

KPN Annual Report 2012



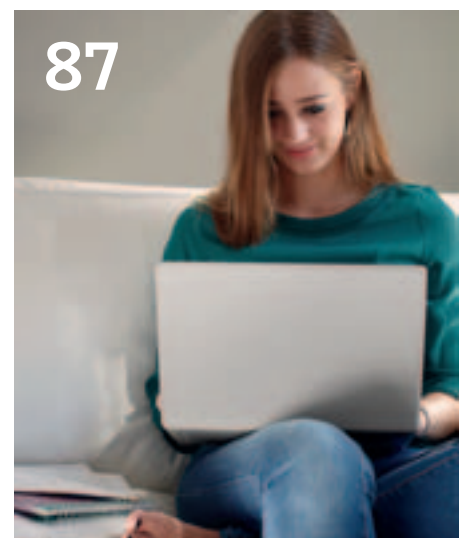
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KPN is a leading supplier of telecommunications and ICT services. We offer consumers total solutions for fixed and mobile telephony, internet and TV. For business customers – from multinationals to SMEs and home offices – we provide fixed and mobile telephony and data services. In addition, we provide a broad range of ICT products and services, such as workspace management, data centers, consulting and cloud services. In the Belgian and German mobile markets, we are a strong challenger.

We aim to be the best service provider in the Netherlands. Thanks to us, our customers can be online wherever and whenever: at home, at work and on the move. Our products and services make this as easy as possible for them. Thanks to our cables, transmission masts and data centers and the thousands of KPN people, Schiphol Airport, the port of Rotterdam, the railways, internet banking, pin payments and many other things can all function. Day in, day out. We want to bring the society further, with each other and for each other, in a sustainable way. That's where our strength lies.





TRUST IN THE FUTURE

2012 was a turbulent and challenging year for the KPN Group. It was a year where we accelerated our commercial and infrastructure investments to stabilize market positions and improve customer service, thus taking the necessary steps to realize our ambitions. These ambitions go hand in hand with our social policy. However, share price development and dividend policy changes impacted our shareholders' returns.

24/7

free helpdesk launched

>1M

IPTV customers
in the Netherlands

The effects of the measures needed to become the best service provider were clearly visible in 2012. Our customers were able to see improvements in our services and products. We boosted the quality of our services, but at a slower pace than expected at the beginning of 2012. Investments in our services and products enabled us to achieve our market share targets in both the business and the consumer market. However, the improved operating performance was not reflected in improved financial results.

Quality of services

The Net Promoter Score, which was considerably higher among consumers than in 2011, proves that we are making the right investments in the quality of our services. Among the reasons for the higher score were the launch of our free 24/7 helpdesk, an improvement in the call center service and the opening of XL shops. The main driver

for the increase in broadband customers for the first time in years was our growth in fiber activations and good performance of the Telfort brand. Our new, transparent mobile propositions triggered positive reactions from consumers and business customers. Nevertheless, revenues in the mobile market continued to decrease, partly as a result of a change in customer behavior: people are communicating more and more via apps. Another factor in the drop in our revenues was increasing competition. In the business segment we maintained our market position but the adverse economic conditions had an impact on our customers in 2012. They remained circumspect regarding their ICT investments or postponed them, putting further pressure on prices. The sentiment in the Corporate Market was also characterized by reticence and uncertainty. That confirmed the need to integrate the Business Market segment and parts of Corporate Market.

We were once again successful in 2012 with our subsidiaries in our neighboring countries. The number of customers rose substantially in Germany. Primarily as a result of increased price competition, revenue growth slowed in the fourth quarter. Belgium continued to show strong revenue growth, driven by B2B, wholesale and data.

To further improve the quality of our services we ramped up customer-driven investments. We went ahead with upgrading our copper network, enabling us to offer our customers even higher upload and download speeds. We also improved our existing mobile network and we laid the foundations for the mobile network of the future by acquiring an attractive frequency package, including 4G LTE. We have made an energetic start to the rollout of our 4G network, so we expect to have 50% coverage in the summer of 2013. We also expanded our fiber network in 2012 and we strengthened our “fiber position” thanks to the takeover of several fiber service providers. Uncertain economic prospects, the need to strengthen our financial position and the flexibility to finance strategic investments underlay our decision to stop our share buy back program at the start of 2012 and to reduce our 2012 dividend. Unfortunately, these circumstances contributed to a decline in our share price during the year.

Organization

To align our organization with our strategic goals and to be able to respond adequately to the changing market, we revamped our top structure at the beginning of 2012. We formed the Executive Committee and appointed Joost Farwerck as Managing Director Netherlands. There was one change in the composition of the Board of Management in 2012: in September Eric Hageman was officially appointed as Chief Financial Officer, the job he had already partially performed on an interim basis in the previous months, along with Steven van Schilfgaarde.

We are continuing our personnel reduction program in the Netherlands. Consequently, at the end of 2013 the workforce will show a decrease of 4,000 to 5,000 employees in comparison with the start of 2011. We realize the significance of the impact on employees concerned, but a smaller, simpler and more efficient organization is essential if we are to operate at lower cost. A social plan is in place for colleagues who have had to leave the company; this is geared to helping those employees find a new job as quickly as possible.

Corporate Social Responsibility (CSR)

We recorded good results in 2012 in the domain of CSR. We have been increasingly successful in integrating our social policies and thereby making it a self-evident part of our business operations. Through our social themes we explicitly show that, as a telecom and ICT service provider, we can do a lot for the community. “Best ICT infrastructure” is one of our themes for good reason, as it allows us to stress that a modern society cannot do without ICT. Moreover, we are convinced that KPN makes an essential contribution. And the more important ICT becomes, the greater the demands people make on secure and reliable internet traffic. To safeguard this, we give top priority to the theme “Security and privacy”. In terms of procuring green power and saving energy we are now among the world’s “greenest” telecom and ICT companies. Our listing in the Carbon Disclosure Project and the Newsweek Green Rankings prove that we are able to distinguish ourselves through our sustainability framework. We make The New Way of Living and Working possible for a growing number of companies, thereby underlining the positive effects on the environment and society as a whole. Also in the healthcare sector we are able to highlight the value of ICT.

We demonstrate the fine potential of ICT with KlasseContact, the most important project of the KPN Mooiste Contact Fonds. In 2012 we enabled 200 chronically ill children to continue taking lessons via a special communication set. We will give this project additional support in 2013, so that even more children can stay in contact with their class and their classmates. In the fall we added a cultural dimension to our social policies by entering into a partnership with the new Rijksmuseum in Amsterdam.

Special topics

I would especially like to mention two topics that received a lot of attention within the company and in the outside world. In January we were confronted with a computer hack. We took the incident very seriously, we learned our lessons and used this to focus even more on security and privacy, both internally and externally. It goes without saying that we are conscious of how important it is for customers to have confidence in our ability to keep their data secure. We have taken necessary measures, including setting up the Security Operations Center, which reduces the risk of security incidents in the future.

Secondly, the change in our shareholding whereby América Móvil acquired just over 27% of KPN’s shares in June 2012 received a lot of attention. As announced on February 20, 2013 the support of our largest shareholder in our intention to raise EUR 4 billion of equity equivalent capital is a major step towards successful execution of our capital raise. This will consist of a EUR 3 billion rights issue and, in addition, issuance of hybrid capital instruments. I am pleased that important progress has been made towards aligning our financial position with our strategy and that our relationship agreement will enable us to have the benefit of a strong relationship with a global leader in the telecom sector going forward, among other things, by the intended appointment of two individuals, designated by América Móvil, to KPN’s Supervisory Board during the Annual General Meeting (“AGM”) in April 2013.

To conclude

A year ago in this report I wrote, “KPN is a healthy company with stretching customer-oriented and social ambitions”. Those words apply just as much today. We have made good progress and I am pleased with the operational performance as a team. This offers good prospects of success on our strategic path. KPN is a strong and resilient company, thanks to the efforts, knowledge and qualities of thousands of KPN employees.

Eelco Blok

Chairman of the Board of Management and CEO

REVIEW OF THE YEAR 2012

From the strategy update in January to the acquisition of frequencies in December. The last twelve months at KPN summarized on two pages.

JANUARY

To have more direct and efficient control over its operational activities, KPN introduces a new top structure including an **Executive Committee**, under the final responsibility of the Board of Management.

KPN presents its **strategic update**, with a focus on stabilizing domestic market positions and did not announce a share buy back program.

A **hacker** obtains access to servers on the KPN network. KPN immediately takes steps and informs all relevant authorities.

In Amsterdam IJburg and Nunspeet KPN introduces **high-speed internet** via fiber broadband with speeds of up to 500 Mb per second.



FEBRUARY

Using the headline “Two million **apologies**”, KPN publishes an advertisement in the daily papers to apologize for inconvenience caused by the hack in January. KPN asks all e-mail customers to change their passwords as a precautionary measure.

MARCH

Young people’s bran Hi, introduces a new series of subscriptions **centered around mobile internet**, with options for voice calls and text messages.

KPN sets up a **Security Operations Center**. This measure is just one of the ways in which KPN aims to prevent security incidents such as that in January.



APRIL

The NMa approves the **acquisition of fiber service provider** Lijbrandt and Reggefiber Wholesale. This results in more efficiency and a clearer division of roles: KPN provides the fiber services, whereas Reggefiber can completely focus on the fiber network roll-out.

E-Plus introduced a value for money **data proposition** under the new brand name Yourfone. Following its **multi-brand** strategy, similar propositions are introduced for Simyo and Blau in the months thereafter.

MAY

KPN closes the **sale of Getronics International**. The transaction is part of KPN’s proven strategy of strengthening its global delivery capabilities for major international clients through partnerships.

First in **Belgium** to offer mobile services without a minimum **contract duration**

The Mexican company América Móvil makes a **partial bid** for just over 27% of KPN’s ordinary shares.

JUNE

In the Rijksmuseum in Amsterdam, newspaper Het Financieele Dagblad and KPN organize the debate “**Het Nieuwe Holland**”, with The New Way of Living and Working as a central theme.

At the National Privacy Debate KPN announces its **Privacy Mission**. The mission is part of the measures to safeguard customers’ privacy and security.

In midsummer the KPN Mooiste Contact Fonds continues a fine tradition: the **XL days**. In five Dutch cities 500 KPN employees give 550 elderly people a day to remember.

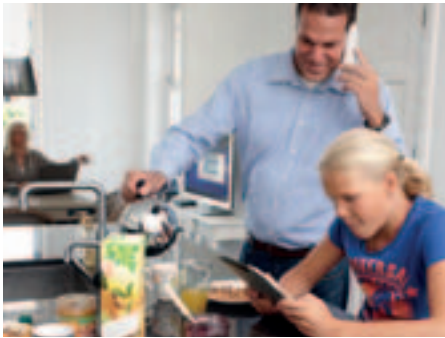
Following América Móvil’s partial bid, KPN investigates various options for **creating more value**, including selling E-Plus. Due to the tough conditions on the capital markets, no agreement can be reached with prospective buyers.



JULY

KPN introduces new commercial propositions for consumers, becoming the first mobile provider in the Netherlands to offer **unlimited calls** and **text messages** with corresponding data bundles – for a flat fee.

KPN reduces its 2012 **dividend** to EUR 0.35 per share to maintain a prudent financial framework. In order to make the necessary investments in frequency licenses possible, KPN further adjusts the dividend in December to EUR 0.03 per share for 2013.



AUGUST

KPN starts renewing the mobile networks in the Netherlands, making mobile telephony and internet even more stable and reliable than before. Modernizing and improving the networks is one of KPN's ways of further improving its market position in the **mobile market**.

SEPTEMBER

KPN starts a **free** telephone **helpdesk** that is available **24/7** to KPN consumer and business customers.

Eric Hageman is appointed **CFO**. Mr. Hageman already worked partially as interim CFO since the beginning of 2012.

The Carbon Disclosure Project acclaims KPN as the world's **number one** telecom company in terms of its climate policy. KPN is the only Dutch company that is listed on both the performance index and the disclosure index.



After an absence of a year, KPN Group is once again listed on the **Dow Jones Sustainability World Index**. This means that KPN is one of the top five most sustainable telecom companies in the world.

KPN Group Belgium introduces **BASE ALL Unlimited**: unlimited calls, text messages and data for a flat fee.

OCTOBER

KPN **sells** part of its **Dutch mobile towers** to a large operator of wireless telecommunication masts.

In three months' time the number of **new mobile subscriptions** in Germany grows by a staggering 500 thousand. Due to fierce competition, this growth does not translate to increased turnover.

For the first time in years, the number of **broadband customers** grows; reasons include more fiber connections and Telfort's good performance. This stabilizes KPN's broadband market share.

KPN reaches ninth place in the **environmental rankings** of the American weekly magazine Newsweek, making it the best performing Dutch company. The rankings chart the ecological footprint of the five hundred largest publicly quoted companies.

The Dutch competition authority (NMa) announced the approval of the **acquisition of the fiber service providers** Edutel, XMS, KickXL and Concepts ICT from Reggeborgh.

NOVEMBER

The number of customers taking services via the **fiber network** exceeds 350,000, more than three times as many as a year ago.

KPN sells part of its German **mobile towers**. Among other things, the cash proceeds will be used to support the investments in the accelerated roll-out of its German mobile network.

KPN and the labor unions reach a **provisional agreement** on a new collective labor agreement running from April 1, 2012 to June 1, 2013.

To further strengthen its fixed network strategy in the Netherlands, KPN acquires an additional 10% of the shares in **Reggefiber**, increasing its share to **51%**.

E-Plus is ranked **3rd** in network quality by Germany's biggest computer magazine "Computerbild", who performed an extensive **network test** amongst consumers.

DECEMBER

Thanks to the **upgrade** of the **copper network** KPN now offers two thirds of Dutch households a download speed of at least 40 Mbps.

The huge **popularity** of **IPTV** enables KPN to reach the milestone of one million IPTV customers, taking its market share from 17% to 23% in the space of one year.

To put the focus more strongly on its **domestic markets** and **core activities**, KPN sells the mobile subdivisions KPN Spain and Ortel Mobile Switzerland.

During the spectrum auction a very **attractive combination** of **frequency licenses** is allocated to KPN for the Dutch mobile market for EUR 1,352 million.





TRENDS IN TELECOM AND ICT

The importance of telecom and ICT is increasing: businesses and consumers want to be accessible anytime, anywhere, and vital functions in society cannot work without ICT infrastructure. Traditional forms of communication are making way for new ones. The world of telecom and ICT is changing radically and rapidly.

Mobile network

10x

faster than current mobile Internet connections with 4G LTE

249%

increase in data traffic at KPN customers compared to 2007

ICT has become our economy's central nervous system. Internet and fixed and mobile telephony have become a basic requirement of modern life, and for millions of people social media such as Facebook and Twitter are now a perfectly normal and accepted means of communication. Consumers are becoming increasingly demanding: they want products and services of the best quality for the best price. They expect personal service and a reliable, secure and fault-free network.

The challenges are considerable, particularly in economically tough times, that are also affecting the telecom and ICT sector. The economies of the Netherlands, Germany and Belgium, the countries in which KPN operates, are relatively strong. But even here the number of bankruptcies, redundancies

and unemployed people is rising. Bankruptcies lead to a contraction of the business telecom market; companies disappear or delay their investments. Growing unemployment and a decrease in purchasing power and consumer confidence influence expenditure. For instance, more and more consumers are opting for a single fixed connection (with a cable or telecom company). Competition and declining revenues are encouraging telecom and other companies to operate more efficiently. Specific activities are being outsourced to specialist companies domestically or abroad that can do the work more cheaply without any loss of quality.

Market dynamics are changing as mobile providers enter the fixed consumer market and they and cable service providers increase their focus on the business market.

From 3G to 4G

The unrelenting growth of smartphone and tablet use and associated new forms of communication, both free and paid, are pushing mobile data traffic to new heights. That places high demands on the quality and security of the mobile infrastructure. The transition from a 3G to a 4G LTE network will change the mobile market radically: 4G LTE will level the playing field between mobile and fixed internet in terms of speed. The impact of this modernization is hard to estimate, but will offer big opportunities for all parties involved. Among other things, it could simplify and accelerate the implementation of The New Way of Living and Working and innovations in the healthcare sector. In the field of fixed telephony, optimal utilization of the copper network and the rollout of fiber are on-going.

Dutch and European legislation affect the developments in the telecom and ICT market, especially with regard to pricing policies. Telecom companies are being forced to lower their mobile termination rates (MTR) and roaming tariffs. In addition, an increasing number of strict rules are meant to create a level playing field for new entrants and incumbents alike. Similar rules for cable service providers are virtually non-existent. This situation has changed the balance of power in favor of the latter.

CSR

The New Way of Living and Working, which facilitates working irrespective of time and place, has gained a firm foothold in society. Now that the facilities are becoming more widely available and quality continues to improve, the next challenge is to solve intangible issues such as striking an appropriate work-life balance.

A relative scarcity of raw materials such as iron and copper and social concerns about “conflict minerals”, such as tin and coltan, are encouraging the telecom sector to conduct a more environmentally aware procurement and processing policy. Lease propositions, recycling of obsolete peripherals and other equipment, and the quest for alternative materials are therefore becoming more important.

While the growth in data traffic is pushing up energy consumption, our aim is nevertheless to reduce our total energy consumption and CO₂ emissions. For several years, the rise in energy prices has made the trend towards more sustainable energy consumption apparent. But growing environmental awareness is a contributory factor as well: more and more consumers are generating their own renewable energy. The sustainability trend among businesses and consumers is expected to grow in the years ahead.

The infographic illustrates the evolution of mobile networks. It features a circular diagram with three main sections: 2G GSM (Calling, texting), 3G UMTS (email, internet, social media), and 4G LTE (video live, photos, large files). The 4G LTE section is highlighted with a green background and a speedometer icon. To the right, the text reads: 'The speed of 4G. The new 4G mobile network (LTE) is up to 10x faster than current mobile internet connections. This speed is comparable to what we are accustomed to with fixed internet connections.' Below this, three icons represent capabilities: 'Large documents, presentations - send and receive quickly', 'Photos and images - to view and share in high resolution', and 'Videos, movies, TV, (live) video conversations - fast and real-time view'. The KPN 4G logo is in the top right corner.



WHO WE ARE AND WHAT WE DO

In the radically and rapidly changing world of telecom and ICT, KPN is the network that has been bringing people together for the last 125 years. Through our services, products and network we ensure that people and businesses are online wherever and whenever they want, with whatever device they choose. That's where our strength lies. As the challenger on the German and Belgian mobile markets we are playing a significant role in shaping the market place.

KPN Group in 2012

The Netherlands

Consumer Residential

We offer a diverse and broad range of products and services (KPN, Telfort and XS4ALL) in and around the house, such as (IP) TV, internet and fixed telephony. The copper and fiber networks are the technical foundation on which all communications are based.

Consumer Mobile

With our multiple brands KPN, Hi, Telfort and Simyo we offer various customer segments customized mobile services and products, ensuring that people can be contacted anytime, anywhere.

Business Market

We offer our small and medium-sized business customers a wide range of services, from fixed and mobile telephony and internet to a variety of data network services, optionally in the cloud. Among the brands we operate are KPN, XS4ALL, Telfort Zakelijk, Yes Telecom and Talk & Vision.

Corporate Market

KPN offers multinationals and other enterprises a broad range of services and products: consulting, workspace management, cloud services, data center capacity and other network-related ICT solutions.

NetCo

The beating heart of KPN where infrastructure and ICT coincide. This division, which is responsible for the fixed and mobile networks, makes it technically possible for KPN to 'run' its services and products.

International

Germany

E-Plus is the successful challenger in the German mobile market with its brands BASE, Simyo, Ortel Mobile, yourfone, Blau and Ay Yildiz, as well as via wholesale customers.

Belgium

KPN Group Belgium is the successful challenger in Belgium. Its flagship is BASE, the third largest mobile provider in Belgium. We also operate there with Simyo and Ortel Mobile.

iBasis

iBasis

Thanks to the global activities of iBasis, KPN is a leading player in the international wholesale market for telephony services.

We have a mission: to be the best service provider and to give our customers the best and most integrated network. At home, at work and on the move. We achieve this with high-quality customized services and products under a number of brands, enabling us to cater even better to the needs and wishes of the various customer groups. For example, we make a distinction between products, services and price, so customers can choose the brand that best suits their needs and wishes.

The network that cares for society

As the biggest ICT service provider in the Netherlands we are conscious of our (social) responsibilities. This is why over the last few years we have invested heavily in the quality of the service we give to our customers, in technology and in our fixed and mobile networks, as well as in simplifying our processes and our organization. For instance, we increased the upload and download speed for broadband, we raised the quality of our IPTV product to an even higher level and we launched new transparent mobile propositions. We opened new shops, improved our call-out service and introduced the free 24/7 helpdesk. With these initiatives we are putting the three core values of our strategy into practice: "Strengthen", "Simplify" and "Grow".

For millions of customers, the copper network serves as the basis for our three fixed services: IPTV, internet and fixed telephony. Around 979 thousand of our customers take these three services in a single package (triple play). In the business market, we help small and large organizations with total ICT solutions. We offer them total integration of voice, data, fixed

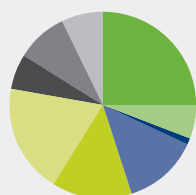
and mobile services. We also offer ICT applications to the government and the healthcare and education sectors. Corporate Market supplies large organizations with, among other things, workspace services, network solutions and data center services. We have 37 million mobile customers, of which 10 million are in the Netherlands, 23 million in Germany and 3 million in Belgium.

Many of our customers call our network the best in the Netherlands. The thousands of transmission masts and the countless kilometers of copper cable and fiber ensure that our mobile and fixed services can operate. Other parties use our network too. A stable and reliable network requires maintenance and modernization. Furthermore, we have to anticipate a strong growth in data traffic, especially as a result of mobile internet usage. That is why in 2012 alone we invested EUR 2.209 billion, of which EUR 1.509 billion in our fixed and mobile infrastructure services in the Netherlands, Germany and Belgium. In December 2012 we acquired an attractive combination of frequency licenses for the Dutch mobile market for EUR 1.352 billion. Among other things, this cleared the path for the roll-out of the 4G LTE network, which we have since started. More and more customers are taking advantage of the latest fiber technology, which makes speeds of 500 Mb per second possible. At the end of 2012 the number of customers taking services via the fiber network had tripled in comparison with 2011. Besides providing fiber access we continued the upgrade of our copper network, enabling us to continue offering adequate bandwidth and upload and download speeds in the Netherlands.

Revenues

€12,409m

(2011: €13,022m)

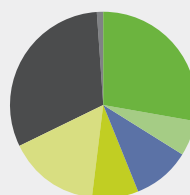


Germany	25%
Belgium	6%
Rest of World	1%
Consumer Mobile	13%
Consumer Residential	14%
Business	19%
Netco	6%
Corporate Market (Getronics)	9%
iBasis	7%

EBITDA

€4,528m

(2011: €5,138m)



Germany	28%
Belgium	6%
Rest of World	0%
Consumer Mobile	10%
Consumer Residential	8%
Business	16%
Netco	31%
Corporate Market (Getronics)	1%
iBasis	0%

Who we are and what we do continued

Customers determine success

Improving our service is the central theme in our strategy. We realize that it is the customer who decides whether we fulfill our ambition of becoming the best service provider. KPN employees who are in direct contact with our customers play a crucial role in this. To enable these employees to offer good service to our customers we invested in new shop concepts and improved the management and scheduling of our engineers. Furthermore, we increased the number of call center staff and gave them more freedom to solve customers' problems. And as more and more people are discovering social media as a service we also invested in KPN Webcare, our online customer service.

Social responsibility

We invest not only in our customers, services and technology but also in society, because the role of ICT in our society is essential. We aim to strengthen our company and use ICT in a sustainable manner, because we regard sustainability as a self-evident part of our business operations. Consequently, the five themes on which our social policy is based are under the direct responsibility of the Executive Committee.

We want to help the Netherlands and our customers make progress and to offer them the **best ICT infrastructure**. One of the ways we are doing this is with 4G LTE, the new generation of mobile internet. By rolling it out quickly we aim to provide this new technology, which makes superfast uploading and

downloading possible, throughout the Netherlands within the next 18 months. The more our society becomes dependent on ICT, the more it becomes vulnerable. An increasing volume of sensitive and confidential information passes over the internet. Recognizing that we have to give our customers secure and reliable connections, we give top priority to **security and privacy**. We place the highest priority on the security of both our network and our internal privacy policy. For many years KPN has been pre-eminent in the Netherlands in **The New Way of Living and Working**. Thanks in part to that experience, we make it possible for a growing number of customers to work irrespective of time and place. More and more companies are experiencing and recognizing the positive effects of this concept on, for example, employee involvement and the environment. In terms of energy saving we are now among the world's "greenest" telecom and ICT companies, because our energy consumption is decreasing despite the exponential increase in data traffic. The theme "**Energy efficient**" enables us to show that we give top priority to energy saving. In addition, we help our customers to save energy themselves. We are able to highlight the value of ICT in the healthcare sector too and we are gradually improving the efficiency and effectiveness of the healthcare sector. We reinforce our ambitions in terms of healthcare with the theme "**Healthcare of the future**".

The management

KPN is a public limited company incorporated under Dutch law, led by the Board of Management. The Board of Management, under the leadership of Chief Executive Officer (CEO) Eelco Blok, controls strategic, financial and organizational matters and appoints senior management. The Board of Management is also responsible for overseeing the work of the Group Executive Committee (ExCo), which controls the segments. The Supervisory Board is charged with supervising and advising the Board of Management.

At the start of 2012 we introduced the new segment structure, in which the NL ExCo controls the operating activities in the Netherlands and the International ExCo is responsible for the operational activities abroad. We carried out the organizational changes so as to be able to run the various business units more directly and efficiently and to respond even better to new ICT developments and the rapidly changing customer wishes. The ExCo falls under the direct responsibility of the Board of Management. ExCo Group is represented by ExCo NL, ExCo Mobile International and corporate departments on HR, Legal and Strategy. ExCo NL consists of Consumer Residential, Consumer Mobile, Business Market, NetCo, Corporate Market, while Germany and Belgium are part of ExCo Mobile International.



Board of Management: From left to right T. Dirks, E. Blok and W.T.J. Hageman

More information about the composition of the Board of Management and the changes during 2012 can be found on page 52 of the Annual Report.

The strength of KPN staff

As an employer, we expect commitment, expertise and professionalism from our employees. We offer good employment conditions and fringe benefits. As a modern company we promote The New Way of Living and Working, which on the one hand offers more freedom and on the other hand involves more personal responsibility. Currently, 9,000 KPN employees are taking advantage of this modern style of working.

We are convinced that teamwork is the key to success. Its importance is expressed on TEAMKPN Online, the internal communication platform which connects all employees with one another. KPN employees inform and help one another and share knowledge via news reports, videos, blogs and other media. TEAMKPN Magazine is another valuable communication medium that provides employees with a wealth of background and information.

We believe it important for employees to continue to develop themselves and to keep their knowledge and skills up-to-date. We therefore offer them the possibility of adding to or enlarging their skill set within a specific area of competence. We run a talent program in order to find and hold on to graduates and those with higher professional

training. We invest in keeping all our staff members fit. Physical and mental fitness tests are available to all KPN employees, and the results can be used to make health improvements, if necessary. The interactive coaching program I-Change helps employees to change their lifestyle.

People connected

Thanks to the KPN Mooiste Contact Fonds we ensured that in 2012 alone over 200 seriously ill children could continue taking their school lessons and stay in touch with their classmates. Our lead sponsorship of skating is another social initiative that allows KPN to become even better connected with the Netherlands and the Dutch population. We sponsor skating in all its forms: from the professionals to the young beginners, from the enthusiastic recreational skater to the loyal fans of the Dutch stars watching competitions on TV. With our lead sponsorship of the Rijksmuseum in Amsterdam we have now also established a cultural connection with the Netherlands. Through this partnership we are going to ensure that the Rijksmuseum has the most modern ICT and telecom services, so it is connected with the entire world and can make its art collections accessible to all.

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.



OUR MAIN ACHIEVEMENTS

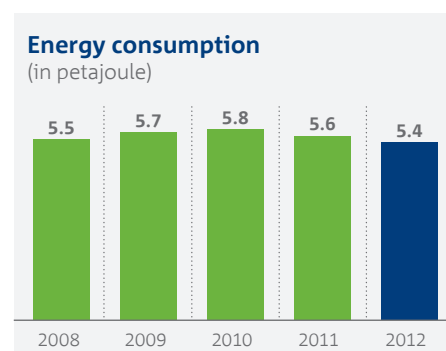
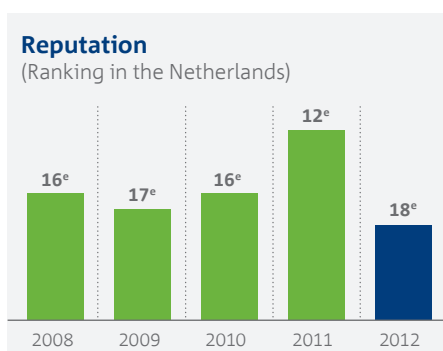
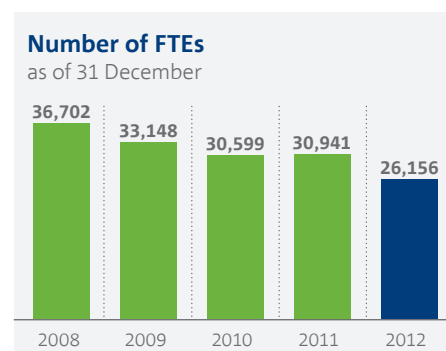
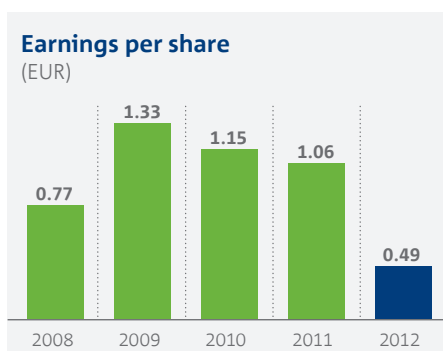
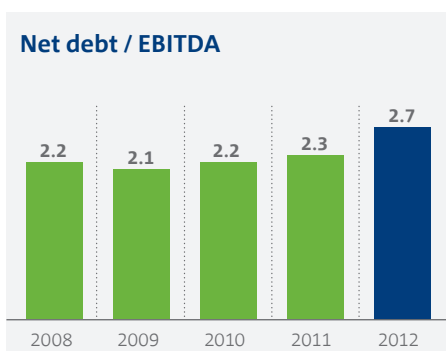
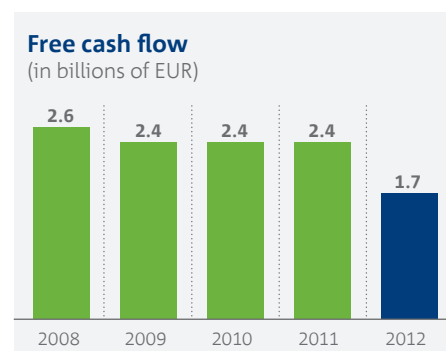
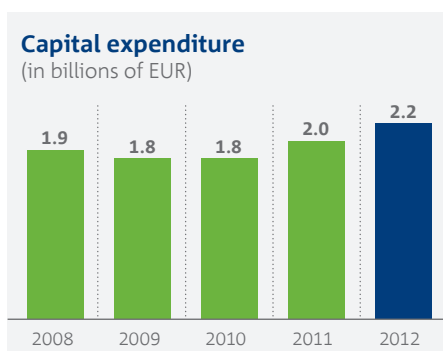
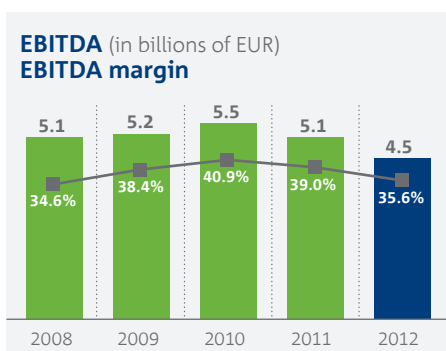
KPN has set several specific objectives, expressed in financial and non-financial key performance indicators (KPIs).

Performance indicators

A number of KPIs forms the basis for the variable remuneration of the members of the Board of Management and the ExCo and of the other top managers. In 2011, we introduced customer satisfaction, reputation and electricity consumption as non-financial KPIs. These three KPIs give an indication as to whether we are on schedule with our strategic targets.

Customer satisfaction

We use the Net Promoter Score (NPS) to measure customer satisfaction. We regularly survey a representative customer group in the Netherlands to calculate this score. The key question asked is whether customers would recommend KPN to friends or family. A negative score means that customers who recommend KPN are in the minority.



Reputation

We use RepTrak to monitor our reputation. RepTrak, run by the Reputation Institute, publishes an annual ranking based on a survey carried out among the population of the Netherlands. Along with other large Dutch companies KPN takes part in this survey. In 2012 we set a new long-term objective for reputation. As from 2013 our objective is to improve our RepTrak score, in stead of the objective to improve our position compared to other Dutch companies.

Electricity consumption

KPN is a large-scale user of electricity, accounting for 0.8% of total Dutch energy consumption. Consequently, we do everything possible to reduce our energy consumption and to use green energy. The sharply rise in data consumption makes this even more necessary. Moreover, we put our customers and suppliers in a position to reduce their own energy consumption through the use of ICT.

Financial KPIs

Healthy financial management of the business is critical to success. Indicators such as market shares, capital expenditures, EBITDA, profit per share and free cash flow give a clear picture of our financial performance.

Significant market shares	2012	2011
Broadband Netherlands ¹	41%	40%
TV Netherlands ¹	23%	17%
Mobile Netherlands ²	45%	46%
Mobile Germany ²	15.8%	15.8%
Mobile Belgium ²	~20%	~19%

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



OUR STRATEGY

“Strengthen”, “Simplify” and “Grow” are the three principles on which we base our strategy: Our aim is to fulfill our main ambition: to be the best service provider for our customers.

Reaching

85%

of German population with HSPA+.

KPN covers

~18%

of the Dutch population with FttH

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

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

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

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

We have made progress with our social themes. Our aspiration to have the best ICT infrastructure in the Netherlands is one of those themes. In 2013, 51% of consumers considered KPN's mobile and fixed network the best in the Netherlands. We are continuing to make improvements in our network and services. We are making progress in healthcare too. We are already connecting more than 4,000 healthcare locations and over 20,000 healthcare consumers make use of our personal comfort services. We aim to enhance our contribution in 2013 by further developing and rolling out our healthcare products and services. We achieved a 17% growth with our services that facilitate The New Way of Living & Working. We want to increase that percentage to 20% in 2013, partly through improved propositions and communication. We helped customers save energy and in 2013 we will develop a method of keeping track of energy savings. Even though the volume of data traffic increased substantially, we achieved an energy saving of 6.2% in our own organization. Our target is no longer a maximum energy growth of 5%, but we have now set ourselves an energy reduction target for 2020. With the development and launch of our IT Security Top Priority Program, which we will pursue in 2013, we have made an investment in the security of our network. In addition, we will offer our customers even more products and services that will benefit the security of their information.



