Income tax expense

Amounts in millions of EUR	2011	2010
Current tax	-94	-276
Changes in deferred taxes	-128	-232
Income tax benefit/(charge)	-222	-508

The reconciliation from the Dutch statutory tax to the effective tax rate is explained in the table below.

Amounts in millions of EUR	2011	2010
Profit before income tax¹	1,795	2,334
Taxes at Dutch statutory tax rates ²	-449	-595
Tax rate differences of foreign operations ³	-51	-53
Non-taxable income and non-deductible expenses ⁴	-80	-31
Change in Dutch statutory tax rate ⁵	-	18
Innovation tax facilities ⁷	197	-
(De)recognition of deferred tax positions⁶:		
- related to prior years	203	193
- related to the current year	-5	-17
Other	-37	-23
Income tax benefit/(charge)	-222	-508
Effective tax rate	12.4%	21.8%

- 1) Excluding the share in profits of associates and joint ventures.
- 2) Taxes at Dutch statutory tax rates are calculated on the basis of profit before income tax (excluding the share of profits of associates and joint ventures) and the applicable Dutch corporate income tax rate of 25% in 2011 and 25.5% in 2010.
- 3) Tax rate differences of foreign operations reflect the impact of different tax rates in the fiscal jurisdictions in which KPN operates. In 2011 and 2010, the corporate tax rates amounted to 15.8% in Germany, 34% in Belgium and 40% in the United States. The German trade tax rate was 15.6%.
- 4) Non-taxable income and non-deductible expenses represent adjustments for income not subject to taxation.
- 5) Relates to deferred taxes in the Netherlands. The Dutch statutory tax rate was decreased from 25.5% to 25.0% as of January 1, 2011.
- 6) (De)recognition of deferred tax positions reflects the effects of valuation or non-valuation of tax loss carry forwards and deductible temporary differences. The amount related to prior years is mainly attributable to E-Plus.
- 7) In 2011, KPN has reached an agreement with the Dutch tax authorities with regard to the application of the so called innovation tax facilities. The agreement has retroactive effect to January 1, 2007 resulting in a one-off benefit of EUR 118 million mainly reflecting the period 2007 to 2010.

Deferred tax assets and liabilities

Amounts in millions of EUR	December 31, 2011	December 31, 2010
Deferred tax assets	1,831	1,918
– of which: to be recovered after 12 months	1,805	1,820
– of which: to be recovered within 12 months	26	98
Deferred tax liabilities	793	956
– of which: to be realized after 12 months	412	561
– of which: to be realized within 12 months	381	395
Deferred tax assets and liabilities	1,038	962

Depending on future taxable results, a part of deferred tax assets relating to tax loss carry forwards now considered to be recoverable after 12 months may be recoverable in the short term, whereas, tax loss carry forwards now considered to be recoverable within 12 months may be recoverable in the long term.

Deferred tax assets

	Deductible temporary differences						Total
	Tax loss carry forwards	Goodwill	Other intangibles ³	Pension provisions	Other ²	Offset against deferred tax liabilities	
Balance as of January 1, 2010	1,101	378	465	117	423	-349	2,135
Exchange differences	–	–	–	1	-1	–	–
Income statement benefit/(charge)	-38	-169	14	-10	91	–	-112
Change in tax rates	-2	–	–	-2	-6	–	-10
Tax charged to equity	–	–	–	–	-8	–	-8
Reclassification	–	–	–	–	–	-87	-87
Balance as of December 31, 2010¹	1,061	209	479	106	499	-436	1,918
Exchange differences	1	–	–	–	-1	–	–
Income statement benefit/(charge) ⁴	-144	45	-33	-15	114	–	-33
Change in tax rates	–	–	–	–	–	–	–
Tax charged to equity	–	–	–	–	-27	–	-27
Reclassification	6	–	–	–	-2	-26	-22
Transferred to held for sale	–	–	–	-3	-4	2	-5
Balance as of December 31, 2011¹	924	254	446	88	579	-460	1,831

1) At December 31, 2011, deferred tax assets of EUR 1,834 million and EUR 897 million were not recognized for loss carry forwards and deductible temporary differences respectively.

2) Other deductible temporary differences at December 31, 2011 includes property, plant and equipment of EUR 327 million (2010: EUR 273 million), revenue recognition of EUR 16 million (2010: EUR 32 million), software of EUR 52 million (2010: EUR 41 million) and deferral of expenses for fiscal purposes of EUR 33 million (2010: EUR 61 million).

3) Mainly relates to UMTS licenses in Germany.

4) In the course of 2011 a restructuring took place of the Dutch operations of Getronics as a result of which these loss carry forwards were utilized and higher amortizable assets (goodwill) were recognized.

Deferred tax charged to equity relates mainly to movements in the hedge reserve.

Deferred tax liabilities

	Taxable temporary differences					Total
	Deferred liability due to losses German permanent establishment	Software development	Accelerated depreciation ¹	Other ²	Offset against deferred tax assets	
Balance as of January 1, 2010	1,213	65	56	290	-349	1,275
Income statement charge	–	3	150	-16	–	137
Tax payable due to E-Plus loss recapture	-345	–	–	–	–	-345
Change in tax rate	-17	-1	-4	-5	–	-27
Changes in consolidation	–	–	–	5	–	5
Reclassification	–	–	11	-13	-87	-89
Balance as of December 31, 2010	851	67	213	261	-436	956
Income statement charge	–	22	118	-44	–	96
Tax payable due to E-Plus loss recapture	-332	–	–	–	–	-332
Change in tax rate	–	-2	2	–	–	–
Changes in consolidation	–	–	–	3	–	3
Reclassification	–	–	–	–	-26	-26
Transfer to current tax	–	166	-48	-22	–	96
Transferred to held for sale	–	–	–	-2	2	–
Balance as of December 31, 2011	519	253	285	196	-460	793

1) Relates to Property, plant and equipment in the Netherlands

2) Other taxable temporary differences at December 31, 2011, includes intangible fixed assets of EUR 76 million (2010: EUR 155 million), property plant and equipment of EUR 35 million (2010: EUR 51 million) and provisions for early retirement and pension benefits of EUR 64 million (2010: EUR 64 million).

Tax loss carry forwards

	December 31, 2011		December 31, 2010	
	Tax loss carry forwards	Recognized deferred tax assets	Tax loss carry forwards	Recognized deferred tax assets
Koninklijke KPN – corporate tax ¹	117	9	480	97
KPN Group Belgium – corporate tax	228	83	328	111
E-Plus – trade tax ²	2,021	139	2,273	186
E-Plus – corporate tax ²	14,375	662	14,331	636
Getronics ³	24	–	195	1
Other	178	31	226	30
Total	16,943	924	17,833	1,061

1) The tax loss carry forwards are pre-consolidation losses ('voorvoegingsverliezen') limited in their use as such losses may only be compensated by taxable income generated by the specific company itself. The amount as per December 31, 2010 included tax loss carry forwards of the Dutch operations of Getronics of approximately EUR 327 million. In the course of 2011 a restructuring took place as a result of which these loss carry forwards were utilized and higher amortizable assets were recognized.

2) The loss carry forwards of trade tax and corporate tax can be used to offset future taxable income without any time limit. However, taxable income exceeding EUR 1 million in a certain year can only be offset for 60% against tax loss carry forwards. Trade tax and corporate tax have to be paid over the remaining 40% of taxable income. The available loss carry forwards were revised following a re-assessment in 2010 of tax positions of prior years for which tax returns have been filed but not yet agreed upon by the German tax authorities.

3) The amount of tax loss carry forwards mainly relates to the operations in the United Kingdom and Germany.

Recognized deferred tax assets reflect management's estimate of realizable amounts. The amounts of tax loss carry forwards are subject to assessment by local tax authorities.

The expiration of the available tax loss carry forwards and recognized tax assets at December 31, 2011 is as follows:

	Tax loss carry forwards	Maximum deferred tax asset	Recognized deferred tax asset
2012	19	5	1
2013	14	3	1
2014	102	40	28
2015	14	4	2
2016	19	5	5
Later	118	29	–
Total limited	286	86	37
Unlimited¹⁾	16,657	2,672	887
Total	16,943	2,758	924

1) Including trade tax and corporate tax at E-Plus.

The expiration of the available tax loss carry forwards and recognized tax assets at December 31, 2010 is as follows:

	Tax loss carry forwards	Maximum deferred tax asset	Recognized deferred tax asset
2011	60	15	5
2012	105	26	26
2013	37	10	2
2014	106	41	25
2015	17	4	2
Later	356	91	64
Total limited	681	187	124
Unlimited¹⁾	17,152	2,792	937
Total	17,833	2,979	1,061

1) Including trade tax and corporate tax at E-Plus.

[8] Earnings per share

The following table shows the calculation of the basic and fully-diluted earnings per share attributable to equity holders based on the profit attributable to equity holders, the average number of subscribed ordinary shares and the calculated weighted average number of subscribed ordinary shares/weighted average number of subscribed ordinary shares taking into account the dilution effects:

	2011	2010
Profit (loss) for the year in millions of EUR	1,549	1,795
Profit (loss) attributable to non controlling Interests [20]	–	2
Profit attributable to equity holders [19]	1,549	1,793
Weighted average number of subscribed ordinary shares outstanding	1,460,869,236	1,561,730,185
Dilution effects:		
– options and non-vested shares	1,098,829	3,331,295
Weighted average number of subscribed ordinary shares outstanding including dilution effects	1,461,968,065	1,565,061,481
Earnings per share after taxes attributable to equity holders for the year in EUR		
– basic	1.06	1.15
– fully-diluted	1.06	1.15

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Share options and non-vested shares are regarded to have potential dilutive effects on the ordinary shares. For the share options and share plans, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price over 2011, being EUR 10.31) based on the monetary value of the subscription rights attached to outstanding share options.

The profit attributable to equity holders used for calculations on a diluted basis is equal to the profit attributable to equity holders used for calculations on a non-diluted basis.

[9] Dividend per share

At the Annual General Meeting of Shareholders on April 12, 2012, a 2011 dividend of EUR 0.85 per share will be proposed. During 2011 KPN paid an interim dividend of EUR 0.28 per share. These financial statements do not reflect the proposal for the remaining dividend payable, which will be accounted for in the Consolidated Statement of Changes in Group Equity as an appropriation of retained earnings in the year ending December 31, 2012.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION**[10] Intangible fixed assets**

Amounts in millions of EUR	December 31, 2011	December 31, 2010
Goodwill	5,575	5,733
Licenses	2,495	2,818
Software	852	819
Other intangibles	290	385
Total intangible assets	9,212	9,755

Statement of changes in goodwill

Amounts in millions of EUR	2011	2010
Cost	6,022	6,050
Accumulated impairments	-289	-281
Balance as of January 1	5,733	5,769
Opening net book value	5,733	5,769
Investments	6	18
Impairment	-154	-2
Disposals	-6	-3
Exchange rate differences	1	2
Other	-	-40
Transferred to held for sale	-5	-11
Closing book value	5,575	5,733
Cost	6,020	6,022
Accumulated impairments	-445	-289
Balance as of December 31	5,575	5,733

For impairment testing on goodwill the cash-generating units are determined on segment level. The allocation of goodwill is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The allocation of goodwill to cash-generating units is shown below:

Amounts in millions of EUR	December 31, 2011	December 31, 2010
Consumer	393	394
Business	230	230
Wholesale & Operations	181	178
Corporate Market (previously Getronics)	388	543
Germany ¹	4,149	4,147
Belgium	72	70
iBasis	84	82
Rest of World	66	67
Other activities ¹	12	22
Balance as of December 31	5,575	5,733

1) In 2011, debt collection business of SNT Germany (part of the Other activities Segment) was sold to E-plus. Consequently, the goodwill allocated to this business has been transferred to the Germany Segment. In 2010, the Multiconnect business of SNT Germany (part of the Other activities Segment) was sold to E-Plus. Consequently, the goodwill allocated to this business has been transferred to the Germany Segment.

In 2011, the investments related to the acquisition of Content Network B.V. for which EUR 6 million goodwill has been recorded on a provisional basis. Refer to Note 30 for further information on business combinations.

Other movements in 2010 concern the deferred purchase considerations related to acquisitions from prior to January 1, 2010.

In 2010, the investments mainly related to the acquisition of Atlantic Telecom Holding for which EUR 15 million goodwill has been recorded.

Goodwill is tested for impairment annually. Goodwill is impaired if the recoverable amount of the cash-generating unit to which it is allocated is lower than the book value of the cash-generating unit concerned including goodwill. The recoverable amount is defined as the higher of the cash generating unit's fair value less cost to sell and its value in use.

A detailed review has been performed of the recoverable value of each CGU. The recoverable amount of Germany and Corporate Market (previously Getronics) has been determined based on the fair value less cost to sell and for other remaining CGUs the value-in-use calculations have been used.

In 2011, goodwill impairment charges amounted to EUR 154 million and related to impaired goodwill allocated to Corporate Market (previously Getronics). Management performed a detailed assessment of the financial performance underlying the forecasted strategic business plan supported by a third-party valuation specialist (Duff & Phelps) and concluded that the recorded goodwill was no longer recoverable.

The key assumptions used in the cash flow projections are growth of sales and estimated capital expenditure together with the rate used for discounting the cash flow projections (weighted average cost of capital). The cash flow projections for the first three to ten years (depending on the cash-generating unit) are a management's best estimate based on the most recent business plans, expected EBITDA margins, market information, comparisons to (expected) developments for peer companies and historical growth rates. KPN believes that the period used in projections (three to ten years depending on CGU) to be a suitable timescale for reviewing and considering the annual performance before applying a fixed terminal value multiple to the final year cash flows of the detailed projection. For the significant impairment tests cash flow projections for the first three years are estimated by using a short-term average growth rate of sales between 0% and 3% (2010: between 0% and 2%) and estimated average capital expenditure between -2% and 4% (2010: between -1% and 4%). Cash flow projections beyond the three-to-ten-year period are captured in the terminal value and are estimated by extrapolating the projections using a long-term growth rate of sales between 0% and 1.4% (2010: between 0% and 1.5%) and capital expenditure 0% (2010: 0%). The pre-tax rates used for discounting the projected cash flows were between 7.5% and 9.6% for all cash operating units (2010: between 8.0% and 9.6%).

A third-party valuation specialist (Duff & Phelps) supported KPN in the impairment testing of Germany and Corporate Market (previously Getronics) in 2011 and 2010. This involves, among others, determining the reasonableness of the fair value and value in use calculations by analyzing comparable companies and comparable transactions.

For Germany the fair value was determined based on the present value of the future cash flows expected to be derived from this cash-generating unit and incorporates assumptions that market participants would use in estimating the fair value such as synergies, tax benefits and restructurings (strategic premium). The future expected cash flows are discounted at the weighted average cost of capital commensurate with the cash-generating unit's inherent risk.

The goodwill for Corporate Market (previously Getronics) has not been allocated to each of its cash-generating units as KPN paid goodwill to acquire Corporate Market (previously Getronics) as a group. Therefore, the goodwill impairment test for Corporate Market (previously Getronics) was done for its cash-generating units as a group rather than for each separate cash-generating unit. The fair value is calculated as the present value of the future cash flows expected to be derived from the group of cash-generating units. The discount rate used is the weighted average cost of capital commensurate with the cash-generating unit's inherent risk. Based on impairment analysis the recoverable amount of Corporate Market (previously Getronics) is lower than its carrying amount which implies impairment of goodwill EUR 154 million, which was recorded in the Consolidated Statement of Income 2011.

The expected future cash flows used in the impairment analysis are based on management's estimates. Events in technology and telecommunications markets as well as the financial markets and the overall economy may have an adverse impact on the estimated future cash flows of KPN's businesses. The following table gives an indication of the approximate goodwill impairments which would have been recognized in 2011, on an aggregated basis, if key assumptions change adversely and would have been used in the impairment testing of Corporate Market (previously Getronics) and Germany. The outcome of sensitivity analysis for remaining other CGUs did not result in a different outcome of the impairment test.

Indication of the approximate goodwill impairments (Amounts in millions of EUR)	Decrease in long-term growth rate			
	By 0%-point	By 1%-point	By 2%-point	
	By 0%-point	~150 ¹	~200	~300
Increase in discount rate	By 1%-point	~250	~500	~750
	By 2%-point	~1,150	~1,400	~1,550

1) Goodwill impairment EUR 154 million has been recognized in 2011.