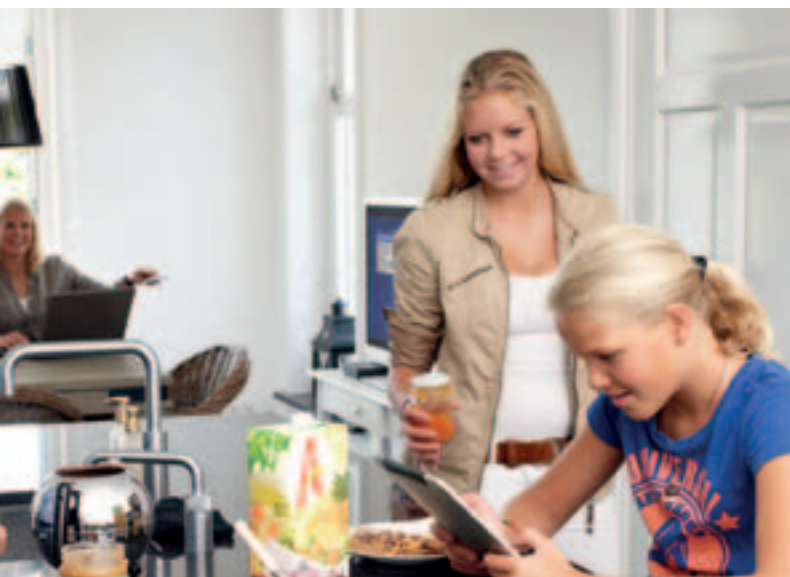
STRATEGY AT A GLANCE



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

OBJECTIVES AND AMBITIONS

The Netherlands	<ul style="list-style-type: none"> • Minimum broadband market share of >40% ; long-term goal 45% • Growing Revenue Generating Units and Average Revenue Per User at Residential • Minimum long-term total mobile NL market share of >40% • Leading business and ICT player with stable market positions in the Netherlands • 40-45% medium term EBITDA margin in the Netherlands • Finalization 4,000-5,000 FTE reduction program end 2013; continued FTE cost efficiency in 2014 and onwards
Mobile International	<ul style="list-style-type: none"> • Long-term market share goal of 20% in Germany • Medium-term EBITDA margin of 30%-35% in Germany • Long-term market share goal of 25% in Belgium • Medium-term EBITDA margin of 25%-30% in Belgium
Financial framework	<ul style="list-style-type: none"> • Commitment to maintain investment grade credit profile
Corporate Social Responsibility	<ul style="list-style-type: none"> • In 2015 60% of Dutch citizens consider KPN to have the best ICT infrastructure • 6,000 healthcare locations connected and 48,000 healthcare consumers supplied with personal comfort services in 2015 • KlasseContact: 1250 chronically ill children connected to school and classmates with a webchair in 2015 • 20% growth in use of services for The New Way of Living & Working in 2013 • In 2020 climate neutral and save as much energy in the value chain as KPN itself uses every year • Recycle or re-use 400,000 cellular phones in 2014 • In 2013 70% of Dutch citizens consider that their data is safe with KPN



STRATEGIC INITIATIVES

- Focus on bundles, offering integrated fixed and mobile services on all devices
 - Optimizing customer lifetime value
 - Continued commitment to improve customer experience and quality of services
 - Best in class network
 - Commercial launch of 4G LTE
 - Moving towards one-stop-shop for B2B
-
- Market share growth in targeted underpenetrated regions
 - Expanding distribution capacity in Germany in under-penetrated regions
 - Improve underlying cost structure in Germany
 - Monetize competitive data network in Germany
 - Create competitive edge by speed differentiation in Belgium
 - Seizing opportunities to challenge the fixed line market in Belgium
-
- Substantial reinforcement of balance sheet and financial position
 - In February 2013, we announced a EUR 3 billion rights issue and, in addition, issuance of hybrid capital instruments
-
- Modernizing the mobile network and improving the quality of the fixed network
 - Further roll-out and development of the services ZorgSamen, ZorgVrij and ZorgSlim
 - Further roll-out and expansion webchairs to connect chronically ill children with school and classmates
 - Further roll-out and development of propositions and use of our capability to provide service needed to facilitate The New Way of Living & Working
 - 6% reduction in energy consumption in 2015 and 100% green power as from 2014
 - Energy-efficient equipment in the network and for customers (modems, set top boxen)
 - Handset lease and collection of used mobile handsets
 - IT Security Top Priority Program and provision of Security Operations Center services to customers

STATUS 2012

- Domestic market shares stabilizing, TV market share growing
 - Lower line loss and growing FttH penetration
 - Accelerated growth triple play packages, increased revenue generating units per customer
 - Expanded addressable market; ~70% coverage of Dutch Market with minimum guaranteed speed of 40 Mbps
 - Highly valuable spectrum acquired
 - Prepared integration of Business Market with parts of Corporate Market
 - Accelerated restructuring program resulted in a reduction of ~1,900 FTE in 2012
-
- Lower growth in prepaid and customer optimization in postpaid resulted in a slow-down in growth in Germany
 - Introduction of all-net flat propositions; strong postpaid net adds in Germany
 - Commercial initiatives launched to maintain price-leadership in Belgium
 - Market share Belgium increased to ~20%
 - HSPA+ has been largely rolled-out in Germany and Belgium
-
- As at December 31, 2012 KPN has a credit rating Baa2 with rating under review for downgrade by Moody's, BBB with a credit watch negative by Standard & Poor's and BBB- with a stable outlook by Fitch
 - Dividend outlook lowered to EUR 0.12 in 2012 and EUR 0.03 in 2013 and 2014
-
- 51% consider that KPN has the best network
 - More than 4,000 healthcare locations connected and ~21,000 healthcare consumers supplied with personal comfort services
 - 216 webchairs in use
 - 17% growth in use of services for The New Way of Living & Working
 - 103,000 tons of CO₂ emissions, 6.2% reduction in energy consumption and 93% green power
 - ~72,000 recycled or reused mobile handsets
 - 67% of Dutch citizen consider that their data is safe with KPN
 - Security Operations Center set up

STRATEGY IN ACTION

In The Netherlands, we are approaching a new balance between a focus on market positions and achieving a stable performance. In Germany and Belgium, the next phases in our Challenger strategy are being implemented to fuel underlying growth in 2013 and beyond. More and more, our social policy is a natural part of our business.



THE NETHERLANDS

KEY OBJECTIVE:

Integrated Access Provider

We intend to reinforce our position in the Dutch market by offering a full range of fixed and mobile services that deliver the best connectivity to our customers, independent of location and device, in the most intuitive and customer-friendly way.

We have started the roll-out of our “KPN Compleet” package as a the first step to

providing a quadruple-play offering, involving a converged package of mobile, fixed line, broadband internet and TV services.

We believe that this, in turn, will improve customer loyalty, reduce churn and limit margin erosion.

THE NETHERLANDS

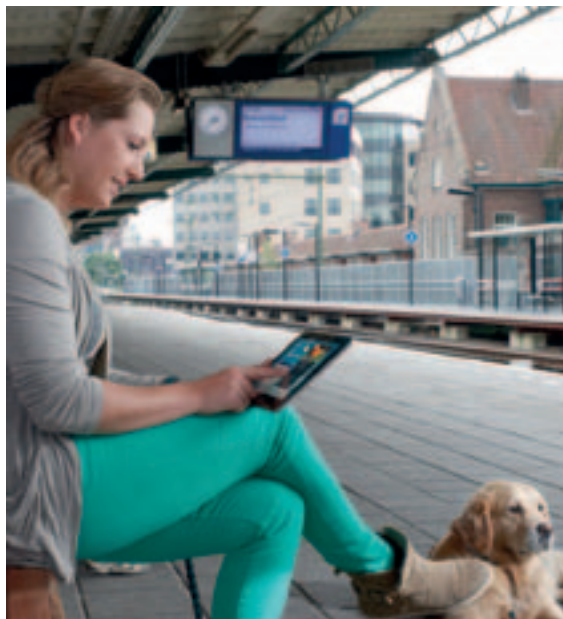
KEY OBJECTIVE:

Best in class network

We have invested heavily in network infrastructure in the Netherlands, and plan to continue to do so, in order to offer the best products and services to our customers. We are continuously improving the speed and quality of our fixed and mobile networks.

In fixed line services, we plan to continue with upgrades of our copper network and expects

to expand our FttH footprint through the Reggefiber joint venture. In mobile, we are the first operator in the Netherlands to have launched 4G LTE services, and we expect to have covered approximately 50% of the Dutch population by mid-2013 and to offer nationwide coverage in the second half of 2014.



MOBILE INTERNATIONAL

KEY OBJECTIVE:

Next phase mobile challenger strategy

We believe that we have considerable opportunities to grow our German and Belgian operations. At the core of our strategy in these markets is the accelerated roll-out of mobile broadband internet services, with a continued focus on investing in mobile broadband backhaul and HSPA+ network roll-out as a priority in Germany, and on the deployment of the 4G LTE network in Belgium.

By leveraging the upgraded data network we will continue growing market share in

under-penetrated regions. We will do this by expanding our distribution channels and targeted marketing on a region-by-region basis.

Furthermore, we will challenge the fixed line market in Belgium and offer triple play products to our customers. In Germany we will continue to focus on expanding our position in the postpaid market.

CORPORATE SOCIAL RESPONSIBILITY

KEY OBJECTIVE:

Enable customers to fulfill their sustainability ambitions

Our high position in the Dow Jones Sustainability Index, the Carbon Disclosure Project and the Newsweek rankings confirm the course of and appreciation for our efforts in the domain of sustainability and social responsibility.

More than ever before, we face the challenge of making a contribution to the quality of the

society we live in. Notable examples of this are our expanding position in the healthcare sector, the development of products and services that satisfy extra-high privacy and security requirements, the help we give customers to make The New Way of Living & Working possible and save energy and CO₂.



OUR ROLE IN SOCIETY

Our vision: ICT is indispensable for a modern, sustainable society

51%

of consumers consider KPN's network the best

4,000

healthcare locations are connected to each other through the use of advanced ICT services

17%

growth in the use of services that facilitate The New Way of Living & Working

6.2%

reduction in the energy consumption of the KPN Group compared to 2010

67%

of Dutch people consider their data secure with KPN

In the 2008-2011 period we focused on three social themes: The New Way of Working, Responsible energy use and People connected. So as to be able to utilize our company and our core competencies to make more of a difference we formulated five social themes with our stakeholders in 2011:

- Best ICT infrastructure
- Healthcare of the future
- The New Way of Living & Working
- Energy efficient
- Security & Privacy

Our themes are based on social challenges that offer us new opportunities and that are inextricably linked to our strategic choices. We are convinced that, as a modern ICT service provider, we can make a permanent contribution to society by means of the five themes. We believe that through our ICT business we can help improve the world around us. We want to utilize our energy, employees and resources in the best possible way. This is why the themes are logical focal points. Moreover, we want to make a difference with our ICT activities, which make a direct contribution to the business.

We are more than "just" an ICT service provider; we also want to bring about changes in society and to set or strengthen trends. As market leader in ICT, builder of the network and with our network of ICT experts – our employees – we are the obvious service provider to help the Netherlands to make progress through communication technology.

We confirmed that role in 2012 with an external campaign entitled "The network that cares for the Netherlands". In that campaign, which we will pursue in 2013, we turn the spotlight on our five social themes.

Every year we appraise our social themes, taking into account the expectations of stakeholders with respect to social topics, along with the influence that KPN has on them. We want to take the lead in the themes that score the highest. We have therefore translated them into five social themes and three complementary themes: "Our people", "Our suppliers" and "People connected". In 2012 the analysis did not result in any changes to our social policy and our reporting. In appendix on page 82 of the Sustainability Report we explain the process involved.

Best ICT infrastructure

Information and Communication Technology (ICT) forms the basis of our modern society. Railways, ports and road and air traffic are all heavily reliant on ICT. Internet-based services, facilities and products for consumers and businesses are growing too, making the vital importance of ICT in this segment of society increasingly clear. Moreover, a modern ICT infrastructure drives the innovative power and attractiveness of the Netherlands as a business location. Because of these developments, KPN feels the responsibility and the obligation to provide the best ICT infrastructure in the Netherlands. In this way, a modern ICT infrastructure can contribute positively

towards making the Netherlands more sustainable and economically stronger.

Healthcare of the future

We see solid strategic opportunities in the healthcare sector. In the coming decades, healthcare will undergo great changes. For example, population aging will increase, as will the prevalence of diseases of affluence. The number of people requiring care will therefore rise. Technical and medical progress is creating a difference between supply and demand, and medical care is becoming more expensive. Patients will also demand more transparency and more personal, patient-centric care. In all these developments we can see that, as an ICT service provider, we will have a role that will become more important as time goes by. The application of advanced ICT ensures that the administration and communication among healthcare providers and between healthcare providers and receivers proceed more efficiently.

The New Way of Living & Working

As ICT services become more advanced the opportunities to work any place, any time, are increasing. Being able to work without the constraints of time and place enables people to be more in control, which allows them to achieve a better work-life balance. Moreover, The New Way of Living & Working contributes towards a reduction in road traffic. KPN believes in The New Way of Living &

Working, which is beneficial to both employee and employer, and which is good for the economy as well. Our contribution to The New Way of Living & Working is twofold: around nine thousand KPN people work independently of time and place one or more days per week. We are also the only ICT company in the Netherlands that is capable of providing all the ICT services needed to facilitate The New Way of Living & Working.

Energy-efficient

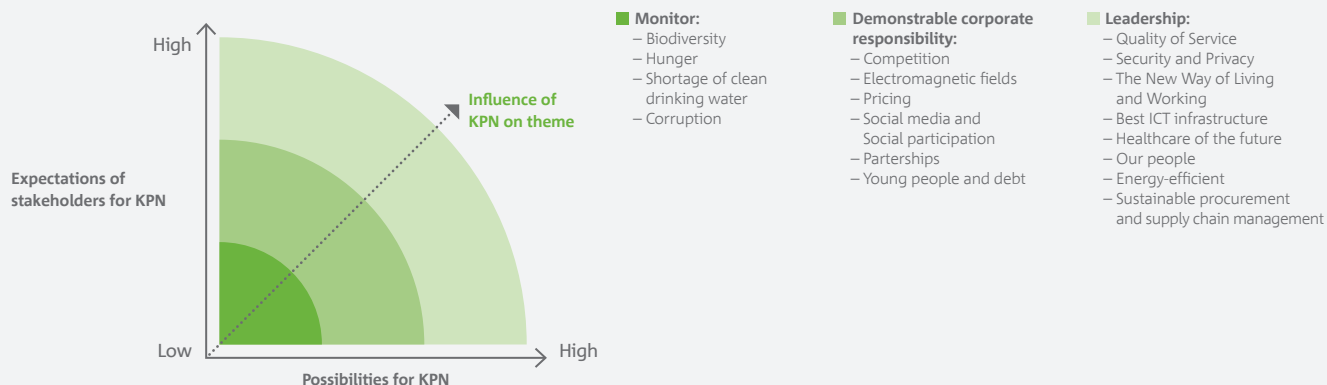
The concern about climate change and renewable energy supplies influences our strategic agenda as well. Energy shortages, CO₂ emissions and climate change have a major social impact; ICT consumes a lot of power. KPN, for example, accounts for 0.8% of the total electricity consumption in the Netherlands. KPN is facing huge challenges: data traffic and the use of ICT services are growing, yet we want to cut back on energy consumption. We want to be at the heart of the community as an energy-conscious ICT service provider. In our view there are excellent opportunities for smarter and more efficient data centers, network hardware and connections. This will allow us to reduce our energy consumption and to 'make it green'. Despite the sharp increase in ICT applications we have set our organization an important goal: climate neutral business operations in 2020. This means that our operations will no longer have a negative effect on the climate.

Security & privacy

People, companies and governmental organizations are becoming more reliant on ICT in our society. The amount of confidential information being sent over the internet continues to increase. Society must be able to rely on ICT service providers to process this data traffic securely and carefully. We want to offer this confidence to our customers – government, companies and citizens – any time, any place. However, we are also aware that certain developments put security and privacy under pressure. Digital criminal activity (cyber crime and hackers), but also the explosive growth in social media, can lead to personal details easily getting into the public domain. As the largest "transporter" and manager of digital data we are conscious of our responsibility with respect to data security and privacy. We want to guarantee that every customer can use our internet and mobile telephony services without any concerns. The government, companies and organizations need to be certain that we store their data securely in our data centers and in the cloud.

The 2012 corporate social responsibility report, 'The network that cares for the Netherlands', takes an in-depth look at the social themes and our results in 2012.

Assessment of relevance of social themes for the telecom industry



REPORT BY THE BOARD OF MANAGEMENT





INFORMATION ABOUT THE KPN SHARE

KPN attaches great importance to transparent and regular communication with its shareholders, bondholders, 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 Board of 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: KKP NY).

KPN shares are included amongst others in the following leading Indices (weightings at December 31, 2012): AEX 2.0%, EURO STOXX Telecommunications Index 3.6%, STOXX Europe 600 Telecommunications Index 1.6% and MSCI Euro 0.07%.

Share ownership

América Móvil notified the AFM on June 28, 2012 that they held 27.47% 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, 2012.

Shareholder remuneration

KPN is committed to strive for a balance between a prudent financing policy, investments in the business and shareholder remuneration. In 2012 we have made strategic investments including spectrum and fiber. Looking forward, we have on-going investments in customers and infrastructure to support our strategy. Consequently, KPN intends to pay a dividend per share of EUR 0.03 over the fiscal year 2013 and 2014. From then, KPN strives to return dividend per share growth subject to operational performance and financial position. KPN remains committed to an investment grade credit profile. KPN targets a net debt to EBITDA ratio between 2.0–2.5x at the end of 2013.

KPN Shareholding

Estimated geographic breakdown (based on institutional holdings)

Mexico	25 – 30%
United States	5 – 10%
United Kingdom	5 – 10%
Netherlands	0 – 5%
France	0 – 5%
Rest of Europe	10 – 15%
Rest of World	0 – 5%
Other ¹⁾	25 – 30%

Source: Thomson Shareholder ID Q4 2012

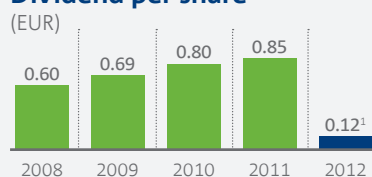
1) retail, broker/trading and other

Dividend

KPN proposed to declare a cash dividend of EUR 0.12 per share in respect of the year ended December 31, 2012, which was paid out as an interim dividend in August 2012. The proposed dividend for 2012 will be presented for approval to the Annual General Meeting of Shareholders to be held on April 10, 2013.

KPN intends to pay a dividend per share of EUR 0.03 over the fiscal year 2013 and 2014, thereafter return to dividend per share growth, subject to operational performance and financial position.

Dividend per share



1) The proposed dividend for 2012 consist of a cash dividend of EUR 0.12 per share which was paid out as an interim dividend in August 2012.

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 2013

February 5, 2013: Publication of results for the full year 2012

April 10, 2013: Annual General Meeting of Shareholders

April 23, 2013: Publication of results for the first quarter of 2013

July 23, 2013: Publication half year results 2013

October 22, 2013: Publication of results for the third quarter of 2013

Note that these dates may be subject to change.

Share price 2010–2012

(EUR)



Source: Bloomberg, prices rebased to KPN share price of EUR 11.84 on January 1, 2010

GROUP PERFORMANCE AND OUTLOOK

GROUP PERFORMANCE

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

Performance versus outlook 2012

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

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

KPN Group revenues and other income decreased 3.5% or EUR 455m due to the sale of Getronics International and declining revenues in The Netherlands. The negative impact on Group revenues from regulation was EUR 134 million, the net negative impact on acquisitions and disposals was EUR 296 million and the net positive impact from incidentals was EUR 105 million. The incidentals in 2012 mainly related to book gains, most notably on the sale of mobile towers in Germany and The Netherlands and the sale of KPN Spain.

A continued difficult market environment was the primary reason for the revenue decline in the Netherlands, while Germany, Belgium and iBasis showed increased revenues. All Dutch Telco segments remained exposed to lower traffic volumes, especially Consumer Mobile. The revenue decline at Corporate Market was largely attributable to the sale of Getronics International in May 2012 as well as the continued adverse market conditions. In Germany revenue growth slowed in the second half of 2012 as a result of increased price competition and high value postpaid customers who are trading down on their tariff plans leading to optimization.

Revenues and other income

(In millions of EUR)	2012	2011	Δ
KPN Group	12,708	13,163	-3.5%
Consumer Mobile	1,707	1,900	-10%
Consumer Residential	1,852	1,903	-2.7%
Business	2,352	2,433	-3.3%
NetCo	2,621	2,780	-5.7%
Other ¹	-2,087	-2,252	7.3%
- Dutch Telco business	6,445	6,764	-4.7%
Corporate Market	1,405	1,811	-22%
Other ¹	-318	-316	-0.6%
- The Netherlands	7,532	8,259	-8.8%
- iBasis	1,035	977	5.9%
Germany	3,404	3,243	5.0%
Belgium	804	781	2.9%
Rest of World	247	302	-18%
Other ¹	-84	-118	29%
- Mobile International	4,371	4,208	3.9%

1) Mainly elimination of intercompany revenues.

EBITDA

(In millions of EUR)	2012	2011	Δ
KPN Group	4,528	5,138	-12%
KPN Group (excl restructuring)	4,701	5,268	-11%
Consumer Mobile	510	550	-7.3%
Consumer Residential	367	497	-26%
Business	758	786	-3.6%
NetCo	1,461	1,705	-14%
Other	-18	-17	-5.9%
- Dutch Telco business	3,078	3,521	-13%
Corporate Market	57	6	>100%
Other	0	1	100%
- The Netherlands	3,135	3,528	-11%
iBasis	30	31	-3.2%
Germany	1,290	1,354	-4.7%
Belgium	272	273	-0.4%
Rest of World	-26	9	n.m.
- Mobile International	1,536	1,636	-6.1%

Our Group EBITDA decreased by 12% or EUR 610 million. EBITDA was negatively impacted by regulation of EUR 64 million, a negative impact from restructuring of EUR 173 million (2011: EUR 130 million) and a net positive impact from incidentals of EUR 87 million. Incidentals in 2012 mainly related to the sale of mobile towers in the Netherlands and Germany.

The decrease in EBITDA was driven by decreased revenues in The Netherlands, a continued decline in high margin traditional services and higher activation costs at Residential and NetCo. Furthermore, pension costs were EUR 101 million higher, of which EUR 73 million related to actuarial losses at the Getronics UK and US pension funds and EUR 28 million related to The Netherlands.

Other financial data

(In millions of EUR)	2012	2011	Δ
Operating result	1,820	2,549	-29%
Finance income and expenses	-844	-754	-12%
Share profit of associates and joint ventures	-13	-24	46%
Profit before income tax	963	1,771	-46%
Income taxes	-270	-222	-22%
Profit for the period	693	1,549	-55%

Operating results

EBIT decreased by EUR 729 million, resulting from the EBITDA decrease and increased depreciation and amortization of EUR 119 million. In Germany EUR 101 million higher depreciation charges were recorded, resulting from a total one-off depreciation of assets under construction amounting to EUR 74 million (of which EUR 61 million related to prior periods) and higher depreciation resulting from handset leases.

Triggered by the changes in the ICT market, continued adverse market conditions and fierce price pressure, the annual impairment testing led to an impairment of goodwill of EUR 314 million at Corporate Market in 2012. In 2011 an impairment of EUR 298 million was recorded and related to goodwill, intangible assets and tangible assets.

Finance income and expenses

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

Income taxes

KPN benefits from an agreement with the Dutch tax authorities with regard to the application of innovation tax facilities. Innovation tax facilities are facilities under Dutch corporate income tax law whereby profits attributable to innovation are taxed at an effective rate of 5%. Due to the application of the innovation tax facilities, KPN's effective tax rate in The Netherlands is reduced from the statutory tax rate of 25% to approximately 20%.

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

Net profit

Net profit amounted to EUR 693 million and decreased following the decline in operating results and increased finance costs resulting from the change in fair value of the Reggefiber call/put arrangements.

Group performance and outlook continued

Cash flow

(In millions of EUR)	2012	2011	Δ
Operating result	1,820	2,549	-29%
Depreciation and amortization	2,708	2,589	4.6%
Interest paid/received	-661	-637	3.8%
Tax paid/received	-486	-231	>100%
Change in provision	-127	-209	-39%
Change in working capital	-7	93	n.m.
Other movements	-240	-151	71%
Cash flow from operating activities	3,007	4,003	-25%
Capital expenditures¹	2,209	2,047	7.9%
Proceeds from real estate	519	156	7.9%
Tax recapture E-Plus	335	337	-0.6%
Free cash flow	1,652	2,449	-33%

1) Including property, plant and equipment.

Capex

Group Capex amounted to EUR 2,209 million and increased compared to 2011. The increase is related to higher investments to strengthen market positions in The Netherlands, including customer driven investments (e.g. handsets, IPTV set-top boxes), and accelerated network roll-outs in Germany and Belgium.

Free cash flow

Free cash flow in 2012 amounted to EUR 1,652 million, which is 797 million lower than last year. Lower EBITDA of EUR 610 million, higher tax payments of EUR 257 million, higher CAPEX of EUR 162 million, more negative change in working capital of EUR 100 million mainly due to prepayments and other movements of EUR 89 million, were partly offset by EUR 363 million higher proceeds from the sale of real estate and EUR 82 million less negative change in provisions. The tax payments are impacted by lower innovation tax facilities in 2012 of EUR 290 million as KPN received a one-off in 2011.

Pension position

As at December 31, 2012, the average coverage ratio of the KPN pension funds in The Netherlands was 104%, compared to 101% in 2011. In 2012, an amount of EUR 100 million related to pension recovery payments was made of which EUR 19 million was due in Q1 2013 but was prepaid in 2012. Based on the coverage ratio at December 31, 2012, a pension recovery payment of EUR 19 million is required in Q2 2013. For more information about KPN's pension plans, reference is made to Note 22 of the Consolidated Financial Statements.

Funding profile strengthened by issuance of new long-dated bonds

On March 1, 2012, KPN issued a EUR 750 million Eurobond, with a 10-year maturity and a fixed coupon of 4.25%. On August 1, 2012, KPN issued a Eurobond for an amount of EUR 750 million, with an 8.5-year maturity and a fixed coupon of 3.25%. These bonds were issued under KPN's Global Medium Term Note program and have been listed on NYSE Euronext Amsterdam. The proceeds have been used for general corporate purposes.

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

As at December 31, 2012, the average maturity of the bond portfolio was 7.0 years. The average interest rate on the nominal bonds remained stable at 5.1%.

In June 2012, KPN used an extension option for its EUR 2 billion revolving credit facility. All 14 relationship banks agreed to a one year extension, which brings the maturity of the revolving credit facility to July 2017. The facility contains another one-year extension option in July 2013, which could extend the maturity to July 2018. Per December 31, 2012, KPN had no drawings on its revolving credit facility.

Equity position

At December 31, 2012, total equity amounted to EUR 2,461 million. Reference is made to Note 29 in the Financial Statements for further information.

Financial position

To align our financial position with our strategy we have announced our intention to raise EUR 4 billion of equity equivalent capital. The transaction will strengthen KPN's balance sheet and is intended to provide a stable financial position in the coming years. We believe that the capital raise will support KPN's commitment to maintain an investment grade credit profile. The capital raise will consist of a EUR 3 billion rights issue and, in addition, issuance of hybrid capital instruments. The capital issue is subject to shareholder approval.

Outlook

- The Netherlands expected to stabilize towards 2014
- Next phase German strategy expected to lead to service revenue growth combined with lower EBITDA margin, especially in 2013
- Capex in 2013 below EUR 2.3 billion and total planned Capex for the period 2013-2015 below EUR 7 billion, including Reggefiber¹
- DPS of EUR 0.03 in 2013 and 2014, thereafter return to DPS growth, subject to operational performance and financial position

1) As from consolidation: Reggefiber is not expected to be consolidated before the second half of 2014

Non-financial data

	2012	2011
Energy consumption (in PetaJoule)	5.4	5.6
Reputation	18th place	12th place
Customer satisfaction (NPS)	-13	-14
Number of FTE	26,156	30,941

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 since 2011, in Germany the usage of green energy increased to 76% (2011: 50%). While the data usage increased, our total energy consumption decreased by 6.2% in 2012 compared to 2010, of which 3.3% of the reduction was achieved by energy efficiency measures. The remaining reduction of our energy use was caused by the sale of Getronics International.

Reputation

We measure our reputation based on the RepTrak ranking, an annual study of the reputation of the world's largest companies. In 2012 KPN took 18th place, a decrease of six places compared to 2011. In January 2012 some of our servers were hacked. We took the incident very seriously, we learned from it and used it to focus even more attention on security and privacy. We have now taken the necessary measures, including setting up the Security Operations Center which enable us to restrict the potential for security incidents to a minimum in the future.

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 2012, the NPS was -13, a small increase compared to 2011. We failed to achieve our NPS target, score of -7. We continued our KPN-wide quality program and also implemented several quality improvement measures in our segments.

Number of FTEs

The number of FTEs amounted to 26,156 FTEs in 2012, a decrease of 4,785 FTE. The decrease resulted from the sale of Getronics International, the FTE reduction program in the Netherlands and was partly offset by acquisitions and growing business in Germany and Belgium.

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



OUR ACTIVITIES AND PERFORMANCE

CONSUMER MOBILE

We provide consumers in the Netherlands a mobile access portfolio of voice, sms and data services, offering postpaid and prepaid products through a multi-brand approach.

OVERVIEW

REVENUE

€1,707M

(2011: 1,900m)

EBITDA

€510M

(2011: 550m)

Operating highlights

- Market share stabilizing at around 45%
- New access-centric portfolio launched for KPN, Hi and Telfort
- Distribution expanded through increasing number of captive channels and new shop formulas
- Improved customer services' resulting in increased customer satisfaction
- Following successful pilots the 4G LTE roll-out has been accelerated for commercial launch in Q1

67,000

POSTPAID NET ADDS

(2011: negative 87,000)

~65%

COMMITTED ARPU

(2011: ~57%)

Our strategy in action

Taking into consideration the market environment and our focus on achieving the right balance between profitability and market share our long term strategic objective is a minimum total mobile service market share in the Netherlands of more than 40%.

New propositions

The increasing dominance of smart phones and tablets in the mobile arena, leads to an explosive growth in data traffic. To meet the growing demand for access to data oriented services, we have introduced a new portfolio for our brands, offering customers transparent, simple and flexible propositions. Furthermore, brand positioning has been reinforced by offering differentiating services per brand to capture the targeted market segments.

The results of the new mobile access-centric propositions are positive, resulting in an increased level of committed ARPU.

On the back of the new mobile portfolio launches, we have enhanced our offers with handset lease, providing choice of handset without upfront cost. Furthermore a handset repair service is included to ensure that customers are re-connected to the mobile network within hours.

In January 2013, we introduced 'KPN Compleet', a first step towards offering quad play services. Our existing triple play and mobile customers, with subscriptions that started before January 1, 2013, can benefit from value-added services, such as 45 additional TV channels, free unlimited calls within the family and a doubling of voice, SMS and data within a mobile subscription. As a next step towards fixed-mobile convergence, we will make 'KPN Compleet' accessible for all our fixed and mobile customers in the Netherlands.

Optimize distribution and improved service experience

To further increase our sales and service we optimized the number of our stores in the Netherlands from 239 at the end of 2011 to 260 by the end of 2012. This includes new formulas such as multi-brand shops and XL shops with focus on customer service. Furthermore, call centers are organized differently and include specialist agents to increase customer satisfaction and have service desks open 24/7.

Environment and competition

Increased competition on the basis of both price and quality from traditional competitors, together with regulatory obligations to reduce MTRs and roaming charges, changing customer preference for mobile data access over traditional voice and SMS as well as a slow macro-economy, have contributed to the overall decline in profitability. Our wireless customer base increased to 7.6 million customers, of which 3.5 million are postpaid and 4.1 million prepaid. The prepaid segment remained under pressure due to the continued competition in the ethnic segment and migration towards postpaid SIM only propositions. Our wireless service revenue market share in the Netherlands is stabilizing at around 45% (2011: 46%). Our main competitors are T-Mobile and Vodafone following the Dutch Mobile spectrum auction in Q4 2012, Tele2 has acquired mobile spectrum.

Leading mobile network position

Continued improvements have been implemented to maintain the best in class network in terms of quality and coverage. Following successful pilots the 4G LTE roll-out has been accelerated for commercial launch in Q1 2013. 4G LTE improves the customer experience by providing significantly higher speeds and better indoor coverage than 3G.

Products and services

Against a backdrop of strong competition and an unprecedentedly rapid transformation into an interactive data-centered world, we continued to deploy a multi-brand approach, based on our high quality brand KPN, the youth brand Hi, the value for money brand Telfort and online brand Simyo.

In line with KPN's objective to build a future proof portfolio, new integrated mobile access propositions were launched for our brands. The Hi brand launched data-centric propositions with unlimited messaging for the youth segment. In the value for money segment, Telfort launched its new modular portfolio, including free calls after 10 minutes. The new portfolio for the KPN brand was launched in July, offering unlimited calling/SMS for EUR 40 per month. In addition, we have introduced value-added services such as Spotify.

Our Mobile Wholesale activities offer flexible customized platforms to ensure that partners can successfully introduce their own mobile propositions in the market. Around 2.4 million end-users are connected to the KPN network via our mobile wholesale partners, who range from niche brands to strong distributors to target their market segments.

Financial review

(In millions of EUR, unless indicated otherwise)	2012	2011	Δ
– Wireless services (excluding Mobile Wholesale)	1,491	1,648	-9.5%
– Mobile Wholesale	170	207	-18%
– Other	46	45	2.2%
Revenues and other income	1,707	1,900	-10%
Operating expenses	1,317	1,428	-7.8%
– of which: depreciation, amortization and impairments	120	78	54%
EBITDA	510	550	-7.3%
EBITDA margin	29.9%	28.9%	

Revenues and other income declined by 10% in 2012, including regulatory impact of 2.4%. For retail wireless services the decline was driven by changing customer behavior resulting in lower traffic volumes and by competitive market conditions. The decrease was partly offset by higher committed revenues driven by the introduction of new propositions. In 2012, the postpaid base increased slightly to 3.5 million customers while the prepaid base declined to 4.1 million customers, impacted by continued competition in the ethnic segment and migrations to postpaid.

Mobile Wholesale revenues are below 2011 due to increased competition, mainly in the ethnic segment.

EBITDA decreased by 7.3% in 2012 as cost reductions were not sufficient to mitigate the impact from changing customer behavior and price pressure due to competition. The EBITDA margin increased in 2012 to 29.9%, compared to 28.9% in 2011, supported by the new commercial propositions including the handset lease model.

In 2012 additional costs were incurred concerning the introduction of new propositions, the expansion of the number of shops and the improvements to customer service. The higher costs were offset by lower costs of material following the introduction of the handset lease model, whereby the costs are capitalized and depreciated instead of expensed.

Operating review

	2012	2011	Δ
Service revenue	1,556	1,724	-9.7%
Retail customers (in thousands)	5,177	5,450	-5.0%
Wholesale customers (in thousands)	2,402	2,213	8.5%
ARPU wireless blended (in EUR)	17	19	-11%

Our Activities and Performance continued

CONSUMER RESIDENTIAL

We provide a broad portfolio of voice, internet and TV services to consumers in the Netherlands.