Statement of changes in intangible fixed assets with finite lives

Amounts in millions of EUR	Licenses	Computer software	Software in development	Customer relationships	Trade names	Other	Total
Balance as of January 1, 2010	2,853	612	171	256	89	82	4,063
Opening net book value	2,853	612	171	256	89	82	4,063
Investments	290	439	-28	8	2	23	734
Changes in consolidation	-	-	-	19	-	-	19
Exchange rate differences	-	1	-	2	1	1	5
Reclassification	2	10	-	2	-	-1	13
Amortization	-327	-362	-	-68	-9	-22	-788
Impairment	-	-2	-22	-	-	-	-24
Closing net book value	2,818	698	121	219	83	83	4,022
Cost	9,363	1,925	121	451	113	171	12,144
Accumulated amortization/impairments	-6,545	-1,227	-	-232	-30	-88	-8,122
Balance as of December 31, 2010	2,818	698	121	219	83	83	4,022
Opening net book value	2,818	698	121	219	83	83	4,022
Investments	16	463	-1	4	-	12	494
Disposals	-	-1	-	-	-	-	-1
Exchange rate difference	-	-	-	-	1	-1	-
Changes in consolidation	-	-	-	7	2	-	9
Reclassification	-	-	7	-	-	-	7
Amortization	-339	-429	-	-64	-11	-16	-859
Impairment	-	-3	-3	-10	-19	-	-35
Closing book value	2,495	728	124	156	56	78	3,637
Cost	9,378	2,110	124	412	116	161	12,301
Accumulated amortization/impairments	-6,883	-1,382	-	-256	-60	-83	-8,664
Balance as of December 31, 2011	2,495	728	124	156	56	78	3,637

Licenses

Amounts in millions of EUR	December 31, 2011	December 31, 2010
Germany	2,066	2,296
Wholesale & Operations	335	404
Belgium	94	116
Other	-	2
Balance as of	2,495	2,818

KPN started rendering UMTS services in the Netherlands and Germany in 2004 and hence started to amortize these licenses. The terms of the licenses are used as the basis for the amortization period. In Germany the 3G-license expires in 2020, in the Netherlands in 2016 and in Belgium in 2021. KPN has started amortizing the UMTS license of Belgium at the end of 2009. In 2010, KPN acquired licenses for additional spectrum in Germany for an amount of EUR 284 million, which expire in 2025.

As at December 31, 2010, KPN held licenses for the use of spectrum in the 2.6 GHz band in the Netherlands and Germany with a total value of EUR 54 million, which were acquired in 2010 and were not available for use yet. In 2011, amortization of the license in Germany started. As at December 31, 2011 the license held for the use of spectrum in the 2.6 GHz band in the Netherlands with a value of EUR 1 million was not available for use yet. Consequently, amortization of this license has not yet started.

As at the end of 2011, the book value of Computer software and Software in development comprises internally generated software for EUR 260 million (2010: EUR 178 million).

[11] Property, plant and equipment

Statement of changes in property, plant and equipment

Amounts in millions of EUR	Land and buildings	Plant and equipment	Other tangible non-current assets	Assets under construction	Total
Balance as of January 1, 2010	920	5,627	177	799	7,523
Opening net book value	920	5,627	177	799	7,523
Investments	78	1,221	44	104	1,447
Disposals	-19	-3	-2	-	-24
Depreciation	-90	-1,231	-78	-1	-1,400
Impairments and retirements	-3	-4	-	-2	-9
Exchange rate differences	1	2	1	-	4
Reclassifications	1	9	-11	-12	-13
Transfer to held for sale (net)	-13	-2	-1	2	-14
Closing net book value	875	5,619	130	890	7,514
Cost	2,096	15,500	360	903	18,859
Accumulated depreciation/impairments	-1,221	-9,881	-230	-13	-11,345
Balance as of December 31, 2010	875	5,619	130	890	7,514
Opening net book value	875	5,619	130	890	7,514
Investments	78	1,348	57	128	1,611
Disposals	-15	-19	-1	-	-35
Depreciation	-89	-1,242	-65	-4	-1,400
Impairments and retirements	-73	-55	-9	-3	-140
Exchange rate differences	-	1	-	-1	-
Reclassifications	-65	55	5	-2	-7
Change in consolidation	-	3	-1	-	2
Other changes	-	-6	-	-	-6
Transfer to held for sale (net)	-6	-	-	-	-6
Total changes	705	5,704	116	1,008	7,533
Cost	1,954	15,519	334	1,022	18,829
Accumulated depreciation/impairments	-1,249	-9,815	-218	-14	-11,296
Balance as of December 31, 2011	705	5,704	116	1,008	7,533

Property, plant and equipment primarily concerns assets located in the Netherlands (2011: approximately 61%; 2010: approximately 63%) and Germany (2011: approximately 33%; 2010: approximately 31%). Assets under construction mainly relate to the construction of mobile networks.

The book value of property, plant and equipment of which KPN as the lessee is the beneficial owner under financial lease programs amounted EUR 280 million (2010: EUR 261 million). The book value of property, plant and equipment of which KPN is the lessor under operating lease programs amounted to EUR 151 million (2010: EUR 107 million). The future minimum lease payments receivable related to KPN as the lessor of assets of which KPN is the legal owner and not the beneficial owner is EUR 102 million (2010: EUR 32 million) in total of which EUR 64 million (2010: EUR 22 million) matures within one year and the remainder EUR 38 million (2010: EUR 10 million) matures within one to five years.

Sensitivity analysis

At the end of 2011 the book value for Copper and Fiber cables is EUR 2,102 million, which is included in plant and equipment. The current depreciation rates for these investments are based on estimates and judgment about the useful lives of these assets. For Copper cables KPN estimates that the current useful life ends in year 2022, if the useful life was set at 20 years, the depreciation charge for 2012 would be EUR 44 million lower. For the Fiber cables KPN estimates that the current useful life is 20 years, if the useful life was set at 25 years, the depreciation charge for 2012 would be EUR 16 million lower.

[12] Investments in associates and joint ventures

Amounts in millions of EUR	2011	2010
Balance as of January 1	284	267
Additions	3	49
Income from associates and joint ventures	-24	-31
Dividend received	-1	-1
Other changes	-1	-
Total changes	-23	17
Balance as of December 31	261	284

Reggefiber

KPN has a minority stake of 41% in Reggefiber Group B.V. ('Reggefiber'), a strategic partnership with Reggeborgh for the rollout of the Fiber-to-the-Home network. Reggeborgh owns 59% of Reggefiber. In November 2011, the joint venture agreement with Reggeborgh was amended. In the amended structure, KPN holds options to increase ownership to 60% based on a defined time-line as opposed to solely on operational milestones under the original arrangements.

The details of the call/put arrangements are as follows:

	Ownership stake	Option trigger	Exercise price	Conditions for exercise
Option 1	Additional 10% Leading to 51% ownership	Call/put vest earliest of: • 1.0 million Homes Connected • December 31, 2012	EUR 99 million	
Option 2	Additional 9% Leading to 60% ownership	Call/put vest earliest of: • 1.5 million Homes Connected • January 1, 2014	EUR 116 – 161 million, depending on Capex efficiency at Reggefiber	i) Exercise of option 1 required ii) NMa approval required

Furthermore, Reggeborgh holds an option to sell the remaining 40% of its shares to KPN. This option can be exercised three and a half years after the second option has been exercised over a period of one and a half years, for an amount of EUR 647 million. Alternatively, this option can also be exercised at fair value for a period of seven years after the second option has been exercised.

Under the arrangements in the joint venture agreement with Reggeborgh, KPN will only obtain control over Reggefiber as from 60% ownership of the shares in the company.

Bookvalue

The book value of KPN's 41% share in Reggefiber as at December 31, 2011 amounted to EUR 234 million (2010: EUR 255 million), including EUR 94 million of goodwill. The movement of the book value of the investment in Reggefiber is presented in the table below:

Amounts in millions of EUR	
Cash contribution	174
Contribution in assets	16
Call/put arrangements valuation in the purchase price allocation	58
Total initial investment by KPN for 41%	248
Share in the 2009 results	-11
Balance as of December 31, 2009	237
Capital contribution	44
Share in the 2010 results	-26
Balance as of December 31, 2010	255
Share in the 2011 results	-20
Other changes	-1
Balance as of December 31, 2011	234

In addition to the 41% share in Reggefiber, KPN provided shareholder loans to Reggefiber. These shareholder loans are recorded under loans to associates and joint ventures for EUR 127 million (2010: EUR 33 million under loans to associates and joint ventures, and EUR 11 million under current trade and other receivables). The shareholder loans bear interest of 6.00–6.75% and have a final maturity date of January 1, 2019. Reggeborgh provided similar shareholder loans to Reggefiber on a pro-rata basis for its share in the partnership.

The call/put arrangements are valued at fair value and recorded as a derivative financial instrument of EUR 203 million (2010: EUR 148 million), which is recorded as a liability. The change in value of the call/put arrangements during the year of EUR 55 million (2010: EUR 46 million) is recorded in the consolidated statement of income as a loss under other financial results. Refer to note 29 for further details on the call/put arrangements.

At the end of 2011, Reggefiber had capital commitments (100%) for EUR 223 million (2012: EUR 200 million and 2013: EUR 23 million). The total capital commitments as at December 31, 2010 amounted to EUR 204 million. For rental and operational lease contracts Reggefiber had commitments for EUR 15 million as at December 31, 2011 (less than 1 year: EUR 3 million, 1 to 5 years EUR 5 million, more than 5 years: EUR 7 million). At the end of 2010, Reggefiber's commitments under rental and operational lease contracts were EUR 30 million.

Other

As of December 31, 2011, investments in associates and joint ventures also include NTT Data Getronics (30%) for an amount of EUR 16 million (2010: EUR 17 million).

In the table below, the amounts are summarized of certain financial data with respect to Reggefiber and the other joint ventures and associates, based on KPN's share.

Amounts in millions of EUR	Reggefiber	Other	December 31, 2011	December 31, 2010
Current assets	27	29	56	54
Non-current assets ¹	454	10	464	376
Current liabilities	49	19	68	64
Non-current liabilities	256	–	256	154
Total revenues	29	42	71	73
Total operating expenses	–18	–41	–59	65
Profit or loss after taxes	–20	–4	–24	–31

1) Including EUR 36 million goodwill at Reggefiber.

The difference in value between the assets and liabilities of the table above and the investment value is the goodwill paid by KPN which is included in the book value of the associates and joint ventures.

[13] Trade and other receivables (non-current)

Amounts in millions of EUR	2011	2010
Balance as of January 1	242	231
Current portion of non-current receivables	–6	8
Gross	236	239
Additions	44	32
Redemptions	–15	–25
Impairment	–	–4
Total gross at December 31	265	242
Current portion of non-current receivables	–4	–6
Balance as of December 31	261	236

The balance as of December 31 includes the following:

Amounts in millions of EUR	2011	2010
Accrued income and prepayments	107	87
Receivables from financial leases	3	2
Pension assets [22]	134	130
Other loans	17	17
Total	261	236

[..] Bracketed numbers refer to the related notes.

Accrued income and prepayments mainly consist of prepaid rent recognized at net present value. The gross amount with respect to receivables from financial leases amounts to EUR 5 million (2010: EUR 4 million), which fully matures within five years. The short-term portion of the financial leases amounting to EUR 2 million (2010: EUR 2 million) is classified as current trade and other receivables.

In 2011, an amount of EUR 134 million (2010: EUR 130 million) relates to a surplus of plan assets in excess of benefit obligations in pension plans. Reference is made to Note 22.

[14] Inventories

Amounts in millions of EUR	December 31, 2011	December 31, 2010
Resources, parts, tools and measuring instruments	68	108
Finished goods	81	85
Total inventories, gross	149	193
Provision for obsolescence	-26	-40
Total inventories, net	123	153

The fair value of the inventories does not materially differ from the amount as recorded as of December 31, 2011.

During the year 2011 a net amount of EUR 13 million (2010: EUR 0.2 million) was added to the provision for obsolete stock through 'cost of materials' in the Consolidated Statement of Income.

The transition expenses relating to fixed-price contracts involving managed ICT services are included under finished goods and amount to EUR 14 million at the end of 2011 (2010: EUR 22 million).

[15] Trade and other receivables

Amounts in millions of EUR	December 31, 2011	December 31, 2010
Trade receivables	1,022	1,153
Social security and other taxes	35	36
Other receivables	51	77
Accrued income	391	481
Prepayments	108	120
Balance as of	1,607	1,867

Amounts in millions of EUR	December 31, 2011	December 31, 2010
Trade receivables – gross	1,183	1,301
Provision for doubtful trade receivables	-161	-148
Balance as of	1,022	1,153

The carrying amounts of trade and other receivables approximate their fair value. Trade and other receivables are non-interest bearing, except for the temporary shareholder loan to Reggefiber, amounted to EUR 11 million as at December 31, 2010, included in other receivables (see also Note 12). In 2011, this temporary shareholder loan was redeemed and amounted to EUR 0 million at December 31, 2011.

The movements in the provision for doubtful trade receivables are as follows:

Amounts in millions of EUR	2011	2010
Balance as of January 1	148	126
Addition through income statement	20	53
Usage	-14	-42
Other movements	9	11
Transfer to assets held for sale	-2	-
Balance as of December 31	161	148

The maximum exposure to credit risk on trade receivables is limited to their gross amount. The concentration of KPN's trade receivables over the different segments as at December 31 can be summarized as follows:

Amounts in millions of EUR	December 31, 2011		December 31, 2010	
	Gross	Provision	Gross	Provision
Consumer Segment	81	16	89	17
Business Segment	140	8	157	9
Corporate Market (previously Getronics) Segment	194	7	288	6
Wholesale & Operations Segment	119	44	95	38
iBasis Segment	193	4	169	4
Germany Segment	325	57	354	51
Belgium Segment	100	21	102	20
Other	31	4	47	3
Balance as of December 31	1,183	161	1,301	148

For a discussion of KPN's policies to reduce credit risk on trade receivables as well as concentration of the credit risk, reference is made to Note 29 'Capital and Financial Risk Management'. Postpaid mobile services are considered to have the highest credit risks within the business of KPN (Germany, Belgium, part of Business and Consumer Segment). Overall, concentrations of credit risk with respect to trade receivables are limited due to the Group's large and unrelated customer base. The provision for doubtful trade receivables is predominantly collectively determined based on ageing and is reviewed periodically. The concentration of credit risk in the integrated, outsourced and managed ICT solutions businesses is somewhat larger. The gross amount due from trade receivables in these businesses at December 31, 2011, was EUR 194 million (2010: EUR 288 million) for which a provision of EUR 7 million (2010: EUR 6 million) was recorded. The provision for doubtful receivables in these businesses has been determined on an individual basis.

The ageing of the gross trade receivables at the reporting date was as follows:

Amounts in millions of EUR	December 31, 2011		December 31, 2010	
	Gross	Provision	Gross	Provision
Amounts undue	595	1	741	2
Past due 0–30 days	184	13	199	11
Past due 31–60 days	39	4	55	6
Past due 61–90 days	42	3	39	4
Past due 91–180 days	119	15	98	16
Past due 181–270 days	23	10	28	8
Past due 271–360 days	15	7	23	10
More than one year	166	108	118	91
Total	1,183	161	1,301	148

[16] Available-for-sale financial assets

Amounts in millions of EUR	2011	2010
Balance as of January 1	53	53
– of which: current	–	2
Additions	–	9
Exchange rate differences	–	2
Impairment recorded in the Income Statement	–3	–3
Fair value adjustment recorded in comprehensive income	–2	–8
Balance as of December 31	48	53
– of which: current	–	–

In 2011, no significant transactions took place.

In 2010, KPN acquired a 6% equity share amounting to EUR 7 million in Jasper Wireless, a privately held company that provides a global Machine-to-Machine platform.

In addition, KPN holds an equity stake of approximately 11% in Tecnomcom, a listed Spanish ICT services company, and a stake of approximately 10% in CompuCom, a privately held IT outsourcing company in North America, in total amounting to EUR 41 million (2010: 45 million). The equity stake in CompuCom consists of ordinary shares and preferred shares. KPN cannot sell its shares in CompuCom without the consent of other investors. In 2011, an amount of EUR 10 million was removed from equity and recognized as an impairment loss.

[17] Cash and cash equivalents

Amounts in millions of EUR	December 31, 2011	December 31, 2010
Cash	644	788
Short-term bank deposits	346	35
Total cash and cash equivalents	990	823

Cash and cash equivalents as at December 31, 2011, was for more than 97% (2010: 93%) denominated in the functional currency of the related entities. On December 31, 2011, KPN's total outstanding bank guarantees amounted to EUR 71 million (2010: EUR 77 million), which were issued in the ordinary course of business. The effective interest rate on the outstanding bank deposits as at December 31, 2011 was 0.2%.

Due to German capital maintenance rules, KPN is committed to keep certain funds available at E-Plus. All other cash and cash equivalents are at free disposal to KPN within three months.