OVERVIEW

REVENUE

€1,852M

(2011: 1,903m)

EBITDA

€367M

(2011: 497m)

Operating highlights

- Broadband market share increased to 41%
- Market-leading IPTV proposition
- Strong increase TV market share to 23%
- Organic FttH activations more than doubled in 2012

2,697K

BROADBAND CUSTOMERS

(2011: 2,538k)

979K

TRIPLE PLAY PACKAGES

(2011: 658k)

During 2012, Residential has been able to stabilize the decline in broadband base and market share, by offering attractive all-in-one packages with our high-quality IPTV service as a driver for sales. Our broadband market share increased in 2012 to 41% (2011: 40%). On top of the organic stabilization of the broadband market share, KPN acquired five fiber service providers from Reggeborgh and Reggefiber to increase our presence in the Dutch FttH market.

Our strategy in action

In the Netherlands, we seek to maintain a minimum broadband internet market share by number of subscribers of approximately 40%. Our strategic objective over the longer-term is to increase our market share to approximately 45%.

Improved propositions

Consumer Residential offers differentiated propositions both on the copper and fiber infrastructure. We have taken significant steps to improve our TV proposition, and now provide a market-leading IPTV proposition in the Netherlands. Focus is on the triple play package (voice, broadband and TV), with IPTV as an important driver behind take up of triple-play packages. As a result, the RGU per customer has increased from 1.92 in 2011 to 2.07 in 2012. Triple play packages increased by 321 thousand in 2012 to a total of 979 thousand.

Step up in customer service

Customer service optimization has resulted in shortened delivery times for our services. In addition, KPN has made several changes to support efficiency and effectiveness in the call centers and offer improved online helpdesk functionalities. In addition, the helpdesk is free of charge and open 24/7. This has supported an improvement in Net Promotor Score from -17 to -10.

Expand addressable market

We believe FttH is the long-term superior infrastructure, while providing good operational results, such as increased broadband and TV market shares and higher ARPU. Next to our FttH network, the upgrades of our copper network is equally essential as this will enable KPN to successfully compete in the short and medium term. In 2012 our market reach offering > 40 Mbps approached ~70% due to upgrades in our network.

Environment and competition

The broadband internet market in the Netherlands features relatively high customer penetration rates with limited growth potential. The fixed-line telephony market is declining market as customers increasingly migrate their communication patterns towards VoIP and mobile and data services. Our main competitors are the cable companies, UPC and Ziggo, which have historically aggressively competed with high-quality TV offerings. We also compete with Tele2 and Vodafone, both of which provide fixed-line telephony, broadband internet and TV services over our own network.

Regionalized approach

To strengthen our strategy, we also introduced a regional approach in 2012. Targeted areas are selected and analyzed taking future FttH roll-out and copper network upgrades into account. Following this analysis, a marketing and sales approach is determined, with strong short-term regional offers in selected regions. The regional approach has shown good progress with improving broadband market share development in targeted areas.

Products and services

We offer fixed-line telephony, broadband internet and TV on a stand-alone basis and multiplay or triple-play packages. In the last years we have taken major steps to improve our IPTV proposition. The standard IPTV proposition is supported by value added services, improved user experience and enriched TV packages. In 2012 we took several steps to realize this ambition: an agreement with HBO to offer three premium TV channels, HD channels in our standard IPTV proposition, a smaller, faster and ecofriendly set top box, a new user interface allowing for faster changing channels and the introduction of IPTV on smartphones.

Financial review

(In millions of EUR, unless indicated otherwise)	2012	2011	Δ
– Voice wireline	407	512	-21%
– Internet wireline	974	999	-2.5%
– TV	200	176	14%
– Other	271	261	3.8%
Revenues and other income	1,852	1,903	-2.7%
Operating expenses	1,741	1,628	6.9%
– of which: depreciation, amortization and impairments	256	222	15%
EBITDA	367	497	-26%
EBITDA margin	19.8%	26.1%	

Revenues and other income declined by 2.7% in 2012, due to continued decline of traditional voice services, partly offset by increased IPTV and FttH revenues. Revenues were partly supported by the acquisition of five fiber service providers from Reggeborgh with a customer base of 126 thousand FttH customers in Q4 and the acquisition of Lijbrandt with a customer base of 13 thousand FttH customers in Q2. The broadband customer base increased organically in Q4 2012 (35 thousand) for the second consecutive quarter. In terms of activations, 2012 was the first period since 2008 in which we realized a net line gain instead of net line loss.

EBITDA decreased by 26% as a result of higher marketing and sales costs, higher content costs and a continued decline in higher margin traditional services, resulting in an EBITDA margin of 19.8% (2011: 26.1%).

The increase in the broadband customer base was not only driven by the acquisition of the fiber service providers but also by growth in the number of FttH activations and good performance by the Telfort brand. KPN's broadband market share increased to 41% (Q4 2011: 40%).

Wireline revenues benefited from the strong growth in IPTV and FttH, 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. The number of FttH activated increased to 368 thousand (2011: 102 thousand).

Operating review

	2012	2011	Δ
Voice access lines (in thousands)	2,752	2,761	-0.3%
Broadband lines (in thousands)	2,697	2,538	6.3%
TV customers (in thousands)	1,766	1,400	26%
ARPU blended (EUR)	40	39	2.6%
FttH activated (in thousands)	368	102	>100%

Our Activities and Performance continued

BUSINESS

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

OVERVIEW

REVENUE

€2,352M

(2011: 2,433m)

EBITDA

€758M

(2011: 786m)

Operating highlights

- Stable market positions
- New propositions for SME, LE and corporate clients Multibrand approach addressing diverging customer needs
- Migration from traditional to IP based services steadily continued
- Moving towards one-stop shop for new B2B organization

2,337k

WIRELESS CUSTOMERS

(2011: 2,105k)

1,134k

ACCESS LINES

(2011: 1,285k)

Environment and competition

In the context of a weak macro-economic environment, the Dutch business telecommunications market has experienced declining demand for telecommunications services and weaker demand for ICT services as IT budgets among businesses remain under pressure. Business customers are increasingly focusing on flat fee packages and integrated solutions.

For larger, enterprise-level customers, we primarily compete with Vodafone. In the small and medium enterprises and small office / home office customers, our competitors are T-Mobile, Tele2, Vodafone, UPC and Ziggo.

Despite the increasing competition in this market, we hold a strong market position in both the wireline and wireless market.

Our strategy in action

Our objective is to continue to be a leading provider of business-to-business services in the Netherlands and maintain stable market positions.

Multibrand approach

We have strengthened our multi-brand strategy in 2012 by integrating the business market activities of Telfort with the activities of Atlantic Telecom, operating under the brand name Telfort Zakelijk. Growth was supported by increased mobile activities. In addition, our other challenger brand, Yes Telecom, showed accelerated growth in 2012.

Furthermore we entered into a strategic partnership with GroupIT B.V. (RoutIT) and acquired a stake of 12.5% to strengthen our position in the SME segment. This allows us to offer a complete range of services such as hosted telephony to all business customers.

Simple access to an integrated portfolio

In order to address increasing demand in the business market to access information everywhere on all devices, we will integrate parts of Corporate Market with Business into a new B2B organization as from January 1, 2013. The new B2B organization is uniquely positioned as an one-stop shop for the B2B market, offering integrated packages with virtually focusing on improving our ICT services.

Furthermore, we successfully introduced improved bundled offers to our customers in 2012. The offers combine voice, fixed internet and TV.

Customer experience

Unfortunately, the NPS declined in 2012. We recognized opportunities for improvement in customer service and started a 24/7 service desk and added case management functionality to reinforce our customer relationship management and improve online customer self-care.

Products and services

Our customers want to communicate anytime and anywhere, but are increasingly indifferent towards the underlying technical solution, be it voice, data (IP), fixed or mobile. Therefore, we offer a wide range of solutions to allow seamless, continued client communication through combined voice-data and fixed-mobile solutions, along with more access based, flat fee, price plans to provide customers with cost assurance. 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.

Voice and broadband services

In voice and broadband internet, we provide a wide range of fixed-mobile communication solutions. Our traditional business is heavily driven by customer demand for mobile e-mail solutions and broadband internet access, in particular by smartphones (such as BlackBerry, Windows Mobile, iPhone and Android), tablets, laptops, desktops and mobile internet cards. Our business customers can choose from a wide variety of tariff plans for different types of products from basic to premium packages specifically created for business customers.

Data network services

We offer network communication services ranging from traditional data services to Virtual Private Network services such as IP-VPN and E-VPN. These services are provided both nationally and internationally and are supplied via fiber or high-speed copper connections.

Together with Corporate Market we are investing to further improve our ICT services, such as Unified Communications, secure managed devices, private Cloud and service aggregation services.

Traditional wireline services showed a decline in both access lines and traffic volumes leading to a decrease of 5.4% in wireline revenues. Despite growth in the wireless customer base of 232 thousand in 2012, the service revenues declined 1.0%. ARPU was lower y-on-y at EUR 37 (2011: EUR 42), impacted by regulation, declining traffic, M2M growth and data mix effects.

EBITDA decreased by 3.6%, resulting from declined revenues and other income. The EBITDA margin remained stable at 32.2% in 2012 compared to 32.3% in 2011. The migration from traditional to IP-based services continued steadily, with lower prices and margins. These negative impacts are mitigated by the introduction of flat rate tariffs.

Operating review

	2012	2011	Δ
Access lines voice (in thousands)	1,134	1,285	-12%
Business DSL (in thousands)	174	176	-1.1%
Connections VPN (in thousands)	75.3	73.9	1.9%
Service revenues wireless (in EUR)	996	1,006	-1%
Wireless customers (in thousands)	2,337	2,105	11%
ARPU wireless blended (in EUR)	37	42	-12%

Financial review

(In millions of EUR, unless indicated otherwise)	2012	2011	Δ
– Voice and internet wireline	875	942	-7.1%
– Data network services	379	384	-1.3%
– Wireless services	941	948	-0.7%
– Other	157	159	1.3%
Revenues and other income	2,352	2,433	-3.2%
Operating expenses	1,716	1,761	-2.6%
– of which: depreciation, amortization and impairments	122	114	7.0%
EBITDA	758	786	-3.6%
EBITDA margin	32.2%	32.3%	

In 2012 revenues and other income decreased by 3.3%, mainly caused by continued decline in traditional services, lower traffic and price pressure. The regulatory impact in 2012 was 1.0%.

Our Activities and Performance continued

NETCO

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

OVERVIEW

REVENUE

€2,621M

(2011: 2,780m)

EBITDA

€1,461M

(2011: 1,705m)

Operating highlights

- Mobile network upgrades implemented, enabling 4G LTE roll-out in Q1 2013
- Reggefiber option 1 exercised, stake increased to 51%
- Acquisition of Reggefiber Wholesale operator

1,246k

HOMES PASSED FTTH

(2011: 813k)

~70%

COVERAGE FOR SPEED OF >40 MBPS

(2011: ~56%)

mobile network, as average data usage per customer has increased in the context of declining traditional voice services and SMS traffic, in favor of rising data usage driven by communication applications, mobile internet and other data-heavy uses.

Our strategy in action

Expanding and upgrading our networks and introducing new technologies

In 2012 we have taken several important steps to strengthen our commitment to Fiber-to-the-Home (FtH) in The Netherlands. We have increased our ownership in the joint-venture Reggefiber by an additional 10% to 51%.

In addition we acquired Reggefiber Wholesale (Reggefiber's wholesale operator). This will allow Reggefiber to focus solely on the roll-out of FtH and to operate an open access passive FtH network. The acquisition fits neatly with our wholesale strategy and enables larger scale fiber wholesale services.

We believe FtH is the long-term superior infrastructure, while providing good operational results, such as increased broadband and TV market shares and higher ARPU. Next to our FtH network, the upgrades of our copper network is equally essential as this will enable KPN to successfully compete in the short and medium term. At the end of 2012 ~70% of the Dutch market was covered with a minimum guaranteed speed of 40Mbps.

To expand the addressable market, we are increasing the bandwidth we are able to offer by simultaneously rolling out technologies over our VDSL network and FtH. We are on track with the VDSL upgrades, mid 2012 we introduced a 80Mbps proposition and had connected the first commercial customer via pair-bonding.

Maintaining our network quality

In 2012 we started our network modernization program in order to maintain our top quality mobile network. We replaced the existing GSM radio network by a radio network capable of providing both enhanced GSM services and UMTS data services. This will enhance the indoor coverage of the UMTS (voice and data) network nationwide and further improve the network quality we provide to our customers. In 2012 we upscaled LTE pilots, the next generation high-speed mobile data network, and as a result we became the first operator in the Netherlands to launch 4G LTE services in the first quarter of 2013, supporting our position as the number one mobile network in the Netherlands.

Environment and competition

We are the only operator of fixed copper infrastructure with nationwide coverage in the Netherlands. We are required by OPTA to grant access to our local copper loop for wholesale fixed telephony and wholesale services on leased lines. We face competition from other regional operators which also operate their own networks in the Netherlands, including cable networks operated by Ziggo and UPC, and mobile networks operated by Vodafone and T-Mobile. However, while Vodafone and T-Mobile compete with us for customers for their mobile networks, they also purchase access to our copper and fiber networks to provide fixed line services. As a result, amongst others Vodafone and Tele2 compete with Consumer Residential segment, and at the same time are a wholesale customers of NetCo that provide those fixed-line services to their own customers.

The number of ISDN/PSTN connections in the Netherlands continues to decline as VoIP usage grows. We have experienced a strong increase in data users over our

Rationalization of legacy networks

Further rationalization of our legacy networks continues. Our aim is 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 2012.

Strategic partnering and cost reduction

In 2012 we entered into an international partnership with TechMahindra to further improve our efficiency and effectiveness in our IT environment and operational processes and also to jointly address strategic growth areas. The majority of the expected savings from this partnership will be achieved within Netco. In line with our strategy we have set out a clear ambition on cost leadership and the FTE reduction program.

Products and services

NetCo is responsible for the operation and maintenance of our fixed and mobile networks in the Netherlands, supporting strategy across our segments by operating high quality fixed and mobile networks.

Wholesale Services

We provide wholesale services that include access to our network infrastructure such as wholesale line rental, wholesale broadband access and wholesale fiber through our copper, fiber and mobile networks. Furthermore we provide value-added services for example software and services for third parties so that they can provide content and functionality over our network infrastructure. Wholesale customers can either purchase access to passive network infrastructure alone or with our active operating services, which allow telecom operators and service providers to offer their own services to end customers. We also provide wholesale customers with cloud computing and other services.

Network and IT services

By further migrating to fiber and upgrading our copper network, we aim to become an even more highly efficient, integrated network and IT 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

Through the fiber network we can offer our customers options for expansion such as, electronic payment transactions, data networks, and multi-room IPTV as well as IPTV Online with functionalities on laptop, smartphone and tablet.

The fiber-optic network provides unlimited data transport to customers with high bandwidth requirements.

The roll-out of the FttH network is carried out through our joint venture Reggefiber Group B.V., which operates on the basis of an open-access model.

Copper network

We successfully operate high-quality copper networks and have continued to invest in copper in 2012, implementing new technologies, such as VDSL and pair-bonding to enable bandwidth speeds of at least 40 Mbps.

Wireless network

In the Netherlands, we operate a 3G UMTS / HSPA network and a 2G GSM system. In 2012, we began upgrading our mobile network to modernize and to enable 4G LTE. As our customer portfolio is moving from voice/SMS to a data-centric portfolio, the quality and speed of the wireless network are important differentiators. Mobile data continued to grow, up 66% over 2012, and signaling traffic grew at about 80%. To support this growth we installed new equipment in the radio and core network domains, substantially expanding the available network capacity. The number of sites connected to fiber optics was expanded to 3,427 and the installation of approximately 360 extra sites during the course of the year increased UMTS coverage ultimo 2012 to 95% population coverage by year-end. About 40% of our mobile voice traffic is carried by our UMTS network.

Financial review

(In millions of EUR, unless indicated otherwise)	2012	2011	Δ
Revenues	2,519	2,659	-5.3%
Other income	102	121	-16%
Revenues and other income	2,621	2,780	-5.7%
Operating expenses	1,995	1,962	1.7%
– of which: depreciation, amortization and impairments	835	887	-5.9%
EBITDA	1,461	1,705	-14%
EBITDA margin	55.7%	61.3%	

Revenues and other income declined 5.7% mainly as a result of the continuous decline in traditional services and the effects of regulation. The sale of mobile towers made a positive attribution to revenues and other income of EUR 96 million in 2012 (2011: EUR 100 million).

EBITDA was lower due to the acquisition of the active operator of the wholesale activities of the Reggefiber Group BV, higher costs related to the uptake of FttH activations and increased rental costs for mobile sites. This resulted in an EBITDA margin of 55.7% in 2012 compared to 61.3% in 2011.

The roll-out of the fiber network continued in 2012. Reggefiber increased its Homes Passed ('HP') base to approximately 1,303 thousand by the end of 2012 (2011: 951 thousand). Homes activated by Reggefiber reached 419 thousand (2011: 277 thousand).

Our Activities and Performance continued

CORPORATE MARKET

We offer multinational corporations and other large enterprises end-to-end solutions centered on workspace management, connectivity solutions and information security and data centers.

OVERVIEW

REVENUE

€1,405M

(2011: 1,811m)

EBITDA

€57M

(2011: 6m)

Operating highlights

- Good progress accelerated FTE reduction program
- Divestment of Getronics International finalized
- Best ICT provider 2012 according to Management Team Magazine
- Steps taken to integrate parts of Corporate Market with Business per January 1, 2013

Customer focus

Corporate Market has a customer-focused organization. We permanently monitor customer loyalty through our own Net Promoter Score and through external surveys. In 2012, we improved our customer satisfaction scores. In order to achieve this we continued to simplify our organization, improved customer focus, and further standardized our services and internal processes.

Products and services

Our Cloud strategy: services aggregation

We have invested in developing cloud-based services that evolve from current focus areas on the workspace to delivering services that bridge the traditional IT services and the cloud services environment. Cloud Services Aggregation enables Corporate Market to leverage KPN Group IT and network capabilities with our customers. It provides a means for cross- and up-selling and new and compelling offerings to prospects.

Workspace management

We provide service models to clients to combine existing legacy and new cloud-based services. Together with the Business segment, we sell and deliver packaged online, hybrid and traditional workspace services in the Netherlands in all segments ranging from the midmarket to the corporate enterprise market.

Data centers

We are responsible for housing and hosting data center resources for KPN and for external customers. In particular, we facilitate the evolution of traditional datacenter management portfolio to more cloud-based solutions.

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 forms of communication become increasingly important in the business environment.

Consulting services

Our consulting services include (private) cloud, workspace innovation, business communications, business applications, sourcing governance, organizational change and security and compliance.

Environment and competition

In the context of a weak macro-economic environment, the Dutch ICT market is highly competitive and has experienced overcapacity and price pressure. IT budgets of business customers remain constrained, postponing larger ICT investment decisions. In addition, cyclical IT service activities such as consulting and time and material services are under pressure as customers are prioritizing capital expenditures with their limited resources. In particular, the governmental and financial services sectors, which are our largest clients, are competitive.

Our strategy in action

Our objective is to continue to be the leading ICT service provider in the Netherlands.

Cost efficiency and quality of services

We have developed a strong partner eco-system that is securing integrated end-to-end services for our customers, combining local presence with global reach. Partners such as the Getronics Workspace Alliance, Mindtree and more recently TechMahindra create cost reduction, higher effectiveness and flexibility for clients. They are a strategic element in creating customer experience, innovation and service continuity.

Financial review

(In millions of EUR, unless indicated otherwise)	2012	2011	Δ
Netherlands	1,226	1,299	-5.6%
International	174	530	-67%
Other	-5	-23	78%
Revenues	1,395	1,806	-23%
Other	10	5	100%
Revenues and other income	1,405	1,811	-22%
Operating expenses	1,770	2,256	-22%
– of which: depreciation, amortization and impairments	422	451	-6.4%
EBITDA	57	6	>100%
EBITDA margin	4.1%	0.3%	

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

In 2012 the sale of Getronics International was completed, resulting in a one off gain on sale of EUR 8 million. As of May 1, 2012 revenues and EBITDA of the international activities are no longer incorporated in the reported financials of Corporate Market.

Reported revenues and other income in 2012 were 22% lower. This decrease was primarily due to the sale of Getronics International, as of May 1, 2012, and also resulted from continued price pressure due to overcapacity in the market and postponement of large investments by clients.

Reported EBITDA increased by EUR 51 million to EUR 57 million in 2012. EBITDA in 2011 was impacted by restructuring costs of EUR 96 million and a book loss on assets of EUR 30 million related to held for sale classification. In 2012, EBITDA was impacted by lower revenues and continuous pressure on margins, partially offset by lower personnel costs due to the accelerated FTE reduction program.

Our Activities and Performance continued

GERMANY

We operate through E-Plus to provide customers in Germany multi-brand mobile telecommunications, offering prepaid and postpaid services targeted at multiple market segments.

OVERVIEW

REVENUE

€3,404M

(2011: 3,243m)

EBITDA

€1,290M

(2011: 1,354m)

Operating highlights

- Price competition leading to a slow-down in growth in Germany
- All-net flat postpaid propositions introduced
- High-speed data network roll-out accelerated to support further growth in data revenues

+3.0%

GROWTH IN WIRELESS CUSTOMERS

(2011: +11%)

+2.1%

UNDERLYING GROWTH IN SERVICE REVENUES

(2011: +7.6%)

Besides independent service providers such as Freenet/Mobilcom, numerous branded resellers including Aldi Talk, Fonic, Congstar, Klarmobil or Tchibo sell products and services, making normally exclusively use of one of the four network operators to do so.

Our strategy in action

Our strategic objective in the medium term is to achieve an EBITDA margin of between 30-35% and over the longer term to attain a mobile market share by service revenues in Germany of approximately 20%. We diversified from prepaid voice customers to a higher proportion of postpaid customers and mobile data users. We expanded distribution through own and partner shops, online distribution and exclusive wholesale channels.

Data-centric Challenger

We aim to continue our profitable growth based on our Challenger strategy. We differentiate ourselves from the other operators by being mobile-centric, offering simple and transparent products with focus on offering the best customer experience.

In 2012, we continued to focus on expanding our position in the postpaid market, by means of increasing net adds and expanding the offerings of our BASE brand. These offerings are aimed to be simple and flexible for the customer. The offer gives our customers the opportunity to select a combination of options such as 'internet flat' and 'SMS flat' to fit their needs. Additionally, we have introduced new all-net flat propositions under the brands Yourfone, Blau, and Simyo that address customer demand for unlimited calling, extensive use of Apps and mobile internet, all at very competitive prices.

Mobile broadband network

Our 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 voice and data revenues. Corresponding with the strongly growing adoption of mobile data products, E-Plus has ramped up roll-out activities. At the end of 2012 more than 85% of the population was covered with up to 21 Mbps.

Products and services

We offer various tariff plans with our multi-brand strategy: E-Plus brand with various bundle packages, BASE offering flat-fee packages, Yourfone and Blau with attractive all-net flat packages, Simyo as web-only mobile operator and Ay Yildiz with a tailor-made offering for Turkish-speaking people. We also provide wholesale solutions to an increasing number of partners acting as branded resellers,

Environment and competition

The German mobile market is highly competitive with an increasing customer preference for mobile data over traditional voice and SMS. As a result, new competitors, such as OTT players, along with regulatory obligations to reduce MTRs and roaming charges, have led to more pressure on service revenues and ARPU in the mobile telecommunications market in Germany.

There are three other significant players in the German mobile telecommunications market: Deutsche Telekom, Vodafone and Telefónica Deutschland. The two largest mobile telecommunications providers are Deutsche Telekom and Vodafone. All operators are currently expanding capacity to absorb the growth in mobile data. E-Plus is the fourth largest mobile provider in Germany by service revenue. Our market share remained stable at 15.8%.

including Aldi Talk, WAZ, MTV, NABU and MVNOs like Versatel, NetCologne and Ecotel. In 2012 we further expanded our portfolio of data propositions to adapt to our customers' needs for more mobile data oriented packages with and without the smartphone of their choice.

Financial review

(In millions of EUR, unless indicated otherwise)	2012	2011	Δ
– Service revenues (wireless)	3,149	3,099	1.6%
– Hardware and other revenues	255	144	77%
Revenues and other income	3,404	3,243	5.0%
Operating expenses	2,871	2,545	13%
– of which: depreciation, amortization and impairments	757	656	15%
EBITDA	1,290	1,354	-4.7%
EBITDA margin	37.9%	41.8%	

Revenues and other income increased by 5%, driven amongst other things by continued growth of customers at BASE, new propositions and the focus on data in the postpaid segment and a book gain on the sale of towers of EUR 103 million. However, compared to 2011, growth slowed down due to heavier competition in the prepaid market, in which E-Plus is market leader. Additionally, increased price competition in the postpaid market has led high-value customers to trade down on their tariff plans, leading to optimization and consequently to lower ARPU.

EBITDA decreased by 4.7% despite the positive effect of the sale of mobile towers in 2012 of EUR 103 million, mainly impacted by commercial investments to support the introduction of the new propositions and increased subscriber acquisition costs to support postpaid net adds.

The increased focus on postpaid subscribers resulted in the highest number of postpaid net adds since 2006. Corrected for the clean-up of 576 thousand inactive postpaid customers the postpaid net adds amounted to 740 thousand. Prepaid net adds amounted to 958 thousand corrected for the clean-up of 439 thousand inactive prepaid customers. At the end of 2012 the total customer base is over 23 million customers.

Operating review

	2012	2011	Δ
Wireless customers (in thousands)	23,400	22,717	3.0%
Net adds postpaid (in thousands) ¹	164	424	-61%
Net adds prepaid (in thousands) ¹	519	1,866	-72%
ARPU (in EUR)	11	12	-8.3%

1) Including the effect of clean-up in 2012 of 576 thousand inactive postpaid SIM cards and 439 thousand inactive prepaid SIM cards

Our Activities and Performance continued

BELGIUM

We offer 'value for money' mobile and fixed services to specific customer groups in Belgium through multiple own brands and wholesale partnerships.

OVERVIEW

REVENUE

€804M

(2011: 781m)

EBITDA

€272M

(2011: 273m)

Operating highlights

- Market share exceeded the 20% milestone
- First in Belgium to offer mobile services without contract duration
- Successfully launched several commercial initiatives and introduced an exclusive offer with Spotify
- Signed a wholesale agreement with Belgacom, enabling us to further improve the attractiveness of our fixed-line portfolio
- Accelerated network roll-out

3,424k

WIRELESS CUSTOMERS

(2011: 4,131k)

+10%

UNDERLYING GROWTH IN SERVICE REVENUES

(2011: +11%)

Environment and competition

The Belgian mobile communication market is highly competitive. New competitors along with regulatory obligations to reduce MTRs and roaming charges as well as customer optimization in terms of mobile service expenses have led to an overall decline in service revenues and ARPU in the mobile telecommunications market. The market in Belgium has increasingly been characterized by fixed-mobile convergence, with competitors offering bundled packages combining fixed and mobile services.

We primarily compete against three other service providers in Belgium: Belgacom (Proximus), Mobistar and Telenet. Belgacom is the incumbent telecommunications provider and is majority-owned by the Belgian state. Belgacom remains the market leader in Belgium with Mobistar (majority-owned by France Telecom) the second largest competitor. We are the third-largest provider. Our market share increased from ~19% in 2011 to ~20% in 2012.

In 2012, the market environment changed significantly due to new telecom legislation allowing customers in Belgium to terminate their telecommunications contracts as from six months after the starting date of the contract, and new pricing strategies by competitors, triggering increased customer volatility and price sensitivity.

Our strategy in action

Our strategic objective is to attain a long term market share by service revenues in Belgium of approximately 25% with an EBITDA margin in the medium term of between 25-30%.

Mobile-centric Challenger

We aim to continue our profitable growth based on our Challenger strategy. We differentiate ourselves from the other operators by being mobile-centric, offering simple and transparent products with a focus on offering the best customer experience. Via our own brands, we deliver high-value products at smart prices. Five months before the new telecom law became applicable, we were the first to give customers no fixed contract duration with the BASE brand. We leverage our partnership strategy and extend it with more innovative solutions adding content to our services, for instance Spotify. We continued to increase the share of our own channels in our total distribution landscape (BASE shops, ALLO telecom shops and online).

We renewed our wholesale strategy by further improving our collaborative way of working and focus on data. As of July 2012, Ortel Mobile Belgium became part of KPN Group Belgium.

Accelerated network investment

We continued and accelerated our mobile broadband internet deployment, as a means of reducing churn by differentiating ourselves from competitors based on reputation for network speed and quality. At the end of 2012 our HSPA network has a 90% outdoor population coverage. Furthermore, the first tests for 4G LTE have started in 2012 and we expect 4G LTE to be available in the majority of the country by the end of 2014.

Products and services

Our multi-brand strategy offers a full portfolio of mobile services (voice, SMS, data), broadband products and content services, such as Spotify. This portfolio provides both “value for money” and simple solutions.

BASE is our mainstream retail brand offering prepaid as well as postpaid products. BASE business delivers products for the business market (SoHo-SME). Data continues to be an important growth driver, not only through our own brands but also through our partnerships like Mobile Vikings (45% owned by KPN Group Belgium) which is playing a leading role in the growing data market.

Following the changes in the market environment we successfully launched several commercial initiatives. Jim prepaid as well as BASE and BASE business portfolio were revamped (e.g. launch of BASE All 10, 20 and Unlimited; new BASE Check 15). Thanks to the new agreement with Belgacom, signed in September 2012, we will be able to offer an even broader range of fixed services to our mobile customers.

EBITDA decreased by 0.4% compared to 2011, affected by negative regulatory impact of 8.1%. Excluding the regulatory impact, EBITDA increased following revenue growth. In line with the higher revenues, traffic costs and subscriber acquisition costs increased in 2012. The EBITDA margin for Belgium during 2012 decreased to 33.8% as compared to 35.0% in 2011.

Operating review¹

	2012	2011	Δ
Wireless customers (in thousands)	3,424	4,131	-17%
Net adds postpaid (in thousands)	17	66	-74%
Net adds prepaid (in thousands) ²	-724	337	n.m.
ARPU blended (EUR)	15	14	7.1%

1) Relating to Mobile business only.

2) Including the effect of clean-up in 2012 of 1,264 thousand inactive prepaid SIM cards.

Financial review

(In millions of EUR, unless indicated otherwise)	2012	2011	Δ
– Service revenues (wireless)	716	687	4.2%
– Hardware and other revenues	88	94	-6.4%
Revenues and other income	804	781	2.9%
Operating expenses	693	648	6.9%
– of which: depreciation, amortization and impairments	161	140	15%
EBITDA	272	273	-0.4%
EBITDA margin	33.8%	35.0%	

Revenues and other income in Belgium increased by 2.9%. Belgium continued to show strong service revenue growth of 4.2%, despite regulatory impact of 4.7%. Growth was driven by B2B, wholesale and data.

The number of customers declined in 2012 to 3.4 million, as a result of a significant clean-up of the prepaid customer base of around 1.3 million inactive customers.

Our Activities and Performance continued

IBASIS

We provide international wholesale voice services, terminating international phone calls worldwide. We offer our carrier customers both a range of global call termination products and a portfolio of value-added data services for mobile operators.

OVERVIEW

REVENUE

€1,035M

(2011: 977m)

EBITDA

€30M

(2011: 31m)

Operating highlights

- Maintained top-5 position in competitive international wholesale voice market
- Focus on balancing revenue growth while maintaining healthy profit levels

26.2 BILLION

TOTAL MINUTES

(2011: 25.6 billion)

4.0CENTS

AVERAGE REVENUE PER MINUTE

(2011: 3.8 cents)

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 volumes. With our global footprint and approximately 26.2 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 Telekom, Tata and Verizon. In addition to our technology leadership in 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 2012 we launched innovative new offerings over our multi-service IPX

platform, including LTE Signaling and HD Voice, to address emerging opportunities in global communications. For 2013 forward we will remain focused on innovating and developing new services to establish new, profitable revenue streams.

Products and services

We offer a comprehensive voice product portfolio: Direct Voice, Certified Voice and Premium Voice. The three 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)	2012	2011	Δ
Revenues and other income	1,035	977	5.9%
Operating expenses	1,023	966	5.9%
– of which depreciation, amortization and impairments	18	20	-10%
EBITDA	30	31	-3.2%
EBITDA margin	2.9%	3.2%	

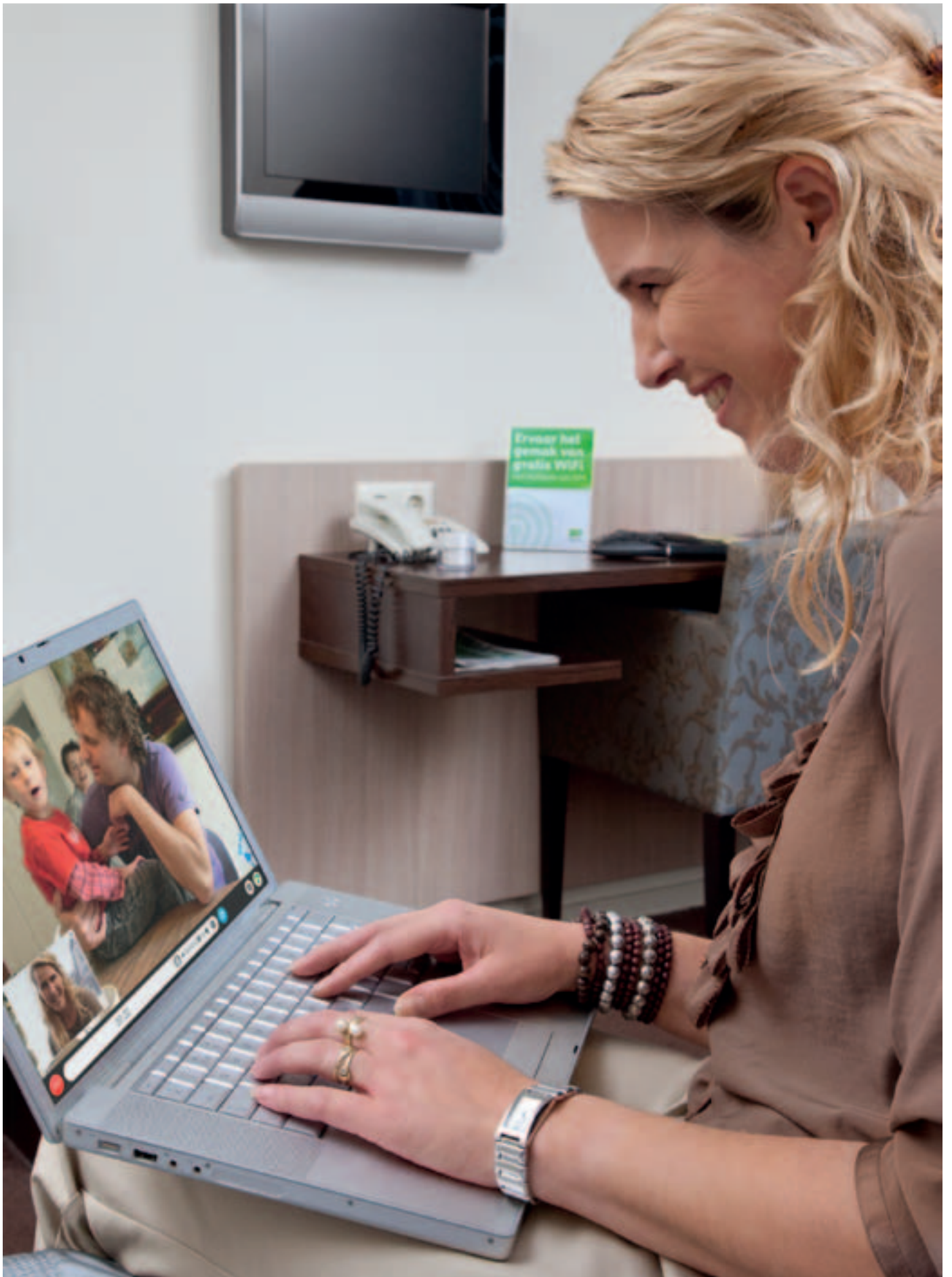
Revenues and other income increased by 5.9% in 2012, including a favorable currency effect of 3.0%.