Net cash and cash equivalents

As of December 31, 2011, KPN's net cash and cash equivalents position amounted to EUR 950 million (including EUR 76 million of bank overdrafts) as presented in the Cash Flow Statement:

Amounts in millions of EUR	December 31, 2011	December 31, 2010
Cash and cash equivalents	990	823
Cash classified as held for sale [18]	36	17
Bank overdraft	-76	-158
Net cash and cash equivalents	950	682

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

Amounts in millions of EUR	Non-current assets and disposal groups classified as held for sale	Liabilities directly associated with non-current assets and disposal groups classified as held for sale
Balance as of January 1, 2010	115	33
Additions	54	18
Impairments	-3	-
Disposal	-109	-35
Balance as of December 31, 2010	57	16
Additions	218	192
Impairments	-1	-
Disposal	-50	-16
Balance as of December 31, 2011	224	192

The assets and the related liabilities of the above-mentioned businesses classified as held for sale at December 31 can be specified as follows:

Amounts in millions of EUR	2011	2010
Intangible assets (including goodwill)	-	15
Property, plant and equipment	10	21
Current assets	214	21
Total assets held for sale	224	57
Provisions	20	-
Current liabilities	172	16
Total liabilities held for sale	192	16

In November 2011, KPN classified a part of the business in Germany with a net book value of EUR 18 million as held for sale. In December 2011, KPN classified an international part of Corporate Market (previously Getronics) business with a net book value of EUR 4 million as held for sale. The measurement of the assets and liabilities, at the lower of carrying amount and fair value less cost to sell, resulted in a loss of EUR 30 million. Both disposal groups remained held for sales as at December 31, 2011.

In December 2011, KPN continued to sell and leaseback a number of mobile towers. The first tranche has been completed in December 2011. The second tranche contains the mobile towers with a book value of EUR 5 million. These assets were classified as held for sale as at December 31, 2011.

In September 2010, KPN agreed to enter into a sale and operating leaseback transaction regarding a number of mobile towers in two tranches. The first tranche with a book value of EUR 14 million was completed in September 2010. The mobile towers with a book value of EUR 14 million

that were part of the second tranche were classified as held for sale as at December 31, 2010 and were subsequently sold in January 2011, refer to Note 2.

In December 2010, KPN classified a part of the business of Corporate Market (previously Getronics) with a net book value EUR 21 million as held for sale, including EUR 17 million of cash and cash equivalents. The disposal group remained held for sale as at December 31, 2010 and was subsequently sold in January 2011, refer to Note 2.

The assets and the related liabilities of the above-mentioned disposals during the year can be specified as follows:

Amounts in millions of EUR	2011	2010
Intangible assets (including goodwill)	–	5
Property, plant and equipment	14	83
Current assets	36	21
Total disposed assets	50	109
Provisions	–	4
Current liabilities	16	31
Total disposed liabilities	16	35

In 2011, the disposals relate to a part of the business of Corporate Market (previously Getronics), mobile towers and real estate portfolio. In 2010, the disposals relate to the B2B and Carrier business in Belgium and mobile towers.

[19] Equity attributable to equity holders

For a breakdown of Equity attributable to equity holders, reference is made to the Consolidated Statement of Changes in Group Equity.

Total distributable reserves at December 31, 2011, amount to EUR 2,228 million (2010: EUR 2,796 million). For further details of the non-distributable reserves, reference is made to the Corporate Financial Statements.

Share capital

KPN's authorized capital stock totals EUR 1,440,000,000 divided into 3 billion ordinary shares of EUR 0.24 each and 3 billion Class B preferred shares of EUR 0.24 each. As of December 31, 2011, a total of 1,431,522,482 ordinary shares were outstanding and fully paid-in. Dutch laws prohibit KPN to cast a vote on shares KPN holds. The ordinary shares and Class B preferred shares carry the right to cast one vote each. For a description of the preferred shares, please see 'The Foundation Preference Shares B KPN' hereafter. The ordinary shares are registered or payable to bearer. Shareholders may request the Company to convert their registered shares to bearer shares but not vice versa.

Share premium

The additional paid-in capital is exempt from Dutch tax up to an amount of EUR 7,416 million (2010: EUR 7,917 million).

Other reserves

Below is a detailed overview of the movements in the number of treasury shares and other reserves:

Amounts in millions of EUR, unless indicated otherwise	Number of treasury shares	Treasury shares reserve	Hedge reserve	Fair value reserve available for sale financial assets	Currency translation reserve	Total other reserves
Balance as of January 1, 2010	27,007,505	-289	-101	–	20	-370
Sold (exercise options/shares) [3]	-2,261,188	14	–	–	–	14
Purchased	89,892,260	-1,000	–	–	–	-1,000
Cancelled	-56,245,438	629	–	–	–	629
Addition (net)	–	–	14	-8	–	6
Transfer to Statement of Income [6]	–	–	8	–	–	8
Exchange differences	–	–	–	–	4	4
Balance as of December 31, 2010	58,393,139	-646	-79	-8	24	-709
Sold (exercise options/shares) [3]	-762,965	7	–	–	–	7
Purchased	96,728,927	-1,000	–	–	–	-1,000
Cancelled	-141,087,402	1,500	–	–	–	1,500
Addition (net)	–	–	77	8	–	85
Transfer to Statement of Income [6]	–	–	4	–	–	4
Exchange differences	–	–	–	–	-14	-14
Balance as of December 31, 2011	13,271,699	-139	2	–	10	-127
– of which: to be cancelled	–	–	–	–	–	–
Total treasury shares	13,271,699					

[..] Bracketed numbers refer to the related notes.

Hedge reserve

Amounts in millions of EUR	December 31, 2011	December 31, 2010
Effective portion cash flow hedges	73	-30
Amortizable part [6]	-69	-74
Hedge reserve	4	-104
Tax effect	-2	25
Hedge reserve, net of tax	2	-79

For details of cash flow hedges reference is made to Note 29 'Capital and Financial Risk Management'.

Treasury shares and treasury shares reserve

KPN purchases shares in its own capital under a share repurchase program and also for delivery upon exercise of share options by management and personnel under the share option and performance share plans (see Note 3). Votes on purchased shares may not be cast and they do not count towards determining the number of votes required at a General Meeting of Shareholders.

In 2011, 96,728,927 shares were purchased under the share repurchase program. During the year, 141,087,402 shares were cancelled, including 44,358,475 shares that were purchased in 2010 for the EUR 1 billion share repurchase program.

Treasury shares are accounted for at cost, representing the market price on the acquisition date. The proceeds at delivery of the treasury shares are recognized directly in the other reserves. In the event that more options are exercised than available as treasury shares for option plans, KPN anticipates providing shares for equity-settled plans through the purchase of shares in the market. All rights with respect to repurchased treasury shares are suspended until those shares are delivered.

Foundation Preference Shares B KPN

As of December 31, 2011, KPN has option arrangements regarding the issuance of Class B preference shares to the Foundation Preference Shares B KPN ('the Foundation').

KPN has a put option to place with the Foundation a number of its Class B preference shares, which have the same voting rights as ordinary shares, not exceeding the total issued share capital before such issue, or, subject to prior approval by the General Meeting of Shareholders, such larger number as the parties may agree. In addition, the Foundation has a call option, which is not limited in time, to acquire a number of Class B preference shares from KPN not exceeding the total issued amount of ordinary shares, minus one share and minus any shares already issued to the Foundation. Since October 12, 2006, the authority of the Board of Management to issue Class B preference shares under the put option expired. This expiration does not affect the obligation to issue Class B preference shares upon exercise of the call option by the Foundation. Upon exercise of the call option, 25% of the nominal value of EUR 0.24 per Class B preference share needs to be paid by the Foundation. KPN's Board of Management can decide to request the Foundation to pay the remainder. Such decision is subject to the approval of the Supervisory Board.

KPN is of the opinion that neither the put option nor the call option represent a significant value as meant in IAS 1, paragraph 31 due to the fact that the put option can no longer be exercised by KPN and the fact that the likelihood that the call option will be exercised is very remote. In the remote event that the call option will be exercised, the preference shares B will be cancelled relatively shortly after issuance. The options are therefore not accounted for in the annual accounts nor is any additional information as meant in IAS 32 and 39 added.

[20] Non-controlling interests

As at December 31, 2011, non-controlling interests decreased to nil (2010: EUR 0.3 million in relation to KPN's 51% subsidiary Israpunt).

[21] Borrowings

The carrying amounts and fair value of the borrowings at December 31 are as follows:

Amounts in millions of EUR	December 31, 2011		December 31, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Eurobonds EUR	9,252	10,065	9,754	10,469
Eurobonds GBP	2,100	2,308	1,575	1,680
Global Bonds USD	1,122	1,000	878	987
Financial lease obligations	149	117	171	171
Bank overdraft	76	76	158	158
Credit facility	400	400	–	–
Other loans	–	–	1	1
Total borrowings	13,099	13,966	12,537	13,466
– of which: current	1,458	1,488	1,178	1,199
– of which: non-current	11,641	12,478	11,359	12,267

The fair value is based on the listed price of the bonds.

KPN's weighted average interest yield on the borrowings outstanding before swap at December 31, 2011, was 5.5% (2010: 5.5%). The weighted average interest yield on borrowings outstanding after swap was 5.3% (2010: 5.2%).

For further details on borrowings, including a redemption schedule, reference is made to Note 29 'Financing Risk Management – Liquidity Risk'.

Bonds

On November 11, 2011, KPN issued a GBP 400 million Eurobond with a fifteen-year maturity and a coupon of 5.00%. The Sterling bond has been swapped into EUR 467 million with a Euro-equivalent coupon of 5.02%.

On September 8, 2011, KPN issued a EUR 500 million Eurobond with a ten-year maturity and a coupon of 4.50%.

On July 21, 2011, KPN redeemed EUR 986 million of the Eurobond 2004–2011, in accordance with the regular redemption schedule.

On October 1, 2010, KPN redeemed USD 1,162 million of the Global bond with a nominal amount outstanding of EUR 861 million, in accordance with the regular redemption schedule.

In September 2010, KPN conducted a tender and new issue transaction, in which KPN repurchased EUR 1,340 million of its 2011, 2012 and 2013 Eurobonds. The tender was financed on September 21, 2010 with a new EUR 1,000 million ten-year Eurobond with a coupon of 3.75%, and the remainder was financed with excess cash.

All new bonds in 2011 and 2010 have been issued under KPN's Global Medium Term Note program and have been listed on Euronext Amsterdam.

Financial lease obligations and other loans

As of December 31, 2011, the financial lease obligations amounted to EUR 149 million. Refer to Note 29 for more information.

Credit rating

KPN maintains credit ratings from Standard & Poors and Moody's. Per December 31, 2011 the ratings were BBB+ and Baa2 respectively, both with a stable outlook. On January 26, 2012 Moody's changed the outlook on KPN's Baa2 rating to negative from stable.

[22] Provisions for retirement benefit obligations

Provisions for retirement benefit obligation consist of pension provisions and the provision for the Social Plan 2001.

Amounts in millions of EUR	December 31, 2011	December 31, 2010
Pension provisions	426	560
Provision for Social Plan 2001	15	48
Total	441	608

Pensions

The majority of KPN's employees in the Netherlands are covered by defined benefit plans. The majority of the employees outside the Netherlands are covered by defined contribution plans. The measurement date for all defined benefit plans is December 31. KPN makes contributions to provide sufficient assets to fund the benefits payable to participants of defined benefit plans in most jurisdictions.

The following table gives an overview of KPN's main defined benefit plans based on size and risk profile as at December 31, 2011:

Pension Plan	Characteristics	Funding	Minimum funding requirement
KPN Main plan PF	<p>KPN's main Dutch pension plan covers employees who are subject to KPN's collective labor agreement.</p> <p>The benefits provided are based on the employee's years of service and compensation level and consist of a defined benefit average pay plan for the salary up to EUR 45,378 per annum and a defined contribution part for the salary exceeding EUR 45,378 per annum.</p> <p>Furthermore, employees can opt to participate in an individual pension saving scheme.</p> <p>The retirement age is 65 years.</p>	<p>This plan is funded externally with 'Stichting Pensioenfonds KPN' (KPN PF). Premiums are paid to this fund based on a long-term horizon regarding the desired coverage ratio. The employee contribution is fixed and based on KPN's collective labor agreement.</p> <p>For the defined contribution part, KPN guarantees the contributions made.</p> <p>For the individual pension saving scheme, all contributions are made entirely by the employees.</p>	<p>These plans are mandated by Dutch law ('Pensioenwet') which requires minimum coverage ratios. The coverage ratio is calculated based on local funding rules and differs from the defined pension obligation as calculated under IFRS, among others due to different discount rates. At December 31, 2011 the actual coverage ratios of the KPN plans, on average, were 101%. The Dutch funds are required to recover to 105% coverage ratio by additional contributions and reduction of indexation (short-term recovery plan). Next to that, the Dutch funds are required to recover to a coverage ratio of approximately 115% over a 15-year period either by additional contributions or a decrease in indexation (long-term recovery plan). For KPN PF and KPN OPF the additional contribution in the short term recovery plan is limited to EUR 390 million (indexed) within this recovery period.</p>
KPN OPF	<p>KPN's OPF plan covers Senior Management with an individual labor agreement in the Netherlands.</p> <p>The benefits provided are based on the employee's years of service and compensation level and consist of a defined benefit average pay plan for the salary up to EUR 45,378 per annum and a defined contribution plan for the salary exceeding EUR 45,378 per annum.</p> <p>Furthermore, employees can opt to participate in an individual pension saving scheme. The retirement age is 65 years.</p>	<p>This plan is funded externally with 'Stichting Ondernemingspensioenfonds KPN' (KPN OPF).</p> <p>Premiums are paid to this fund based on the expected accrual of pension benefits for the year. The employee contribution is fixed. For the individual pension saving scheme, all contributions are made entirely by the employees.</p>	
Getronics NL SVG	<p>Plan participants accrue retirement benefits by means of an individual savings account.</p> <p>The retirement age is 65 years.</p>	<p>The individual savings accounts are externally funded in 'Stichting Voorzieningsfonds Getronics' (SVG).</p> <p>For this scheme, contributions are made both by Getronics and employees. The annual accrual of the individual savings account is based on a defined contribution scheme. However, Corporate Market (Getronics) has made funding guarantees for the years through 2013.</p>	
KPN early retirement	<p>This comprises a number of transitional early retirement plans for retirement before the age of 65. These plans are closed to new entrants.</p>	<p>These plans are unfunded. The benefits are paid directly by KPN when due.</p>	<p>Not applicable.</p>
Getronics UK	<p>Getronics UK sponsors a defined benefit arrangement and a defined contribution arrangement. The defined benefit plan is closed for new entrants and frozen for new benefit accrual.</p>	<p>The defined benefit plan is funded externally in a trust.</p>	<p>In line with the requirements of the UK pension regulator, any deficit in the defined benefit plan must be recovered by means of annual funding.</p> <p>As at December 31, 2011 the defined benefit plan was in deficit and additional employer contributions have been agreed upon for a recovery period.</p>

Pension Plan	Characteristics	Funding	Minimum funding requirement
Getronics US	Getronics US was divested in 2008. The closed and frozen defined benefit plans remained with KPN.	These plans are closed and merged into one plan.	<p>Until the merged plans are fully funded to 100% of liabilities, US funding rules require quarterly contributions to recover to a fully funded position over a seven year period based on a roll-over system.</p> <p>As at December 31, 2011 the defined benefit plan was in deficit and additional employer contributions have been concluded for the aforementioned recovery period.</p>

The balance sheet position of the defined benefit plans can be broken down as follows:

Amounts in millions of EUR	2011	2010
Defined benefit obligation – balance as of January 1	7,348	6,534
Service costs	93	90
Interest costs	341	329
Benefits paid	-232	-229
Employees' contribution	29	22
Other employers' contributions	-	-
Past-service costs	-9	-
Transferred to held for sale	-40	-19
Actuarial (gains)/losses	754	600
Business combinations	-	-
Exchange rate differences	15	21
Curtailment/settlement/transfer	-	-
Defined benefit obligation – balance as of December 31	8,299	7,348
– of which: funded plans	8,206	7,178
– of which: unfunded plans	93	170
Fair value of plan assets – balance as of January 1	6,632	6,076
Actual return on plan assets	562	571
Employer's contribution	243	195
Employees' contribution	29	22
Curtailment/settlement/transfer	-	-
Transferred to held for sale	-20	-17
Benefits paid	-232	-229
Business combinations	-	-
Exchange rate differences	10	14
Fair value of plan assets – balance as of December 31	7,224	6,632
Benefit obligation in excess of plan assets	1,075	716
Unrecognized past service cost	-4	-4
Unrecognized gains/(losses)	-779	-282
Pension provisions (net)	292	430
– of which: funded plans	229	295
– of which: unfunded plans	63	135
– of which: classified as non-current liabilities [22]	426	560
– of which: classified as non-current assets [13]	134	130

Breakdown of non-current liabilities

Amounts in millions of EUR	2011	2010
KPN Main plan PF	222	261
KPN early retirement	55	107
Getronics NL SVG Main Plan	38	49
Getronics UK	32	49
Getronics US	37	37
Other	42	57
Total	426	560

[.] Bracketed numbers refer to the related notes.

Breakdown of non-current assets

Amounts in millions of EUR	2011	2010
KPN OPF	101	96
Other	33	34
Total	134	130

The total pension costs recognized for the years 2011 and 2010 were as follows:

Amounts in millions of EUR	2011	2010
Service costs	-93	-90
Interest costs	-341	-329
Expected return on assets	326	335
Other costs	-6	-5
Recognized actuarial losses/gains	-12	-24
Past service costs	9	-1
Curtailements/settlements	-	-
Total defined benefit plans	-117	-114
Defined contribution plans	-13	-17
Total pension costs	-130	-131

The weighted average of the actuarial assumptions used in the calculation of the defined benefit obligations and the pension costs for the subsequent year are as follows:

As a %	December 31, 2011		December 31, 2010	
	Main plan PF	Other	Main plan PF	Other
Discount rate	3.8	3.8	4.7	4.6
Expected salary increases	2.0	1.6	2.0	1.8
Expected return on assets	3.9	4.4	4.8	5.2
Expected benefit increases	1.5	1.0	1.7	1.3

The discount rate is based on yield curves of AA zero-coupon corporate bonds, with maturities equal to the duration of the benefit obligations and in the applicable currency. For the obligations in EUR, the yield curve is based on around 300 corporate bonds in different industries.

The expected return on assets is determined per asset category (i.e. equities, fixed-interest securities, real estate, hedge funds and commodities). The expected return on fixed-interest is derived from the actual interest rate on balance sheet date for similar interest bearing securities. The return on the other asset categories is derived from historic returns. The mortality assumptions in the Netherlands are based on the most recent GBM/GBV (2010–2060) prospective mortality table. For the other countries the most recent generally accepted mortality tables are applied.

Sensitivity analysis

In 2012, the expected net pension costs for KPN as a whole will amount to approximately EUR 237 million for defined benefit and defined contribution plans.

The table below shows the approximate impact on 2012 service costs if mentioned key assumptions change by one percentage point:

Amounts in millions of EUR	Increase	Decrease
	by 1%	by 1%
Discount rate	-25	34

The table below shows the approximate impact on the defined benefit obligation as at December 31, 2011, if mentioned key assumptions change by one percentage point:

Amounts in millions of EUR	Increase	Decrease
	by 1%	by 1%
Discount rate	-1,264	1,603
Expected price inflation	1,274	-1,004

If more than one of the assumptions change, the impact of each change would not necessarily be the same as if only one assumption changed in isolation.

Plan assets: investment policies/strategies

The pension funds actively manage their investment portfolio. In most cases, the investment strategy is determined based on an asset-liability study in consultation with investment advisers and within the boundaries given by regulatory bodies for pension funds (in the Netherlands the regulatory body is 'De Nederlandsche Bank'). The pension funds mainly invest in the global equity and debt markets. The investments of the KPN Dutch funds are reviewed daily by investment managers and on a monthly basis by the board of the pension funds. When necessary the board decides on a change in the investment policy in consultation with investment advisers. As the pension fund invests in market indices like MSCI, a minor part of these investments is related to KPN equities.

The weighted average investment portfolio for KPN's main plan PF is as follows:

	Strategy as from 2012	Actual as per December 2011	Actual as per December 2010
Equities	43%	35%	39%
Fixed income	41%	38%	37%
Real estate	11%	11%	12%
Other	5%	16%	12%
Total	100%	100%	100%

KPN's weighted average actual investment portfolio in other plans and countries at December 31, 2011, and 2010 is as follows:

	As per December 2011	As per December 2010
Equities	38%	39%
Fixed income	43%	43%
Real estate	6%	6%
Other	13%	12%
Total	100%	100%

Expected contributions and benefits

In 2011, the total employer contributions and all benefit payments for unfunded plans amounted to EUR 256 million, consisting of EUR 149 million for defined benefit premiums, EUR 30 million for additional payments relating to the minimum required coverage ratio, EUR 13 million defined contribution premiums and EUR 62 million benefit payments for unfunded plans. For 2012, the contributions are expected to be approximately EUR 50 million higher than in 2011, based on the coverage ratio's at December 31, 2011.

Experience adjustments

Actuarial gains and losses are defined in IAS 19 as experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. They include changes in the fair value of plan assets other than the expected returns. Actuarial gains and losses can be large and volatile. A five-year record shows the defined benefit obligation, the fair value of plan assets and the resulting surplus or deficit, and the 'experience adjustments' in each year on the assets and liabilities.

Amounts in millions of EUR	2011	2010	2009	2008	2007
DBO	8,299	7,348	6,534	5,851	6,697
Plan assets	7,224	6,632	6,076	5,234	6,205
Deficit	-1,075	-716	-458	-617	-492
Experience adjustments arising on liabilities	34	29	-75	210	-32
Experience adjustments arising on plan assets	242	241	466	-1,306	-230

Provision for Social Plan 2001

Amounts in millions of EUR	2011	2010
Balance as of January 1	48	91
Withdrawals	-28	-40
Interest	-	1
Recognized actuarial losses/gains	-5	-4
Balance as of December 31	15	48

This provision relates to the costs for KPN employees who voluntarily left under the Social Plan agreed upon with the trade unions and Works Council in 2001. This Plan provides for the reduction of KPN's workforce in the Netherlands by at most 5,280 employees. Approximately 2,300 employees of age 55 and older were offered an early retirement scheme under conditions similar to the KPN early retirement plans. The amount and timing of the cash outflows are certain except for mortality rates. The last payments will be made in 2013.

[23] Provisions for other liabilities and charges

Amounts in millions of EUR	December 31, 2011	December 31, 2010
Restructuring provision	102	60
Asset retirement obligations	352	340
Other provisions	72	110
Balance	526	510
– of which: non-current	397	404
– of which: current	129	106

Restructuring provision

The restructuring provision consists of the following components:

Amounts in millions of EUR	2011	2010
Personnel (redundancy obligations)	98	54
Contractual obligations	4	6
Restructuring provision	102	60

Of the restructuring provision EUR 100 million has a term of less than one year (2010: EUR 57 million), EUR 2 million of provisions has a term of between one and five years (2010: EUR 2 million) and EUR 0 million a term of more than five years (2010: less than EUR 1 million).

The movements in the restructuring provision are as follows:

	Personnel	Contractual obligations	Total
Balance as of January 1, 2010	169	25	194
– of which: current portion	156	11	167
Additions/releases	3	-4	-1
Usage	-118	-15	-133
Balance as of December 31, 2010	54	6	60
– of which: current portion	53	4	57
Additions/releases	127	3	130
Usage	-83	-5	-88
Balance as of December 31, 2011	98	4	102
– of which: current portion	98	2	100

Personnel (redundancy obligations)

During 2011 and 2010, KPN continued to substantially reduce its staff. In 2011 the restructuring provision relates to the first phase of restructuring based on the current strategy and mainly consists of restructuring cost at Corporate Market (previously Getronics). As at December 31, 2011 the restructuring provision set up for Corporate Market (previously Getronics) amounted to EUR 81 million.

Asset retirement obligations

Amounts in millions of EUR	2011	2010
Balance as of January 1	340	304
Changes in assumptions	–	30
Additions	9	–
Interest	9	13
Usage	–2	–5
Release	–4	–3
Transferred to held for sale	–1	–
Other movements	1	1
Balance as of December 31	352	340
– of which: current	4	2

The asset retirement obligations at December 31, 2011, amounted to EUR 352 million (2010: EUR 340 million), of which EUR 22 million (2010: EUR 26 million) has a term of less than five years. The main assumptions of calculation for the asset retirement obligations relate to the estimated costs of removal, discount rate and estimated period of removal which vary per type of asset. The changes in assumptions for 2010 mainly relate to a change in discount rate. The discount rate for 2011 is 2.8% (2010: 2.9%).

As defined in the Telecommunications Act the obligation for landlords to tolerate cables which are part of a public electronic communications network terminates as soon as those cables have been idle for a continuous period of 10 years. In that situation, a public electronic communications network supplier is required to remove cables on request of a landlord. Due to the fact that the date when the cables will become idle is uncertain and KPN is not able to predict whether and when a landlord will place a request for removal, KPN is not able to make a reliable estimate of the impact and no provision was recognized at December 31, 2011.

Other provisions

The movements in other provisions are as follows:

Amounts in millions of EUR	2011	2010
Balance as of January 1	110	127
Additions/releases	–7	–22
Interest	–	–1
Usage	–30	–17
Transferred to held for sale	–3	1
Other movements	2	22
Balance as of December 31	72	110
– of which: current	25	47

Other provisions relates to various risks and commitments, claims and litigations and onerous contracts. Of the Other provisions, approximately EUR 25 million had a term of less than one year (2010: EUR 47 million), EUR 17 million a term of between one and five years (2010: EUR 12 million) and EUR 30 million has a term of more than five years (2010: EUR 51 million).

In 2010, net releases of EUR 22 million relate to the release of various provisions for onerous contracts and other employee benefits provisions.

[24] Other payables and deferred income (non-current)

Amounts in millions of EUR	December 31, 2011	December 31, 2010
Non-interest bearing accruals	37	68
Deferred income	74	102
Phantom stock liability	6	11
Other payables	38	44
Balance as of	155	225

Deferred income concerns amounts received in advance for deferred connections fees and other revenues that will be recognized in the future.

[25] Trade and other payables (current)

Amounts in millions of EUR	December 31, 2011	December 31, 2010
Trade payables	1,423	1,340
Deferred income	601	757
Accrued interest	353	360
Social security and other taxes payable	294	287
Other payables and accrued expenses	1,133	1,238
Balance as of	3,804	3,982

[26] Derivative financial instruments

Derivative financial instruments (valued at fair value) can be broken down as follows:

Amounts in millions of EUR	December 31, 2011	December 31, 2010
Assets	172	17
Non-current	169	17
Current	3	–
Liabilities	-229	-251
Non-current	-229	-250
Current	–	-1
Total derivative financial instruments	-57	-234
– of which: interest-bearing assets which are designated in a hedge relationship	132	-85
– of which: interest-bearing assets which are not designated in a hedge relationship	11	–
– of which: forward exchange contracts	3	-1
– of which: call/put arrangements Reggefiber Group B.V. (net)	-203	-148

1) Interest bearing assets held at fair value through profit and loss do not contain financial assets held for trading

In 2011, no gains or losses from ineffectiveness of the cash flow hedges were recognized in the Consolidated Statement of Income (2010: nil). The ineffective portion of the fair value hedges during 2011 recognized in the Consolidated Statement of Income amounted to a loss of EUR 36 million (2010: EUR 17 million loss).

In 2011, the call/put arrangements regarding Reggefiber Group B.V. are included in Derivative financial instruments for a liability of EUR 203 million (2010: EUR 148 million net liability). Refer to Note 12 for more information.

Bonds denominated in foreign currency

All bonds denominated in foreign currencies are hedged with cross-currency swaps. The swaps are used to mitigate the exposure on currency risk and interest risk. For these hedge relations, KPN meets the criteria of, and also applies, hedge accounting.

KPN determines the effectiveness of the hedges at inception and on a quarterly basis. KPN uses the dollar offset method for its cash flow hedges and a regression method for its fair value hedges.

An overview of the cross-currency swaps at December 31, 2011 and December 31, 2010 is presented below (in millions):

Nominal	Currency	Maturity date	Pay	Receive	Hedge accounting	Fair value in Euro ¹
2011						
275	GBP	March 18, 2016	Fixed	Fixed	Cash Flow	15
250	GBP	May 29, 2019	Fixed	Fixed	Cash Flow	35
400	GBP	Nov 11, 2026	Fixed	Fixed	Cash Flow	18
850	GBP	September 17, 2029	Fixed	Fixed	Cash Flow	34
1,000	USD	October 1, 2030	Fixed	Fixed	Cash Flow	56
					Total	158
2010						
275	GBP	March 18, 2016	Fixed	Fixed	Cash Flow	2
250	GBP	May 29, 2019	Fixed	Fixed	Cash Flow	15
850	GBP	September 17, 2029	Fixed	Fixed	Cash Flow	-40
1,000	USD	October 1, 2030	Floating	Fixed	Fair Value	-62
					Total	-85

1) Negative amounts are liabilities.

For the GBP 275 million bond, maturing in March 2016 with annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in GBP to EUR 328 million. KPN also hedged the interest rate exposure by swapping the interest rates from GBP fixed to Euro fixed on annual basis (approximately 4.89% per annum).

For the GBP 250 million bond, maturing in May 2019 with annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in GBP to EUR 290 million. KPN also hedged the interest rate exposure by swapping the interest rate from GBP fixed to Euro fixed on annual basis (approximately 5.12% per annum).

For the GBP 400 million bond, maturing in November 2026 with annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in GBP to EUR 467 million. KPN also hedged the interest rate exposure by swapping the interest rate from GBP fixed to Euro fixed on annual basis (approximately 5.02% per annum).

For the GBP 850 million bond, maturing in September 2029 with annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in GBP to EUR 971 million. KPN also hedged the interest rate exposure by swapping the interest rate from GBP fixed to Euro fixed on annual basis (approximately 5.98% per annum).

For the USD 1,000 million bond, maturing in October 2030 with semi-annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in USD to EUR 756 million. KPN also hedged the interest rate exposure by swapping the interest rate from USD fixed to Euro fixed on a semi-annual basis (approximately 8.56% per annum).

Some of these hedges contain clauses that may result in future early Euro settlement obligations with the swap counterparty for part of the outstanding notional. This could lead to additional cash inflows or outflows before maturity.

Bonds denominated in EURO

In September and December 2011, KPN changed its interest rate profile by swapping the fixed coupons on three Eurobonds. This initiative was announced at KPN's Investor Day in May 2011. The bonds have been swapped to a 2-year duration, which is expected to result in lower interest costs, while maintaining visibility on interest paid for the next two years.

The Eurobonds with maturities on September 21, 2020 (notional EUR 1.0 billion), October 4, 2021 (notional EUR 500 million) and September 30, 2024 (notional EUR 700 million) have been swapped to a floating rate based on 3m Euribor using fixed-to-floating interest swaps. The first two years have been fixed with a floating-to-fixed interest rate swap.

For the fixed-to-floating interest rate swaps, KPN meets the criteria of, and also applies, hedge accounting. KPN determines the effectiveness of these fair value hedges at inception and on a quarterly basis, based on a regression method.

Based on the current hedge accounting rules, KPN is not allowed to apply hedge accounting for the 2-year floating-to-fixed swaps. These swaps are held at fair value through profit and loss, designated upon initial recognition. Until 31 December 2011, KPN booked a gain in the income statement of EUR 11 million.

An overview of the interest-rate swaps at December 31, 2011 is presented below (in millions unless stated otherwise). KPN did not hold any interest rate swaps at the end of 2010.

Nominal	Currency	Maturity date	Pay	Receive	Hedge accounting	Fair value in EUR
2011						
1,000	EUR	September 21, 2020	Floating	Fixed	Fair Value	-12
500	EUR	October 4, 2021	Floating	Fixed	Fair Value	-1
700	EUR	September 30, 2024	Floating	Fixed	Fair Value	-13
Total						-26

Nominal	Currency	Maturity date	Pay	Receive	Hedge accounting	Fair value in EUR
2011						
1,000	EUR	September 21, 2013	Fixed	Floating	None	5
700	EUR	September 30, 2013	Fixed	Floating	None	4
500	EUR	October 4, 2013	Fixed	Floating	None	2
Total						11

Foreign exchange contracts

The fair value of foreign exchange exposure hedge contracts is determined using market forward exchange rates at the balance sheet date.

Amounts in millions of EUR	Contract volume 2011	Fair value 2011	Contract volume 2010	Fair value 2010
Term shorter than 1 year	60	3	42	-1
Term longer than 1 year	2	-	2	-
Total	62	3	44	-1

For further details on derivative financial instruments, reference is made to Note 29 'Capital and Financial Risk Management – Exposure to Foreign Currency Risk'.

NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

[27] Net Cash flow used in investing activities

In 2011, the amount of acquisitions of subsidiaries, associates and joint ventures in the Consolidated Statement of Cash Flows mainly consisted of earn out payments for EUR 9 million and the acquisition of the shares of new subsidiaries for EUR 14 million, net of acquired cash (see also Note 30).

In 2010, the amount of acquisitions of subsidiaries, associates and joint ventures in the Consolidated Statement of Cash Flows mainly consisted of the acquisition of the shares held by non controlling interests in Yes Telecom and Station to Station for EUR 19 million (see also Note 20), earn out payments for EUR 41 million and the acquisition of the shares of new subsidiaries for EUR 24 million net of acquired cash (see also Note 30).