In 2012, minutes of customer traffic increased to 26.2 billion minutes, up 2.3% compared to 2011. Average revenue per minute increased in 2012, despite increasing competitive pressure.

EBITDA amounted to EUR 30 million in 2012, compared to EUR 31 million in 2011. The lower EBITDA reflects the increased price and margin pressure in the international voice market.

Operating review

	2012	2011	Δ
Minutes International (in billion)	26.2	25.6	2.3%
Average revenue per minute (EUR cents)	4.0	3.8	5.3%



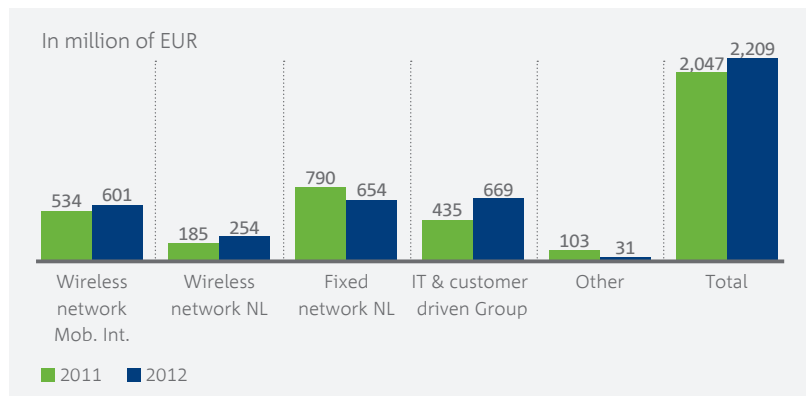
Our Activities and Performance continued

INNOVATION AND INVESTMENTS

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 we offer. To maintain growth, KPN’s innovation and investments are aimed at the customer and to anticipate their changing needs and requirements.

Capital expenditures

Total capital expenditures for the year ended December 31, 2012, amounted to EUR 2,209 million (2011: EUR 2,047 million). The increase in 2012 as compared to 2011 was mainly the result of customer-driven expenditures, in particular the capitalization of handset costs in the Netherlands as a result of the new handset lease option which began to be offered to customers from mid 2012, whereas in 2011 handset costs in the Netherlands were accounted for as cost of materials within operating expenses. Increased capital expenditures in 2012 also included other elements of customer-driven capital expenditures in the Netherlands, such as IPTV set-top boxes for TV customers as well as accelerated mobile network roll-outs in the Netherlands, Germany and Belgium, and IT expenditures in Germany as part of a multi-year project to replace one of the core IT platforms of E-Plus. The increase in capital expenditures and investments was partly offset by lower fixed network investments in the Netherlands.



Infrastructure and network innovation

Fixed infrastructure (the Netherlands)

KPN’s fixed infrastructure is of vital importance for its continued business operations and financial performance. KPN’s hybrid FttH and VDSL network strategy emphasizes expanding the market for the services it delivers with its All-IP networks. The use of All-IP networks enables more efficient, effective and scalable telecom infrastructure usage, providing greater bandwidth and higher speeds.

KPN is the only operator of fixed copper infrastructure covering the entire population in the Netherlands. KPN continues to make investments to upgrade its copper-based network. Total investments in copper upgrades were about EUR 164 million in 2012. New technologies, such as pair bonding and vectoring, significantly increase the available broadband internet bandwidth on copper networks for subscribers and enable the commercial roll out of multi-room HD TV. Next to FttH roll-out, KPN is upgrading VDSL, including pair bonding that has been rolled out commercially.

KPN’s deployment of FttH in the Netherlands is being executed through its joint venture, Reggefiber. In 2012, KPN acquired Reggefiber Wholesale (Reggefiber’s wholesale operator), which will allow Reggefiber to focus solely on the roll-out of FttH and to operate an open access passive FttH network. KPN believes FttH is a superior

infrastructure in the long-term. In particular, FttH allows greater upload and download speeds as compared to cable or traditional copper DSL.

Mobile infrastructure (the Netherlands, Germany, Belgium)

KPN continued to invest in the quality of its mobile networks. In 2012 EUR 855 million was invested in capacity upgrades, triggered by increasing customer use of data over our 2G and 3G networks. Of these investments EUR 254 million was targeted at the Netherlands, whereas investments in Germany and Belgium amounted to EUR 601 million.

In the Netherlands, KPN’s aims to operate a best-in-class network that provides a superior customer experience, both in voice and mobile data services. To be able to handle mobile data growth, KPN has continued to expand the capacity of its mobile network by installing new equipment for radio and core network. KPN provides for ethernet connectivity via fiber-optic cable as part of its mobile network architecture. The number of sites connected to fiber optics was expanded to 3,427 in 2012. With approximately 360 extra sites, UMTS coverage as of December 31, 2012 was approximately 95% of the Dutch population. Approximately 40% of KPN’s mobile voice traffic is carried by its UMTS /HSPA network, with the remaining portion carried on its GSM network.

In the fourth quarter of 2012, KPN acquired 15 blocks of frequency licenses in the 800MHz, 900MHz, 1800MHz, 2.1GHz and 2.6GHz bands for a total of 120MHz of frequency licenses in the recently completed spectrum auction in the Netherlands, which enables KPN to continue its existing 2G and 3G services, and introduce new services,

such as 4G LTE which provides significantly higher speeds than are currently available on a 2G network based on GSM and 3G network based on UMTS / HSPA technology.

E-Plus continues the roll-out of its mobile data network. At December 31, 2012, more than 85% of E-Plus's UMTS sites in Germany were HSDPA and HSPA+ enabled.

In Belgium, KPN Group Belgium is implementing EDGE and UMTS technologies. KPN Group Belgium is also deploying 3G UMTS / HSPA+ technology and continues to improve its existing mobile network, specifically focusing on indoor coverage.

Product and services innovation

KPN believes in a world where IP technology provides the ideal future-proof foundation for new ways of communicating, such as 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. Together with other companies, KPN is considering how such solutions can best be used. 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. Examples of product and services innovations include the following:

FttH roll-out (Consumer Residential)

KPN believes FttH to be a superior infrastructure in the long-term. In particular, FttH allows greater upload and download speeds as compared to cable or traditional copper DSL. FttH users also do not experience diminished download speeds as more users are online, unlike cable users who share bandwidth. As part of its FttH roll-out, in mid 2012, KPN introduced a standard 100Mbps FttH package (as compared to 40Mbps for VDSL and 8Mbps for plain copper DSL) and a premium 500 Mbps package.

4G LTE proposition (Consumer Mobile)

In February 2013, KPN launched its 4G LTE proposition, making it the first to offer 4G LTE in the Netherlands. 4G LTE improves the customer experience by providing significantly higher speeds and better indoor coverage than 3G. KPN believes that 4G LTE will further contribute to a better customer experience and the integration of a high quality mobile network with its nationwide fixed network. It will also seek to upsell customers to higher data bundles on the back of its 4G LTE proposition.

Mobile data usage apps (Consumer Mobile)

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.

Interactive TV (Consumer Residential)

KPN has taken significant steps in recent years to improve its TV proposition. In 2012, HD channels were included in KPN's standard IPTV package, a new set-top box featuring a new customer interface was introduced and IPTV was made available on tablets and smartphones.

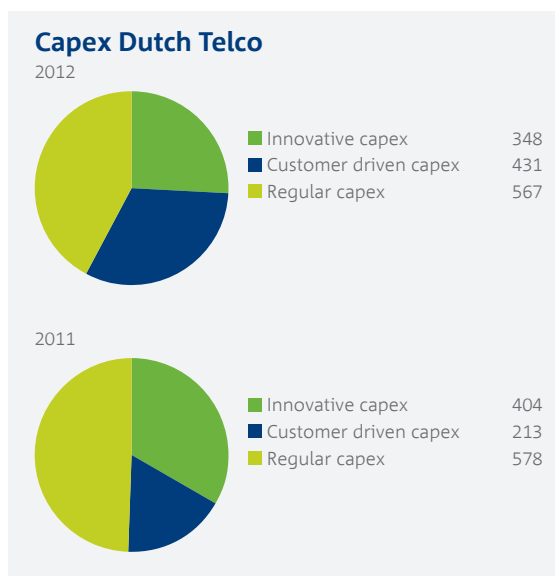
Innovation expenditure

The expenditure (operating expenses) related to these innovations in 2012 amounted to more than EUR 100 million in the Netherlands. In 2012 approximately 2,000 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 on intellectual property rights consists of a set of trademark registrations around KPN's core brands and about 350 patent families. KPN believes it takes appropriate 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, trademarks, service marks, trade secrets, copyrights, database protection, confidentiality agreements with its employees and third parties and protective contractual provisions. Approximately 50 of the patent families 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 and other research and development institutions and universities.



GOVERNANCE

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. 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. The full text of the Dutch Corporate Governance code is available at www.commissiecorporategovernance.nl.

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.

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. 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) entered into force

on January 1, 2013. According to this new legislation Dutch companies can choose between a one-tier and two tier-board. KPN has – and will continue to have – a two-tier management structure with a Board of Management and a Supervisory Board.

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. It is not the intention of KPN to raise the threshold for proposing items for the agenda of the shareholders meeting which means that shareholders who individually or collectively represent at least 1% of the issued capital or who, according to the Official Price List of NYSE Amsterdam Euronext represent at least a value of fifty million euro (EUR 50,000,000), will keep their right to propose items for the agenda (notwithstanding the pending changes in legislation). The Articles of Association were last amended on September 13, 2012.

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 eight 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 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 changed in 2012. At the AGM of April 12, 2012, Mr. Van Bommel was appointed as member of the Supervisory Board. Mr. Van Bommel is member of the Audit Committee.

At the AGM in 2013, Mr A.H.J. Risseeuw, Ms M.E. van Lier Lels, Mr D.J. Haank and Mr R.J. Routs will step down as members of the Supervisory Board, since they will have reached the end of their four-year term of office. Mr M. Bischoff will also step down as a member of the Supervisory Board in connection with other commitments. Mr Risseeuw will not be available for reappointment, as the current four-year term of office is his third and last term.

The Supervisory Board firmly believes that it is in the best interest of the company to ensure continuity in the Supervisory Board. In that light, Ms Van Lier Lels, Mr Routs and Mr Haank have indicated that they are available for reappointment at the 2013 AGM. In spite of the fact that Ms Van Lier Lels already served three terms, Ms Van Lier Lels has indicated her availability for reappointment for a period of one year. Mr Routs also indicated his availability for reappointment, but in the light of other commitments, Mr Routs will be available for a limited period of one year. Mr Haank has indicated his availability for reappointment for a full term. The nominations will be put on the agenda of the 2013 AGM and will also – pursuant to a relationship agreement between KPN's largest shareholder América Móvil and KPN signed on February 20, 2013 – include two representatives of América Móvil.

For these and future nominations, the Supervisory Board will take into account the new rules as set out in the Act on Management and Supervision (entering into force on January 1, 2013) on a more even distribution of board seats between men and women.

As of February 1, 2013 Mr. Spanbroek succeeded Mr. Van Rooij in his function of Chief Legal Officer and 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 2012 can be found in the 'Report of the Supervisory Board', starting on page 68, 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
R.J. Routs (Vice-Chairman)	1946	April 7, 2009	2013	Chairman Remuneration and Organizational Development Committee; Member Nominating and Corporate Governance 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. Bischoff	1942	May 12, 2003, April 17, 2007* April 6, 2011*	2015	Member Audit Committee
M.E. van Lier Lels	1959	May 2, 2001, April 12, 2005* April 7, 2009*	2013	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
D.J. Haank	1953	April 7, 2009	2013	Chairman Audit Committee
P.A.M. van Bommel	1957	April 12, 2012	2016	Member Audit Committee

* Reappointment.

Governance continued

SUPERVISORY BOARD



J.B.M. Streppel



R.J. Routs



A.H.J. Risseuw



M. Bischoff



M.E. van Lier Lels



C.M. Hooymans



D.J. Haank



P.A.M. van Bommel

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 Supervisory Board of Arq Psychotrauma Expert Group, 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 PLC, Chairman of the Monitoring Committee Corporate Governance Code and Chairman of the Board of Duisenberg School of Finance. Mr. Streppel 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 ATCO and member of the Board of AP Moller-Maersk Denmark and AECOM. Mr. Routs is a Dutch citizen and resides in Switzerland.

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. 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 Chairman of the Supervisory Board of SMS GmbH and Voith AG and a non-executive member of the Board of Directors of Unicredit. Mr. Bischoff is a German 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. and Reed Elsevier N.V. She is the chairman of the Supervisory Council of The Netherlands Society for Nature and Environment, member of the Council for the Environmental Infrastructure, member of the Central Plan Committee (CPB) and member of the Board of Aegon Association. Ms. Van Lier Lels is a Dutch 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 Valleien 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.

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.

P.A.M. van Bommel

Mr. van Bommel was appointed as a member of the Supervisory Board on April 12, 2012 and his term expires in 2016. He is a member of the Audit Committee. Mr. van Bommel is currently member of the board of management and CFO of ASM International N.V. Mr. van Bommel is also non-executive director of ASM PT (Hong Kong). Before his appointment as CFO at ASMI, Mr. van Bommel was CEO at Odersun (a start-up company in the solar industry), the executive vice president at NXP and CFO at various divisions of Phillips. Mr. van Bommel 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.

Governance continued

BOARD OF MANAGEMENT



From left to right T. Dirks, E. Blok and W.T.J. Hageman

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
W.T.J. Hageman	Chief Financial Officer	1970	September 2012	2016
T. Dirks	Board member	1963	November 2011	2015

* Reappointment.

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 three members.

In 2012, Mr. Coopmans and Mrs. Smits-Nusteling left the Board of Management. As of January 1, 2012 Mr. Coopmans and Mrs. Smits-Nusteling were no longer involved in decision making and management of KPN.

In September 2012, Mr. Hageman was appointed as a member of the Board of Management and Chief Financial Officer.

On February 8, 2013, the Supervisory Board announced its intention to appoint Mr Farwerck to KPN's Board of Management, subject to notification to shareholders scheduled for the Annual General Meeting of Shareholders on April 10, 2013.

E. Blok

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

Eelco 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 co-chairman of the Cyber Security Council.

W.T.J. Hageman

Mr. Eric Hageman is a member of the Board of Management and Chief Financial Officer.

Mr. Hageman was appointed to the Board of Management of KPN on September 11, 2012 in the position of CFO. Mr. Hageman worked from 1995 through 2005 as a corporate financier in London, where he advised companies in the Telecoms, Media and Technology sectors. Mr. Hageman joined KPN in 2005, starting as head of Investor Relations. Additionally, he became head of the Mergers & Acquisitions department in 2007. In 2008 he was appointed CFO of the Mobile International division. In the middle of 2011, Mr. Hageman was appointed CEO KPN Group Belgium and in January 2012 Mr. Hageman was appointed interim CFO. Mr. Hageman also made a key contribution to developing the 2011-2015 Strategy.

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.

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 (parts of) the Audit Committee meetings. The AGM appoints the external auditor on a yearly basis, upon recommendation by the Board of Management and the Supervisory Board.

Governance continued

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, 2012, 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 12, 2013) 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 programme entered into with a single counterparty or using a financial intermediary, the average of the Volume Weighted Average Share Price during the effective course of the programme. The Quoted Share Price is defined as the average of the closing prices of KPN shares as reported in the official price list of NYSE Euronext Amsterdam 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 NYSE Euronext Amsterdam 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 or who, according to the Official Price List of NYSE Amsterdam Euronext represent at least a value of fifty million euro (EUR 50,000,000), 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 24 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 2012 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.

Date	Name	Transaction	Price
January 25	E. Blok	Bought 50,000 KPN shares	EUR 7.93
April 9	E. Blok	Cancellation of the award of 79,420 restricted KPN shares due to non-fulfillment of performance criteria	EUR 0
April 23	E. Blok	Award of 95,000 conditional restricted KPN shares	EUR 0
April 18	T. Dirks	Award of 66,000 conditional restricted KPN shares	EUR 0
September 11	W.T.J. Hageman	Award of 33,500 conditional restricted KPN shares	EUR 0
December 21	P.A.M. van Bommel	Bought 18,000 KPN shares upon expiration of put option	EUR 10

Furthermore, the following notifications were made in 2012 to the Authority Financial Markets:

Upon appointment as member of the Supervisory Board on April 12, 2012:

P.A.M. van Bommel Held 20,000 KPN shares for an average price of EUR 10.99

Upon appointment as member of the Board of Management on September 11, 2012:

W.T.J. Hageman Held 1,315 KPN shares for an average price of EUR 9.28, 15,000 restricted KPN shares and 32,500 conditional restricted KPN shares

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.

RISK MANAGEMENT AND COMPLIANCE

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 December 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 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 of their due date;
- Maintaining an investment grade credit profile; 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 customer information and Company information), and
 - material incidents in safeguarding 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 business segments to seek opportunities to achieve their strategic objectives by taking controlled risks, within the risk appetite as determined for the 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 58 and 59 shows the principal strategic, operational, financial, financial reporting, regulatory and compliance risks KPN is facing and the mitigating factors and initiatives taken to manage these risks. These risks could prevent KPN from achieving its stated objectives and mitigating factors and initiatives are taken to manage these risks. Please note that this is not intended to be an exhaustive analysis of all risks affecting KPN's business and that the principal risks are presented in random order.

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. The Internal Risk Management and Control system is co-ordinated by Group Compliance & Risk Management; the Group Compliance & Risk Officer directly reports to the CEO of KPN Group.

Tone at the top

The attitude and behavior of the Board of Management serves as a good example for all KPN employees. In 2012, the Company had increasing focus on the 'tone at the top', which is regarded as the foundation for effective risk management. Good governance and integrity is a continuously recurring theme on the agenda of KPN's top management.

In 2012, a number of additional initiatives were taken, further underlining the 'tone at the top'. In November 2012, the 'week of integrity and security' for employees of KPN The Netherlands and an integrity workshop for the top 80 (most senior) management of KPN the Netherlands was organized. In this workshop several integrity dilemmas were presented and discussed by the participants.

In Germany integrity workshops were organized for the entire management with focus on fraud and white collar crime. Furthermore, training activities on privacy and data protection were extended as one of the most relevant compliance issues by rolling out an e-learning mandatory for all employees. By the end of 2012, 95% of the staff in Germany had successfully completed this training.

In November 2012, KPN held an Ethics and Compliance Survey to measure various cultural and awareness elements of the Compliance Charter. This survey shows that employees experience a good tone-at-the-top, discussability and clarity, but that there is room for improvement on accountability, sanctioning and example behavior. The results of the Survey were discussed with the Board of Management and with the top 80 management in the Netherlands during the integrity workshop.

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 updates its Code of Conduct and underlying compliance policies, based on new and changing laws and regulation and communicated these using training such as classroom training and 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, the CFO 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 targets and objectives. These targets and objectives are detailed in a strategic business plan which covers a three-year period. This is the basis for operational plans per Segment. During 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.

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 four to 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 may 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 an integral 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 under the supervision of 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);
- Information Security and Continuity.

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 2012 KPN continued to further enhance the integrated risk management approach; the new approach will be implemented at the start of 2013. Furthermore, KPN embedded soft controls in its internal control frameworks.

Risk management continued

PRINCIPAL RISKS

Risk	Description and impact	Mitigating factors and counter measures
Intensified Competition	<ul style="list-style-type: none"> KPN could face an increase of competitive landscape, potentially caused by new market entrants; competition based on price, increase of investment in customer acquisition and retention costs by competition, subscription options, coverage and service quality could lead to lower profitability and lower market shares. 	<ul style="list-style-type: none"> Maintain balance between profitability and incentives to customers Innovative products and services to meet changing customer needs Offer bundled services (triple play, quad play) Invest in quality of service and execution power Multi-brand strategy Investments to upgrade KPN network speed to make copper more competitive Further improve marketing and sales effectiveness Phased step-by-step integration of Business Market and Corporate Market Strengthen distribution power with business partners, online and shops Further enhance regionalization strategy and mobile data penetration in Germany and Belgium
Adverse macroeconomic conditions	<ul style="list-style-type: none"> Continued gloomy macroeconomic conditions: If economic climate would continue to decline, this could lead to lower revenue growth and lower profitability affecting our businesses both in the Netherlands and abroad and may lead to an impairment of assets, specifically goodwill at E-Plus. 	<ul style="list-style-type: none"> Innovation, develop new propositions Swift response to new market developments and trends Cost-cutting initiatives, outsourcing and offshoring Disposal of dilutive assets
Financing KPN & volatility financial markets	<ul style="list-style-type: none"> The pressure on KPN's self-imposed financial framework may increase, in case of 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 resources. Continued uncertainty in financial markets and the Euro zone, which could negatively impact pricing and availability of KPN's funding sources. 	<ul style="list-style-type: none"> Issuance of equity or equity linked instruments Monitoring and forecasting of metrics used by rating agencies Commitment to investment grade credit levels Maintain a strong liquidity position Upcoming bond redemptions financed well ahead Diversification in funding sources, e.g. tapping different currencies, credit facilities. Monitoring counterparty limits and strengths Counterparty risk reduced with credit mitigating clauses in derivative contracts and reduced excess cash
Reputation risk due to operational & quality related incidents	<ul style="list-style-type: none"> KPN's technical infrastructure and IT, as perceived by customers, may be vulnerable to damage or service interruptions, operational issues and quality related incidents. These incidents may include network failure (e.g. hacking, failure of power supply, low coverage), or insufficient client service. Such incidents would have a negative impact on KPN's reputation and customer satisfaction and KPN's results. Simplification and quality: KPN may accomplish insufficient (perceived) progress in realizing necessary quality improvements (NPS, First Time Right), which could lead to lower motivation of employees and lower customer satisfaction. 	<ul style="list-style-type: none"> Benchmark network quality and maintain investment level in network Strengthen the IT infrastructure and continue implementation of enhanced security policy Back-up and recovery plans in case of emergencies Monitor performance of technical infrastructure and IT Increase network cooperation between countries For business continuity in the Netherlands: regional roaming project in which a part of the mobile voice traffic can be transferred to other operators in case of calamities. Continued acceleration of network roll out in Mobile International Execution of 'First-Time-Right' programs Focus on drivers to improve Net Promoter Score (NPS)
Investment in licenses	<ul style="list-style-type: none"> Possible participation in frequency auction in Germany (2013/2014) and Belgium (2013): KPN may potentially not be able to acquire or to renew 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 Prudent financial policies to secure adequate funding
Inability to compete effectively in Germany and Belgium	<ul style="list-style-type: none"> KPN is pursuing a Challenger strategy in the German and Belgian mobile telecommunications markets, and competes with large, established players. KPN's competitors in Germany and Belgium are larger established network operators that benefit from considerable financing, marketing and personnel advantages, broad brand-name recognition, perceived network quality and a deeply entrenched customer base. KPN may prove unable to compete effectively with these established players, resulting in a material adverse effect on its business, financial condition and results of operations. 	<ul style="list-style-type: none"> Development of KPI's to monitor the progress and success of Challenger strategy and to steer if necessary. The Challenger strategy is based on simple and transparent product offerings to the mass market where we see opportunities to gain market share in underpenetrated regions and data.

Risk	Description and impact	Mitigating factors and counter measures
Lack of return on investments	<ul style="list-style-type: none"> High investments in fiber, copper or mobile infrastructure, including licenses may not be recovered. The mobile market is characterized by increasing competition, accelerating changes in customer behaviour, increasing prices pressure and shrinking markets, on the other hand large scale investments in infra-structure are required to meet capacity demands. For the fixed market, fiber roll-out may not meet expectations and activations may fall behind, not reaching the required coverage ratio. This could lead to impairments of assets and increased liabilities related to the options, investment in licenses and goodwill. 	<ul style="list-style-type: none"> Maintain balance between profitability and incentives to customers Demand aggregation before the roll out of Fiber to ensure a minimum coverage Minimize risks in business cases, e.g. by risk sharing models Decision making based on business cases Develop strategic partnerships & investigate options for network sharing Continuous monitoring of performance
Risk of non compliance with regulation	<ul style="list-style-type: none"> KPN may face issues in relation to non compliance with regulation or lack of information security (theft or loss of information caused by e.g. cyber attacks and similar events). These incidents could have a negative impact on KPN's reputation and relation with regulators and/or supervisors. New regulatory decisions (e.g. related to MTA and roaming) could impact KPN's future operations and profitability. 	<ul style="list-style-type: none"> Improving and maintaining a robust control framework dedicated to complying with Telco regulation (CRA framework) Dialogue with regulators on predictable and pro-competitive (wholesale-based) regulation to minimize interventions in retail markets, consistently over time Strengthening the IT infrastructure and continued implementation of an enhanced security policy Pro-active stakeholder and reputation management
Risk of disruptive technologies and failure of introduction of new products and services	<ul style="list-style-type: none"> KPN's business model and financial performance in the past two years have been impacted by (disruptive) technologies, such as smartphones and OTT services. KPN's response to new technologies and market developments and ability to introduce of new competitive products or services in the market will be essential to KPN 's performance 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 market share loss and reduced profitability. 	<ul style="list-style-type: none"> Develop new business models and new pricing models Closely monitor market developments and trends in customer demands Build lean and mean and flexible business organization Develop strategic partnerships Maintain multi-brand strategy with differentiated propositions and develop fallback scenarios
Dependence on suppliers	<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 price and quality level. 	<ul style="list-style-type: none"> Create supplier default scenarios Establish a strong demand organization that defines, enforces and monitors compliance with terms of contracts with suppliers and outsourcing parties Implement a well-defined outsourcing process (toll gates, risk analyses, etc.) Prepare retransition plans as fallback scenario
Cost reduction initiatives	<ul style="list-style-type: none"> KPN has various cost reduction initiatives in place, which should lead to a lower cost base and a competitive advantage e.g. a restructuring program of 4,000 to 5,000 FTE's by the end of 2013 and clean up of legacy systems. If KPN's fails to realize these initiatives, KPN's profitability will be negatively impacted. 	<ul style="list-style-type: none"> Closely monitor the progress of the FTE reduction program Phase-out of legacy systems and investing in new integrated systems
Low equity/ impairment of assets	<ul style="list-style-type: none"> Changes in assumptions such as profitability, long term growth and discount rate could negatively impact the value of Cash Generating Units and trigger an impairment (specifically at E-Plus). This also would negatively impact KPN's equity. 	<ul style="list-style-type: none"> Improve profitability of the KPN Group Change shareholder remuneration Issue equity or equity linked instruments
Pensions	<ul style="list-style-type: none"> 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 positions and income statement. At the end of 2012, KPN faced coverage deficits leading to additional payments relating to defined benefit plans and increasing income statement charges. Further negative economic developments and turbulence in the financial markets could result in additional cash outflow. Furthermore, the new accounting standard for pensions (IAS 19R) which became effective on at January 1, 2013 will lead to higher volatility in KPN's equity position going forward. 	<ul style="list-style-type: none"> Closely monitor the development of the pension funds, including coverage ratios Implement a project team to evaluate KPN's pension risks, determine the strategy and investigate risk-mitigating options

Risk management continued

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 2012 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 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 2012. Based on the Charter ('Handvest') with OPTA, KPN has provided OPTA with quarterly reports on compliance performance indicators.

The Information Security Office

In January 2012, a hacker obtained access to servers on the KPN network. KPN took this incident very seriously, learned from it and used it to focus even more attention on security and privacy, both internally and externally. KPN took the necessary measures, including setting up the Information Security Office which reports to the CIO. The main objectives of the Information Security Office are to:

- manage a security framework that ensures a 360 degree approach to mitigating security risk to KPN's network infrastructure and data, and maintain the security processes, people and technologies required to address the evolving security threat landscape;
- define the information security threats (external and internal) to KPN's network infrastructure and data; and
- measure, manage, and remediate the security risk to KPN that is vulnerable to attack.

The following activities are performed by the Information Security office:

- putting in place a newly formed Central Security Organization with strong decentralized Segment links;
- continuing and Realigning Key Projects for Security Maturity enablement;
- creating a pragmatic and usable Security Policy Framework;
- reporting Risk Intelligence – analysis of KPN's global threat landscape; and
- creating a Security dashboard – to create visibility and transparency of security posture and positioning.

The new Information Security Office is set up to meet the needs of the security lifecycle (prevent, detect, respond, and verify) and is composed centrally of a strategy and policy team, an ethical hacking team, and a Computer Emergency Response team. Furthermore, it has strong links with the Security Operations Center, which was established in 2012, and with the security officers in the different business segments.

In 2013 the plans are to further engage the business and the KPN security community by further extending the operational security capability and organizational security maturity. Part of the roadmap for 2013 security achievements include extending internal knowledge and skills towards a commercial product and services portfolio.

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 2011, in 2012 the Committee consisted of the directors of Corporate Control, Treasury, Internal Audit, Corporate Legal, Corporate Communication, Investor Relations, Corporate Fiscal Affairs, the Secretary to the Board of Management and the finance directors of the Segments and the Divisions. The Committee met periodically in 2012 and reviewed disclosure controls and procedures and proposed public disclosures.

In 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 2012 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 2013:

- Further strengthen the information security within the KPN Group; 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 2012 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, 2012, the development during 2012 of KPN and its Group companies included in the annual financial statements, together with a description of principal risks KPN faces.

The Hague, February 26, 2013

E. Blok

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

W.T.J. Hageman

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

T. Dirks

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



REGULATORY DEVELOPMENTS

Telecommunications regulations are, to a large extent, based on EU regulations and directives, but the application is national and depends on national market characteristics. KPN chooses a pro-competition strategy in all countries where it is active.

The regulatory measures with the largest potential impact on KPN are the regulation of international roaming, obligations relating to significant market power and the licensing regimes for the use of frequencies. The European Roaming Regulation is directly applicable in all member states. Regulation of operators with significant market power is applied nationally, after a national market analysis, but under coordination by the European Commission. In the Netherlands this affects KPN in some fixed markets; in all our core markets we are regulated on mobile call termination services. Licensing regimes are also of a national nature.

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').

An element that has been under discussion and is of importance to KPN is the regulation of unbundled access to fixed networks. On July 12, 2012 EU Commissioner Kroes presented the outlines of regulatory principles, intended to provide durable regulatory guidance to last until at least 2020 to enhance the transition to the next generation of high-speed networks. A recommendation on non-discrimination and costing in relation to NGAs is expected in 2013, which would facilitate this purpose.

International roaming on mobile networks

The Roaming Regulation that entered into force on July 1, 2012 extended the price regulation of the previous regulation, but also introduced 'structural measures' aimed at creating more competitive (retail) roaming markets as of July 2014. Thereby retail price cap control is expected to be no longer necessary by July 2017.

The regulated price caps will further decrease yearly until July 2014 and include wholesale as well as retail caps for voice-, sms- and data- tariffs. Since July 2012 also MVNO's can benefit from the regulated wholesale rates.

As of July 2014 retail roaming services must be offered separately from national services and can be obtained from alternative roaming providers. Furthermore operators need to facilitate that data roaming services can directly be offered by foreign operators in their territories. The European Commission publishes implementation directives to ensure generally applied technical implementation.

Market analysis decisions fixed markets (the Netherlands)

In the Netherlands KPN is designated by OPTA to have significant market power on some of the national fixed telecommunications markets. In 2011 and 2012 OPTA conducted an analysis of these markets which has led to new decisions for in principle a period of three years.

Earlier decisions for 2009–2011 were characterized by deregulation of end-user markets and tightening of KPN's wholesale obligations, concerning access and tariff obligations, to facilitate this deregulation. All of these decisions have been subject to appeals to the Trade and Industry Appeals Tribunal ('College van Beroep voor het bedrijfsleven' or CBB), most of which appeals 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 in these decisions. In its current decisions OPTA has taken into account most of the CBB's conclusions.

OPTA has finished the market analyses it conducted for the period 2012 and onwards. KPN is still designated as operator with significant market power on the markets of unbundled access to its copper network and the wholesale telephony markets. On these markets access obligations and margin squeeze tests are imposed. Tariff regulation on these markets is to a large extent based on safety caps (tariffs of 2011 as maximum with inflation correction). Tariff regulation on the wholesale telephony markets has been lifted for the market for single calls (e.g. PSTN), it has been maintained however for the markets for two and more simultaneous calls (e.g. ISDN2 and more). The joint venture Reggefiber has significant market power on the market of unbundled access to its fibre to the home network. Furthermore KPN has been designated as having significant market power on the retail telephony markets for two and more simultaneous calls, for which markets a margin squeeze test is imposed. On the market for low quality wholesale broadband obligations for KPN have been lifted.

Regulatory developments continued

On December 20, 2011, OPTA published its conclusion that the Dutch television markets will not be regulated. Appeals to this conclusion were dismissed by the CbB on November 5, 2012, thereby leaving cable operators unregulated.

On July 2, 2012 OPTA published its (amended) decision to base fixed termination access tariffs, for all operators offering fixed telephony, on a cost methodology 'plus BULRIC', as decided in 2011 by the CbB. In the preparation of this decision, the European Commission had suspended the intended decision of OPTA, since OPTA is not following the Commission's recommendation to use a 'pure BULRIC' approach (leading to lower tariffs). OPTA concluded that the Court decision did not allow OPTA to use that approach.

OPTA also started its fourth round of market analyses on fixed and mobile termination markets, in preparation of decisions for the period Mid 2013 – Mid 2016, for which a draft decision is expected for national consultation in early 2013.

OPTA initially intended to eliminate regulation on the wholesale market for Fibre to the Office (FttO), but withdrew the draft decision upon serious doubts that the European Commission expressed to OPTA's draft decision. Thereupon OPTA re-analysed the market for unbundled access to KPN FttO network and the market for high quality wholesale broadband access and wholesale leased lines and (after consultation and notification to the European Commission) published a final decision on December 28, 2012 in relation to these markets, in which it designated KPN as having significant market power on both markets. On these markets access obligations, margin squeeze tests and tariff regulation are imposed upon KPN as of January 1, 2013.

Market analysis decisions mobile markets (mobile call termination)

In Germany, Belgium and the Netherlands, KPN has been designated 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 latest tariffs and the status of the decisions:

(Tariffs in EUR ct/min, as of the dates specified)			
the Netherlands ¹	September 1, 2011	September 1, 2012	Mid 2013
All mobile operators	2.70	2.40	New decision in preparation
(Tariffs in EUR ct/min, as of the dates specified)			
Germany ²	December 1, 2010	December 1, 2012 (preliminary) ³	December 1, 2013 (preliminary) ³
E-Plus	3.36	1.85	1.79
Vodafone	3.36	1.85	1.79
T-Mobile	3.38	1.85	1.79
O2 (Germany)	3.39	1.85	1.79

(Tariffs in EUR ct/min, as of the dates specified)		
Belgium ⁴	January 1, 2012	January 1, 2013
KPN Group Belgium	2.92 (3.11 after indexation)	1.08 (1.18 after indexation)
Proximus	2.46 (2.62 after indexation)	1.08 (1.18 after indexation)
Mobistar	2.62 (2.79 after indexation)	1.08 (1.18 after indexation)

- 1) OPTA decision of July 7, 2010 (as amended by CbB decision of August 31, 2011). OPTA is expected to publish a draft decision for consultation on the tariffs as of September 1, 2013 in 2013 and will notify this draft decision to the European Commission before it can enter into force.
- 2) BNetzA decision of November 30, 2010.
- 3) The tariffs in the table have been published by BNetzA in a preliminary decision on November 16, 2012, which needs to be notified to the European Commission and will be applied retroactively.
- 4) BIPT decision of June 29, 2010.