In 2010, disposals of subsidiaries, associates and joint ventures mainly relate to the proceeds from the sale of the B2B and Carrier Business in Belgium for EUR 63 million and the sale of a part of the business of Corporate Market (previously Getronics) to VeriSign.

In 2010, investments in intangible assets (excluding software) comprised EUR 284 million of expenses for the acquisition of licenses for additional spectrum in Germany.

Loans to associates and joint ventures in 2011 and 2010 concerned shareholder loans provided to Reggefiber (see also Note 12).

[28] Net Cash flow used in financing activities

On November 11, 2011, KPN issued a GBP 400 million Eurobond with a fifteen-year maturity and a coupon of 5.00%. The Sterling bond has been swapped into EUR 467 million with a Euro-equivalent coupon of 5.02%.

On September 8, 2011, KPN issued a EUR 500 million Eurobond with a ten-year maturity and a coupon of 4.50%.

On July 21, 2011, KPN redeemed EUR 986 million of the Eurobond 2004 – 2011, in accordance with the regular redemption schedule.

Drawings on the Credit Facility amounted to EUR 400 million as of December 31, 2011 (December 31, 2010: no drawings).

On October 1, 2010, KPN redeemed USD 1,162 million of the Global bond with a nominal amount outstanding of EUR 861 million, in accordance with the regular redemption schedule.

In September 2010, KPN conducted a tender and new issue transaction, in which KPN repurchased EUR 1,340 million of its 2011, 2012 and 2013 Eurobonds. The tender was financed on September 21, 2010 with a new EUR 1,000 million ten-year Eurobond with a coupon of 3.75%, and the remainder was financed with excess cash.

OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[29] Capital and Financial Risk Management

Capital management

Financing policy

KPN seeks to ensure a sustainable and prudent financial framework, with a ratio of net debt to operating result plus depreciation, amortization and impairments (Net debt to EBITDA) within the range of 2.0 to 2.5. Furthermore, KPN intends to maintain an investment grade credit profile with a minimum credit rating of Baa2 and BBB with Moody's and Standard & Poor's respectively. This financing policy allows KPN to accommodate its stated shareholder returns policy, while maintaining flexibility to grow and invest in its business.

This policy may change and is based on a number of assumptions concerning future events and is subject to uncertainties and risks that are outside KPN's control.

Amounts in millions of EUR	2011	2010
Total borrowings (carrying values, excluding derivatives)	13,099	12,537
Difference between carrying value and nominal value	-345	78
Total borrowings (nominal values, see breakdown below)	12,754	12,615
Cash and cash equivalents (including held for sale)	1,026	840
Net Debt	11,728	11,775
EBITDA (definition for Net Debt / EBITDA calculation)	5,132	5,428
Net Debt / EBITDA	2.3x	2.2x

Breakdown of total borrowings (nominal values)	2011	2010
Bonds	12,129	12,284
Financial lease obligations	149	172
Bank overdraft	76	158
Credit Facility	400	–
Other	–	1
Total borrowings	12,754	12,615

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 20 million. As of Q4 2011, Net Debt is based on the nominal value of interest bearing financial liabilities excluding derivatives, representing the repayment obligations in Euro. Prior periods have been recalculated, the reported Net Debt to EBITDA ratio was not impacted.

Shareholder remuneration policy

KPN intends to pay out an attractive dividend and to return excess cash to shareholders via share repurchases or special dividends. Excess cash depends on strategic investments (e.g. spectrum auction, fiber), business performance, the broader macroeconomic environment and a solid financial framework. KPN does not intend to hold unutilized excess cash balances, other than to manage its liquidity risks and working capital needs.

This policy may change and is based on a number of assumptions concerning future events and is subject to uncertainties and risks that are outside KPN's control.

Financial risk management

KPN is exposed to a variety of financial risks. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on KPN's financial position and performance. KPN uses derivative financial instruments to hedge certain risk exposures.

The financial risks are managed by KPN's Treasury department under policies approved by the Board of Management. These policies are established to identify and analyze financial risks faced by KPN, to set appropriate risk limits and controls, and to monitor adherence to those limits. Treasury manages these risks in close co-operation with the Group companies, business operations and other corporate departments. In 2010 and 2011, the Treasury policies have been reviewed and approved by the Board of Management, including the following key policies:

- Credit risk and counterparty risk
- Liquidity risk
- Market risk (currency risk and interest rate risk)

In addition, KPN's Treasury department provides cash management and funding services to the Group companies and business operations.

This note presents information about the Group's exposure to each of the above-mentioned risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these Consolidated Financial Statements.

The table below summarizes the Group's financial assets and liabilities:

Amounts in millions of EUR	December 31, 2011		December 31, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Fair value through profit and loss:				
Derivatives – non-current [26]	169	169	17	17
Derivatives – current [26]	3	3	–	–
Loans and receivables:				
Non-current receivables from financial leases [13]	3	3	2	2
Loans to associates and joint ventures [12]	127	127	33	33
Trade receivable [15]	1,022	1,022	1,153	1,153
Other receivables [15]	51	51	77	77
Cash and cash equivalents [17]	990	990	823	823
Subtotal	2,365	2,365	2,105	2,105
Available for sale financial assets [16]	48	48	53	53
Total	2,413	2,413	2,158	2,158
Financial liabilities				
Fair value through profit and loss:				
Derivatives – non-current [26]	229	229	250	250
Derivatives – current [26]	–	–	1	1
Subtotal	229	229	251	251
Financial liabilities measured at amortized costs:				
Borrowings [21]	13,099	13,966	12,537	13,466
Non-current payable [24]	–	–	12	12
Trade payables [25]	1,423	1,423	1,340	1,340
Other payables and accrued expenses and interest [25]	1,486	1,486	1,598	1,598
Subtotal	16,008	16,875	15,485	16,416
Total	16,237	17,104	15,736	16,667

[.] Bracketed numbers refer to the related notes.

The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2011.

Amounts in million of EUR	December 31, 2011			Total Balance
	Level 1	Level 2	Level 3	
Assets				
Financial assets at fair value through profit and loss:				
Derivatives (cross currency interest rate swap)	–	158	–	158
Derivatives (interest rate swap)	–	11	–	11
Other derivatives	–	3	–	3
Available-for-sale financial assets:				
Listed securities	12	–	–	12
Unlisted securities	–	–	36	36
Total assets	12	172	36	220
Liabilities				
Financial liabilities at fair value through profit and loss:				
Derivatives (interest rate swap)	–	26	–	26
Other derivatives [12]	–	–	203	203
Total liabilities	–	26	203	229

[.] Bracketed numbers refer to the related notes.

The following table presents the Group's assets and liabilities that were measured at fair value at December 31, 2010.

Amounts in million of EUR	Level 1	Level 2	Level 3	Total Balance
Assets				
Financial assets at fair value through profit and loss:				
Derivatives (cross currency interest rate swap)	–	17	–	17
Available-for-sale financial assets:				
Listed securities	19	–	–	19
Unlisted securities	–	–	34	34
Total assets	19	17	34	70
Liabilities				
Financial liabilities at fair value through profit and loss:				
Derivatives (cross currency interest rate swap)	–	103	–	103
Other derivatives [12]	–	–	148	148
Total liabilities	–	103	148	251

[..] Bracketed numbers refer to the related notes.

The fair value of financial instruments traded in active markets is based on quoted market prices. If applicable, these instruments are included in Level 1.

An instrument is included in Level 2 if the financial instrument is not traded in an active market and if the fair value is determined by using valuation techniques based on maximum use of observable market data for all significant inputs. For the derivatives used for hedging purposes, KPN uses the estimated fair value of financial instruments determined by using available market information and appropriate valuation methods. The estimated fair value approximates the value at which the instruments could be exchanged in an arm's length transaction between knowledgeable, willing parties, other than in a forced liquidation or sale. For derivatives used for hedging, the fair value of derivatives is estimated by using discounted cash flow models taking into account spot rates on the balance sheet date and Euro and foreign currency swap curves. KPN has its derivative instruments outstanding with financial institutions that had a credit rating of A3 or higher with Moody's at December 31, 2011.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3 and their fair value is estimated using models and other valuation methods. To the extent possible, the assumptions and inputs used take into account market pricing information and expectations. However, such information is by its nature subject to uncertainty. Changes arising as new information becomes available could impact income or other comprehensive income.

The valuation of available-for-sale unlisted securities is based upon a discounted cash flow model.

Other derivatives relate to the call/put arrangements of Reggefiber Group B.V. These options are valued using a binominal tree approach and depend on the business performance of Reggefiber under various scenarios with different probabilities (combination of penetration, price structure and approval of Dutch competition authority NMa), discount rates and the conditions of the call/put arrangement itself. Based on current business performance and management's best estimate of the likelihood of possible scenarios and expected business performance, the value of the call/put arrangements was EUR 203 million (liability) as at December 31, 2011 (2010: 148 million). The change in value during the year of EUR 55 million is recorded in the consolidated statement of income as a loss under Financial results. In case of a 5%-point lower expected penetration rate, ceteris paribus, the value of the call/put arrangement would have been approximately EUR 80 million higher. For more information on the call/put arrangements of Reggefiber Group B.V. reference is made to Note 12.

The following table presents the net changes in 'other derivatives' in Level 3:

Amounts in million of EUR	2011	2010
Balance as of January 1	148	102
Losses recognized in profit or loss [12]	55	46
Balance as of December 31	203	148

[..] Bracketed numbers refer to the related notes.

For other financial assets and liabilities the following methods and assumptions were used to determine fair value:

- Borrowings: based on the listed price of the bonds
- Cash, cash equivalents, accounts receivable and payable: as the maturity of these financial instruments is short, the carrying value approximates the fair value.

Credit and counterparty risk

KPN's financial assets are subject to credit risk and counterparty risk. Credit risk arises from the possibility of asset impairment occurring when counterparties are unable to meet their obligations in transactions involving financial instruments.

Pursuant to the policy of managing credit risk related to financial counterparties, KPN sets limits for the maximum exposure per counterparty and investment periods, which are primarily based on minimum credit ratings. Following this policy, KPN spreads its cash and cash equivalents balances and derivatives over several counterparties. Separate limits are set for some strong counterparties without credit ratings and limited credit risk such as the Dutch State. Furthermore, KPN only invests in liquid securities and deposits with short maturities.

During 2011, KPN monitored counterparty risk on a regular basis, based on the counterparty's credit ratings and other metrics. These other metrics include Credit Default Swap (CDS) levels of the counterparties, levels of government ownership and the level of systemic importance to the banking system. It is KPN's policy to invest excess cash balances with counterparties with a minimum credit rating of A1 at Moody's. Cash balances used for working capital purposes can also reside at (local) banks with lower credit ratings. A substantial part of the cash balances at year end were invested at institutions with a credit rating of A1 at Moody's or stronger. In addition, KPN invested its cash balances in instruments with high liquidity.

Credit risk on trade receivables is controlled based on restrictive policies for client acceptance. Credit management is focused on mobile services as the credit risk is considered to be the highest within this part of KPN's business. Before accepting certain new clients in this segment, KPN requests credit watchers to provide credit management reports. In addition, KPN keeps track of the payment performance of customers. In case customers fail to meet set criteria, payment issues have to be solved before a new transaction with this customer will be entered into.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large and unrelated customer base. The Board of Management believes there is no additional credit risk provision required in excess of the allowance for doubtful receivables (see Note 15). Receivables relating to integrated, outsourced and managed ICT solutions are monitored on an individual basis. Reference is made to 'Significant Accounting Policies – trade and other receivables'.

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. As per December 31, 2011, KPN has parent guarantees (based on BW 2: Article 403 statements) and bank guarantees outstanding to third parties for its Dutch wholly-owned subsidiaries.

Maximum exposure to credit risk

As KPN does not provide financial guarantees other than to wholly-owned subsidiaries, the carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at reporting date amounts to the total of the financial assets including cash (EUR 2,413 million at December 31, 2011, and EUR 2,158 million at December 31, 2010).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations associated with financial instruments as they fall due. The Group's approach to managing liquidity is to ensure sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group. This means that KPN secures its bond redemptions well ahead. KPN has a EUR 2 billion syndicated Facility, maturing in 2016 with more than 14 banks, all of which had a rating of Baa1 or higher with Moody's as at December 31, 2011.

The table below provides a maturity analysis of the financial liabilities based on the remaining contractual maturities as of December 31, 2011.

Amounts in millions of EUR	Borrowings				Derivatives ¹		Non-current payable	Trade and other payables and accrued expenses	Total
	Bonds and Loans ²	Interest on Bonds and Loans	Financial lease obligations	Other Debt	Derivatives inflow (including interest)	Derivatives outflow (including interest)			
2012	957	611	28	–	–267	234	–	2,556	4,119
2013	1,085	594	16	–	–261	234	–	–	1,668
2014	1,400	536	12	–	–235	209	–	–	1,922
2015	1,000	458	12	–	–235	209	–	–	1,444
2016	1,242	409	12	–	–564	538	–	–	1,637
2017 and subsequent years	5,921	2,281	69	–	–4,810	4,593	–	–	8,054
Contractual cashflows	11,605	4,889	149	–	–6,372	6,017	–	2,556	18,844

1) The Reggefiber call/put arrangements are not included as the exercise of the related options is uncertain. See Note 12 for an explanation of the option triggers and the related cash flows.

2) Redemptions on the Credit Facility are not included, because level and timing of redemptions may vary.

The present value of the financial lease obligations amount to EUR 149 million at December 31, 2011 (2010: EUR 171 million). The financial lease obligations primarily include lease obligations for buildings leased back by KPN (see also Note 11). In some of these lease arrangements for buildings, an option is included to extend the lease term.

The table below provides a maturity analysis of the financial liabilities based on the remaining contractual maturities as of December 31, 2010.

Amounts in millions of EUR	Borrowings				Derivatives		Non-current payable	Trade and other payables and accrued expenses	Total
	Bonds and Loans	Interest on Bonds and Loans	Financial lease obligations	Other Debt	Derivatives inflow (including interest)	Derivatives outflow (including interest)			
2011	986	664	43	–	–155	125	–	2,578	4,241
2012	957	620	30	1	–155	124	14	–	1,591
2013	1,085	572	20	–	–155	124	–	–	1,646
2014	1,400	514	17	–	–155	124	–	–	1,900
2015	1,000	436	16	–	–155	124	–	–	1,421
2016 and subsequent years	6,721	2,745	99	–	–4,169	3,897	–	–	9,293
Contractual cashflows	12,149	5,551	225	1	–4,944	4,518	14	2,578	20,092

Some of the derivatives outstanding contain clauses that may result in future early Euro settlement obligations with the swap counterparty for part of the outstanding notional. This could lead to additional cash inflows or outflows before maturity.

With regard to other purchase commitments, capital commitments reference is made to Note 31 'Commitments, contingencies and legal commitments'.

Available financing sources 2011

Due to German capital maintenance rules, KPN is committed to keep certain funds available at E-Plus. As of December 31, 2011, KPN's net cash and cash equivalents position amounted to EUR 950 million (including EUR 36 million of cash classified as held for sale and EUR 76 million in non-netted notional cash pools).

In addition to the available cash and cash equivalents, cash flows from operations and cash flows from any further sales of non-core assets, KPN has the following financing resources available:

EUR 2.0 billion multi-currency revolving credit facility

In July 2011, KPN signed a new EUR 2.0 billion Revolving Credit Facility with a tenor of five years with two one-year extension options. The facility replaces the previous EUR 1.5 billion revolving credit facility, thereby extending the maturity profile from August 2013 to July 2016 while obtaining competitive conditions. The credit facility does not contain any financial covenants. The size of the credit facility has been increased to EUR 2.0 billion in line with the Treasury optimization initiatives announced during KPN's Investor Day in May 2011.

As of December 31, 2011, EUR 400 million was drawn under the credit facility (December 31, 2010: no drawings).

Overdraft facilities

During 2011, KPN had four uncommitted overdraft facilities with four banks, worth EUR 50 million each. The overdraft facilities may be cancelled at any time and do not have a specified maturity date. In 2010 and 2011, KPN drew on these facilities from time to time. As of December 31, 2011, and 2010, there were no amounts drawn under any of the overdraft facilities, except for bank overdrafts under cash pool agreements.

Global Medium Term Note Program

KPN updated its GMTN program in April 2011. The program contains no commitment from investors to provide funding to KPN. Funding will be available subject to market conditions and other factors at the relevant time.

Capital Resources Covenants

KPN's existing capital resources contain the following covenants as at December 31, 2011, which could trigger additional financial obligations or early redemption of the outstanding indebtedness.

All of KPN's bonds issued after January 1, 2006, adding up to EUR 10.4 billion at December 31, 2011, contain a change of control clause by means of which KPN may be required to redeem such outstanding bonds early, in the event that (i) certain changes of control occur and (ii) within the change of control period a rating downgrade to sub investment grade occurs in respect of that change of control. The change of control period ends 90 days after the change of control event occurs.

In addition, many of KPN's capital resources contain a covenant prohibiting KPN from entering into any amalgamation, demerger, merger, corporate restructuring or reorganization, unless prior written consent has been given by a majority of the lenders or bondholders or the resulting company assumes all of the rights and obligations with respect to the loans or bonds.

Market risk

KPN is exposed to various kinds of market risks in the ordinary course of business. These risks include:

- Foreign currency exchange rate risks
- Interest rate risks
- Other market price risk

KPN has established policies that deal with the use of derivative financial instruments in order to reduce foreign currency exposure and to manage the interest rate profile. KPN's centralized Treasury department matches and manages intercompany and external foreign currency exposures reported by the various business operations and Group companies. Hedges are applied on a full coverage basis, when economically feasible.

In line with these policies, derivative financial instruments are used solely for the purpose of hedging underlying exposures to foreign currency exchange rate risk and interest rate risk. KPN does not enter into derivative financial instruments for speculative purposes. Contracts related to derivative financial instruments are entered into for periods consistent with the underlying exposures (when economically feasible) and do not constitute positions independent of these exposures. None of these financial instruments are used for trading purposes or taken as speculative positions.

KPN's policy is to apply hedge accounting to the extent possible for derivative financial instruments related to interest-bearing debt and foreign exchange risk for bonds that are not denominated in Euro. Management has set up a policy to apply hedge accounting only when certain criteria are met regarding formal designation and documentation of the hedge relationship, the risk management objective, the strategy for undertaking the hedge and the effectiveness of the hedge. As a consequence, KPN tests effectiveness of the hedge relationship at inception and every quarter. Reference is made to Note 26.

Foreign currency exchange rate risks

The group's primary activities are denominated in euros. Accordingly, the euro is the company's functional currency, which is also the group's presentation currency. Items included in the financial information of individual entities in the group are measured using the individual entity's functional currency, which is the currency of the primary economic environment in which the entity operates.

Currency exchange risk is the risk that the future cash flows will fluctuate because of changes in foreign exchange rates. The risk mainly results from settlement of international telecommunications traffic, purchase of goods and equipment and primarily exists of pound sterling and US dollar exposure. Foreign currency exchange rate risks related to bonds that are not denominated in Euro are hedged into Euro in line with KPN's hedging policies.

As a result of currency fluctuations, the value of subsidiaries operating outside the eurozone markets could fluctuate and affect KPN's balance sheet and equity positions from year to year. These translation exposures are not hedged.

Group companies and business operations are obliged to hedge their firm commitments and highly predictable anticipated transactions in non-functional currencies with a counter value above EUR 100,000 by forward contracts transacted with KPN's Treasury department. Accordingly, Treasury matches and manages the intercompany and external exposures using forward exchange contracts. KPN does not apply hedge accounting for these hedge instruments. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

As of December 31, 2011, more than 97% of cash and cash equivalents was denominated in the functional currency of the related entities. At December 31, 2011, more than 93% of the net amount of trade receivables and trade payables was outstanding in the functional currency of the related entities.

Reference is made to Note 6 for the recognized exchange rate differences in the Consolidated Statement of Income.

Interest rate risk and interest rate profile

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. Borrowings, derivatives, cash and cash equivalents are subject to interest rate risk. As KPN has a mix of financial instruments bearing a floating or a fixed interest rate, KPN is subject to risk from movements in interest rates. An unfavorable interest rate movement would result in additional financial expenses.

In September 2011, KPN changed its interest rate profile by swapping the fixed coupons on three Eurobonds. This initiative was announced at KPN's Investor Day in May 2011. The bonds have been swapped to a 2-year duration, which is expected to result in lower interest costs, while maintaining visibility on interest paid for the next two years. The Eurobonds with maturities on September 21, 2020 (notional EUR 1.0 billion), October 4, 2021 (notional EUR 500 million) and September 30, 2024 (notional EUR 700 million) have been swapped to a floating rate based on 3m Euribor using fixed-to-floating interest swaps. The first two years have been fixed with a floating-to-fixed interest rate swap.

With regard to interest rate risk exposure, KPN periodically evaluates the desired mix of fixed and floating interest rate liabilities. Any interest exposure longer than one year is considered to be fixed. As of December 31, 2011, approximately 96% of KPN's interest-bearing gross debt including credit facility after swap was at fixed interest rates (2010: 93%). With a view to existing and forecasted debt structure, KPN's Treasury department can enter into additional future derivative instruments to adjust the mix of fixed and floating interest rate liabilities. For all these hedges, KPN will apply hedge accounting to the extent possible under IAS39.

Other market price risk

KPN does not enter into commodity contracts other than for its own use to meet the Group's expected usage. KPN has entered into energy contracts for own use with a nominal amount of approximately EUR 74 million at December 31, 2011 (2010: EUR 115 million) (see Note 31 'Commitments, Contingencies and legal proceedings' section purchase commitments').

Sensitivity analysis

Credit Facility and Cash

As of December 31, 2011, KPN carried out a sensitivity analysis with regard to interest rate risk on interest-bearing assets and liabilities. With all other variables held constant, each adverse change of 100 basis points in 6 month Euribor would hypothetically on balance not result in higher interest costs per annum (2010: none) because of the outstanding cash and cash equivalents which also carry a floating interest.

Cash flow hedges

As of December 31, 2011, KPN carried out a sensitivity analysis with regard to interest rate risk and currency on the cash flow hedges. KPN applies cash flow hedges on all bonds not denominated in Euro. With all other variables held constant, KPN calculated the hypothetical impact of changes in interest rates based on various scenarios. This would hypothetically result in a higher or lower value of the balance of the hedge reserve, which is included in equity attributable to equity holders. In a similar way, KPN calculated the hypothetical impact of changes in the EUR/USD rate and the EUR/GBP rate, holding all other variables constant. The results of the analyses are shown in the table below, indicating the hypothetical impact on the balance of the hedge reserve as at December 31, 2011:

Impact hedge reserve amounts in million of EUR	Change	2011	2010
Cash flow hedges			
Changes in EUR, GBP and USD interest rates	+2%-point	-9	-18
	+1%-point	-5	-9
	-1%-point	7	12
Changes in EUR/USD currency rate and EUR/GBP currency rate	+20%	260	70
	+10%	142	38
	-10%	-173	-47
	-20%	-390	-105

Prospective effectiveness testing indicates that all cash flow hedges are expected to be 100% effective. As a consequence, the expected impact on the income statement is immaterial.

Fair value hedges

As of December 31, 2011, KPN carried out a sensitivity analysis with regard to interest rate risk on the fair value hedges. KPN applies fair value hedge accounting on Euro-denominated bonds that are swapped to a floating rate. With all other variables held constant, KPN calculated the hypothetical impact of changes in interest rates based on various scenarios. The expected impact on the cash flow statement and the income statement is immaterial, because the hedges are expected to be highly effective. This results in minimal hedge ineffectiveness and P&L volatility.

Derivatives held at fair value

As of December 31, 2011, KPN carried out a sensitivity analysis with regard to the 2-year interest rate swaps for which no hedge accounting is applied. All changes in interest rates and resulting sensitivities have only profit & loss impact and no cash flow impact.

Impact Profit & loss amounts in million of EUR	Change	2011	2010
Interest rate swaps (2-year floating-fixed)			
Changes in EUR interest rates	+2%-point	71	-
	+1%-point	36	-
	-1%-point	-34	-

For a sensitivity analysis on interest rate risk with regard to pensions, reference is made to Note 22.

[30] Business combinations and other changes in consolidation

Changes in consolidation 2011

On March 1, 2011 KPN acquired 100% of the Content Network B.V. The acquisition did not have a significant impact on the financial position, income and cash flows of KPN. No other business combinations occurred in 2011.

Changes in consolidation 2010

On December 20, 2010, KPN acquired 100% of the shares of Atlantic Telecom Holding. During 2011, KPN finalized the purchase price allocation for this acquisition. The acquisition did not have a significant impact on the financial position, income and cash flows of KPN.

[31] Commitments, contingencies and legal proceedings

Commitments

Amounts in millions of EUR				Amounts due by period	
	Less than 1 year	1–5 years	More than 5 years	Total December 31, 2011	Total December 31, 2010
Capital and purchase commitments	1,597	356	19	1,972	2,256
Rental and operational lease contracts	457	831	934	2,222	1,820
Guarantees	72	119	60	251	229
Other	12	3	–	15	14
Total commitments	2,134	1,309	1009	4,460	4,319

KPN only discloses committed obligations in its off-balance sheet obligations, in line with IFRS. Voluntary prolongations and cancellable periods are not included under rental and operational lease contracts.

Rental and operational lease contracts

For buildings, the majority of contracts include rental fees that are subject to a yearly indexation. Some contracts give KPN an option to buy the property when the landlord wants to sell that property.

For site rentals and mobile towers, the majority of agreements include an option for renewal of the contract and rental fees that are subject to a yearly indexation percentage. In addition, the majority of contracts can be cancelled by KPN only, with a notice period of 12 months.

The minimum non-cancellable sublease amounts expected to be received amount to EUR 185 million (2010: EUR 227 million), which relate to subleases of buildings and site sharing arrangements.

The total costs of operating leases and rental contracts totaled EUR 484 million in 2011 (2010: EUR 426 million) and is included in 'cost of work contracted out and other expenses' and 'other operating expenses' in the Consolidated Statement of Income. These operating lease and rental commitments mainly relate to property, plant and equipment.

Guarantees

These commitments mainly consist of financial obligations of Group companies under certain contracts guaranteed by KPN.

As a customer of Reggefiber, KPN has agreed to guarantee ODF fees for homes connected in 14 projects up to a certain minimum penetration level in a project. The ODF fees paid accrue interest for a period of five years. The ODF fees paid and the accrued interest will be settled with Reggefiber when the minimum penetration level is reached against the ODF fees incurred above that minimum level. KPN and Reggeborgh jointly have a similar agreement with Reggefiber regarding 8 other projects. However, an additional condition regarding the repayment compared to the other 14 projects is that repayment is only due when free cash flow is available. The guarantees under the KPN and the KPN/Reggeborgh contracts terminate upon reaching specified penetration targets, but ultimately after 20 years. At the end of 2011 the prepaid fees and accrued interest amounted to EUR 20 million (2010: EUR 11 million).

Purchase commitments

The decrease in purchase commitments mainly relate to mobile handsets.

Contingencies

Contingent assets

In 2003, KPN Group Belgium (BASE) launched a damages claim against Belgacom Mobile (Proximus), claiming that the latter had abused its dominant position by applying very low onnet rates. In 2004, Mobistar launched a similar claim. In 2007, the Commercial Court determined Belgacom Mobile's dominant position on the retail market until the end of 2004, and ordered an expertise. In a first preliminary report of October 2, 2009, the court experts concluded that Proximus has indeed abused its dominance and that, for the period 1999–2004, this abuse resulted in damages of EUR 824 million for KPN Group Belgium (BASE) and of EUR 357 million for Mobistar. In a second preliminary report of December 9, 2010, the court experts increased these damage amounts to EUR 1329 million for KPN Group Belgium (BASE) and to EUR 510 million for Mobistar. These amounts are exclusive of interest. The final expert report has been delayed following last minute objections raised by Belgacom on procedural aspects of the case, claiming that the experts were insufficiently qualified and/or prejudiced and that the judge presiding over the case was ineligible due to specific requirements regarding language in the Belgian legal system. The final expert report is expected medium 2012.

Contingent liabilities

In KPN's Articles of Association and in a further decision by the Board of Management, which was approved by the Supervisory Board, KPN has indemnified the members and former members of KPN's Board of Management and Supervisory management, as well as a number of KPN's officers and directors and former officers and directors against liabilities, claims, judgments, fines and penalties incurred by such officer or director as a result of any threatened, pending or completed action, investigation or proceeding (whether civil, criminal or administrative) brought by a third party in relation to acts or omissions in or related to his capacity as officer or director. The indemnification does not apply to claims and expenses reimbursed by insurers, nor to an officer or a director that is adjudged to be liable for willful misconduct ('opzet') or intentional recklessness ('bewuste roekeloosheid').

As defined in the Telecommunications Act the obligation for landlords to tolerate cables which are part of a public electronic communications network terminates as soon as those cables have been idle for a continuous period of 10 years. In that situation, a public electronic communications network supplier is required to remove cables on request of a landlord. As relevant factors are currently unpredictable and uncertain, KPN is not able to make a reliable estimate of the impact and no provision was recognized at December 31, 2011.

Legal proceedings

KPN is involved in several legal proceedings, most of which are primarily related to regulatory or other issues in the ordinary course of business. KPN does not expect these proceedings to result in liabilities that have a material effect on KPN's financial position. Where it is probable that the outcome of the legal proceedings will be unfavorable for KPN, and the financial outcome of these proceedings can be reliably estimated, a provision has been accounted for in the Consolidated Financial Statements. In the following paragraphs, the main pending proceedings for which the outcome can not be reliably estimated are described.

KPNQwest

KPN is involved in several legal proceedings related to the bankruptcy of KPNQwest.

On September 13, 2006, KPN was served with a writ of summons by Citibank N.A. and Cargill Financial Markets Plc. claiming EUR 218.9 million, excluding interest and costs, from various former officers and former shareholders, including KPN, of KPNQwest. Citibank and Cargill claim compensation for damages on a EUR 525 million syndicated loan provided to KPNQwest in 2002 on the basis of misrepresentation and concealment by former management and former shareholders when the loan was provided to KPNQwest. Citibank acted as agent of the syndicate and as a 14.7% principal lender of the syndicated loan. Cargill claims that it acquired 85.3% of the claim by assignments of their part in the syndicated loan by other original lenders. A hearing of the District Court of Amsterdam has been held on September 26 and September 27, 2011.

On September 28, 2010 the bankruptcy trustees KPNQwest served a writ of summons against Qwest, Koninklijke KPN N.V., former CEO of KPNQwest and nearly all former members of the Supervisory Board of KPNQwest. Trustees hold all defendants liable for damages caused by the bankruptcy of KPNQwest. We are preparing our statement of defence.

[32] Related-party transactions

In the normal course of business activities, KPN enters into agreements and transactions with shareholders, joint ventures and associated undertakings, for various business purposes, including the furnishing of services or financing of operating activities. KPN also enters into such transactions in the ordinary course of business with certain companies or organizations over which KPN, members of the Supervisory Board or Board of Management, may have a significant influence. The related-party transactions are described below. KPN considers none of these transactions to be material on an individual basis. Transactions within the KPN Group are not included in the description as these are eliminated in the Consolidated Financial Statements.

Transactions with joint ventures and associated companies

Associated, non-consolidated companies and joint ventures of KPN sell goods and provide services to consolidated KPN companies. In addition, consolidated KPN companies sell goods or provide services to these associated companies and joint-ventures (see Note 12 and 16).

The total value of sales transactions by KPN in 2011 with joint ventures and associated companies amounted to approximately EUR 47 million (2010: EUR 37 million) and the total value of purchase transactions amounted to approximately EUR 37 million (2010: EUR 41 million).

Transactions with directors and related parties

For details of the relation between directors and the Company, reference is made to the 'Remuneration and Organizational Development Report' on pages 63 to 74 of this annual report.

The Company has not been, and is not now, a party to any material transactions, or proposed transactions, in which members of the Supervisory Board or Board of Management or close members of their families had a direct or indirect material interest in 2011.

The total value of sales transactions by KPN in 2011 with parties in which members of the Supervisory Board or Board of Management or close members of their families had a direct or indirect material interest amounted to approximately EUR 32 million (2010: EUR 76 million) and the total value of purchase transactions amounted to approximately EUR 43 million (2010: EUR 63 million), all in the ordinary course of business.

[33] Subsequent events

On January 11, 2012, Capital Research and Management Company notified that they held 15.11% of the voting rights related to KPN's ordinary share capital. On January 25, 2012, Capital Income Builder Inc. notified that they held 5.08% of KPN's ordinary share capital, excluding voting rights.

On January 24, 2012, KPN announced the divestment of Getronics International as part of KPN's strategy of strengthening its global delivery capabilities for major international clients through partnerships (subject to customary closing conditions). The related assets and liabilities were classified held for sale as at December 31, 2011, whereby the measurement of the asset and liabilities, at the lower of carrying amount and fair value less cost to sell, resulted in a loss of EUR 30 million.

On January 31, 2012, KPN sold a part of its mobile towers, which resulted in a book gain of EUR 31 million. The mobile towers were classified as held for sale as at December 31, 2011.