With its decision of 2010 the National Regulatory Authority of Belgium 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 into account various costs which had so far been considered when setting MTRs. On May 16, 2012 the Court of Appeal rejected the grounds of annulment petitioned by KPN Group Belgium. However, it stated that on procedural ground the decision should be annulled. The court decided to petition for preliminary ruling to the Constitutional Court in order to determine whether the Court of Appeal has the power to maintain into effect a decision which should be annulled for procedural reasons. KPN Group Belgium is not a party to this case pending before the Constitutional Court. A decision of the Constitutional Court is expected in the course of Q3 2013. BIPT is preparing a new cost model in order to set tariffs for the period 2014 – 2016.

In the Netherlands OPTA initially also applied a glide path towards the tariffs defined by the pure BULRIC cost model (1.20 ct/min) by September 1, 2012, but with a decision of August 31, 2011, the CbB ruled that a pure BULRIC cost model is not in line with the Dutch Telecommunications Act. The CbB therefore set the tariffs based on 'plus BULRIC' costs that were also modelled by OPTA at 2.40 ct/min. OPTA is preparing a new decision for the period Mid 2013 – Mid 2016, for which a draft decision is expected for national consultation in early 2013.

In Germany, on November 16, 2012 BNetzA set preliminary new MTRs of 1.85 ct/min for the period from December 1, 2012 to November 30, 2013 and of 1.79 ct/min for the period from December 1, 2013 to November 30, 2014. These preliminary decisions are based on a bottom up cost model which identifies the cost of efficient service provision instead of the pure BULRIC recommended by the EU Commission. BNetzA's preliminary decisions still have to be notified with the EU Commission and its final decisions will be retroactively applied as of December 1, 2012.

As to the German 2010 mobile call termination markets decisions, the court has dismissed all preliminary proceedings by all market parties. It is unclear when the court will decide on the merits. Such decision could retroactively apply.

Licenses for mobile communications (the Netherlands)

In the Netherlands, KPN holds licenses for spectrum for mobile communications in the 900 MHz, 1800 MHz, 2100 MHz, 2600MHz frequency bands, DVB-T (Broadcast) and a number of licenses of minor significance. The 900 MHz and the 1800 MHz licenses expire on February 25, 2013. In October – December 2012 an auction was conducted of 800, 900 and 1800 (and additional 2011 and 2600) spectrum for mobile communications, which resulted in the following spectrum allocation (for total license fees of EUR 3,804 million):

	KPN	Vodafone	T-Mobile	Tele-2
800 MHz	2*10 ¹	2*10	–	2*10
900 MHz	2*10	2*10	3*10	–
1800 MHz	2*20	2*20	2*30	–
1900 MHz	–	–	14.6	–
2100 MHz	2*5	2*5	–	–
2600 MHz	30	–	25	–

1) Amounts of spectrum in MHz.

Upon request of Parliament, parts (2*10 MHz) of the 800 spectrum and (2*5 MHz) of the 900 spectrum were reserved for at least two new operators. However, no new entrants applied for the reserved part of the 900 spectrum. The new licenses (except for 1900 and 2100 Mhz) have a duration until 2030, in line with the 2600 MHz licenses that were auctioned in 2010. To avoid service discontinuity a regulation entered into force which allowed the Minister to extend the duration of the 900 and 1800 licenses as of February 26, 2013 until new licensees have been able to roll out sufficient network capacity. However, on January 15, 2013 it was announced that licensees agreed upon a transition scheme and no extension would be applied for.

Licenses for mobile communications (Germany)

In Germany, KPN's subsidiary E-Plus operates a mobile network on the basis of frequency usage rights in the 900, 1800, 2100, 2600 and 3500 MHz bands. The usage rights have various expiration dates between 2016 and 2025.

On November 9, 2012, BNetzA published a scenario paper which sets out potential ways forward to allocate the 900 / 1800 MHz usage rights as of January 1, 2017. Therein, BNetzA states that, in addition to the four current mobile network operators, one or two new players would have shown an interest in the 900 / 1800 MHz frequencies and that the sum of future interests exceeds the available spectrum.

In BNetzA's view, the different expiration deadlines (2016, 2020, 2021, 2025) of the 900 / 1800 and other usage rights would however make a holistic view on all frequency

usage rights reasonable. Against this background, BNetzA describes four potential scenarios forward which can also be combined:

1. Prolongation of 900 / 1800 MHz frequencies (preliminary BNetzA view: disadvantages outweigh advantages).
2. Early auction of the 900 / 1800 MHz frequencies (preliminary BNetzA view: advantages equal to disadvantages).
3. Early auction of the 900 / 1800 MHz and other frequencies which expire in the near future (e.g. 450, 2000, 3500 MHz frequencies) and / or which might become available, 700, 1400 MHz frequencies (preliminary BNetzA view: advantages outweigh disadvantages).
4. First short-term auctions / prolongations so that all usage rights expire 2025, then big-bang auction of all available frequencies in early 2020s (preliminary BNetzA view: advantages equal to disadvantages).

BNetzA's scenario paper was open for comment until January 31, 2013. In spring 2013, BNetzA will publish a draft decision on the allocation of the 900 / 1800 MHz usage rights in the future.

Licenses for mobile communications (Belgium)

In Belgium, KPN Group Belgium holds licenses for spectrum for mobile communications in the 900, 1800, 2100 and 2600 frequency bands. 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 fees 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 (ECJ). In its report of October 26, 2012, the Advocate General of the ECJ has rejected the main arguments put forward by KPN Group Belgium. The next step in the procedure is the judgment of the ECJ, which is expected during Q1 2013.

On November 14, 2012, BIPT has launched a consultation on draft legislation covering the future auction of the 800 MHz band. Pursuant to this draft legislation, three times 10 MHz duplex will be auctioned with a minimum reference price of 90 million EUR per 10 MHz duplex. It is expected that the 800 Mhz spectrum will be auctioned end 2013.

REPORT BY THE SUPERVISORY BOARD





REPORT BY THE SUPERVISORY BOARD

Strategic developments

Looking back at the year 2012, the Supervisory Board witnessed a crucial period in the company's history with difficult economic circumstances, constraints on the Company's financial framework and major changes in its shareholder base.

The financial performance of KPN's businesses in 2012 was largely within the outlook ranges, though supported by asset disposals and somewhat below KPN's expectations at the start of the year. Operationally, KPN showed a mixed performance across the group, making good progress in executing its strategy by taking steps to stabilize its Dutch market positions, while experiencing a slow-down in revenue growth in Germany. For investors, 2012 may have been a disappointing year, when looking at the decreasing share price and dividend cuts.

The Supervisory Board supported the strategy of the Board of Management to continue to focus on the execution of the "strengthen-simplify-grow" strategy against these challenging conditions. In the Netherlands, KPN accelerated its investment strategy with the aim to upgrade its mobile and fixed networks in order to provide the highest quality of service to its customers and to strengthen its leading market positions. In Consumer Mobile, KPN made substantial improvements to its propositions and expanded its distribution footprint. In Consumer Residential, KPN's TV market share and FttH penetration increased and the regionalization approach was implemented. On the cost side, KPN continued to make progress with its reorganization. KPN also maintained focus on quality and simplification to drive customer satisfaction and reputation.

KPN continued to invest in its mobile challenger businesses in Germany and Belgium, e.g. through investments in the high speed data network roll-out. In these countries KPN experienced intensified competition on price and therefore introduced a number of new propositions to support growth and to enhance its market positions.

The Supervisory Board closely followed these developments and supported the steps taken by the Board of Management. Accordingly, the Supervisory Board is confident that the "strengthen-simplify-grow" strategy will contribute to a stronger KPN.

The Supervisory Board was also kept informed on the strategic reviews of the German and Belgian businesses and supported the conclusion that these assets have significant value to KPN. More specifically, the Supervisory Board agreed with the decision to discontinue the sale process of the Belgian business, since the difficult financial market conditions resulted in unsatisfactory non-binding offers for this business.

The Supervisory Board was closely involved in KPN's response to the unsolicited partial offer of América Móvil for 27.47% of the KPN share capital in June of 2012. The Supervisory Board was thereby supported by independent legal and financial advisors. Members of the Supervisory Board participated in a meeting with América Móvil and in November the Chairman of the Supervisory Board paid a courtesy visit to América Móvil. The Supervisory Board values a good relationship with América Móvil, taking into account the interests of the other shareholders and stakeholders.

KPN experienced a rising net debt position combined with lower EBITDA levels in 2012. In order to strengthen KPN's balance sheet and provide for a stable financial position in the coming years, the Supervisory Board approved the reduction of the full year 2012 dividend per share, as well as the announcement of a capital raise (to be submitted for approval by the General Meeting of Shareholders). The Supervisory Board believes that the capital raise will support KPN's commitment to maintain an investment grade credit profile and will increase KPN's financial and strategic flexibility. The expected proceeds will be used to continue to invest in KPN's operations and reduce KPN's net debt level.

As part of the strategic discussions, the Supervisory Board was also kept informed on progress made on the Corporate Social Responsibility themes of best ICT infrastructure, healthcare of the future, new way of working and living, energy efficiency and security and privacy. The Supervisory Board is pleased that important steps have been made on, e.g., KPN's use of energy and that KPN was listed worldwide sector leader in the Carbon Disclosure Project leadership index and ranked in the top 5 of its sector in the Dow Jones Sustainability World Index.

Further activities of the Supervisory Board

During its meetings and contacts with the Board of Management, the Supervisory Board also discussed the results achieved and plans for next financial periods, further strategic matters that required the approval of the Supervisory Board (such as the auction mandate) and all other relevant matters brought to its attention. In reviewing specific proposals, the Supervisory Board discussed in each case with the Board of Management the business case for the proposal, the risks involved and possible alternatives to the proposal.

The Company's 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 assessment of KPN's risk profile relating to its operations and financial performance. In the discussions regarding the financial performance of KPN, the Audit Committee advised the full Supervisory Board on the most relevant matters.

During the year a couple of changes were made to the composition of the Board of Management: Mr. Coopmans and Mrs. Smits-Nusteling left the company, effective as of April 1, 2012. As of January 1, 2012, Mr. Hageman and Mr. van Schilfgaarde acted as interim CFO's. The Supervisory Board notified the General Meeting of Shareholders of its intention to appoint Mr. Hageman as member of the Board of Management and CFO of KPN, following a nomination process prepared by the Nominating and Corporate Governance Committee. In such process, both internal and external candidates were considered and interviewed. Mr. Hageman was considered the best candidate for the CFO position and the appointment became effective on September 11, 2012. Mr. Hageman's substantial financial markets expertise and operational experience as CEO of KPN Group Belgium were considered of great value to KPN. His appointment as CFO also represented continuity in KPN's financial policy. On February 8, 2013, the Supervisory Board announced its intention to appoint Mr Farwerck to KPN's Board of Management, subject to notification to shareholders scheduled for the Annual General Meeting of Shareholders on April 10, 2013.

In 2012 the remuneration policy for the Board of Management remained unchanged. Details of this policy and its implementation are described in the Remuneration Report (page 72).

On important technical, societal and regulatory developments, the Supervisory Board received regular updates through experts in the relevant topics. The geographical as well as the business scope of the KPN portfolio was considered by the Supervisory Board during the year (as also mentioned above) and the Supervisory Board kept itself abreast of the views of (major) shareholders.

Also, the Supervisory Board discussed various acquisition opportunities and divestments and approved the acquisition of a 12.5% stake in RoutIT (combined with a call option on the remainder of the shares) and the Reggefiber ISP's and the divestments of mobile towers both in Germany and the Netherlands, KPN Spain and Getronics International Europe & APAC.

The Supervisory Board furthermore discussed and approved various matters relating to the financing of KPN, such as the extension of the EUR 2 billion revolving credit facility with one year through 2017 and the issuance of the EUR 750 million Eurobond maturing in 2022, the EUR 750 million Eurobond maturing in 2021 and the Euro 50 million Private Placement maturing in 2032. In addition, the Supervisory Board discussed and approved the granting of both a full-year 2011 dividend (January) and an interim 2012 dividend (July) and agreed with the proposal of the Board of Management to pay no final dividend over 2012.

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

The Supervisory Board is convinced of the importance of good relationships with regulators. The Supervisory Board thereto discussed the effectiveness of the implementation of the Compliance Charter with the Independent Post and Telecommunications Authority of the Netherlands (OPTA), as well as the enhanced 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. Outside these meetings the Chairman of the Supervisory Board met the Chairman of the Central Works Council also informally. The Supervisory Board also met with members of the Executive Committee.

Finally, the Supervisory Board conducted a self-assessment regarding its performance in 2012, as well as on the interaction with the Board of Management. Following an assessment last year on the basis of interviews conducted by independent consultants, the Supervisory Board this year opted for an internal self-evaluation based on an extensive questionnaire. The outcome of the questionnaire was discussed in a plenary discussion. The outcome of the self-assessment was generally positive. Particular attention was paid to the interaction between the members of the Supervisory Board and with the members of the Board of Management. The Supervisory Board agreed to meet regularly without the presence of the Board of Management. As to its composition, the Supervisory Board would pay specific attention to enhancing its sector specific knowledge and experience when proposing new candidates.

Report by the Supervisory Board

Committees of the Supervisory Board

As set out in section 'Corporate Governance, starting on page 48, 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 2012, the Audit Committee consisted of four Supervisory Board members, Mr. Haank (Chairman), Mr. Bischoff, Ms. van Lier Lels and Mr. van Bommel (as of April 2012). Mr. Bischoff and Mr. van Bommel are considered to be financial experts 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 (or CFO's ad interim). The attendance rate at the Audit Committee meetings was 95%. The Committee also met separately with the external auditor. The Corporate Secretary of the Board of Management, Mrs. van Dam-Debruyne, acted as the Audit Committee's secretary.

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 auditor as well as the Disclosure Committee and the Company's strategic plan. The Audit Committee also 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 effectiveness and the outcome of the internal control framework and the 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' each quarter.

Each quarter the Audit Committee also discussed in detail the matters included in the Board Report of the external auditor. The general meeting of shareholders appointed PricewaterhouseCoopers Accountants N.V. ("PwC") as KPN's independent external auditor for the year 2012. The Audit Committee reviewed the performance evaluation of PwC (which was conducted by senior management) and was satisfied with the good results. The Audit Committee also closely monitored PwC's independence for performing non audit related services (e.g., when approving the related engagements). It is expected that a proposal to reappoint PwC as external auditor will be submitted to the general meeting of shareholders in April 2013.

The Committee also discussed other topics that were within its scope of attention, most notably compliance, fraud management and application of IT in (financial) processes. Finally, 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 2013.

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 attendance of the Remuneration and Organizational Development Committee meetings was 93%: the Committee met seven times in 2012, with all members present at each meeting. In general terms, the Committee has been involved in reviewing the overall pay policy, taking into account KPN's risk profile, pay trends in the Netherlands and abroad as well as trends in Corporate Governance. Next to that, the Committee discussed and recommended the terms and conditions with regard to changes in the composition of the Board of Management as well as reviewed and ensured the Company's efforts and achievements in the domain of talent development for senior management.

Consistent with its charter, the Committee has also been involved in defining the level of payout for individual members of the Board of Management as part of the Short Term Incentive ("STI") plan 2011 and the Long Term Incentive ("LTI") plan 2011 and setting the targets and performance criteria for the STI 2012 and LTI 2012. Also the impact of new legislation effective of January 1, 2013 (i.e., VAT regime for members of the Supervisory Board and adjusted labor law structure for new appointments in the Board of Management) was discussed by the Committee, including recommendations for adoption by the Supervisory Board to ensure an adequate alignment with this new legislation.

Further details on the activities of the Remuneration and Organization Development Committee are provided in the 'Remuneration and Organizational Development Report' starting on page 72.

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 attendance of Nominating and Corporate Governance Committee meetings was 93%: the Committee met seven times in 2012, with all members present at each meeting. The Committee provided its views on the new top structure of the Company, the new leadership framework and the proposed individual appointments. Consistent with its charter, the Committee discussed and reviewed the size and composition of the Supervisory Board and was responsible for the selection process regarding new appointments in the Supervisory Board and Board of Management. The composition of the Board of Management changed in 2012 following the appointment of Mr. Hageman in September 2012 as member of the Board of Management. The composition of the Supervisory Board changed in 2012 as well following the appointment of Mr. van Bommel in April 2012. For an overview of all members of the Board of Management and Supervisory Board, see 'Corporate Governance' starting on page 48.

Further meeting information

Meetings of the Supervisory Board

The Supervisory Board met with the Board of Management on 18 occasions in 2012, of which eight were regularly scheduled meetings and the remaining were ad hoc meetings. Mr. Streppel acted as Chairman of the Supervisory Board, Mr. Routs was Vice-Chairman. The Company's Chief Legal Officer and Company Secretary, Mr. Van Rooij, acted as secretary to the Supervisory Board. Certain of these meetings commenced with closed meetings where only Supervisory Board members were present. 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 95%. No members were frequently absent and all members had adequate time available to prepare themselves and give the required attention to the matters at hand. 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 48 '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 48.

Financial Statements

The Financial Statements for the year ended December 31, 2012, 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 155.

The Supervisory Board recommends to the AGM to adopt these Financial Statements, as well as the proposed cash dividend in respect of 2012 of EUR 0.12 per share (as already paid out in the form of the interim dividend).

Finally, the Supervisory Board would like to thank all shareholders for their trust in the Company, in particular in this challenging period with downward pressure on the share price, its customers for their trust and all employees and management for their dedication and effort.

The Hague, February 26, 2013

J.B.M. Streppel

R.J. Routs

A.H.J. Risseeuw

M. Bischoff

M.E. van Lier Lels

C.M. Hooymans

D.J. Haank

P.A.M. van Bommel

Introduction

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

The Committee's tasks are laid down in the terms of reference of 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.

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.

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 Board of Management pay is in line with management development goals and pay differentials within the Company. This enables the Company to attract, motivate and retain senior executives of the necessary calibre and leadership background.

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.

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 2012
C. Executive pay policy – detailed overview	In-depth insight into KPN's pay policy for the Board of Management
D. Details of actual cost of remuneration	Insight into actual cost levels for the Board of Management over 2012
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	

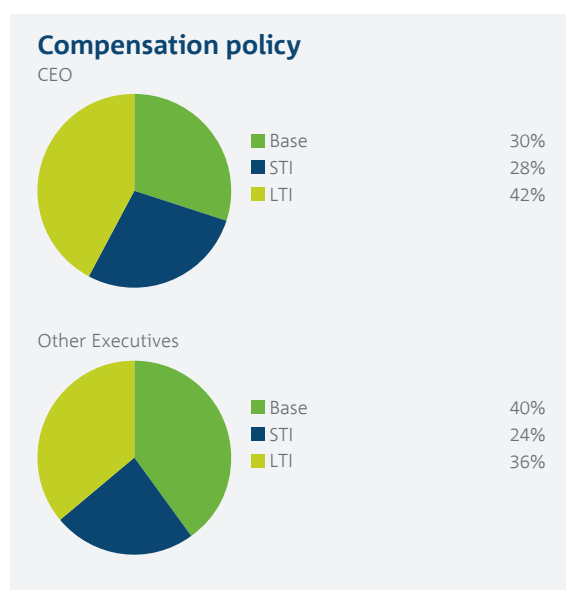
How are executives rewarded?

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 contributions	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 strategy for the coming years. KPN aims to strengthen, simplify and grow its businesses. The focus of the new strategy will be on improving quality, service, technology and cost reduction to become the best service provider and strengthen its market positions in the Netherlands. Internationally, the focus will be on growth in revenue market share and profitability. The goals and objectives of the new strategy are reflected in the short- to medium-term targets (both financial and non-financial) and long-term targets (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 cost of remuneration. All figures are in thousands of euro.

Strategic Goals of 'Strengthen – Simplify – Grow':

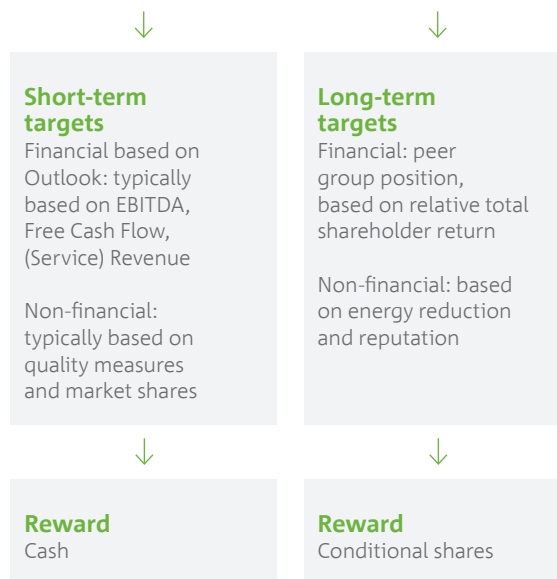
KPN has set a number of key objectives:

The Netherlands:

- Minimum broadband market share of >40% ; long-term goal of 45%;
- Growing RGUs and ARPU per customer in Consumer Residential;
- Minimum long-term total mobile market share of >40%;
- Leading business and ICT player with stable market positions;
- Finalization 4,000-5,000 FTE reduction program end 2013; continued FTE cost efficiency in 2014 and onwards; and
- 40-45% medium-term EBITDA margin.

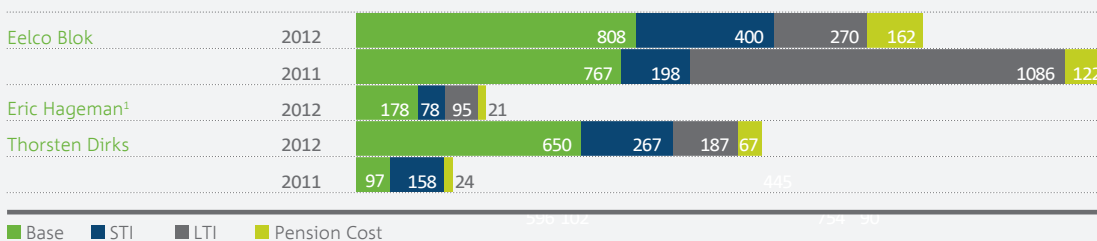
International:

- Long-term service revenue market share goal of 20% in Germany;
- Medium-term EBITDA margin of 30%-35% in Germany;
- Long-term service revenue market share goal of 25% in Belgium; and
- Medium-term EBITDA margin of 25%-30% in Belgium.



Reward to the current members of the Board of Directors

(in thousands of EUR)



1) Remuneration of Mr Hageman since appointment as Board member in September 2012

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 other things 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 counselling 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 2012

The Committee met seven times in 2012, with an attendance rate of 93%. Consistent with its charter, the Committee has been involved in several aspects, such as:

- Reviewing the design and principles of the current LTI plan 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);
- Defining the level of payout for individual members of the Board of Management as part of the STI plan 2011 and LTI grant 2009 and setting the financial/non financial targets and performance criteria for the STI 2012 and LTI grant 2012;
- Recommending the terms and conditions agreed upon with regard to changes in the composition of the Board of Management;
- Analysing the impact of new legislation (for example VAT regime for members of the Supervisory Board and adjusted labor law structure for new appointments in the Board of Management), including recommendations for adoption by the Supervisory Board to ensure an adequate alignment with this new legislation.
- 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 succession planning for the senior leadership roles in the organization.

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, motivating 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 behaviour 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:

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.

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 AG
Belgacom SA	Vodafone Group Plc
BT Group Plc	Capgemini NV

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 lower 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. 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.	Targets typically are EBITDA, Free Cash Flow, (Service) Revenue and various measures of quality and market share.	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 2012, amongst other targets, EBITDA was below threshold, Service Revenue was below target whilst Free Cash Flow (adjusted for prepayments) and Market Share were above target level. In view of the disappointing overall results achieved by the company in 2012, the Supervisory Board decided to use its discretionary authority by applying a relative cap on the incentive for the Members of the Board of Management.

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. Both uplifts were not rewarded as the vesting criteria based on the financial targets and the TSR ranking have not been met.

The actual vesting of the 2009 and 2010 LTI plans are solely based on the extent to which the returns to KPN shareholders outperform the returns to shareholders of a peer group of Western European telecommunications companies (TSR). As from 2011, the number of shares that actually vest is conditional on KPN's relative TSR performance (75% weighting) and for 25% on the achievement of the assigned non-financial parameters.

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 2012 are based on energy reduction and a reputation dashboard. Please refer to KPN's Sustainability Report 2012 for detailed information about the energy reduction parameters. 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 in principle 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
France Telecom SA	Telenor ASA
Hellenic Telecom (OTE)	TeliaSonera AB
Portugal Telecom SA	Vodafone Group Plc
Swisscom AG	KPN NV

Position	Top 8 vesting % existing share plan	Top 8 ranking companies for 2010 share plan (vests in 2013)
Position 1	200% of the shares vest	BT Group Plc
Position 2	200% of the shares vest	Telenor ASA
Position 3	200% of the shares vest	Vodafone Group Plc
Position 4	175% of the shares vest	Swisscom AG
Position 5	150% of the shares vest	Deutsche Telekom AG
Position 6	125% of the shares vest	TeliaSonera AB
Position 7	100% of the shares vest	Belgacom SA
Position 8 and below	No vesting takes place	KPN NV (13th position)

The table above provides an overview of the final ranking of the 2010 share plan that vests in 2013.

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

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 2010–2012 resulted in the 13th position in the TSR performance peer group with respect to the 2010 share award. This position does not lead to vesting of the granted shares in April 2013.

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 would result in an uplift of 50% of the LTI value determination for members of the Board of Management. The uplift in LTI would be rewarded if the challenging financial targets in 2009 and 2010 were met and KPN would reach a number 1, 2 or 3 position in the TSR peer group ranking. The uplift for 2009 was not rewarded last year and the Committee also decided not to reward the uplift for 2010 as the vesting criteria based on the financial targets and the TSR ranking have not been met.

Claw-back clause

The Supervisory Board has committed itself to the claw-back clause. 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 remains 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 (or guarantees) to be granted to members of the Board of Management.

Terms of employment

All members of the Board of Management have a employment contract for an indefinite period of time with the exception of Mr. Dirks.

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, as communicated as part of his appointment in November 2011 (containing a non-competition clause for which he will, as required by German law, receive additional compensation equal to 50% of his German salary, base and short-term incentive, during a maximum period of 12 months).

Change in composition and responsibilities of the Board of Management

The appointment of Mr. Hageman as a member of the Board of Management and Chief Financial Officer came into effect as of KPN's EGM on September 11, 2012. The remuneration package of Mr. Hageman fits within KPN's remuneration policy as approved by the General Meeting of Shareholders. His employment contract provides for a base salary of EUR 575,000 per year. Mr. Hageman 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. The contractual severance pay is in line with the Dutch Corporate Governance Code and amounts to one year's base salary. A defined contribution pension plan is part of the arrangements. Mr. Hageman remains eligible for 15,000 restricted shares that were granted to him prior to his appointment as CFO. These shares will become unconditional if the employment contract is not terminated prior to January 1, 2015. In addition to the 32,500 shares Mr. Hageman already received in 2012 before his Board membership, 33,500 shares were granted to him on September 11, 2012.

Mr. Coopmans left the Company by mutual agreement with the Supervisory Board as of April 1, 2012.

Mr. Coopmans received a severance payment compliant with the Dutch Corporate Governance Code amounting to one year's base salary of EUR 590,000. Mrs. Smits-Nusteling also left the Company as of April 1, 2012 and at her request a severance payment was not applicable. In February 2012, KPN's Supervisory Board concluded that the discontinuation of the employment contracts of Mr. Coopmans and Mrs. Smits-Nusteling qualify as circumstances described that, in certain specific cases of discontinuation of the employment contract, the discontinuation could lead to a condition in which part of the conditional grant is not forfeited (based on the period the employment contract lasted since the date of the grant). KPN's Supervisory Board concluded that at the date of termination of the employment contract, the 2010 and 2011 LTI grant of both Mrs. Smits-Nusteling and Mr. Coopmans forfeited for 13/36 and 25/36 respectively.

Outlook for 2013

No material adjustments in the design and principles of the pay policy are currently considered for 2013.

Remuneration and Organizational Development Report

D. Details of actual cost of remuneration

The pay of the current members of the Board of Management is set out below. All sections under D and E are part of the financial statements and subject to audit.

Name	Year	Salary & Social Security (EUR)	STI ¹ (EUR)	LTI: Share awards ¹ (EUR)	Pension costs ² (EUR)	Total (EUR)
E. Blok	2012	807,577	400,000	269,800	162,400	1,639,777
	2011	766,884	197,936	1,085,850	122,000	2,172,670
W.T.J. Hageman	2012 ⁴	178,009	77,745	95,140	21,463	372,357
	2011					
T. Dirks	2012	650,000	267,150	187,440	66,904	1,171,494
	2011 ⁴	97,126	158,226	–	23,749	279,101
Total current members⁵	2012	1,635,586	744,895	552,380	250,767	3,183,628
	2011	864,010	356,162	1,085,850	145,749	2,451,771

- 1) The fair value per share of the 2012 grant was EUR 2.84 (excluding 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 award is recorded as cost over the vesting period. In 2012, cost recognized for shares and share-based awards amounted to EUR 713,000 for Mr. Blok (EUR 806,182 in 2011), EUR -188,853 for Mr. Dirks (EUR 25,159 in 2011) and EUR -43,926 for Mr. Hageman.
- 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 remains 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 2012, amongst other targets, EBITDA was below threshold, Revenue was below target whilst Free Cash Flow (adjusted for prepayments) and Market Share were above target level. The Supervisory Board decided to use its discretionary authority by applying a relative cap on the incentive.
- 4) Remuneration of Mr. Hageman since appointment as Board member in September 2012. Remuneration of Mr. Dirks since appointment as Board member in November 2011.
- 5) In 2012 an additional one-time employer tax charge of 16% on 2012 salaries exceeding EUR 150,000 was recorded. This tax charge amounts to EUR 281,589 for the current Board members and is not included in the figures above.

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 ¹ (EUR)	Pension costs (EUR)	Total (EUR)
C.M.S. Smits-Nusteling	2012	164,395	–	–	–	21,733	186,128
	2011	606,467	104,120	–	754,380	76,000	1,540,967
J.B.P. Coopmans	2012	149,395	–	590,000	–	22,313	761,708
	2011	596,467	102,384	–	754,380	90,000	1,543,231
A.J. Scheepbouwer	2011	503,235	–	–	–	–	503,235
	2012						
Total former members²	2012	313,790	–	590,000	–	44,046	947,836
	2011	1,706,169	206,504	–	1,508,760	166,000	3,587,433

- 1) Under IFRS the fair value of the share based awards is charged to the P&L over the vesting period. In 2012, cost recognized for shares and share-based awards amounted to EUR 87,850 for Mrs. Smits-Nusteling (EUR 366,603 in 2011), EUR 145,844 for Mr. Coopmans (EUR 678,635 in 2011) and no cost for Mr. Scheepbouwer (EUR 318,436 in 2011). At the date of termination of the employment contract, the 2010 and 2011 LTI grant of both Mrs. Smits-Nusteling and Mr. Coopmans forfeited for 13/36 and 25/36 respectively. The actual cost recognised in the 2012 financial statements is in line with the number of shares that is expected to vest.
- 2) The additional one-time employer tax charge of 16% on 2012 salaries exceeding EUR 150,000 amounts to EUR 131,155 for the former Board members and is not included in the figures above.

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 2012, granted shares sold during 2012, and granted (un)conditional shares/share-based awards held by them as of December 31, 2012.

	Grant date	Current status ⁸	Number of shares granted as of January 2012	Number of shares/ share-based awards granted, vested or forfeited in 2012 ¹⁻²	Number of shares/ share-based awards as of December 31, 2012	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 2012 (EUR)	End of lock-up period
E. Blok								
	4/23/2012	Conditional	–	95,000	95,000	269,800	–	4/23/2017
	4/6/2011	Conditional	95,000	–	95,000	1,085,850	–	4/6/2016
	4/15/2010 ⁶	Unconditional	76,053	-76,053	–	679,914	–	–
	4/9/2009 ⁶	–	–	–	–	–	–	–
	4/17/2008	Conditional	46,843	–	46,843	908,079	–	4/17/2013
W.T.J. Hageman								
	9/11/2012	Conditional	–	33,500	33,500	95,140	–	4/23/2017
	4/23/2012 ⁵	Conditional	–	32,500	32,500	92,300	–	4/23/2017
	5/1/2012 ⁵⁻⁷	Conditional	–	15,000	15,000	76,800	–	n.a.
	4/6/2011 ⁵	Conditional	25,200	–	25,200	288,036	–	n.a.
	4/15/2010 ⁵⁻⁶	Unconditional	24,338	-24,338	–	217,582	–	–
	4/9/2009 ⁵⁻⁶	–	–	–	–	–	–	–
T. Dirks								
	4/23/2012	Conditional	–	66,000	66,000	187,440	–	4/23/2017
	4/6/2011 ⁵	Conditional	27,600	–	27,600	315,468	–	n.a.
	4/15/2010 ⁵⁻⁶	Unconditional	30,547	-30,547	–	273,090	–	–
	4/9/2009 ⁵⁻⁶	–	–	–	–	–	–	–
C.M.S. Smits-Nusteling⁴								
	4/6/2011	Conditional	66,000	-45,833	20,167	754,380	–	4/6/2016
	4/15/2010 ⁶	Unconditional	49,727	-49,727	–	444,559	–	–
	11/3/2009 ⁶	–	–	–	–	–	–	–
	4/9/2009 ⁵⁻⁶	–	–	–	–	–	–	–
J.B.P. Coopmans⁴								
	4/6/2011	Conditional	66,000	-45,833	20,167	754,380	–	4/6/2016
	4/15/2010 ⁶	Unconditional	69,033	-69,033	–	617,155	–	–
	4/9/2009 ⁶	–	–	–	–	–	–	–
	4/17/2008	Conditional	40,733	–	40,733	789,632	–	4/17/2013

1) The shares granted to the Board members represent 9% of the total number of shares and share-based awards granted in 2012 to all employees. On the grant date (April 23, 2012) the KPN share price quoted EUR 6.66 (closing price) while the fair value of each granted share was EUR 2.84 for Members of the Board of Management.

2) The 2012 grant numbers do not include any deferred dividend during the vesting period. The deferred dividend during the vesting period will be granted in additional shares.

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

4) Former member. At the date of termination of the employment contract, the 2010 and 2011 LTI grant of both Mrs. Smits-Nusteling and Mr. Coopmans forfeited for 13/36 and 25/36 respectively.

5) Not granted in capacity as Board member.

6) The 2009 and 2010 share awards have vesting percentages of 0%.

7) Restricted share plan. On the grant date (May 1, 2012) the KPN share price quoted EUR 6.78 (closing price) while the fair value of each granted share was EUR 5.12

8) Shares in the vesting period or lock-up period are disclosed as conditional.

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

Remuneration and Organizational Development Report

The following table summarizes the options of (former) members of the Board of Management under previous policies. Options issued carry an entitlement to one KPN share.