[34] Segment reporting

Based on KPN's internal structure and internal reporting to the CEO the reportable segments are summarized below.

The Netherlands

The Netherlands consists of the following:

- Consumer Segment – by providing fixed and mobile telephony, internet and TV, KPN offers retail customers a broad package of services in the areas of communication, information, entertainment and commercial services;
- Business Segment – KPN offers its business customers (small, medium size) a complete portfolio of service from fixed and mobile telephony and internet to a range of data network services, workspace management and data center services;
- Corporate Market (previously Getronics) Segment operates a global ICT services company with a market-leading position in the Benelux, offering end-to-end solutions in infrastructure and network-related IT to KPN's largest, corporate customers;
- Wholesale & Operations Segment is responsible for KPN's operational activities for the Dutch networks (both fixed and mobile) and for KPN's wholesale customers and portfolio in the Netherlands.
- iBasis Group – through iBasis, KPN is a top player in the international wholesale voice market. iBasis carries international phone calls worldwide; and
- The Netherlands' Other Segment.

Mobile International

Mobile International comprises:

- Germany Segment, including E-Plus and blau Mobilfunk – is a successful Challenger network operator with own brands and partners in Germany;
- Belgium Segment, including KPN Group Belgium – is a successful Challenger network operator with own brands and partners in Belgium; and
- Rest of World Segment, including KPN France, KPN Spain and Ortel Mobile – successful virtual network operators offering mobile services through their own brands and partners.

Other activities Segment

Other activities comprise the results of KPN's Corporate Center (support) and the call center activities of SNT Germany.

Due to the fact that KPN neither allocates interest expenses to all segments nor accounts for taxes in the segments, the disclosure is limited to operating profit for the year.

The basis for inter-segment pricing for wireless services is as follows:

- 1) KPN's mobile terminating services are in some aspects regulated. The price level of the mobile terminating services to external wholesale operators has been set in consultation with and approved by the Dutch competition and telecommunications regulators. The mobile terminating tariffs are applied on a non-discriminatory basis within the segment Consumer, Business and Wholesale & Operations and to other (external) operators; and
- 2) Roaming tariffs between KPN's Mobile operators are based on bilateral agreements and contain generally similar terms as bilateral agreements with third parties.
- 3) The basis for inter-segment pricing within the Netherlands, other than mentioned in category 1) and 2) above can be described as follows:
- 4) For identical products which are also sold to external parties, KPN uses wholesale prices;
- 5) For non-regulated retail products which do not fall within the scope of category 3, KPN uses cost-based prices; and
- 6) For regulated retail products which do not fall within the scope of category 3, KPN uses external purchase costs and an additional charge which is equal to a pre-determined percentage of the difference between the gross external retail revenues and external purchase costs; this method is also referred to as 'retail-minus'.

The Netherlands

Amounts in millions of EUR, unless otherwise stated	Consumer Segment		Business Segment		Wholesale & Operations Segment		iBasis Segment		Corporate Market (previously Getronics) Segment		Other (including eliminations)		Total The Netherlands	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Statement of Income														
External revenues ¹	3,601	3,775	2,163	2,189	579	627	750	719	1,705	1,796	-1	-	8,797	9,106
Other income	-	1	3	15	121	39	-	-	5	6	-	8	129	69
Inter-division revenues	134	164	207	220	1,988	2,133	227	193	191	164	-2,585	-2,716	162	158
Total revenues	3,735	3,940	2,373	2,424	2,688	2,799	977	912	1,901	1,966	-2,586	-2,708	9,088	9,333
Total operating expenses excluding depreciation, amortization and impairments	-2,698	-2,819	-1,592	-1,605	-1,013	-1,080	-946	-880	-1,897	-1,808	2,616	2,747	-5,530	-5,445
EBITDA²	1,037	1,121	781	819	1,675	1,719	31	32	4	158	30	39	3,558	3,888
Depreciation, amortization and impairments	-279	-255	-114	-98	-865	-858	-20	-25	-451	-151	-43	-40	-1,772	-1,427
Operating profit	758	866	667	721	810	861	11	7	-447	7	-13	-1	1,786	2,461
Total assets	3,409	3,152	2,675	2,710	8,774	9,178	448	534	2,415	2,904	-1,283	-1,005	16,438	17,473
Total liabilities	3,140	2,955	2,685	2,718	8,775	9,178	365	447	1,835	1,930	-1,277	-1,003	15,523	16,225
Other														
Investments in intangible assets	121	138	78	80	97	80	-	-	36	41	26	34	358	373
Investments in property, plant and equipment	201	170	35	29	649	550	9	12	91	79	17	1	1,002	841
Investments in associates and joint ventures	-	-	-	-	234	255	-	-	20	21	-	-	254	276
Results associates and joint ventures	-	-1	-	-	-20	-26	-	-	0	2	-	-	-20	-25
Employees end of period (FTEs)	3,924	3,903	2,254	2,434	3,515	3,672	357	365	11,483	11,930	936	592	22,469	22,896
Employees average (FTEs)	3,914	4,016	2,344	2,684	3,594	3,888	361	360	11,707	12,445	762	599	22,683	23,991

1) External revenues mainly consist of rendering of services.

2) Earnings before interest, tax and depreciation, amortization and impairments.

Mobile International

Amounts in millions of EUR, unless otherwise stated	Germany		Belgium		Rest of World (incl. eliminations)		Total Mobile International	
	2011	2010	2011	2010	2011	2010	2011	2010
Statement of Income								
External revenues ¹	3,144	3,151	722	725	295	261	4,161	4,137
Other income	4	5	1	–	9	1	14	6
Inter-division revenues	88	85	58	60	-113	-103	33	42
Total revenues	3,236	3,241	781	785	191	159	4,208	4,185
Total operating expenses excluding depreciation, amortization and impairments	-1,883	-1,867	-508	-514	-181	-178	-2,572	-2,559
EBITDA²	1,353	1,374	273	271	10	-19	1,636	1,626
Depreciation, amortization and impairments	-650	-661	-140	-122	-20	-8	-810	-791
Operating profit	703	713	133	149	-10	-27	826	835
Statement of Financial Position								
Total assets	10,430	10,462	1,882	1,969	158	162	12,470	12,593
Total liabilities	26,741	27,419	316	348	143	135	27,200	27,902
Other								
Investments in intangible assets	107	356	29	13	3	7	139	376
Investments in property, plant and equipment	507	475	88	112	10	16	605	603
Investments in associates and joint ventures	1	1	1	1	–	–	2	2
Results associates and joint ventures	–	–	–	–	–	–	–	–
Employees end of period (FTEs)	4,690	2,577	810	773	246	251	5,746	3,601
Employees average (FTEs)	3,634	2,712	792	838	248	229	4,674	3,779

1) External revenues mainly consist of rendering of services.

2) Earnings before interest, tax and depreciation, amortization and impairments.

KPN Total

Amounts in millions of EUR, unless otherwise stated	Other activities Segment		Total segments		Eliminations		Consolidated	
	2011	2010	2011	2010	2011	2010	2011	2010
Statement of Income								
External revenues ¹	64	81	13,022	13,324	–	–	13,022	13,324
Other income	-2	-1	141	74	–	–	141	74
Inter-division revenues	–	1	195	201	-195	-201	–	–
Total revenues	62	81	13,358	13,599	-195	-201	13,163	13,398
Total operating expenses excluding depreciation, amortization and impairments	-118	-119	-8,220	-8,123	195	201	-8,025	-7,922
EBITDA²	-56	-38	5,138	5,476	–	–	5,138	5,476
Depreciation, amortization and impairments	-7	-8	-2,589	-2,226	–	–	-2,589	-2,226
Operating profit	-63	-46	2,549	3,250	–	–	2,549	3,250
Balance sheet								
Total assets	25,045	25,818	53,953	55,884	-31,566	-33,147	22,387	22,737
Total liabilities	23,005	23,210	65,728	67,337	-46,271	-48,100	19,457	19,237
Other								
Investments in intangible assets	1	3	498	752	–	–	498	752
Investments in property, plant and equipment	4	3	1,611	1,447	–	–	1,611	1,447
Investments in associates and joint ventures	5	6	261	284	–	–	261	284
Result associates and joint ventures	-4	-6	-24	-31	–	–	-24	-31
Employees end of period (FTEs)	2,726	4,102	30,941	30,599	–	–	30,941	30,599
Employees average (FTEs)	3,414	4,105	30,770	31,874	–	–	30,770	31,874

1) External revenues mainly consist of rendering of services.

2) Earnings before interest, tax and depreciation, amortization and impairments.

Geographical information

KPN's divisions mainly operate in five geographical areas. The Netherlands is the home country, also being the main operating territory. The Americas consist of the United States, including Canada and all other countries of the American continent.

Amounts in millions of EUR	Financial year	Total non-current assets ¹	Total intangible assets	Total property, plant and equipment	Revenues and other income
Regions					
The Netherlands	2011	7,953	2,380	4,589	7,685
	2010	8,395	2,666	4,691	7,969
Germany	2011	8,113	6,417	2,480	3,267
	2010	8,147	6,605	2,326	3,298
Belgium	2011	624	217	445	852
	2010	665	253	459	844
United Kingdom	2011	131	–	–	91
	2010	138	7	8	123
The Americas	2011	182	110	20	750
	2010	188	120	18	719
Other	2011	52	88	–1	518
	2010	73	104	12	445
Consolidated	2011	17,055	9,212	7,533	13,163
	2010	17,606	9,755	7,514	13,398

1) Excluding deferred tax assets, pensions and financial instruments.

CORPORATE INCOME STATEMENT

Amounts in millions of EUR	2011	2010
Income from subsidiaries after taxes	2,314	2,295
Other income and expense after taxes	-765	-502
Profit attributable to equity holders	1,549	1,793

CORPORATE BALANCE SHEET

Before appropriation of profit

Assets

Amounts in millions of EUR	December 31, 2011	December 31, 2010
NON-CURRENT ASSETS		
Financial fixed assets		
Investments in subsidiaries	24,337	22,044
Loans to subsidiaries	5,440	5,588
Other financial fixed assets	279	142
Total non-current assets [A]	30,056	27,774
CURRENT ASSETS		
Accounts receivable from subsidiaries	708	1,224
Other receivables and accrued income [B]	20	25
Cash and cash equivalents	321	60
Total current assets	1,049	1,309
TOTAL	31,105	29,083

[..] Bracketed letters refer to the notes to the Corporate Balance Sheet.

Liabilities

Amounts in millions of EUR	December 31, 2011	December 31, 2010
Subscribed capital stock	344	377
Additional paid-in capital	6,717	8,184
Treasury shares reserve	-139	-646
Hedge reserve	-	-79
Fair value reserve available for sale financial assets	-	-8
Legal reserves	358	327
Retained earnings	-5,899	-6,448
Profit current year	1,549	1,793
Total equity attributable to equity holders [C]	2,930	3,500
NON-CURRENT LIABILITIES		
Loans [D]	12,317	11,987
Derivative financial instruments	26	102
Provisions for retirement benefit obligations	292	416
Other provisions	26	29
Other long-term liabilities	14	6
Total non-current liabilities	12,675	12,540
CURRENT LIABILITIES		
Accounts payable to subsidiaries	13,515	11,387
Other current liabilities [E]	1,623	1,260
Accruals and deferred income	362	396
Total current liabilities	15,500	13,043
TOTAL	31,105	29,083

[..] Bracketed letters refer to the notes to the Corporate Balance Sheet.

GENERAL NOTES TO THE CORPORATE FINANCIAL STATEMENTS

With reference to the Corporate Income Statement of Koninklijke KPN N.V., use has been made of the exemption pursuant to Section 402 of Book 2 of the Dutch Civil Code.

For the principles for the recognition and measurement of assets and liabilities and determination of the result for its Corporate Financial Statements, Koninklijke KPN N.V. applies the option provided in Section 2:362 (8) of the Dutch Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as 'Accounting policies') of the Corporate Financial Statements of Koninklijke KPN N.V. are the same as those applied for the Consolidated Financial Statements under IFRS.

Investments in consolidated subsidiaries are measured at net asset value. Net asset value is based on the measurement of assets, provisions and liabilities and determination of profit based on the principles applied in the consolidated financial statements.

Investments in which the company has significant influence on the financial and operational policies, but not control (associates), are accounted for using the equity method. Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognise the company's share of profit or loss of the investment after the date of acquisition. The company's investments in associates include goodwill identified on acquisition.

The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the European Union. Reference is made to the notes to the Consolidated Financial Statements.

NOTES TO THE CORPORATE BALANCE SHEET

Non-current assets

[A] Financial fixed assets

Amounts in millions of EUR	Group companies	Loans to Group companies	Other financial fixed assets	Total
Balance as of January 1, 2010	19,746	5,370	133	25,249
Exchange rate differences	5	–	–	5
Received dividends	–	–	–	–
Income from Group companies after taxes	2,295	–	–	2,295
Capital contributions	3	–	–	3
New loans	–	2,759	–	2,759
Withdrawals/redemptions	–	–2,541	–1	–2,542
Change in deferred taxes	–	–	–16	–16
Change in derivative financial instruments	–	–	17	17
Other	–5	–	9	4
Total changes	2,298	218	9	2,525
Balance as of December 31, 2010	22,044	5,588	142	27,774
Exchange rate differences	–15	–	–	–15
Income from Group companies after taxes	2,313	–	–	2,313
Capital contributions	3	–	–	3
New loans	–	145	8	153
Withdrawals/redemptions	–17	–293	–2	–312
Change in deferred taxes	–	–	–28	–28
Change in derivative financial instruments	–	–	154	154
Other	9	–	5	14
Total changes	2,293	–148	137	2,282
Balance as of December 31, 2011	24,337	5,440	279	30,056

The loans to Group companies have maturity dates between 2012 and 2015 and a mixture of floating, fixed and profit-dependent interest rates.

Other financial fixed assets include a deferred tax asset of EUR 0 million as at December 31, 2011 (2010: EUR 28 million), as well as derivative financial instruments of EUR 172 million (2010: 17 million) as at that date. For more information on derivatives, refer to Note 26 of the Consolidated Financial Statements.

Current assets

[B] Other receivables

Amounts in millions of EUR	December 31, 2011	December 31, 2010
Accrued income	15	21
Other receivables	5	4
Balance as of	20	25

Equity attributable to equity holders

[C] Equity attributable to equity holders

For a breakdown of Equity attributable to equity holders, reference is made to the Consolidated Statement of Changes in Group Equity and the notes thereto.

Legal reserves

Legal reserves (net of tax) are presented below:

Amounts in millions of EUR	Revaluation reserve property, plant and equipment	Cumulative translation adjustments	Capitalized software development costs	Hedge reserve	Other non-distributable reserves	Total
Balance as of January 1, 2010	166	20	150	–	48	384
Exchange rate differences	–	4	–	–	–	4
Addition/(release) retained earnings	-44	–	-17	–	–	-61
Balance as of December 31, 2010	122	24	133	–	48	327
Exchange rate differences	–	-14	–	–	–	-14
Addition/(release) retained earnings	-32	–	75	2	–	45
Balance as of December 31, 2011	90	10	208	2	48	358

The legal reserves presented above and the subscribed capital stock are non-distributable. By their nature, losses relating to available-for-sale financial assets and cash flow hedges, reduce equity attributable to equity holders, and thereby distributable amounts as they form part of the legal reserves protected under Dutch Law. The total distributable reserves at December 31, 2011, amounted to EUR 2,228 million (2010: EUR 2,796 million).

Retained earnings

Movements in retained earnings were as follows:

Amounts in millions of EUR	December 31, 2010
Balance as of January 1, 2010	-7,524
Prior year profit	2,178
Dividend	-1,152
Release/(addition) legal reserves	61
Other	-11
Balance as of December 31, 2010	-6,448
Prior year profit	1,793
Dividend	-1,202
Release/(addition) legal reserves	-45
Other	3
Balance as of December 31, 2011	-5,899

Retained earnings can be reconciled with the Consolidated Statement of Financial Position as follows:

Amounts in millions of EUR	December 31, 2011	December 31, 210
Retained earnings as per Consolidated Statement of Financial Position	-4,004	-4,352
Revaluation reserve	-90	-122
Capitalized software development costs	-208	-133
Other non-distributable reserves	-48	-48
Current year profit	-1,549	-1,793
Retained earnings as per Corporate Statement of Financial Position	-5,899	-6,448

Non-current liabilities

[D] Loans

Loans include bonds outstanding for EUR 11,518 million (2010: EUR 11,223 million) as well as loans from subsidiaries for EUR 799 million (2010: EUR 764 million).

Loans from subsidiaries have maturity dates in 2012 and bear fixed interest rates.

For more information on the bonds outstanding, refer to Note 21 of the Consolidated Financial Statements.