	Grant date	Vesting date	Expiration date	Number of options as of January 1, 2012	Number of exercisable options	Options expired during the year	Number of options as of December 31, 2012	Exercise price
A.J. Scheepbouwer	04/19/2007	04/19/2010	04/18/2012	165,410	165,410	-165,410	–	12.09

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, 2012	December 31, 2011
E. Blok ¹	165,875	115,875
W.T.J. Hageman	1,315	–
T. Dirks	–	–
C.M.S. Smits-Nusteling ²	2,376	2,376
J.B.P. Coopmans ²	72,416	72,416
A.J. Scheepbouwer ²	n.a.	152,147
Total	241,982	342,814

- 1) Mr. Blok increased his share ownership in KPN through a market purchase of 50,000 shares in January 2012.
- 2) Former member. Number of shares at the date of step down from the Board of Management.

Share ownership relates to normal shares.

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 vested shares as part of the LTI will be included in the share ownership recommendation.

E. Supervisory Board Pay 2012

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. As a policy, the Company does not provide loans or guarantees to its Supervisory Board members.

The appointment of Mr. van Bommel as a member of the Supervisory Board came into effect as of KPN's AGM on April 12, 2012.

The table below shows the payout to Supervisory Board members in 2012 and fixed Committee fees on an annual basis.

Amounts in EUR	Fees 2012
Chairman Supervisory Board	100,000
Vice Chairman of the Supervisory Board	70,000
Member Supervisory Board	60,000
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 2012	Committee fees 2012	2012 Total	2011 Total
J.B.M. Streppel	100,000	15,000	115,000	109,722
R.J. Routs	70,000	15,000	85,000	81,042
A.H.J. Risseeuw	60,000	10,000	70,000	68,681
M. Bischoff	60,000	10,000	70,000	68,681
M.E. van Lier Lels	60,000	10,000	70,000	68,681
C.M. Hooymans	60,000	10,000	70,000	68,681
D.J. Haank	60,000	20,000	80,000	78,681
P.A.M. van Bommel	43,167	7,194	50,361	–

Stock ownership Supervisory Board

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

Number of shares	December 31, 2012	December 31, 2011
J.B.M. Streppel	–	–
R.J. Routs	–	–
A.H.J. Risseeuw	50,000	50,000
M. Bischoff	9,000	9,000
M.E. van Lier Lels	–	–
C.M. Hooymans	–	–
D.J. Haank	8,117	8,117
P.A.M. van Bommel	38,000	–
Total	105,117	67,117



FINANCIAL STATEMENTS

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CONSOLIDATED STATEMENT OF INCOME

Amounts in millions of EUR, unless otherwise stated	2012	2011
Revenues [1]	12,409	13,022
Other income [2]	299	141
Total	12,708	13,163
Own work capitalized	-113	-116
Cost of materials	901	1,005
Work contracted out and other expenses	4,545	4,503
Employee benefits [3]	1,911	1,874
Depreciation, amortization and impairments [4]	2,708	2,589
Other operating expenses [5]	936	759
Total operating expenses	10,888	10,614
Operating profit	1,820	2,549
Finance income	39	32
Finance costs	-732	-690
Other financial results	-151	-96
Financial income and expenses [6]	-844	-754
Share of the loss of associates and joint ventures [12]	-13	-24
Profit before income tax	963	1,771
Income taxes [7]	-270	-222
Profit for the year	693	1,549
Profit attributable to non-controlling Interests [20]	2	-
Profit attributable to equity holders [19]	691	1,549
Earnings per share after taxes attributable to equity holders for the year in EUR [8]		
- Basic	0.49	1.06
- Fully-diluted	0.49	1.06

[..] 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	2012	2011
Profit for the year	693	1,549
Other comprehensive income:		
Cash flow hedges:		
Gains or (losses) arising during the period [19]	-319	109
Income tax [19]	78	-28
	-241	81
Currency translation adjustments:		
Gains or (losses) arising during the period [19]	3	-14
Income tax [19]	-	-
	3	-14
Fair value adjustment available for sale financial assets:		
Unrealized gains or (losses) arising during the period [19]	3	-5
Impairment charge through profit and loss	-	13
	3	8
Other comprehensive income for the year, net of income tax	-235	75
Total comprehensive income for the year, net of income tax	458	1,624
Total comprehensive income attributable to:		
Equity holders	456	1,624
Non-controlling interests	2	-

[..] 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 FINANCIAL POSITION

Assets

Amounts in millions of EUR	December 31, 2012	December 31, 2011
NON-CURRENT ASSETS		
Goodwill	5,157	5,575
Licenses	2,191	2,495
Software	838	852
Other intangibles	272	290
Total intangible assets [10]	8,458	9,212
Land and buildings	671	705
Plant and equipment	6,573	5,704
Other tangible non-current assets	94	116
Assets under construction	557	1,008
Total property, plant and equipment [11]	7,895	7,533
Investments in associates and joint ventures [12]	326	261
Loans to associates and joint ventures [12]	227	127
Available-for-sale financial assets [16]	35	48
Derivative financial instruments [26]	233	169
Deferred income tax assets [7]	1,822	1,831
Trade and other receivables [13]	291	261
Total non-current assets	19,287	19,442
CURRENT ASSETS		
Inventories [14]	111	123
Trade and other receivables [15]	1,696	1,607
Income tax receivables [7]	5	1
Cash and cash equivalents [17]	1,286	990
Total current assets	3,098	2,721
Non-current assets and disposal groups classified as held for sale [18]	28	224
TOTAL ASSETS	22,413	22,387

[..] 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, 2012	December 31, 2011
GROUP EQUITY		
Share capital	344	344
Share premium	6,717	6,717
Other reserves	-361	-127
Retained earnings	-4,290	-4,004
Equity attributable to equity holders [19]	2,410	2,930
Non-controlling interests [20]	51	–
Total Group equity	2,461	2,930
NON-CURRENT LIABILITIES		
Borrowings [21]	12,369	11,641
Derivative financial instruments [26]	458	229
Deferred income tax liabilities [7]	440	793
Provisions for retirement benefit obligations [22]	314	441
Provisions for other liabilities and charges [23]	387	397
Other payables and deferred income [24]	122	155
Total non-current liabilities	14,090	13,656
CURRENT LIABILITIES		
Trade and other payables [25]	3,857	3,804
Borrowings [21]	1,527	1,458
Derivative financial instruments [26]	16	–
Income tax payables [7]	270	218
Provisions for other liabilities and charges [23]	186	129
Total current liabilities	5,856	5,609
Liabilities directly associated with non-current assets and disposal groups classified as held for sale [18]	6	192
TOTAL EQUITY AND LIABILITIES	22,413	22,387

[..] 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	2012	2011
Profit before income tax	963	1,771
Adjustments for:		
– Net finance cost [6]	844	754
– Share-based compensation [3]	-1	-15
– Share of the profit of associates and joint ventures [12]	13	24
– Depreciation, amortization and impairments [4]	2,708	2,589
– Other income	-258	-137
– Changes in provisions (excluding deferred taxes)	-127	-209
Changes in working capital relating to:		
– Inventories	19	14
– Trade receivables	5	24
– Prepayments and accrued income	37	64
– Other current assets	-15	12
– Trade payables	-66	150
– Accruals and deferred income	56	-151
– Current liabilities (excluding short-term financing)	-43	-20
Dividends received [12]	19	1
Income taxes received / paid	-486	-231
Interest received / paid	-661	-637
Net Cash flow provided by operating activities	3,007	4,003
Acquisition of subsidiaries, associates and joint ventures (net of acquired cash)	-323	-23
Disposal of subsidiaries, associates and joint ventures	8	-2
Investments in intangible assets (excluding software)	-54	-27
Investments in software	-429	-463
Investments in property, plant and equipment	-1,780	-1,584
Disposals of intangible assets (excluding software)	-	9
Disposals of software	1	1
Disposals of property, plant and equipment	529	176
Loans to associates and joint ventures	-89	-75
Other changes and disposals	4	2
Net Cash flow used in investing activities [27]	-2,133	-1,986
Share repurchases	-	-1,000
Dividends paid	-979	-1,200
Proceeds from exercised options	2	5
Proceeds from borrowings [21]	1,640	2,159
Repayments of borrowings and settlement of derivatives [21]	-1,526	-1,702
Other changes	-13	-10
Net Cash flow used in financing activities [28]	-876	-1,748
Changes in cash and cash equivalents	-2	269
Net Cash and cash equivalents at the beginning of the year [17]	950	682
Exchange rate differences	-1	-1
Changes in cash and cash equivalents	-2	269
Net Cash and cash equivalents at the end of the year [17]	947	950
Cash classified as held for sale [18]	-4	-36
Bank overdrafts	343	76
Cash and cash equivalents [17]	1,286	990

[..] 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, 2011	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
Share based compensation [3]	-	-	-	-	2	2	-	2
Exercise of options [3, 19]	-	-	-	1	-	1	-	1
Dividends paid	-	-	-	-	-979	-979	-	-979
Acquisitions	-	-	-	-	-	-	49	49
Comprehensive income for the period	-	-	-	-235	691	456	2	458
Balance as of December 31, 2012	1,431,522,482	344	6,717	-361	-4,290	2,410	51	2,461

[..] 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 2012 was EUR 78 million positive (2011: EUR 28 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 operates an ICT services company with a market-leading position in the Netherlands, 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 and KPN Group Belgium. 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, 2012 of Koninklijke KPN N.V. were approved for issue by both the Supervisory Board and the Board of Management on February 26, 2013.

The Financial Statements are subject to adoption by the Annual General Meeting of Shareholders on April 10, 2013.

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.

Comparative figures 2011

Following changes in 2012 to KPN's internal structure and reporting to the CEO, who is the chief operating decision maker, the segment reporting has been changed, including the comparative figures as at December 31, 2011. Refer to Note 34 for further details.

Changes in accounting policies and disclosures

There are no IFRSs, IFRIC interpretations or amendments that were effective for the first time for the financial year beginning on or after January 1, 2012 that had a material impact on KPN.

Consolidation

Subsidiaries

Subsidiaries are all entities over which KPN has the power to govern the financial and operating policies, generally accompanying a shareholding of more than half of the voting rights. 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 evaluated continuously and based on historic experience and other factors, including expectations of future events thought to be reasonable under the circumstances.

General notes to the Consolidated Financial Statements continued

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 deferred revenue related to the airtime is based on the expected usage of the airtime per proposition.

Subscription fees and fees received for handset leases, 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.

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 criteria in accordance with IFRS. 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 non-contingent 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 whether 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 identifiable net assets acquired in a business combination 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 on a relative fair value basis 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.

General notes to the Consolidated Financial Statements continued

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.

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	10 to 30 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 2011 and 2012); 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 at 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 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.

Loss on the sale of handsets which are sold for less than cost is only recorded when the sale occurs if the normal resale value is higher than the cost of the handset. If the normal resale value is lower than costs, the difference is recognized as impairment immediately.

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.

General notes to the Consolidated Financial Statements continued

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 outside the group.

Transactions with non-controlling interests are treated as transactions with equity owners of the Group. For purchases of equity instruments from non-controlling interests, the difference between any consideration paid and the carrying amount of the non-controlling interest of the subsidiary acquired 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%. In the latter case 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.

A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. KPN recognises a net defined benefit asset in such a case only when future economic benefits are available to KPN in the form of a reduction in future contributions or a cash refund. The asset ceiling is the present value of those future economic benefits and any cumulative unrecognized actuarial losses and past service costs.

Actuarial gains and losses are recognized in the 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.

The amount of pension cost included in operating expenses with respect to defined benefit plans consist of service cost, interest cost and amortization of actuarial losses and past service costs less expected return on plan assets, all determined at the beginning of the year, as well as curtailments and settlements.

For pension plans that qualify as a defined contribution plan, KPN recognizes contributions as an expense when an employee has rendered service in exchange for those contributions.

Recent accounting pronouncement Pension obligations

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

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

In addition, KPN has decided to present net interest cost as other financial results as of January 1, 2013, because this will give a better view of the operating expenses related to KPN's pension plans.

IAS 19R will be applied in the financial statements 2013 with restatement of comparative 2012 numbers. At January 1, 2013, all unrecognized cumulative actuarial losses and past service costs will be recognized at once which will reduce equity attributable to equity holders by EUR 1,127 million (net of tax), the net pension provision in the balance sheet will increase by EUR 1,380 million and the deferred tax assets will increase by EUR 253 million. Under IAS 19R, the pension provision in the balance sheet is equal to the defined benefit obligation less the fair value of plan assets of the defined benefit pension plans. The impact of IAS 19R on equity at January 1, 2012 is a reduction of EUR 657 million (net of tax).

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

In 2012, actuarial losses of EUR 672 million were incurred (EUR 542 million net of tax) which under IAS 19R are recognized immediately in equity attributable to equity holders.

The effect on Other Comprehensive Income and Total Comprehensive Income in 2012 would have been a decrease of EUR 470 million.

The impact of IAS 19R on equity attributable to equity holders can be summarized as follows (in millions of EUR):

	December 31, 2012	December 31, 2011
Equity attributable to equity holders as per Consolidated Financial Statements	2,410	2,930
IAS 19R impact	-1,127	-657
Adjusted equity attributable to equity holders	1,283	2,273

The movement in the IAS 19R impact in 2012 can be summarized as follows (in millions of EUR):

	Unrecognized actuarial losses/past service cost	Tax	Net
Balance as at December 31, 2011	783	-126	657
Reversal amortization	-91	-	-91
Adjustment expected return plan assets	16	-	16
Higher tax expense	-	3	3
Actuarial losses in 2012	672	-130	542
Balance as at December 31, 2012	1,380	-253	1,127

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

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

General notes to the Consolidated Financial Statements continued

Provisions for retirement benefit obligations

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. Investments in property, plant and equipment, which are financed by financial leases, are not included in the Consolidated Cash Flow Statement.

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. These have not been applied in preparing these 2012 Consolidated Financial Statements. Interpretations and amendments of the standards will not have material impact on KPN's Consolidated Financial Statements, except for IAS 19R. The new standards, which may have an effect on the information to be disclosed in KPN's Consolidated Financial Statements of 2013 are listed below:

- IAS 19, 'Employee benefits' was amended in June 2011 (IAS 19R). For the impact on KPN's Financial statement refer to the accounting policies for provisions for retirement benefit obligations.
- IFRS 9, 'Financial instruments' This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. Since the standard has not yet been endorsed by the European Union, it is uncertain when it needs to be applied by KPN. The remaining uncertainty with respect to subsequent phases of the project makes it impossible to quantify the impact of the new standard on KPN's financial statements.
- IFRS 10, 'Consolidated financial statement', establishes a single control model that applies to all entities including special purpose entities. The introduction of this new standard will not change KPN's financial position.
- IFRS 11, 'Joint arrangements', is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the parties to the arrangement rather than its legal form. The introduction of this new standard will not change KPN's financial position.
- 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. It is the complement of the two new standards discussed in preceding paragraphs and will become effective at the same time.
- IFRS 13, 'Fair value measurement', becomes the single source of guidance on IFRS for all fair value measurements. The impact of this standard on KPN's financial statements is being assessed but it is not expected to be material because the standard further clarifies existing requirements.

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

[1] Revenues

Amounts in millions of EUR	2012	2011
Rendering of services	11,848	12,388
Sale of goods	438	488
Royalties and other revenues	123	146
Total revenues	12,409	13,022

Rendering of services included traffic and subscription fees for the usage of KPN's networks, handset leasing fees, one-off connection 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 included 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	2012	2011
Gains on the sale of property, plant and equipment	208	123
Other gains	91	18
Total other income	299	141

Gains on the sale of property, plant and equipment mainly related to sale and lease back transactions of mobile towers in the Netherlands and Germany. These lease transactions were reported as operating lease and contain annual rental guarantees of EUR 20 million for 15 years. For more details on lease and rental obligations reference is made to the Note 31 'Commitments, contingencies and legal proceedings'.

In 2012 other gains included the result on the sale of Getronics International EUR 8 million, the sale of SNT Inkasso EUR 16 million, the sale of KPN Spain EUR 36 million and obtained other services fee amounting EUR 27 million.

In prior year other gains included gains from the sale of KPN France EUR 10 million and Pharma Partners EUR 5 million.

[3] Employee benefits

Amounts in millions of EUR	2012	2011
Salaries and wages	1,478	1,558
Pension charges (incl. Social Plan 2001) [22]	226	125
Social security contributions	207	191
Total employee benefits	1,911	1,874

Reference is made to Note 34 'Segment Reporting' for further information on the number of employees and to Note 23 'Provisions for other liabilities and charges' for further information on employee redundancy costs. In the other operating expenses an amount of EUR 123 million is recorded related to restructuring of the personnel (2011: EUR 127 million).

Board of Management and Supervisory Board

The Remuneration and Organizational Development Report included in this Annual Report contains required information comprising 'D: Details of actual pay-out for 2012' and 'E: Supervisory Board Pay 2012', 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 cost are recorded in 2012 and 2011.

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 and were performance related, depended on KPN's Total Shareholder Return (stock appreciation plus dividend pay-out; TSR) relative to a peer group of European telecommunication companies.

Notes to the Consolidated Statement of Income continued

Summary of options outstanding as of December 31, 2012

Granted in:	Number outstanding December 31, 2012	Exercise price per option	Weighted average remaining contractual life (years)	Weighted average fair value at the date of grant
2005	405,282	6.73-7.18	0.3	2.73
Total	405,282			

Summary of the changes in outstanding options

	2012		2011	
	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	908,226	7.62	1,673,041	7.50
Options granted	–	–	–	–
Options exercised	-243,433	6.48	-764,815	7.36
Options expired	-259,511	10,04	–	–
Options forfeited	–	–	–	–
Outstanding at the end of the year	405,282	6.75	908,226	7.62
– of which: exercisable	405,282	6.75	908,226	7.62

The actual number of options is adjusted for the actual vesting percentages after the performance period. The average KPN stock price in 2012 was EUR 6.83. The fair value of each option is estimated at the date of grant using a binomial model.

Share plans

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'). The conditionally granted PSP award will vest after three years if the employee is still employed with KPN. 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 based for 75% on relative TSR and for 25% 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.

In May 2012 an additional equity settled plan was issued for Senior Management: the KPN Restricted Share Plan. Shares under this plan will vest on January 1, 2015 if the employee is still employed with KPN. For this plan no other performance measures are applicable.

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

	Maximum term	Settlement type ¹	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 ²	3 years	2 years
Senior Management	3 years	Cash	3 years	–
2012 Board of Management and Senior Management	5 years	Equity ²	3 years	2 years
Senior Management	3 years	Cash	3 years	–
Senior Management Restricted Share Plan	2.7 years	Equity	2.7 years	–

1) The cash-based share awards will be settled in cash and no holding restrictions apply. An exception to the holding period for equity-settled plans is made with respect to shares that were sold upon vesting to cover the tax obligation on the vested shares. After vesting, the holder is able to sell a number of unconditional granted shares only up to the amount necessary to settle the wage taxes liability relating to the profit made on the stock compensation plan.

2) Including deferred dividend.

The total compensation expense associated with the share plans was EUR 3 million negative in 2012 (2011: EUR 2 million) and the related liability (for cash-settled shares) at December 31, 2012, was EUR 105,000 (2011: EUR 6 million). This liability is included under Other payables and deferred income. During 2012 KPN granted 2,240,959 shares and share-based awards (2011: 1,857,502) to members of the Board of Management and Senior Management.

The following table presents the number of shares and share-based awards under the share plans for the year ended December 31, 2012.

Number of shares and share based awards	Total at December 31, 2010 ³	Granted/ additional vesting ²	Exercised/ Vested	Forfeited	Total at December 31, 2011	Granted/ additional vesting ²	Exercised/ Vested	Forfeited	Total at December 31, 2012 ^{3,5}	– of which: Non-Vested
2006 Shares	772,818	–	-772,818	–	–	–	–	–	–	–
2008 Share-based awards Senior Management	1,536,475	717,244	-2,140,829	-112,890	–	–	–	–	–	–
2008 Shares Board of Management	472,963	59,361	-444,748	–	87,576	–	–	–	87,576	–
2009 Share-based awards Senior Management	1,977,999	68,471	–	-2,046,470 ⁴	–	–	–	–	–	–
2009 Shares Board of Management	482,153	–	-323,276	-158,877 ⁴	–	–	–	–	–	–
2010 Share-based awards Senior Management	1,733,264	49,310	–	-115,432	1,667,142	–	–	-1,667,142 ⁴	–	–
2010 Shares Board of Management	375,754	–	–	-180,941	194,813	–	–	-194,813 ⁴	–	–
2011 Share-based awards Senior Management	–	1,630,502 ¹	–	-27,100	1,603,402	–	–	-208,187	1,395,215	1,395,215
2011 Shares Board of Management	–	227,000 ¹	–	–	227,000	–	–	-91,666	135,334	135,334
2012 Share-based awards Senior Management	–	–	–	–	–	1,166,459 ¹	–	-49,901	1,116,558	1,116,558
2012 Shares Board of Management/Senior Management	–	–	–	–	–	459,500 ¹	–	-20,833	438,667	438,667
2012 Restricted Shares Senior Management	–	–	–	–	–	615,000	–	-7,500	607,500	607,500

- 1) On the basis of 100% grant. The equity-settled share numbers do not include any deferred dividend during the vesting period. The deferred dividend during the vesting period will be granted in additional shares.
- 2) At grant date the fair value is calculated using a Monte Carlo Simulation model. At April 23, 2012, the fair value was EUR 2,84 for the 2012 share based award and EUR 2,84 for the 2012 equity settled share grant for Members of the Board of Management and Senior Management (excluding deferred dividend). At May 1, 2012, the fair value was EUR 5,12 for the 2012 Restricted share award for Senior Management.
- 3) At December 31, 2012, 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, 2012). At December 31, 2012, the fair value was EUR 0 for the 2010 share based award, EUR 0,06 for the 2011 share based award and EUR 0,22 for the 2012 share based award.
- 4) At the end of 2012, KPN held the 13th position with respect to the 2010 share grant and at the end of 2011, KPN held the 8th position with respect to the 2009 share grant. Neither position led to vesting of the shares.
- 5) In the figures the uplift to the LTI entitlements is not included. The uplift could 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 was not granted as the financial targets in 2009 and 2010 were not met and KPN did not 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:

	2012 PSP	2012 Restricted Shares	2011 PSP
Risk-free interest rate based on euro governments bonds for remaining time to maturity of 2.7 years	1.2%	1.1%	2.6%
Expected dividend for KPN (based on one year's historical daily data preceding the date of award)	10.2%	10.2%	6.4%
Expected volatility (2011 grant based on 2.7–years' daily historical daily data)	20.0%	20.1%	24.8%
Share price at date of award (closing at grant date)	EUR 6.66	EUR 6.78	EUR 12.24

Notes to the Consolidated Statement of Income continued

[4] Depreciation, amortization and impairments

Amounts in millions of EUR	2012	2011
Impairment of goodwill	314	154
Amortization of other intangible assets [10]	863	859
Impairment of other intangible assets [10]	12	35
Total amortization and impairments of goodwill and other intangible assets	1,189	1,048
Depreciation of property, plant and equipment [11]	1,472	1,400
Impairments and retirements of property, plant and equipment [11]	47	140
Total depreciation and impairments of property, plant and equipment	1,519	1,540
Impairment of assets held for sale [18]	-	1
Total	2,708	2,589

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

Impairment Corporate Market 2012

During 2012, continued adverse market trends and price pressure negatively impacted the performance and outlook of Corporate Market. As a result the annual impairment testing led to an impairment of goodwill of Corporate Market of EUR 314 million. Reference is made to Note 10.

Impairment Corporate Market 2011

During 2011, 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 were considered non-core. Taking into account the fact that these businesses could be sold separately and were 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 has been tested for impairment which resulted in an impairment of EUR 154 million. Reference is made to Note 10.

Other impairments and depreciation

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

Amounts in millions of EUR	2012	2011
By classification:		
Land and buildings	81	162
Plant and equipment	1,365	1,297
Other tangible fixed assets	58	74
Assets under construction	15	7
Total	1,519	1,540

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

[5] Other operating expenses

In 2012, Other operating expenses comprised an addition to the restructuring provision EUR 173 million (2011: EUR 130 million). For more details, reference is made to Note 23.

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	2012	2011
Financial statements audit fees	7.9	9.0
Other assurance fees	3.5	2.3
Tax fees	1.2	1.3
All other fees	0.5	0.5
Total	13.1	13.1

The total fees of PricewaterhouseCoopers Accountants N.V., the Netherlands, charged to the Company and its consolidated group entities amounted to EUR 10.1 million in 2012 (2011: EUR 10.2 million).

The financial statements audit fees include the aggregate fees billed in each of 2012 and 2011 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 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, IT related assurance services and regulatory related assurance services.

Other fees relate to permitted services not included in the above categories.

[6] Financial income and expenses

Amounts in millions of EUR	2012	2011
Finance income	39	32
Interest on borrowings	-693	-662
Interest on provisions	-7	-9
Other	-32	-19
Finance costs	-732	-690
Amortizable part of hedge reserve [19]	-6	-6
Ineffective portion of fair value hedges	-	-36
Financial instruments not qualified for hedge accounting	-40	11
Exchange rate differences	-5	-4
Other	-100	-61
Other financial results	-151	-96
Total	-844	-754

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

In 2012, interest on borrowings included a non-cash amount of EUR 21 million (2011: EUR 26 million) relating to previously capitalized debt issue costs and similar costs which are amortized over the remaining life of the respective bonds.

With regards to the changes in the carrying value of Reggefiber call/put arrangements to acquire 100% of the shares over time, KPN has recorded EUR 100 million in line item 'Other' in Other financial results (2011: EUR 55 million). Refer to Note 12 and Note 29 for further information on the call/put arrangements.

In 2012, a loss of EUR 16 million (2011: loss of 14 million) was recognized in the Consolidated Statement of Income (line item 'Other' in Other financial results) related to available-for-sale financial assets. The 2012 amount includes a EUR 13 million impairment loss on the investment in Compucom, in which KPN has an approximately 10% equity stake, as a result of a dividend payment of EUR 18 million by Compucom. This dividend is included in finance income in 2012 (see also Note 16).

Notes to the Consolidated Statement of Income continued

[7] Taxation

For Dutch tax purposes, KPN Mobile and Koninklijke KPN are separate tax 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 tax unity

An agreement in 2004 with the Dutch tax authorities allowed KPN Mobile to offset in 2002 a EUR 11.5 billion tax loss related to E-Plus against its 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 payable over EBITDA of E-Plus which were EUR 314 million in 2012 (2011: EUR 332 million). As per December 31, 2012, the deferred tax liability for the recapture amounted to EUR 205 million. Full recapture is expected to be realized during 2013.

Koninklijke KPN tax 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, 2012, of which the deductibility of the loss of EUR 119 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 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.

In 2011, KPN 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 from 1 January 2007. The application of the innovation tax facilities resulted in a one-off benefit of EUR 118 million in 2011 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% as a result of the application of the innovation tax facilities.

E-Plus

In Germany, the income tax consists of trade tax ('Gewerbsteuer') 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 109.

At December 31, 2012, a deferred tax asset (DTA) of EUR 1,736 million (2011: EUR 1,710 million) was recognized of which EUR 1,020 million (2011: EUR 801 million) relates to estimated future tax savings due to available tax loss carry forwards and EUR 716 million (2011: 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 which are also used in impairment testing. Under German tax law, E-Plus recorded a reduction of tax losses carried forward amounting to 27,5% as a result of the change in control by America Movil, as shareholder in KPN, and thus exceeding the 25% threshold as defined in German tax law. The deferred tax asset related to these losses increased following an assessment of potential tax planning opportunities to accelerate the use of these losses.

Other entities

There are several other entities in the Netherlands which are separately liable for income taxes. In most other countries in which KPN operates, 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	2012	2011
Current tax	-207	-94
Changes in deferred taxes	-63	-128
Income tax benefit/(charge)	-270	-222

The reconciliation from the Dutch statutory tax to the effective tax rate is explained in the table below.

Amounts in millions of EUR	2012	2011
Profit before income tax¹	976	1,795
Taxes at Dutch statutory tax rates ²	-244	-449
Tax rate differences of foreign operations ³	-47	-51
Non-taxable income and non-deductible expenses ⁴	-81	-80
Innovation tax facilities ⁶	26	197
(De)recognition of deferred tax positions⁵:		
– related to prior years	126	203
– related to the current year	-34	-5
Other	-16	-37
Income tax benefit/(charge)	-270	-222
Effective tax rate	27.6%	12.4%

- 1) Excluding the share in profits or losses 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 2012 and 2011.
- 3) Tax rate differences of foreign operations reflect the impact of different tax rates in the fiscal jurisdictions in which KPN operates. In 2012 and 2011, 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) (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.
- 6) In 2011, KPN 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 in 2011 mainly reflecting the period 2007 to 2010. In 2012 the amount includes a downward adjustment of EUR 14 million relating to 2011.

Deferred tax assets and liabilities

Amounts in millions of EUR	December 31, 2012	December 31, 2011
Deferred tax assets	1,822	1,831
– of which: to be recovered after 12 months	1,787	1,805
– of which: to be recovered within 12 months	35	26
Deferred tax liabilities	440	793
– of which: to be realized after 12 months	129	412
– of which: to be realized within 12 months	311	381
Deferred tax assets and liabilities	1,382	1,038

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.

Notes to the Consolidated Statement of Income continued

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, 2011	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
Exchange differences	–	–	–	–	–	–	–
Income statement benefit/(charge) ⁵	181	-56	-8	-8	-154	–	-45
Change in tax rates	–	–	–	–	–	–	–
Tax charged to equity	–	–	–	–	78	–	78
Reclassification	–	–	–	–	12	-58	-46
Changes in consolidation	4	–	–	–	–	–	4
Transferred to held for sale	–	–	–	8	-8	–	–
Balance as of December 31, 2012¹	1,109	198	438	88	507	-518	1,822

- 1) At December 31, 2012, deferred tax assets of EUR 873 million and EUR 511 million were not recognized for loss carry forwards and deductible temporary differences respectively.
- 2) Other deductible temporary differences at December 31, 2012 include property, plant and equipment of EUR 272 million (2011: EUR 327 million), cash flow hedge reserves of EUR 77 million (charged to equity, 2011: EUR -1 million), revenue recognition of EUR 22 million (2011: EUR 16 million), software of EUR 28 million (2011: EUR 52 million) and deferral of expenses for fiscal purposes of EUR 21 million (2011: EUR 33 million).
- 3) Mainly relates to UMTS licenses in Germany.
- 4) In the course of 2011 a restructuring of the Dutch operations of Getronics took place as a result of which these loss carry forwards were utilized and higher amortizable assets (goodwill) were recognized.
- 5) Mainly relates to the revaluation of the DTA in Germany.

Deferred tax charged to equity relates mainly to movements in the hedge reserve.

Deferred tax liabilities

	Taxable temporary differences					Offset against deferred tax assets	Total
	Deferred liability due to losses German permanent establishment	Software development	Accelerated depreciation ¹	Other ²			
Balance as of January 1, 2011	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	
Income statement charge	–	-15	19	14	–	18	
Tax payable due to E-Plus loss recapture	-314	–	–	–	–	-314	
Changes in consolidation	–	–	–	7	–	7	
Reclassification	–	–	–	12	-58	-46	
Transfer to current tax	–	-10	1	-10	–	-19	
Transferred to held for sale	–	–	–	1	–	1	
Balance as of December 31, 2012	205	228	305	220	-518	440	

- 1) Relates to Property, plant and equipment in the Netherlands.
- 2) Other taxable temporary differences at December 31, 2012, include intangible fixed assets of EUR 80 million (2011: EUR 76 million), property plant and equipment of EUR 58 million (2011: EUR 35 million) and provisions for early retirement and pension benefits of EUR 60 million (2011: EUR 64 million).

Tax loss carry forwards

	December 31, 2012		December 31, 2011	
	Tax loss carry forwards	Recognized deferred tax assets	Tax loss carry forwards	Recognized deferred tax assets
Koninklijke KPN – corporate tax ¹	133	11	117	9
KPN Group Belgium – corporate tax	179	67	228	83
E-Plus – trade tax ²	1,428	202	2,021	139
E-Plus – corporate tax ²	10,167	818	14,375	662
Other	215	11	202	31
Total	12,122	1,109	16,943	924

- 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.
- 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. Under German tax law, E-Plus recorded a reduction of tax losses carried forward amounting to 27,5% or EUR 5 billion as a result of the change in control by America Movil, as stockholder in KPN, and thus exceeding the 25% threshold as defined in German tax law. The deferred tax asset related to these losses increased following an assessment of potential tax planning opportunities to accelerate the use of these losses amounting to EUR 382 million.

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, 2012 is as follows:

	Tax loss carry forwards	Maximum deferred tax asset	Recognized deferred tax asset ¹
2013	20	5	1
2014	5	1	–
2015	10	3	–
2016	18	4	2
2017	18	5	4
Later	121	33	8
Total limited	192	51	15
Unlimited	11,930	1,931	1,094
Total	12,122	1,982	1,109

- 1) Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the tax loss carry forwards can be utilized.

The expiration of the available tax loss carry forwards and recognized tax assets at December 31, 2011 was as follows:

	Tax loss carry forwards	Maximum deferred tax asset	Recognized deferred tax asset ¹
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) Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the tax loss carry forwards can be utilized.

Notes to the Consolidated Statement of Income continued

[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:

	2012	2011
Profit (loss) for the year in millions of EUR	693	1,549
Profit (loss) attributable to non controlling Interests [20]	2	–
Profit attributable to equity holders [19]	691	1,549
Weighted average number of subscribed ordinary shares outstanding	1,418,808,437	1,460,869,236
Dilution effects:		
– options and non-vested shares	2,590,494	1,098,829
Weighted average number of subscribed ordinary shares outstanding including dilution effects	1,421,398,931	1,461,968,065
Earnings per share after taxes attributable to equity holders for the year in EUR		
– basic	0.49	1.06
– fully-diluted	0.49	1.06

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 2012, being EUR 6.83) 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

During 2012 KPN paid an interim dividend of EUR 0.12 per share. On 14 December 2012, KPN announced an adjustment to its dividend outlook. KPN will not pay a final dividend over 2012.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

[10] Intangible fixed assets

Amounts in millions of EUR	December 31, 2012	December 31, 2011
Goodwill	5,157	5,575
Licenses	2,191	2,495
Software	838	852
Other intangibles	272	290
Total intangible assets	8,458	9,212

Statement of changes in goodwill

Amounts in millions of EUR	2012	2011
Cost	6,020	6,022
Accumulated impairments	-445	-289
Balance as of January 1	5,575	5,733
Investments	93	6
Impairment	-314	-154
Disposals	-202	-6
Exchange rate differences	-1	1
Transferred to/from held for sale	6	-5
Closing book value	5,157	5,575
Cost	5,914	6,020
Accumulated impairments	-757	-445
Balance as of December 31	5,157	5,575

For impairment testing on goodwill the cash-generating units are determined on the operating 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 made in accordance with a new internal structure, refer also to the Note 34 'Segment reporting', and is shown below:

Amounts in millions of EUR	December 31, 2012	December 31, 2011
Consumer Mobile	262	262
Consumer Residential ¹	162	132
Business ²	272	230
NetCo ¹	211	192
Corporate Market	73	388
Germany ³	3,956	4,149
Belgium ⁴	96	72
iBasis	83	84
Rest of World ⁴	42	66
Total	5,157	5,575

- 1) KPN acquired 100 % of shares in Lijbrandt Telecom Holding B.V., Glashart Media B.V., Reggiber Wholesale B.V. and FtTH service providers from Reggeborgh.
- 2) KPN acquired 12.5% of shares in RoutIT B.V.
- 3) KPN sold and leased back the mobile towers and Germany and consequently goodwill was allocated to this part of the business and disposed.
- 4) Ortel Belgium was sold to KPN Group Belgium and consequently the goodwill allocated to this business has been transferred to Belgium Segment.

In 2012, the investments related to the acquisition of Lijbrandt Telecom Holding B.V., Glashart Media B.V. and Reggiber Wholesale B.V. for which EUR 23 million goodwill has been recorded on a provisional basis. Furthermore the investments related to the acquisition of strategic partner GroupIT B.V. (RoutIT) for which EUR 42 million goodwill has been recorded on a provisional basis. At last, the investments related to the acquisition of Edutel, XMS, KickXL and Concepts ICT from Reggeborgh for which EUR 28 million goodwill has been recorded on a provisional basis. Refer to Note 30 for further information on business combinations.

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.

In 2012, the disposals of goodwill related to the EUR 202 million goodwill allocated to the sold and leased back mobile towers and related business in Germany and at NetCo based on the relative fair value of the disposed business versus the total operating segment.

In 2012, goodwill impairment charges amounted to EUR 314 million and related to impaired goodwill allocated to Corporate Market.

In 2011, goodwill impairment charges amounted to EUR 154 million and related to impaired goodwill allocated to Corporate Market.

Notes to the Consolidated Statement of Financial Position continued

Goodwill impairment test

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.

A detailed review has been performed of the recoverable amount of each cash-generating unit. The recoverable amount of Germany and Corporate Market has been determined based on the fair value less cost to sell. For other cash-generating units the recoverable amount is based on their value-in-use.

A third-party valuation specialist (Duff & Phelps) supported KPN in the impairment testing of Germany and Corporate Market in 2012 and 2011, which we consider the significant CGU's based upon the size of goodwill as per December 31, 2011. This involves, among others, determining the reasonableness of the fair value less cost to sell, including key assumptions used, by analyzing comparable companies and transactions.

In the impairment testing the recoverable amount has been determined using the discounted cash flow method. The key assumptions used in the cash flow projections are sales growth and estimated capital expenditures, the EBITDA margin and the weighted average cost of capital (WACC) used for discounting the cash flow projections. The cash flow projections for the first three to six years (depending on the cash-generating unit) are management's best estimate based on the most recent business plans and historical growth rates and EBITDA margins. KPN believes the period used in the projections 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 those cash-generating units of which the recoverable amount is based on fair value less cost to sell the reasonableness of assumptions used has been verified using market information and comparisons to (expected) developments of peer companies and adjusted if applicable to incorporate a market view vis-a-vis management's view.

Germany

For Germany, the recoverable amount is based on its fair value less cost to sell. 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 (strategic premium), tax benefits and restructuring. The future expected cash flows are discounted at the weighted average cost of capital commensurate with the cash-generating unit's inherent risk.

In 2012, the margin between the recoverable amount and the carrying amount decreased significantly as a result of increased competition in the German mobile market, leaving a margin less than EUR 100 million. An increase in discount rate by 0.5%-point (ceteris paribus) or a decrease in long-term growth rate by 1%-point (ceteris paribus) would lead to an impairment of goodwill of Germany.

Key assumptions

The key long-term assumptions used in the impairment test of Germany are summarized in the table below:

	Sales growth	Capex intensity	EBITDA margin	Discount rate
2012	0%-0.5%	14%-16%	33%-35%	7.0%-7.5%
2011	1%-1.5%	14%-16%	34%-36%	7.5%-8.0%

Corporate Market

For Corporate Market, the recoverable amount is based on its fair value less cost to sell. The fair value is calculated as 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. The discount rate used is the pre-tax weighted average cost of capital commensurate with the cash-generating unit's inherent risk.

The impairment testing in 2012 resulted in a further impairment of the goodwill related to KPN Corporate Market. The impairment was primarily driven by the worsened outlook on the future profitability and cashflows resulting from persistent negative market developments in the Dutch landscape for IT related services only partly offset by expected synergies and lower related capital expenditure levels.

Due to the impairment, the recoverable amount for Corporate Market equals its reported carrying amount as at December 31, 2012 and consequently, any adverse change in a key assumption underpinning the fair value less cost to sell calculation would cause further impairment losses to be recognized. The total amount of goodwill reported after the impairment in 2012 is EUR 73 million (2011: EUR 388 million).

Key assumptions

The key long-term assumptions used in the impairment test of Corporate Market are summarized in the table below:

	Sales growth	Capex intensity	EBITDA margin	Discount rate
2012	0%-0.5%	5%-7%	9.5%-10.5%	9.0%-10.0%
2011	1%-1.5%	5%-7%	12.5%-13.5%	9.0%-10.0%

Other significant cash-generating units

For other significant cash-generating units the recoverable amount is based on their value-in-use. The future expected cash flows are discounted at the pre-tax weighted average cost of capital. The key long-term assumptions used in the impairment test are summarized in the table below:

	Sales growth	Capex intensity	EBITDA margin	Discount rate
2012	0%	20%-22%	40%-45%	6.5%-7.0%
2011	0%	20%-22%	45%-50%	7.3%-7.8%

Sensitivity to changes in key assumptions

The expected future cash flows used in the impairment analysis are based on management's estimates. Events amongst others 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 value change of Germany and Corporate Market as per year end 2012, if key assumptions had changed adversely and would have been used in the impairment testing of Germany and Corporate Market.

	Sales growth		Capex intensity		EBITDA margin		Discount rate	
	-0.5pps	+0.5pps	-1pps	+1pps	-1pps	+1pps	-0.5pps	+0.5pps
Value change Germany	-335	375	280	-280	-280	280	525	-475
Value change Corporate Market	-10	11	60	-60	-60	60	25	-22

Considering the relatively small margin between the recoverable and carrying amount of Germany, the negative sensitivities above would have resulted in an impairment. Any adverse change in a key assumption underpinning the fair value less cost to sell calculation of Corporate market would cause further impairment losses to be recognized.

The outcome of sensitivity analysis for the other cash-generating units would not have resulted in a different outcome of the impairment test.

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, 2011	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 net 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
Investments	15	388	41	-	-	8	452
Disposals	-	-2	-	-	-	-	-2
Changes in consolidation	28	4	-	48	8	-	88
Reclassification	-	3	-1	-	-	-	2
Amortization	-346	-437	-	-56	-9	-15	-863
Impairment	-	-3	-4	-	-	-2	-9
Transfer to held for sale (net)	-1	-2	-1	-	-	-	-4
Closing net book value	2,191	679	159	148	55	69	3,301
Cost	9,425	2,190	159	476	118	149	12,517
Accumulated amortization/ impairments	-7,234	-1,511	-	-328	-63	-80	-9,216
Balance as of December 31, 2012	2,191	679	159	148	55	69	3,301

Notes to the Consolidated Statement of Financial Position continued

Licenses

Amounts in millions of EUR	December 31, 2012	December 31, 2011
Germany	1,853	2,066
NetCo	250	335
Belgium	87	94
Other	1	–
Total	2,191	2,495

In December 2012, KPN was assigned a combination of spectrum licenses in the Netherlands which was reported as off balance sheet obligation as at December 31, 2012. Refer to the Note 31 'Commitments, contingencies and legal proceedings'.

As at the end of 2012, the book value of Computer software and Software in development comprised internally generated software for EUR 360 million (2011: EUR 260 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, 2011	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
Closing net book value	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
Investments	57	2,254	49	-432	1,928
Disposals	-16	-105	-1	-2	-124
Depreciation	-80	-1,336	-56	–	-1,472
Impairments and retirements	-1	-29	-2	-15	-47
Reclassifications	2	12	-15	-1	-2
Change in consolidation	–	76	4	1	81
Transfer to held for sale (net)	4	-3	-1	-2	-2
Closing net book value	671	6,573	94	557	7,895
Cost	1,972	16,822	327	582	19,703
Accumulated depreciation/ impairments	-1,301	-10,249	-233	-25	-11,808
Balance as of December 31, 2012	671	6,573	94	557	7,895

As of January 1, 2012 KPN extended the economic life of fiber from 20 to 30 years. This resulted in EUR 40 million lower depreciation charges in 2012. Furthermore, in 2012 assets under construction in relation to the mobile network in Germany were reclassified to plant and equipment for EUR 451 million. As a result, a one-off additional depreciation charge of EUR 74 million was recorded, of which EUR 61 million related to prior years.

Property, plant and equipment primarily concerns assets located in the Netherlands (2012: approximately 61%; 2011: approximately 61%) and Germany (2012: approximately 33%; 2011: approximately 33%). 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 256 million (2011: EUR 205 million).

The book value of property, plant and equipment of which KPN is the lessor under operating lease programs amounted to EUR 454 million (2011: EUR 151 million). The increase in the book value of property, plant and equipment of which KPN is the lessor under operating lease programs is caused by introduction of mobile handsets leasing propositions in the Netherlands and Germany. The future minimum lease payments receivable related to these operating leases is EUR 148 million (2011: EUR 102 million) in total of which EUR 94 million (2011: EUR 64 million) matures within one year and the remaining EUR 54 million (2011: EUR 38 million) matures within one to five years.

Sensitivity analysis

At the end of 2012 the book value for Copper and Fiber cables is EUR 2,124 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 2023, if the useful life was set at 20 years, the depreciation charge for 2013 would be EUR 57 million lower. For the Fiber cables KPN estimates that the current useful life is 30 years. If the useful life was set at 40 years, the depreciation charge for 2013 would be EUR 11 million lower.

[12] Investments in associates and joint ventures

Amounts in millions of EUR	2012	2011
Balance as of January 1	261	284
Additions	88	3
Income from associates and joint ventures	-13	-24
Dividend received	-1	-1
Other changes	-9	-1
Total changes	65	-23
Balance as of December 31	326	261

Reggefiber

KPN has a stake of 51% in Reggefiber Group B.V. ('Reggefiber'), a strategic partnership with Reggeborgh B.V. for the rollout of the Fiber- to- the-Home network. Reggeborgh owns 49% of Reggefiber. 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.

In October 2012, the first call/put option under the amended arrangements vested upon reaching the milestone of 1.0 million Homes Connected. As a result of the exercise of this option, KPN acquired an additional 10% of the shares in Reggefiber, increasing its share to 51%, for an amount of EUR 99 million on November 8, 2012.

The details of the remaining call/put arrangement between KPN and Reggeborgh as at December 31, 2012, are as follows:

	Ownership stake	Option trigger	Exercise price	Conditions for exercise
Option 2	Additional 9% Leading to 60% ownership	Call/put vest earliest of: <ul style="list-style-type: none"> 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.

Notes to the Consolidated Statement of Financial Position continued

Book value

The book value of KPN's 51% share in Reggefiber as at December 31, 2012 amounted to EUR 293 million (2011: EUR 234 million), including EUR 131 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
Acquisition	74
Share in the 2012 results	-7
Other changes	-8
Balance as of December 31, 2012	293

In addition to the 51% share in Reggefiber, KPN provided shareholder loans to Reggefiber. These shareholder loans are recorded under loans to associates and joint ventures for EUR 227 million (2011: EUR 127 million). 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 278 million (2011: EUR 203 million), which is recorded as a liability. The change in the fair value of the call/put arrangements during the year of EUR 100 million (2011: EUR 55 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 2012, Reggefiber had capital commitments (100%) for EUR 285 million (2013: EUR 261 million and 2014: EUR 24 million). The total capital commitments as at December 31, 2011 amounted to EUR 223 million. For rental and operational lease contracts Reggefiber had commitments for EUR 15 million as at December 31, 2012 (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 2011, Reggefiber's commitments under rental and operational lease contracts were EUR 15 million.

Other

As of December 31, 2012, investments in associates and joint ventures also include NTT Data Getronics (30%) for an amount of EUR 16 million (2011: EUR 16 million).

In the table below, the amounts of certain financial data with respect to Reggefiber and the other joint ventures and associates are summarized, based on KPN's share.

Amounts in millions of EUR	Reggefiber	Other	December 31, 2012	December 31, 2011
Current assets	57	84	141	56
Non-current assets ¹	708	17	725	464
Current liabilities	63	75	138	68
Non-current liabilities	453	45	498	256
Total revenues	37	127	164	71
Total operating expenses	-10	-127	-137	-59
Profit or loss after taxes	-7	-6	-13	-24

1) Including EUR 47 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	2012	2011
Balance as of January 1	261	242
Current portion of non-current receivables	4	-6
Gross	265	236
Additions	127	44
Redemptions	-16	-15
Impairment	-1	-
Total gross at December 31	375	265
Current portion of non-current receivables	-84	-4
Balance as of December 31	291	261

Additions comprised among others EUR 80 million of accrued income previously reported as deferred income, mainly classified as current portion of non-current receivables.

The balance as of December 31 included the following:

Amounts in millions of EUR	2012	2011
Accrued income and prepayments	130	107
Receivables from financial leases	2	3
Pension assets [22]	137	134
Other loans	22	17
Total	291	261

[..] 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 3 million (2011: EUR 5 million), which fully matures within five years. The short-term portion of the financial leases amounting to EUR 1 million (2011: EUR 2 million) is classified as current trade and other receivables.

In 2012, an amount of EUR 137 million (2011: EUR 134 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, 2012	December 31, 2011
Resources, parts, tools and measuring instruments	65	68
Finished goods	70	81
Total inventories, gross	135	149
Provision for obsolescence	-24	-26
Total inventories, net	111	123

The fair value of the inventories does not materially differ from the amount as recorded as at December 31, 2012.

During the year 2012 a net amount of EUR 6 million (2011: EUR 13 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 10 million at the end of 2012 (2011: EUR 14 million).

Notes to the Consolidated Statement of Financial Position continued

[15] Trade and other receivables

Amounts in millions of EUR	December 31, 2012	December 31, 2011
Trade receivables	1,045	1,022
Social security and other taxes	36	35
Other receivables	157	51
Accrued income	318	391
Prepayments	140	108
Total	1,696	1,607

Amounts in millions of EUR	December 31, 2012	December 31, 2011
Trade receivables – gross	1,195	1,183
Provision for doubtful trade receivables	-150	-161
Total	1,045	1,022

The carrying amounts of trade and other receivables approximate their fair value. Trade and other receivables are non-interest bearing.

The movements in the provision for doubtful trade receivables are as follows:

Amounts in millions of EUR	2012	2011
Balance as of January 1	161	148
Addition through income statement	48	20
Usage	-49	-14
Other movements	-3	9
Transfer to assets held for sale	-7	-2
Balance as of December 31	150	161

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, 2012		December 31, 2011	
	Gross	Provision	Gross	Provision
Consumer Mobile	47	11	54	8
Consumer Residential	49	11	27	8
Business Segment	183	12	140	8
Corporate Market	175	8	194	7
NetCo Segment	123	18	119	44
iBasis Segment	212	4	193	4
Germany Segment	285	64	325	57
Belgium Segment	101	16	100	21
Other	20	6	31	4
Total	1,195	150	1,183	161

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 Mobile 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, 2012, was EUR 175 million (2011: EUR 194 million) for which a provision of EUR 8 million (2011: EUR 7 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, 2012		December 31, 2011	
	Gross	Provision	Gross	Provision
Amounts undue	646	2	595	1
Past due 0-30 days	161	5	184	13
Past due 31-60 days	48	6	39	4
Past due 61-90 days	33	3	42	3
Past due 91-180 days	138	13	119	15
Past due 181-270 days	21	13	23	10
Past due 271-360 days	18	10	15	7
More than one year	130	98	166	108
Total	1,195	150	1,183	161

[16] Available-for-sale financial assets

Amounts in millions of EUR	2012	2011
Balance as of January 1	48	53
– of which: current	–	–
Impairment recorded in the Income Statement	-16	-3
Fair value adjustment recorded in other comprehensive income	3	-2
Balance as of December 31	35	48
– of which: current	–	–

In 2012 and 2011, no significant transactions took place.

KPN holds a 5% equity share in Jasper Wireless amounting to EUR 10 million (2011: EUR 7 million), 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 11% in CompuCom, a privately held IT outsourcing company in North America, in total amounting to EUR 25 million (2011: 41 million). The equity stake in CompuCom consists of ordinary shares and preferred shares. KPN cannot sell its shares in CompuCom without the consent of the other investors.

In 2012 a dividend payment of EUR 18 million took place which caused a decline of the fair value of Compucom of EUR 13 million.

In 2011, an amount of EUR 10 million was removed from equity and recognized as an impairment loss.

[17] Cash and cash equivalents

Cash and cash equivalents as at December 31, 2012, were for more than 98% (2011: 97%) denominated in the functional currency of the related entities. The effective interest rate on the outstanding bank deposits as at December 31, 2012 was approximately 0.01%.

On December 31, 2012, KPN's total outstanding bank guarantees amounted to EUR 161 million (2011: EUR 71 million), which were issued in the ordinary course of business. The increase in 2012 was mainly related to a bank guarantee for the Dutch State for the Dutch spectrum auction. This bank guarantee ended following the payment of the frequency licences on January 9, 2013.

All cash and cash equivalents are at free disposal to KPN within three months.

Amounts in millions of EUR	December 31, 2012	December 31, 2011
Cash	883	644
Short-term bank deposits	403	346
Total cash and cash equivalents	1,286	990

Net cash and cash equivalents

As of December 31, 2012, KPN's net cash and cash equivalents position amounted to EUR 947 million (including EUR 343 million of bank overdrafts) as presented in the Cash Flow Statement:

Amounts in millions of EUR	December 31, 2012	December 31, 2011
Cash and cash equivalents	1,286	990
Cash classified as held for sale [18]	4	36
Bank overdraft	-343	-76
Net cash and cash equivalents	947	950

Notes to the Consolidated Statement of Financial Position continued

[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, 2011	57	16
Additions	218	192
Impairments	-1	-
Disposal	-50	-16
Balance as of December 31, 2011	224	192
Additions	13	5
Exchange rate difference	4	3
Disposal	-188	-168
Transfer	-25	-26
Balance as of December 31, 2012	28	6

The assets and the related liabilities of the above-mentioned businesses classified as held for sale at December 31 are specified as follows:

Amounts in millions of EUR	2012	2011
Intangible assets (including goodwill)	4	-
Property, plant and equipment	9	10
Current assets	15	214
Total assets held for sale	28	224
Provisions	-	20
Current liabilities	6	172
Total liabilities held for sale	6	192

In September 2012, KPN classified its investment in the Multiconnect business in Germany with a net book value of EUR 9 million as held for sale.

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. The disposal group remained held for sale as at December 31, 2011 and was subsequently sold in June 2012, refer to Note 2.

In December 2011, KPN classified an international part of Corporate Market 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. The disposal group remained held for sale as at December 31, 2011 and was subsequently sold in May 2012, refer to Note 2.

In December 2011, KPN sold and leased back a number of mobile towers. The first tranche had been completed in December 2011. The second tranche contained the mobile towers with a book value of EUR 5 million was classified as held for sale. The disposal group remained held for sale as at December 31, 2011 and was subsequently sold in January 2012, refer to Note 2.

[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, 2012, amount to EUR 1,762 million (2011: EUR 2,228 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, 2012, 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 (2011: EUR 7,416 million).

Other reserves

On page 121 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 ¹	Treasury shares reserve	Hedge reserve	Fair value reserve available for sale financial assets	Currency translation reserve	Total other reserves
Balance as of January 1, 2011	57,719,272	-646	-79	-8	24	-709
Sold (exercise options/shares) [3]	-959,658	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	12,401,139	-139	2	-	10	-127
Sold (exercise options/shares) [3]	-244,748	1	-	-	-	1
Purchased	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Addition (net)	-	-	-246	3	-	-238
Transfer to Statement of Income [6]	-	-	5	-	-	-
Exchange differences	-	-	-	-	3	3
Balance as of December 31, 2012	12,156,391	-138	-239	3	13	-361
- of which: to be cancelled	-	-	-	-	-	-
Total treasury shares	12,156,391	-	-	-	-	-

1) Adjusted numbers due to elimination of shares in lock-up period related to share based compensation.

[.] Bracketed numbers refer to the related notes.

Hedge reserve

Amounts in millions of EUR	December 31, 2012	December 31, 2011
Effective portion cash flow hedges	-253	73
Amortizable part [6]	-63	-69
Hedge reserve	-316	4
Tax effect	77	-2
Hedge reserve, net of tax	-239	2

Treasury shares and treasury shares reserve

Until 2011 KPN purchased 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 2012, no shares were purchased under the share repurchase program. During the year, 244,748 shares were sold.

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

KPN had renewed 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 sell to 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 IFRS 7.

[20] Non-controlling interests

In 2012, KPN acquired a stake in GroupIT B.V. of 12.5 % at fair value with a right to acquire the remaining stake and thus obtained the control over GroupIT B.V..

Notes to the Consolidated Statement of Financial Position continued

[21] Borrowings

The carrying amounts and fair value of the borrowings at December 31 are as follows:

Amounts in millions of EUR	December 31, 2012		December 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Eurobonds EUR	10,007	10,742	9,252	10,065
Eurobonds GBP	2,151	2,407	2,100	2,308
Global Bonds USD	1,089	996	1,122	1,000
Financial lease obligations	256	233	149	117
Bank overdraft	343	343	76	76
Credit facility	–	–	400	400
Other loans	50	52	–	–
Total borrowings	13,896	14,773	13,099	13,966
– of which: current	1,527	1,553	1,458	1,488
– of which: non-current	12,369	13,220	11,641	12,478

The fair value for Euro and Global Bonds is based on the listed price of the bonds.

KPN's weighted average interest yield on the borrowings outstanding before swaps at December 31, 2012, was 5.3% (2011: 5.5%). The weighted average interest yield on borrowings outstanding after swap was 5.1% (2011: 5.3%).

For further details on borrowings, including a redemption schedule, reference is made to Note 29 'Financing Risk Management – Liquidity Risk'.

Bonds

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

On August 1, 2012, KPN issued a EUR 750 million Eurobond with a 8.5-year maturity and a fixed coupon of 3.25%.

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

On November 18, 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 15, 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.

All new bonds in 2012 and 2011 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, 2012, the financial lease obligations amounted to EUR 256 million. Refer to Note 29 for more information.

On September 13, 2012, KPN issued an EUR 50 million private placement (EUR Fixed Registered Note) with a maturity of 20 years.

Credit rating

KPN maintains credit ratings from Standard & Poors, Moody's and Fitch. Per December 31, 2012, KPN has a credit rating of Baa2 with rating under review for downgrade by Moody's, BBB with a credit watch negative by Standard & Poor's and BBB- with a stable outlook by Fitch. The table below shows the adjustments to the credit ratings during 2012 and 2011.

Credit rating agency	Rating as at 31.12.2012	Current outlook	Adjustments 2012	Adjustments 2011
Standard & Poor's	BBB	Credit watch negative	<ul style="list-style-type: none"> December 18: rating on credit watch negative November 21: outlook changed to negative from stable February 21: rating changed from BBB+ with stable outlook to BBB with stable outlook 	None
Moody's	Baa2	Rating under review for downgrade	<ul style="list-style-type: none"> December 18: rating under review for downgrade January 26: outlook on Baa2 rating changed to negative from stable 	None
Fitch	BBB-	Stable	<ul style="list-style-type: none"> December 17: rating changed from BBB with negative outlook to BBB- with stable outlook January 31: rating changed from BBB+ with stable outlook to BBB with negative outlook 	None

[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, 2012	December 31, 2011
Pension provisions	312	426
Provision for Social Plan 2001	2	15
Total	314	441

Pensions

The majority of KPN's employees in the Netherlands is covered by defined benefit plans. The majority of the employees outside the Netherlands is 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 most defined benefit plans.

The following table gives an overview of KPN's main defined benefit plans based on size and risk profile as at December 31, 2012:

Pension Plan	Characteristics	Funding	Minimum funding requirement
KPN PF (main plan)	<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.</p>	<p>This plan is funded externally with 'Stichting Pensioenfond KPN'. 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 this law and differs from the defined pension obligation as calculated under IFRS, among others due to different discount rates. When the coverage ratio is below approximately 105%, the Dutch funds are required to recover to this 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).</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.</p> <p>The retirement age is 65.</p>	<p>This plan is funded externally with 'Stichting Ondernemingspensioenfond KPN'.</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>	<p>For KPN PF and KPN OPF the additional contributions in the short term recovery plan is limited to EUR 390 million (subject to indexation since 2009) within this recovery period. The current short-term recovery period runs from 2009 to 2013 with quarterly additional contributions of EUR 19 million and EUR 1.5 million for KPN PF and KPN OPF respectively when the coverage ratio is below approximately 105%.</p>
Corporate Market NL SVG	<p>Plan participants accrue retirement benefits by means of an individual savings account.</p> <p>The retirement age is 67.</p>	<p>The individual savings accounts are externally funded in 'Stichting Voorzieningsfond Getronics' (SVG).</p> <p>For this scheme, contributions are made both by KPN and employees. The annual accrual of the individual savings account is based on a defined contribution scheme.</p>	<p>SVG has agreed with KPN that during the period 2010 to 2013, KPN can be required to provide additional lump sum payments of in total up to EUR 50 million for additional reserves, financing of guaranteed return on investments or to prevent a cut of benefits.</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>

Notes to the Consolidated Statement of Financial Position continued

Pension Plan	Characteristics	Funding	Minimum funding requirement
Getronics UK	The Getronics UK operations were divested in 2012. The closed and frozen defined benefit plan remained with KPN.	This defined benefit plan is funded externally in a trust.	In line with the requirements of the UK pension regulator, any deficit in the defined benefit plan must be recovered by means of monthly contributions determined every 3 years. As at December 31, 2012 the defined benefit plan was in deficit.
Getronics US	The Getronics US operations were divested in 2008. The closed and frozen defined benefit plans remained with KPN.	These defined benefit plans are funded externally in a trust.	Until the 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. As at December 31, 2012 the defined benefit plan was in deficit.

The balance sheet position of the defined benefit plans can be broken down as follows:

Amounts in millions of EUR	2012	2011
Defined benefit obligation – balance as of January 1	8,299	7,348
Service costs	99	93
Interest costs	312	341
Benefits paid	-251	-232
Employees' contribution	37	29
Past-service costs	–	-9
Transferred to held for sale	–	-40
Actuarial (gains)/losses	1,275	754
Exchange rate differences	–	15
Defined benefit obligation – balance as of December 31	9,771	8,299
– of which: funded plans	9,724	8,206
– of which: unfunded plans	47	93
Fair value of plan assets – balance as of January 1	7,224	6,632
Actual return on plan assets	877	562
Employer's contribution	329	243
Employees' contribution	37	29
Transferred to held for sale	–	-20
Benefits paid	-251	-232
Exchange rate differences	–	10
Fair value of plan assets – balance as of December 31	8,216	7,224
Benefit obligation in excess of plan assets	1,555	1,075
Unrecognized past service cost	-3	-4
Unrecognized gains/(losses)	-1,377	-779
Pension provisions (net)	175	292
– of which: funded plans	150	229
– of which: unfunded plans	25	63
– of which: classified as non-current liabilities [22]	312	426
– of which: classified as non-current assets [13]	137	134

Breakdown of non-current liabilities

Amounts in millions of EUR	2012	2011
KPN PF	124	222
KPN early retirement	17	55
Corporate Market NL SVG (main plan)	2	38
Getronics UK	66	32
Getronics US	57	37
Other	46	42
Total	312	426

Breakdown of non-current assets

Amounts in millions of EUR	2012	2011
KPN OPF	109	101
Other	28	33
Total	137	134

The total pension costs recognized for the years 2012 and 2011 were as follows:

Amounts in millions of EUR	2012	2011
Service costs	-99	-93
Interest costs	-312	-341
Expected return on assets	293	326
Other costs	-5	-6
Recognized actuarial losses/gains	-90	-12
Past service costs	-1	9
Curtailments/settlements	-	-
Total defined benefit plans	-214	-117
Defined contribution plans	-14	-13
Total pension costs	-228	-130

The key actuarial assumptions of KPN PF and the weighted average of the key actuarial assumptions of the other plans used in the calculation of the defined benefit obligations and pension cost for the subsequent year are as follows:

As a %	December 31, 2012		December 31, 2011	
	KPN PF	Other	KPN PF	Other
Discount rate	2.8	3.0	3.8	3.8
Expected salary increases	2.0	1.6	2.0	1.6
Expected return on assets	2.8	3.0	3.9	4.4
Expected benefit increases	1.3	0.8	1.5	1.0

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 250 corporate bonds in different industries.

For the year 2012, the expected return on assets was determined per asset category (i.e. equities, fixed-interest securities, real estate, hedge funds and commodities). The expected return on fixed-interest was derived from the actual interest rate on balance sheet date for similar interest bearing securities. The return on the other asset categories was derived from historic returns. As of January 1, 2013, under IAS 19R the expected return on plan assets is equal to the discount rate. The mortality assumptions in the Netherlands are based on the most recent GBM/GBV (2012–2062) prospective mortality table. For the other countries the most recent generally accepted mortality tables are applied.

Notes to the Consolidated Statement of Financial Position continued

Sensitivity analysis

In 2013, service costs will amount to approximately EUR 119 million for all defined benefit plans. The table below shows the approximate impact on service costs in 2013 if the key actuarial assumptions change by one percentage point:

Amounts in millions of EUR	Increase	Decrease
	by 1%	by 1%
Discount rate	-32	44
Expected salary increases	4	-5
Expected return on assets	not applicable	not applicable
Expected benefit increases	37	-29

The table below shows the approximate impact on the defined benefit obligation as at December 31, 2012, if the key actuarial assumptions change by one percentage point:

Amounts in millions of EUR	Increase	Decrease
	by 1%	by 1%
Discount rate	-1,596	1,984
Expected salary increases	145	-148
Expected return on assets	not applicable	not applicable
Expected benefit increases	1,835	-1,487

If more than one of the assumptions changes, 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. As the pension fund invests in market indices like MSCI, a minor part of these investments is related to KPN equities.

KPN PF

KPN PF is the largest plan (assets of EUR 5,891 million and benefit obligations of EUR 6,981 million at December 31, 2012). The Board of KPN PF determines the investment policies on the basis of the long-term goals of the fund. The investment policies apply in principle for the long-term but are evaluated annually.

The weighted average investment portfolio of KPN PF is as follows:

	Strategy as from 2013	Actual as per December 2012	Actual as per December 2011
Equities	39%	40%	35%
Fixed income	37%	39%	38%
Real estate	10%	8%	11%
Other	14%	13%	16%
Total	100%	100%	100%

The risk of a decrease in value of equity investments is partially hedged with put options on equities in developed markets. Currency risks on equities are in principle hedged. The interest rate risk is hedged for 50% with interest sensitive fixed income instruments and interest rate swaps. Also options on interest swaps are used to mitigate the interest rate risk. To mitigate the effects of rising inflation on the value of the fund's investments, part of the fixed income portfolio is invested in inflation linked bonds.

The investments of KPN's Dutch funds are reviewed daily by investment managers and on a monthly basis by the board of the pension funds.

Other plans

KPN's weighted average actual investment portfolio in other plans and countries at December 31, 2012, and 2011 is as follows:

	As per December 2012	As per December 2011
Equities	41%	38%
Fixed income	43%	43%
Real estate	5%	6%
Other	11%	13%
Total	100%	100%

Expected contributions and benefits

On the basis of the short term recovery plans for the period 2009 to 2013, KPN is required to contribute, besides the regular annual premium, EUR 19 million quarterly into KPN PF and EUR 1.5 million quarterly into KPN OPF plan if the coverage ratio of these plans is below approximately 105% as required by the Dutch pension regulator. These recovery payments are due on the first day of the second following quarter. The actual coverage ratios at December 31, 2012 were 103.5% for the KPN PF and 108.7% for KPN OPF.

In 2012, the total employer contributions and all benefit payments for unfunded plans amounted to EUR 343 million, consisting of EUR 182 million for defined benefit premiums (including a prepayment of EUR 27 million for 2013), EUR 100 million for recovery payments for KPN PF and KPN OPF (including a prepayment of EUR 19 million which was due in Q1 2013), EUR 14 million for defined contribution plans and EUR 47 million benefit payments for unfunded plans.

For 2013, total employer contributions of EUR 190 million are expected, excluding recovery payments. Based on the coverage ratio at December 31, 2012, a recovery payment of EUR 19 million is required in Q2 2013. Whether or not further recovery payments for KPN PF and KPN OPF or guarantee payments for the Corporate Market NL SVG plan are required in 2013 depends on the development of the coverage ratios.

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	2012	2011	2010	2009	2008
DBO	9,771	8,299	7,348	6,534	5,851
Plan assets	8,216	7,224	6,632	6,076	5,234
Deficit	1,555	1,075	716	458	617
Experience gains/(losses) arising on liabilities	10	34	29	-75	210
Experience gains/(losses) arising on plan assets	589	242	241	466	-1,306

Provision for Social Plan 2001

Amounts in millions of EUR	2012	2011
Balance as of January 1	15	48
Withdrawals	-11	-28
Recognized actuarial (gains)/losses through the Income Statement	-2	-5
Balance as of December 31	2	15

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 plan.

Notes to the Consolidated Statement of Financial Position continued

[23] Provisions for other liabilities and charges

Amounts in millions of EUR	December 31, 2012	December 31, 2011
Restructuring provision	162	102
Asset retirement obligations	303	352
Other provisions	108	72
Balance	573	526
– of which: non-current	387	397
– of which: current	186	129

Restructuring provision

The restructuring provision consists of the following components:

Amounts in millions of EUR	2012	2011
Personnel (redundancy obligations)	111	98
Contractual obligations	51	4
Restructuring provision	162	102

Of the restructuring provision an amount of EUR 131 million has a term of less than one year (2011: EUR 100 million), EUR 31 million of provisions has a term of between one and five years (2011: EUR 2 million).

The movements in the restructuring provision are as follows:

	Personnel	Contractual obligations	Total
Balance as of January 1, 2011	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
Additions / Releases	123	50	173
Usage	-110	-3	-113
Balance as of December 31, 2012	111	51	162
– of which: current portion	111	20	131

Personnel (redundancy obligations)

During 2012 and 2011, KPN continued to substantially reduce its staff. In 2012 the restructuring provision relates to the continued restructuring based on the current strategy and amounted EUR 111 million as at December 31, 2012.

The total amount of additions and releases of personnel provision comprised a release of EUR 70 million related to redundancy program at Corporate Market in 2011 and an additional charge to this program of EUR 76 million in 2012.

Asset retirement obligations

Amounts in millions of EUR	2012	2011
Balance as of January 1	352	340
Additions	1	9
Usage	-23	-2
Changes in assumptions	-17	-
Release	-13	-4
Interest	6	9
Transferred to held for sale	-	-1
Other movements	-3	1
Balance as of December 31	303	352
<i>– of which: current</i>	3	4

The asset retirement obligations at December 31, 2012, amounted to EUR 303 million (2011: EUR 352 million), of which EUR 53 million (2011: EUR 22 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 2012 mainly relate to a change in discount rate and estimated cost of removal. The discount rate for 2012 is 2.1% (2011: 2.8%).

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, 2012.