Current liabilities

[E] Other current liabilities

Amounts in millions of EUR	December 31, 2011	December 31, 210
Current portion of loans	955	981
Income tax payable	72	4
Social security and other taxes payable	121	124
Bank overdrafts	75	144
Credit facility	400	-
Derivative financial instruments	-	1
Other	-	6
Balance as of	1,623	1,260

[F] Commitments and contingencies

Amounts in millions of EUR	December 31, 2011	December 31, 210
Commitments by virtue of guarantees	244	223

KPN has issued several declarations of joint and several liabilities for various Group companies in compliance with Section 403, Book 2 of the Dutch Civil Code. These declarations of joint and several liabilities for Group companies are included in a complete list of subsidiaries and participating interests, which is available at the offices of the Chamber of Commerce in The Hague.

Directors' remuneration

Reference is made to Note 3, Employee benefits of the Consolidated Financial Statements.

The Hague, February 17, 2012

Supervisory Board	Board of Management
J.B.M. Streppel	E. Blok
A.H.J. Risseeuw	C.M.S. Smits-Nusteling
M.E. van Lier Lels	J.B.P. Coopmans
M. Bischoff	T. Dirks
C.M. Hooymans	
R.J. Routs	
D.J. Haank	

To: the General Meeting of Shareholders of Koninklijke KPN N.V.

Report on the financial statements

We have audited the accompanying financial statements 2011 of Koninklijke KPN N.V., The Hague as set out on pages 78 to 142. The financial statements include the consolidated financial statements and the corporate financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at December 31, 2011, the consolidated statements of income, comprehensive income, changes in group equity and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The corporate financial statements comprise the corporate balance sheet as at December 31, 2011, the corporate income statement for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

Board of Management's responsibility

The Board of Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Board of Management's report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Koninklijke KPN N.V. as at December 31, 2011, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the corporate financial statements

In our opinion, the corporate financial statements give a true and fair view of the financial position of Koninklijke KPN N.V. as at December 31, 2011, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Board of Management's report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the Board of Management's report, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

The Hague, February 17, 2012

PricewaterhouseCoopers Accountants N.V.

Originally signed by M. de Ridder RA

PROPOSED APPROPRIATION OF RESULT

On outstanding Class B preferred shares, a dividend is paid out equal to the average of the 12-month Euribor increased by 1%. If the 12-month Euribor is no longer determined, the dividend on preference shares will be calculated based on the yield on State loans (article 35 sub 1, Articles of Association). No Class B preferred shares were outstanding in 2011. Subsequently, subject to the approval of the Supervisory Board, the Board of Management will determine what proportion of net income remaining after payment of the dividend on any Class B preferred shares will be appropriated to the reserves (article 35 sub 2, Articles of Association). The part of the profit remaining after the appropriation to the reserves shall be at the disposal of the general meeting (article 35 sub 3 Articles of Association). The Board of Management, with the approval of the Supervisory Board, may also appropriate the complete profit to the reserves.

On February 17, 2012, the Board of Management, with approval of the Supervisory Board, has appropriated an amount of EUR 334 million out of the profit to the Other reserves. The remaining part of the profit over 2011, amounting to EUR 1,215 million, is available for distribution as dividend. In August 2011, an interim dividend of EUR 0.28 was paid to all holders of ordinary shares, amounting to a total of EUR 406 million. The remaining part of EUR 809 million is available for distribution as final dividend.

The Board of Management, with the approval of the Supervisory Board, will propose to the AGM to determine the total dividend over 2011 at EUR 0.85 per ordinary share. After deduction of the interim dividend of EUR 0.28 per ordinary share, the final dividend will be EUR 0.57 per ordinary share. Subject to the provisions of Article 37 of the Articles of Association, the 2011 final dividend will become payable as of April 24, 2012, which is 8 working days after the date of the AGM. The payout ratio of this dividend amounts to 78% of the profit for 2011.

SUBSEQUENT EVENTS

Reference is made to Note 33 Subsequent events in the Consolidated Financial Statements.

LEGAL STRUCTURE

The following table sets forth the name and jurisdiction of incorporation of, and our ownership and voting interest (if different) in, our principal operating subsidiaries and other principal interests as of December 31, 2011.

Name of Subsidiaries and other principal interests	Country of incorporation	Percentage ownership/ voting interest
KPN B.V.:	The Netherlands	100.0
KPN EuroRings B.V.	The Netherlands	100.0
XS4ALL Internet B.V.	The Netherlands	100.0
iBasis Inc.	USA	100.0
Telfort B.V.	The Netherlands	100.0
E-Plus Nederland B.V.	The Netherlands	100.0
Reggefiber Group B.V.	The Netherlands	41.0
KPN Telecommerce B.V.:	The Netherlands	100.0
SNT Deutschland A.G.	Germany	100.0
KPN Mobile Holding B.V.:	The Netherlands	100.0
E-Plus Mobilfunk Gesch GmbH	Germany	100.0
– E-Plus Mobilfunk GmbH & Co.KG	Germany	22.5
KPN Mobile N.V.:	The Netherlands	100.0
– KPN Mobile International B.V.	The Netherlands	100.0
– KPN Group Belgium N.V.	Belgium	100.0
– Ortel Mobile Holding B.V.	The Netherlands	100.0
– KPN Spain S.L.	Spain	100.0
Getronics N.V.:	The Netherlands	100.0
– NV Getronics Belgium SA	Belgium	100.0
– Getronics Ltda	Brazil	100.0
– Getronics Columbia Ltda	Columbia	100.0
– Getronics (Schweiz) AG	Switzerland	100.0
– Getronics Deutschland GmbH	Germany	100.0
– Getronics UK Ltd	United Kingdom	100.0
– Getronics Hungary Kft	Hungary	100.0
– Getronics Mexico SA	Mexico	100.0
– KPN Corporate Market B.V.	The Netherlands	100.0
– Tetraned VOF	The Netherlands	100.0
– Call-2 B.V.	The Netherlands	100.0
– Newtel Essence B.V.	The Netherlands	100.0
– Getronics Solutions (S) Pte Ltd	India	100.0

ADR

American Depository Receipt.

ADSL (Asymmetric Digital Subscriber Line)

With ADSL, transmissions from provider to user take place at a higher speed than from user to provider. ADSL allows high-speed digital communication, including video signals, across an ordinary twisted-pair copper phone line. An ADSL modem is required.

All-IP

IP is a technology based on the Internet Protocol. 'All-IP' refers to the transformation of KPN to an ICT-Multimedia organization which offers its customers all they need for communication. The new organization will be fully based on IP-service using a new fibre-network.

ARPU (Average Revenue Per User)

ARPU is the sum of connection fees, monthly fixed subscription revenues, traffic revenues and gross service provider revenues less related discounts during a one-month period, divided by the average number of customers during that month. Gross service provider revenues represent revenues generated by third-party providers. We account for the net part as gross service provider revenues. Gross service provider revenue is mainly generated by E-Plus.

ATM (Asynchronous Transfer Mode)

ATM is a transfer mode in which the information is organized into cells. It is asynchronous in the sense that the recurrence of cells containing information from an individual user is not necessarily periodic.

Backbone

Part of network infrastructure used for transmission of data.

BiPT (Belgisch instituut voor Postdiensten en Telecommunicatie)

The Belgian Institute for Postal Services and Telecommunications is active as the telecommunications regulator in Belgium.

Broadband

Broadband refers to telecommunication that provides multiple channels of data over a single communications medium, typically using some form of frequency or wave division multiplexing.

Bundesnetzagentur (BNetzA, former RegTP)

The Federal Network Agency is active as the telecommunications regulator in Germany.

Carrier Select

Method to opt for a different operator by entering an access code.

Churn

The number of mobile customers no longer connected to a mobile operator's network divided by the operator's customer base.

CityRing

Fiber optic access network for data and Internet traffic in and across several Dutch cities.

Cloud services

Cloud services are standardized IT capability (services, software or infrastructure) delivered via internet technologies in a pay-per-use, self-service way.

Content

The information presented on Internet sites, including its structure.

Customer base

The customer figures of mobile network operators of KPN consist of the number of registered SIM cards – excluding dual cards but including data-only PC connections and machine-based SIM cards – at the end of each reporting period. The customer base also comprises inactive prepaid users, who have had neither incoming nor outgoing traffic during a three-month period, but have not yet met the disconnection criteria (generally 12 months of inactivity).

DSL (Digital Subscriber Line)

DSL is a technology for bringing high-bandwidth information to homes and small businesses over ordinary copper PSTN lines. The widely used term xDSL refers to different variations of DSL, such as ADSL, HDSL, VDSL and SDSL.

Dutch Telco business

Dutch Telco business is defined as the Netherlands excluding Getronics, iBasis and book gains on real estate disposals.

DVB-T (Digital Video Broadcasting – Terrestrial)

DVB-T constitutes a transparent transmission channel, via which all types of digital signal can be broadcast. In addition to digitalized video and audio data, multimedia and computer data can be broadcast as well.

EDGE (Enhanced Data rates for GSM Evolution)

EDGE is a behind-the-scenes technology, pushing GPRS download speeds to above 100 kbps.

E-VPN (Ethernet Virtual Private Network)

Connects two or more offices using IP-VPN.

EuroRing

Fiber optic network for data and Internet traffic, running through several European cities.

Fiber-to-the-Home (FtH)

FtH is defined as an access network architecture in which the final connection to the home is optical fiber.

Fiber-to-the-Office (FtO)

FtO is fiber connection for business customers to the customers' office.

GPRS (General Packet Radio Service)

Particularly suited for voice, text and images. GPRS is an application that enables data packet switching via the GSM network as well as via the existing voice communication. GPRS will complement the existing CSD (Circuit Switched Data) of the GSM system. GPRS is based on the Global System for Mobile communications.

GSM (Global System for Mobile communications)

GSM is a second generation, digital mobile telephone system that is widely used in Europe and other parts of the world to send and receive voice and data.

HDTV

High definition, which is the new format in television, requiring higher bandwidths.

Homes activated

Homes activated is the number of homes which are connected and have a subscriber with a service provider.

Homes passed

Homes passed is the number of homes which a service provider has capability to connect in a service area.

**HSDPA (High-Speed Downlink Packet Access)/
HSPA+ (Evolved High-Speed Packet Access)**

HSDPA and HSPA+ are mobile telephony protocols that, as an evolution of UMTS, are designed to increase the available data rate by a factor 5 or more.

ICT

Information and Communication Technology.

IPTV

IPTV is a system through which television services are delivered using the Internet protocol suite over a packet-switched network such as the Internet. iTV ("Interactive TV") is KPN's IPTV offering in the Netherlands.

IP-VPN (Internet Protocol – Virtual Private Network)

Offers a secured and private network using IP-based infrastructure.

ISDN (Integrated Services Digital Network)

A worldwide digital communications network evolving from existing telephone services. A standard ISDN connection consists of three channels, i.e. two B channels to carry data and voice at a speed of 64 Kbps and one D channel to carry control information at a speed of 16 Kbps.

ISP (Internet Service Provider)

A company that provides individuals and companies access to the Internet. Therefore, ISP maintains one or more connection points to the Internet for ISP subscribers. An ISP itself can be a subcontractor of an ISP that is connected with an Internet backbone.

LAN (Local Area Network)

A LAN is a network designed to move data between stations within a campus.

Machine to Machine (M2M)

M2M refers to technologies that allow both wireless and wired systems to communicate with other devices of the same ability.

LTE (Long Term Evolution)

LTE refers to a new mobile telephony technology that succeeds 3G.

Market share

Market share is the percentage or proportion of the total available market that is being serviced by KPN. These figures are based on externally available market data, which may not be completely accurate.

MDF (Main Distribution Frame)

Allows other telecommunications companies to access the local network, enabling them to connect with their customers through our main distribution frame.

MTA tariff (Mobile Terminating Access tariff)

The tariff charged by mobile operators for the termination of incoming telephone traffic (originating from either a fixed or a mobile network) on their network.

MVNE (Mobile Virtual Network Enabler)

A company that provides infrastructure and services to MVNOs.

MVNO (Mobile Virtual Network Operator)

A mobile operator that does not have its own spectrum, nor its own network infrastructure. Instead, MVNOs have business arrangements with traditional mobile operators to buy minutes of use to sell to their own customers.

Net line loss

Net line loss figures are defined as the difference from one period to the other period in PSTN/ISDN lines plus consumer VoIP plus ADSL only and plus Fiber.

NMa (Nederlandse Mededingingsautoriteit)

The Dutch Anti-trust Authority is the Dutch authority responsible for monitoring compliance with anti-trust rules.

Net Promoter Score (NPS)

NPS is a tool for measuring customer satisfaction. The key question asked is whether customers would recommend KPN to friends or family.

**OPTA (Onafhankelijke Post en
Telecommunicatie Autoriteit)**

The Independent Post and Telecommunications Authority operates as the telecommunications regulator in the Netherlands.

PSTN (Public Switched Telephone Network)

Traditional telephone system that runs through copper cables (voice up to 64 Kbps, data up to 56 Kbps).

Roaming

Transfer of mobile traffic from one network to another, mostly referring to the exchange of mobile international traffic.

SAC/SRC

Subscriber acquisition/retention costs is the amount that is spent to acquire or retain subscribers.

Service revenues

Service revenues are defined as the aggregate of connection fees, monthly subscription fees and traffic fees. The term service revenues refers to wireless service revenues.

SIM card (Subscriber Identity Module card)

A chip card inserted into a mobile phone, which contains information such as telephone numbers and memory for storing a directory.

Smartphone

A smartphone is a mobile phone built on a mobile computing platform and includes high-resolution (touch) screens, web browsers that can access and properly display standard web pages and high-speed data access via Wi-Fi and mobile broadband.

SMS (Short Message Service)

SMS is a service for sending messages of up to 160 characters to mobile phones that use GSM communications.

SoHo/SME

SoHo refers to Small Office/Home Office companies. SME refers to Small and Medium Enterprises.

Triple Play

Term used for households that are connected for their telephone, internet and television needs.

UMTS (Universal Mobile Telecommunications System)

One of the major third generation mobile communications systems being developed. UMTS is suited to deliver voice, text, music and animated images. Data can be sent via UMTS at approximately 6 times the speed of ISDN.

VDSL (Very-high-bitrate Digital Subscriber Line)

A new DSL technology providing faster data transmission over a single flat untwisted or twisted pair of copper wires. These fast speeds mean that VDSL is capable of supporting high bandwidth applications such as HDTV, as well as telephony services (Voice over IP) and general internet access, over a single connection. VDSL-CO refers to VDSL from the Central Office.

VPN (Virtual Private Network)

A virtual network constructed from logic connections that are separated from other users.

VoIP (Voice over IP)

Voice traffic is transported over an IP-based data network. It enables new ways of communicating, such as combinations of telephony, messaging and videoconferencing.

WLR (Wholesale Line Rental)

This system enables telecommunications providers to invoice customers for line rental and phone charges on the same bill, as opposed to having to pay for calls and line rental separately. With WLR, one can rationalize their organization's invoicing with one bill for line rental and call charges.

For additional Information please contact

KPN Investor Relations
Tel: +31 (0) 704460986
Fax: +31 (0) 704460593
www.kpn.com/ir
ir@kpn.com

Published by

Koninklijke KPN N.V.
P.O. Box 30000
2500 GA The Hague
The Netherlands

Chamber of Commerce The Hague,
registration number 02045200

Design and Production

Addison
www.addison.co.uk

Print

Veenman Drukkers

Print Coordination

Cendris Print Management

Photography

Frank van Delft
Sjaak Ramakers

Paper

Revive 50:50

Revive 50:50 is produced by an ISO 14001 and EMAS accredited manufacturer and is certified as an FSC mixed sources product. It is produced with 50% recycled fibre from both pre- and post-consumer sources, together with 50% FSC certified fibre sourced from sustainable forests.

Forward-looking statements and management estimates

Certain of the statements we have made in this Annual Report are 'forward-looking statements'. These statements are based on our beliefs and assumptions and on information currently available to us. They include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance or expense improvements and the effects of future legislation or regulation.

Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words 'believe', 'expect', 'plan', 'intend', 'anticipate', 'estimate', 'predict', 'potential', 'continue', 'may', 'will', 'should', 'could', 'shall', or the negative of these terms or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. No undue reliance should be put on any forward-looking statements. Unless required by applicable law or applicable rules of the stock exchange on which our securities are listed, we have neither the intention nor an obligation to update forward-looking statements after distribution of this Annual Report.

All market share information in this financial report is based on management estimates based on externally available information, unless indicated otherwise.

The terms "we", "our" and "us" are used to describe the company; where they are used in the chapter "Activities and Performance", they refer to the business concerned.



Koninklijke KPN N.V.
Maanplein 55
2516 CK The Hague
The Netherlands

P.O. Box 30000
2500 GA The Hague
The Netherlands
T: +31 (0)70 343 43 43

www.kpn.com