Other provisions

The movements in other provisions are as follows:

Amounts in millions of EUR	2012	2011
Balance as of January 1	72	110
Additions	53	-7
Usage	-17	-30
Transferred to held for sale	-	-3
Other movements	-	2
Balance as of December 31	108	72
<i>– of which: current</i>	52	25

Other provisions relates to various risks and commitments, claims and litigations and onerous contracts, refer to Note 31. Of the Other provisions, approximately EUR 52 million had a term of less than one year (2011: EUR 25 million), EUR 27 million a term of between one and five years (2011: EUR 17 million) and EUR 29 million had a term of more than five years (2011: EUR 30 million).

[24] Other payables and deferred income (non-current)

Amounts in millions of EUR	December 31, 2012	December 31, 2011
Non-interest bearing accruals	32	37
Deferred income	60	74
Phantom stock liability	-	6
Other payables	30	38
Total	122	155

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, 2012	December 31, 2011
Trade payables	1,402	1,423
Deferred income	598	601
Accrued interest	380	353
Accrued expenses	1,151	1,042
Social security and other taxes payable	286	294
Other payables	40	91
Total	3,857	3,804

Notes to the Consolidated Statement of Financial Position continued

[26] Derivative financial instruments

Derivative financial instruments (valued at fair value) can be broken down as follows:

Amounts in millions of EUR	December 31, 2012	December 31, 2011
Assets	233	172
Non-current	233	169
Current	–	3
Liabilities	-474	-229
Non-current	-458	-229
Current	-16	–
Total derivative financial instruments	-241	-57
– of which: designated in a hedge relationship	62	132
– of which:: call option GroupIT B.V.	5	–
– of which: not designated in a hedge relationship	-30	11
– of which: forward exchange contracts	–	3
– of which: call/put arrangements Reggefiber Group B.V. (net)	-278	-203

In 2012 and 2011, no gains or losses from ineffectiveness of the cash flow hedges were recognized in the Consolidated Statement of Income. The ineffective portion of the fair value hedges during 2012 recognized in the Consolidated Statement of Income was nil (2011: EUR 36 million loss).

In 2012, the call/put arrangements regarding Reggefiber Group B.V. are included in derivative financial instruments for a net liability of EUR 278 million (2011: EUR 203 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 rate 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, 2012 and December 31, 2011 is presented below (in millions):

Nominal	Currency	Maturity date	Pay	Receive	Hedge accounting	Fair value in Euro ¹
2012						
275	GBP	March 18, 2016	Fixed	Fixed	Cash Flow	13
250	GBP	May 29, 2019	Fixed	Fixed	Cash Flow	29
400	GBP	November 11, 2026	Fixed	Fixed	Cash Flow	-1
850	GBP	September 17, 2029	Fixed	Fixed	Cash Flow	-19
1,000	USD	October 1, 2030	Fixed	Fixed	Cash Flow	-146
Total						-124
2011						
275	GBP	March 18, 2016	Fixed	Fixed	Cash Flow	15
250	GBP	May 29, 2019	Fixed	Fixed	Cash Flow	35
400	GBP	November 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

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 an 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 an 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 an 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 an 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 reset clauses at pre-agreed dates, in order to mitigate counterparty exposure during the life of the swap. These reset clauses may result in 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 3-month Euribor using fixed-to-floating interest swaps. At inception, the first two years have been fixed with a floating-to-fixed interest rate swap. In subsequent quarters, KPN entered into additional forward starting swaps to maintain a 2-year horizon of fixed interest rates.

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 above mentioned floating-to-fixed swaps. These swaps are held at fair value through profit and loss, designated upon initial recognition. Until 31 December 2012, KPN booked a loss in the income statement of EUR 40 million (2011: EUR 11 million gain).

Notes to the Consolidated Statement of Financial Position continued

An overview of the interest-rate swaps at December 31, 2012 and December 31, 2011 is presented below (in millions unless stated otherwise).

Nominal	Currency	Maturity date	Pay	Receive	Hedge accounting	Fair value in EUR
2012						
1,000	EUR	September 21, 2020	Floating	Fixed	Fair Value	79
500	EUR	October 4, 2021	Floating	Fixed	Fair Value	47
700	EUR	September 30, 2024	Floating	Fixed	Fair Value	60
Total						186

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
2012						
1,000	EUR	September 21, 2015	Fixed	Floating	None	-14
700	EUR	September 30, 2015	Fixed	Floating	None	-9
500	EUR	October 4, 2015	Fixed	Floating	None	-7
Total						-30

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 2012	Fair value 2012	Contract volume 2011	Fair value 2011
Term shorter than 1 year	72	-	60	3
Term longer than 1 year	-	-	2	-
Total	72	-	62	3

In 2012, the cash flow hedge reserve decreased by EUR 310 million before tax (2011: increase of EUR 109 million) resulting from changes in the valuation of the USD and GBP cross currency swaps. As KPN applies hedge accounting, any change in swap value will result in an opposite movement in the cash flow hedge reserve, such that there is no income impact. The change in 2012 is caused by the significant drop of the Euro interest rates compared to GBP and USD interest rates.

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 2012, the amount of acquisitions of subsidiaries, associates and joint ventures in the Consolidated Statement of Cash Flows mainly consisted of the acquisition of an additional 10% of the shares in Reggefiber for EUR 99 million (see also Note 12), the acquisition of Reggefiber Wholesale and various ISPs from Reggefiber and Reggeborgh for EUR 166 million and earn out payments for EUR 37 million (see also Note 30).

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 2012, disposals of subsidiaries, associates and joint ventures mainly relate to the net proceeds from the sale of part of the business of SNT Inkasso in Germany (EUR 22 million) and the sale of KPN Spain (EUR 24 million) less the net negative proceeds from the sale of Getronics International (EUR 26 million) and various other disposals (EUR 12 million).

In 2012, investments in intangible assets (excluding software) mainly related to the acquisition of licenses for additional spectrum.

Loans to associates and joint ventures in 2012 and 2011 mainly concerned shareholder loans provided to Reggefiber (see also Note 12).

[28] Net Cash flow used in financing activities

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

On September 13, 2012, KPN issued a EUR 50 million private placement (EUR Fixed Registered Note) with a maturity of 20 years.

On August 1, 2012, KPN issued a EUR 750 million Eurobond with a 8.5-year maturity and a fixed coupon of 3.25%.

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

On November 18, 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 15, 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.

KPN had no drawings on the Credit Facility as of December 31, 2012 (December 31, 2011: drawings of EUR 400 million).

OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[29] Capital and Financial Risk Management

Capital management

Financing policy

KPN is committed to strive for the right balance between a prudent financing policy, investments in the business and shareholder remuneration. KPN seeks to ensure a sustainable and prudent financial framework and is committed to an investment grade credit profile.

On February 5, 2013, KPN announced a EUR 4 billion rights issue, in order to align its financial position with its strategy. The transaction will strengthen KPN's balance sheet and is intended to provide a stable financial position in the coming years. The proceeds will increase KPN's financial and strategic flexibility and will be used to continue to invest in KPN's operations and reduce KPN's net debt level. The capital raise would lower KPN's reported net debt / EBITDA at the end of 2012 by approximately 0.9x. The rights issue is subject to shareholder approval.

On February 20, 2013, KPN announced that América Móvil committed, subject to certain conditions, to vote in favour of certain resolutions to be put before the general meeting of shareholders. The capital raise to be supported by América Móvil will consist of a EUR 3 billion rights issue and, in addition, issuance of hybrid capital instruments which are expected to receive partial equity recognition. Through this combination KPN intends to achieve the targeted EUR 4 billion equity equivalent capital.

Amounts in millions of EUR	2012	2011
Total borrowings (carrying values, excluding derivatives)	13,896	13,099
Difference between carrying value and nominal value	-573	-345
Total borrowings (nominal values, see breakdown below)	13,323	12,754
Cash and cash equivalents (including held for sale)	1,290	1,026
Net Debt	12,033	11,728
EBITDA (definition for Net Debt / EBITDA calculation)	4,403	5,132
Net Debt / EBITDA	2.7x	2.3x

Breakdown of total borrowings (nominal values)	2012	2011
Bonds	12,672	12,129
Financial lease obligations	256	149
Bank overdraft	343	76
Credit Facility	0	400
Other	52	-
Total borrowings	13,323	12,754

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.

Shareholder remuneration policy

KPN is committed to strive for the right balance between a prudent financing policy, investments in the business and shareholder remuneration. Following an adjustment to its dividend outlook in July and December 2012, KPN paid a total dividend of EUR 0.12 per share over 2012 and the dividend for 2013 and 2014 has been adjusted to EUR 0.03 per share. Dividend per share is expected to grow after 2014, subject to operational performance and financial position. During 2012, KPN did not execute a share repurchase program, nor did it return excess cash to shareholders in another way.

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. During 2011 and 2012, various 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, 2012		December 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Fair value through profit and loss:				
Derivatives – non-current [26]	233	233	169	169
Derivatives – current [26]	–	–	3	3
Loans and receivables:				
Non-current receivables from financial leases [13]	2	2	3	3
Loans to associates and joint ventures [12]	227	227	127	127
Trade receivable [15]	1,045	1,045	1,022	1,022
Other receivables [15]	157	157	51	51
Cash and cash equivalents [17]	1,286	1,286	990	990
Subtotal	2,950	2,950	2,365	2,365
Available for sale financial assets [16]	35	35	48	48
Total	2,985	2,985	2,413	2,413
Financial liabilities				
Fair value through profit and loss:				
Derivatives – non-current [26]	458	458	229	229
Derivatives – current [26]	16	16	–	–
Subtotal	474	474	229	229
Financial liabilities measured at amortized costs:				
Borrowings [21]	13,896	14,773	13,099	13,966
Trade payables [25]	1,402	1,402	1,423	1,423
Other payables and accrued expenses and interest [25]	1,571	1,571	1,486	1,486
Subtotal	16,869	17,746	16,008	16,875
Total	17,343	18,220	16,237	17,104

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

The following table presents the Group's financial assets and liabilities that are measured at fair value at December 31, 2012.

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)	–	42	–	42
Derivatives (interest rate swap)	–	186	–	186
Other derivatives	–	–	5	5
Available-for-sale financial assets:				
Listed securities	9	–	–	9
Unlisted securities	–	–	26	26
Total assets	9	228	31	268
Liabilities				
Financial liabilities at fair value through profit and loss:				
Derivatives (cross currency interest rate swap)	–	166	–	166
Derivatives (interest rate swap)	–	30	–	30
Other derivatives [12]	–	–	278	278
Total liabilities	–	196	278	474

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

Other Notes to the Consolidated Financial Statements continued

The following table presents the Group's financial assets and liabilities that were measured at fair value at December 31, 2011.

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)	–	158	–	158
Derivatives (interest rate swap)	–	11	–	11
Other derivatives [12]	–	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 (cross currency interest rate swap)	–	26	–	26
Other derivatives [12]	–	–	203	203
Total liabilities	–	26	203	229

[..] 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. KPN has its derivative instruments outstanding with financial institutions that had a credit rating of A3 or higher with Moody's at December 31, 2012.

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 mainly 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 rates, 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 278 million (liability) as at December 31, 2012 (2011: 203 million). The change in value during the year of EUR 100 million is recorded in the consolidated statement of income as a loss under 'other financial results'. In November 2012, the first option was exercised, resulting in a redemption of the recorded liability of EUR 25 million. In case of a 5%-point lower expected penetration rate, ceteris paribus, the value of the call/put arrangement would have been approximately EUR 62 million higher as per December 31, 2012. 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	2012	2011
Balance as of January 1	203	148
Losses recognized in profit or loss [12]	100	55
Redemption	-25	–
Balance as of December 31	278	203

[..] 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.

KPN sets limits for the maximum exposure per counterparty and investment periods, which are primarily based on minimum credit ratings. These policies have been reviewed and updated in 2012, following a large number of counterparty downgrades mid-2012. It is KPN's policy to invest cash balances with counterparties with a minimum credit rating equivalent to A2 at Moody's. Cash balances used for working capital purposes can also reside at (local) banks with lower credit ratings. It is KPN's policy to only engage into derivative transactions with counterparties with a minimum credit rating equivalent to A2 at Moody's.

Based on the revised counterparty 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. A substantial part of the cash balances at year end 2012 were invested at institutions with a credit rating of A3 at Moody's or stronger. In addition, KPN invested its cash balances in instruments with high liquidity.

During 2012 and 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.

Credit risk on trade receivables is controlled based on restrictive policies for customer 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 customer 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, 2012, 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 2,985 million at December 31, 2012, and EUR 2,413 million at December 31, 2011).

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 2017 with more than 14 banks, all of which have a rating of Baa2 or higher with Moody's as at December 31, 2012.

Other Notes to the Consolidated Financial Statements continued

The table below provides a maturity analysis of the financial liabilities based on the remaining contractual maturities as of December 31, 2012.

Amounts in millions of EUR	Borrowings				Derivatives ¹		Trade and other payables and accrued expenses	Total
	Bonds and Loan ¹	Interest on Bonds and Loans	Financial lease obligations	Other Debt ¹	Derivatives inflow (including interest)	Derivatives outflow (including interest)		
2013	1,085	671	99	345	-240	207	2,593	4,760
2014	1,400	625	65	161	-240	200	–	2,211
2015	1,000	547	12	–	-237	184	–	1,506
2016	1,262	507	11	–	-573	510	–	1,717
2017	1,000	428	9	–	-217	165	–	1,385
2018 and subsequent years	7,096	2,677	60	647	-4,628	4,281	–	10,133
Contractual cashflows	12,843	5,455	256	1,153	-6,135	5,547	2,593	21,712

1) Including the redemptions on the bank overdraft facilities and the Reggefiber call/put arrangements for the maximum cash out. The timing of the cash out regarding the Reggefiber call/put options as shown above is an indicative as the timing of the exercise of these options is uncertain. See Note 12 for an explanation of the Reggefiber option triggers and the related cash flows. At December 31, 2012 the Reggefiber call/put arrangements were valued at a negative amount of EUR 278 million and included in the balance sheet under derivative financial instruments (see Note 26).

The present value of the financial lease obligations amount to EUR 256 million at December 31, 2012 (2011: EUR 149 million). The financial lease obligations primarily include lease obligations for buildings leased back by KPN (see also Note 11) and handsets in Germany. 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, 2011.

Amounts in millions of EUR	Borrowings				Derivatives		Trade and other payables and accrued expenses	Total
	Bonds and Loans	Interest on Bonds and Loans	Financial lease obligations	Other Debt ¹	Derivatives inflow (including interest)	Derivatives outflow (including interest)		
2012	957	671	28	175	-267	234	2,556	4,354
2013	1,085	623	16	–	-261	234	–	1,697
2014	1,400	565	12	161	-235	209	–	2,112
2015	1,000	487	12	–	-235	209	–	1,473
2016	1,254	447	12	400	-564	538	–	2,087
2017 and subsequent years	6,519	2,754	69	647	-4,810	4,593	–	9,772
Contractual cashflows	12,215	5,547	149	1,383	-6,372	6,017	2,556	21,495

1) Including redemptions on the Credit Facility in 2016 and the Reggefiber call/put arrangements for the maximum cash out and bank overdraft. The timing of the cash out regarding the Reggefiber call/put options as shown above is an indicative as the timing of the exercise of these options is uncertain. See Note 12 for an explanation of the Reggefiber option triggers and the related cash flows. At December 31, 2011 the Reggefiber call/put arrangements were valued at a negative amount of EUR 203 million and included in the balance sheet under derivative financial instruments (see Note 26).

Part of KPN's swap portfolio contains reset clauses at pre-agreed dates, in order to mitigate counterparty exposure during the life of the swap. These reset clauses may result in 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 2012

As of December 31, 2012, KPN's net cash and cash equivalents position amounted to EUR 947 million (including EUR 4 million of cash classified as held for sale and EUR 343 million in non-netted notional cash pools). Due to German capital maintenance rules, KPN is committed to keep certain funds available at E-Plus. In principle, net cash and cash equivalents are at disposal to KPN on a group level, except for limited amounts of cash held at local subsidiaries.

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 replaced 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.

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

As of December 31, 2012, KPN had no drawings on its credit facility (December 31, 2011: EUR 400 million).

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

Overdraft facilities

During 2012, KPN had four uncommitted overdraft facilities with four banks of EUR 50 million each. The overdraft facilities may be cancelled at any time and do not have a specified maturity date. In 2012 and 2011, KPN drew on these facilities from time to time. As of December 31, 2012, and 2011, 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 2012. 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, 2012, 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 10.9 billion at December 31, 2012, 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, if 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 (if 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 Euro. 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 consist 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 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.

Other Notes to the Consolidated Financial Statements continued

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, 2012, more than 98% of cash and cash equivalents was denominated in the functional currency of the related entities. At December 31, 2012, more than 93% of the net amount of trade receivables and more than 94% of the amount of 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 3-month Euribor using fixed-to-floating interest swaps. The first two years have been fixed with a floating-to-fixed interest rate swap. In subsequent quarters, KPN entered into additional forward starting swaps to maintain a 2-year horizon of fixed interest rates.

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, 2012, approximately all of KPN's interest-bearing gross debt including the credit facility and excluding Bank overdraft was at fixed interest rates (2011: 96%). 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 IAS 39.

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 58 million at December 31, 2012 (2011: EUR 74 million) (see Note 31 'Commitments, Contingencies and legal proceedings' section purchase commitments').

Sensitivity analysis

As of December 31, 2012, 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 (2011: none) because of the outstanding cash and cash equivalents which also carry a floating interest.

Cash flow hedges

As of December 31, 2012, 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 on 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, 2012:

Impact hedge reserve amounts in millions of EUR	Change	2012	2011
Cash flow hedges			
Changes in EUR, GBP and USD interest rates	+2%-point	-5	-9
	+1%-point	-3	-5
	-1%-point	6	7
Changes in EUR/USD currency rate and EUR/GBP currency rate	+20%	254	260
	+10%	138	142
	-10%	-169	-173
	-20%	-380	-390

Prospective effectiveness testing indicates that all cash flow hedges are expected to be highly effective. As a consequence, the expected impact on the income statement is immaterial.

Fair value hedges

As of December 31, 2012, 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 from fixed rate 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, since 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, 2012, KPN carried out a sensitivity analysis with regard to the 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 millions of EUR	Change	2012	2011
Interest rate swaps (2-year floating-fixed)			
Changes in EUR interest rates	+2%-point	81	71
	+1%-point	41	36
	-1%-point	-35	-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

Significant changes in consolidation 2012

In April 2012, KPN acquired 100% of the shares of Lijbrandt Telecom Holding B.V., Glashart Media B.V., ISP Fabriek and Reggefiber Wholesale from Reggefiber for EUR 123 million. The acquisitions strengthen KPN's commitment to a national roll-out of a fibre to the home ("FtTH") network and allow Reggefiber to focus solely on the roll-out of FtTH and to operate an open access passive FtTH network.

The following table summarizes the consideration paid for aforementioned entities, the fair value of assets acquired and liabilities assumed at acquisition date.

Recognised amounts of identifiable assets acquired and liabilities assumed	
Tangible fixed assets [11]	73
Customer relationships (included in intangibles) [10]	18
Trade name (included in intangibles) [10]	3
Net tangible non-operating assets	4
Net working capital	2
Deferred tax liabilities [7]	-4
Total identifiable net assets	96
Goodwill	23
Consideration paid	119
Net cash and cash equivalents acquired	4
Net cash outflow	123

Reggefiber is a passive operator that implements a national roll-out of a fiber to the home ("FtTH") network. In the past it also started active operations, in the areas that could not yet be serviced by KPN's ISPs. Management of KPN indicated that the main reasons for acquiring the Reggefiber Wholesale were to increase its homes activated base and to expand its service area.

Other changes in consolidation 2012

In September 2012 KPN entered into a strategic partnership with GroupIT B.V. (RoutIT) and acquired a stake of 12.5% with a right to the remaining stake. The acquisition did not have a significant impact on the financial position, income and cash flows of KPN.

In October 2012, KPN acquired 100% of the shares of FtTH service providers Edutel, XMS, KickXL and Concepts ICT from Reggeborgh. The acquisition did not have a significant impact on the financial position, income and cash flows of KPN.

The purchase price and the allocated fair values of all acquisitions in 2012 have been determined on a provisional basis.

If the acquisitions had occurred on January 1, 2012, KPN's estimated consolidated revenues would have been approximately EUR 45 million higher. Profit for the year would have been approximately EUR 5 million lower.

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.

Other Notes to the Consolidated Financial Statements continued

[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, 2012	Total December 31, 2011
Capital and purchase commitments	3,287	239	31	3,557	1,972
Rental and operational lease contracts	527	1,029	928	2,484	2,222
Guarantees	88	199	64	351	251
Other	12	1	1	14	15
Total commitments	3,914	1,468	1,024	6,406	4,460

Capital and purchase commitments

Capital and purchase commitments contain among others acquired licenses of spectrum 4G LTE, 3G and 2G in the amount of EUR 1,352 million which is considered a contingent commitment since delivery and payment will have taken place in January 2013.

Rental and operational lease contracts

For buildings, the majority of contracts included 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 included 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 136 million (2011: EUR 185 million), which relate to subleases of buildings, site sharing arrangements and lease handsets in Germany.

The total net costs of operating leases and rental contracts totalled EUR 549 million in 2012 (2011: EUR 484 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 15 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 72 other projects. However, an additional condition regarding the repayment compared to the other 15 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 2012 the prepaid fees and accrued interest amounted to EUR 31 million (2011: EUR 20 million).

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 on-net-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 preliminary report of October 2, 2009, the court experts concluded that Proximus had indeed abused its dominance and that, for the period 1999-2004, this abuse had resulted in damages of EUR 824m for KPN Group Belgium (BASE) and of EUR 357m for Mobistar. In a second preliminary report of December 9, 2010, the damages for KPN Group Belgium (BASE) were increased to EUR 1,329m and for Mobistar to EUR 510m. These amounts were exclusive of interest. Following the publication of the 2nd preliminary report, Proximus requested the court to remove the experts from the case arguing that the experts are biased and/or incompetent. In first instance, the court denied said request, but in appeal it decided to remove the experts from the case. As a result hereof, a new expertise will have to be started. On January 2, 2012, Proximus has also appealed the original decision of the Commercial Court of 2007.

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 wilful 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 at request of a landlord. Although KPN currently records a provision for its future obligations to dismantle and remove certain other elements of its network, such as technical buildings, towers, and rooftop equipment, KPN has determined no such provision is appropriate for installed fiber cables, given that the date when such cables may be deemed idle is uncertain.

In KPN's judgment, it has not been able to make a reliable estimate of the impact of such obligations, and no provisions have been made.

Legal proceedings

KPN is involved in a number of legal proceedings that have arisen in the ordinary course of its business. Save as discussed below, there are no governmental, legal or arbitration proceedings which may have a significant effect on the financial position or profitability of KPN. The outcome of legal proceedings, however, can be extremely difficult to predict with certainty, and KPN can offer no assurances in this regard. Below is a description of legal proceedings that KPN considers material.

KPNQwest

KPN is involved in several legal proceedings related to the bankruptcy of KPNQwest. On September 13, 2006, Citibank N.A. (Citibank) and Cargill Financial Markets Plc. (Cargill) served a writ of summons on KPN, seeking EUR 218.9 million, excluding interest and costs, from various former officers and former shareholders of KPNQwest, including KPN. Citibank and Cargill claim compensation for damages in relation to a EUR 525 million syndicated loan provided to KPNQwest in 2002 on the basis of alleged 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. The District Court of Amsterdam dismissed all the claims of Citibank and Cargill on April 25, 2012. Citibank and Cargill have appealed the decision, which remains pending.

On September 28, 2010, the bankruptcy trustees for KPNQwest served a writ of summons against multiple parties, including Qwest, KPN, the former CEO of KPNQwest and nearly all former members of the Supervisory Board of KPNQwest. The basis of the claim is that KPNQwest allegedly entered into transactions (among others with KPN) which did not serve a business purpose, incorrectly recorded turnover in relation to these and other transactions and thereby misled investors in and creditors of KPNQwest. According to the trustees, this constitutes mismanagement. The bankruptcy trustees are seeking to hold each of the defendants, including KPN as one of the shareholders of KPNQwest, severally liable for the damages that resulted from this alleged mismanagement. The bankruptcy trustees claim that the defendants, including KPN, shall be severally ordered to pay for the deficit in the estate. The bankruptcy trustees estimated that the deficit in the estate amounts to approximately EUR 4.2 billion. However, this amount includes intra-group creditors, as well as creditor claims that are disputed by the bankruptcy trustees. According to the bankruptcy trustees' latest bankruptcy report, the consolidated amount of the deficit in the estate amounts to EUR 2.1 billion. KPN is currently preparing its statement of defense.

Other Notes to the Consolidated Financial Statements continued

Reggefiber

In 2009, cable operators, Ziggo and UPC, as well as other telecommunications providers in the Netherlands, filed suit in the administrative District Court of Rotterdam (the Court), seeking to challenge the NMa's 2008 approval of KPN's entry into the Reggefiber joint venture. Plaintiffs claimed that by allowing the joint venture, competition in various fixed-line services, including fiber, cable and copper, would be restricted. In an interim ruling on November 18, 2010, the Court held that the NMa had provided insufficient evidence for part of its competition analyses. In particular, the NMa had not adequately demonstrated the potential effects on competition regarding non-price effects (such as the quality and roll-out of fiber) in its assessment or remedies. The Court then allowed the NMa to submit additional evidence and, after further consideration, it held on May 10, 2012 that the Reggefiber joint venture could continue despite its annulment of the NMa decision.

On June 15, 2012, Ziggo appealed the Court's decision to the Trade and Industry Appeals Tribunal (College van Beroep voor het bedrijfsleven (CBB)), claiming, among other things, that the Reggefiber joint venture should have been assessed in a second phase enquiry by the NMa to take into account the effects on the market as well as the effectiveness of the remedies. If the appeal is successful, the CBB could annul the NMa or Court decision or remand the matter to the Court or the NMa for further consideration which in turn could lead to the confirmation, dissolution or amendment of the Reggefiber joint venture. A decision by the CBB is expected sometime in 2013.

[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 shareholders

On June 28, 2012, América Móvil, S.A.B. de C.V. notified that they held 27.47% of the shares and voting rights related to KPN's ordinary share capital. To KPN's knowledge, no other shareholder owned 5% or more of KPN's outstanding shares as at December 31, 2012.

KPN did not enter into agreements with América Móvil which could have a material impact on KPN's 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 2012 with joint ventures and associated companies amounted to approximately EUR 66 million (2011: EUR 47 million) and the total value of purchase transactions amounted to approximately EUR 77 million (2011: EUR 37 million). In addition, KPN acquired 100% of the shares in Lijbrandt Telecom Holding B.V., Glashart Media B.V. and Reggefiber Wholesale B.V. from Reggefiber Group B.V., in which KPN holds 41% of the shares. Furthermore, in 2012 KPN acquired a further 10% share in Reggefiber Group B.V.

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 72 to 83 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 2012.

The total value of sales transactions by KPN in 2012 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 5 million (2011: EUR 32 million) and the total value of purchase transactions amounted to approximately EUR 15 million (2011: EUR 43 million), all in the ordinary course of business.

[33] Subsequent events

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

Following the announcement of KPN's Q4 2012 results, Moody's confirmed KPN's Baa2 credit rating on February 6, 2013, with a negative outlook.

On February 8, 2013, S&P downgraded KPN's credit rating to BBB- from BBB, with a stable outlook.

On February 20, 2013 KPN announced that agreement has been reached with its largest shareholder to support KPN in its intention to raise EUR 4bn equity capital. The capital raise to be supported by AMX will consist of a EUR 3bn rights issue and, in addition, issuance of hybrid capital instruments which are expected to receive partial equity recognition from the credit rating agencies. KPN and América Móvil ("AMX") have also signed an agreement setting out the long-term relationship between the two parties. A vote in favour of KPN's capital raise is subject, among other things, to the appointment of two individuals, designated by AMX, to KPN's Supervisory Board. The Annual General Meeting ("AGM") has been scheduled to take place on April 10, 2013.

[34] Segment reporting

Based on KPN's internal structure and internal reporting to the CEO the reportable segments are summarized below.

As from January 1, 2012, KPN adopted a new internal structure and changed the internal reporting accordingly. The following organizational changes were made:

- Consumer segment split into Consumer Mobile and Consumer Residential;
- NetCo ("W&O") and Dutch IT operations ("ITNL") merged into NetCo;
- Telfort activities (previously included in Consumer) were allocated to Consumer Mobile, Consumer Residential, Business and NetCo.

Other relevant changes

- Customer Operations moved from W&O to Consumer Residential
- iBasis no longer included in The Netherlands
- Business segment revenues, as part of integrated contracts provided by KPN Corporate Market, are recognized as external revenues in the Business segment.

The comparative operational segment information changed in accordance with the new reporting structure.

The Netherlands

The Netherlands consists of the following:

- Consumer Mobile Segment – providing mobile telephony and mobile data. KPN offers retail customers a broad package of services in the areas of communication, information, entertainment and commercial services;
- Consumer Residential Segment – providing internet and TV, fixed telephony. 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 Segment operates an ICT services company with a market-leading position in the Netherlands, offering end-to-end solutions in infrastructure and network-related IT to KPN's largest, corporate customers;
- NetCo Segment is responsible for KPN's operational activities for the Dutch networks (both fixed and mobile), IT services and for KPN's wholesale customers; and
- The Netherlands' Other Segment.

Mobile International

Mobile International comprises:

- Germany Segment, including E-Plus, Blau Mobilfunk and Magnum – is a challenger network operator with own brands and partners in Germany;
- Belgium Segment, including KPN Group Belgium and Ortel Belgium (as from July 1, 2012) – is a challenger network operator with own brands and partners in Belgium; and
- Rest of World Segment, including Ortel Mobile – virtual network operator offering mobile services through its own brand and partners.

Other Notes to the Consolidated Financial Statements continued

iBasis Group

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

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 regulated in some aspects. 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 NetCo 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:
 - For identical products which are also sold to external parties, KPN uses wholesale prices;
 - For non-regulated retail products which do not fall within the scope of category 3, KPN uses cost-based prices; and
 - 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	Mobile Consumer		Residential		Business		Netco		Corporate Market		Other (including eliminations)		Total The Netherlands	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Statement of Income														
External revenues ¹	1,611	1,770	1,730	1,774	2,253	2,321	582	577	1,185	1,606	-	-1	7,361	8,047
Other income	-	-	-	-	-	4	102	121	10	5	-	-1	112	129
Inter-division revenues	96	130	122	129	99	108	1,937	2,082	210	200	-2,405	-2,566	59	83
Total revenues	1,707	1,900	1,852	1,903	2,352	2,433	2,621	2,780	1,405	1,811	-2,405	-2,568	7,532	8,259
Total operating expenses excluding depreciation, amortization and impairments	-1,197	-1,350	-1,485	-1,406	-1,594	-1,647	-1,160	-1,075	-1,348	-1,805	2,387	2,552	-4,397	-4,731
EBITDA²	510	550	367	497	758	786	1,461	1,705	57	6	-18	-16	3,135	3,528
Depreciation, amortization and impairments	-120	-78	-256	-222	-122	-114	-835	-887	-422	-451	-1	-1	-1,756	-1,753
Operating profit	390	472	111	275	636	672	626	818	-365	-445	-19	-17	1,379	1,775
Other														
Investments in intangible assets	64	118	116	3	102	78	82	123	15	36	-	-	379	358
Investments in property, plant and equipment	199	29	223	172	48	35	603	666	59	91	-	-	1,132	993
Investments in associates and joint ventures	-	-	-	-	-	-	293	234	21	20	-	-	314	254
Results associates and joint ventures	-	-	-	-	-	-	-7	-20	-1	-	-	-	-8	-20
Employees end of period (FTEs)	1,344	1,412	3,517	3,346	2,120	2,254	3,010	3,515	6,661	11,483	413	936	17,065	22,249
Employees average (FTEs)	1,378	1,576	3,432	3,317	2,205	2,344	3,036	3,594	9,141	11,707	467	762	19,657	22,393

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		iBasis	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Statement of Income										
External revenues ¹	3,173	3,144	768	722	214	292	4,155	4,161	820	750
Other income	149	4	–	1	36	9	185	14	–	–
Inter-division revenues	82	88	36	58	-87	-117	31	33	215	227
Total revenues	3,404	3,236	804	781	163	184	4,371	4,208	1,035	977
Total operating expenses excluding depreciation, amortization and impairments	-2,114	-1,883	-532	-508	-189	-175	-2,835	-2,572	-1,005	-946
EBITDA²	1,290	1,353	272	273	-26	9	1,536	1,636	30	31
Depreciation, amortization and impairments	-757	-650	-161	-140	-9	-14	-927	-810	-18	-20
Operating profit	533	703	111	133	-35	-5	609	826	12	11
Statement of Financial Position										
Total assets	10,520	10,430	1,934	1,882	64	158	12,518	12,470	458	448
Total liabilities	26,398	26,741	335	316	104	143	26,837	27,200	358	365
Other										
Investments in intangible assets	125	107	42	29	-2	3	165	139	–	–
Investments in property, plant and equipment	674	517	110	88	–	–	784	605	9	9
Investments in associates and joint ventures	6	1	3	1	–	–	9	2	–	–
Results associates and joint ventures	-2	–	-1	–	–	–	-3	–	–	–
Employees end of period (FTEs)	4,688	4,690	895	810	147	246	5,730	5,746	329	357
Employees average (FTEs)	4,691	3,634	853	792	195	248	5,738	4,674	346	361

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	
	2012	2011	2012	2011	2012	2011	2012	2011
Statement of Income								
External revenues ¹	73	64	12,409	13,022	–	–	12,409	13,022
Other income	2	-2	299	141	–	–	299	141
Inter-division revenues	1	–	306	195	-306	-195	–	–
Total revenues	76	62	13,014	13,358	-306	-195	12,708	13,163
Total operating expenses excluding depreciation, amortization and impairments	-249	-118	-8,486	-8,220	306	195	-8,180	-8,025
EBITDA²	-173	-56	4,528	5,138	–	–	4,528	5,138
Depreciation, amortization and impairments	-7	-7	-2,708	-2,589	–	–	-2,708	-2,589
Operating profit	-180	-63	1,820	2,549	–	–	1,820	2,549
Balance sheet								
Total assets	25,533	25,045	54,799	53,953	-32,386	-31,566	22,413	22,387
Total liabilities	23,956	23,005	66,861	65,728	-46,909	-46,271	19,952	19,457
Other								
Investments in intangible assets	1	1	545	498	–	–	545	498
Investments in property, plant and equipment	3	4	1,928	1,611	–	–	1,928	1,611
Investments in associates and joint ventures	3	5	326	261	–	–	326	261
Result associates and joint ventures	-2	-4	-13	-24	–	–	-13	-24
Employees end of period (FTEs)	3,032	2,726	26,156	30,941	–	–	26,156	30,941
Employees average (FTEs)	2,880	3,414	28,620	30,770	–	–	28,620	30,770

1) External revenues mainly consist of rendering of services.

2) Earnings before interest, tax and depreciation, amortization and impairments.

Other Notes to the Consolidated Financial Statements continued

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	2012	8,056	1,955	4,825	7,355
	2011	7,953	2,380	4,589	7,685
Germany	2012	7,925	6,101	2,603	3,425
	2011	8,113	6,417	2,480	3,267
Belgium	2012	642	231	448	812
	2011	624	217	445	852
United Kingdom	2012	–	–	–	37
	2011	131	–	–	91
The Americas	2012	85	99	20	820
	2011	182	110	20	750
Other	2012	6	72	-1	259
	2011	52	88	-1	518
Consolidated	2012	16,714	8,458	7,895	12,708
	2011	17,055	9,212	7,533	13,163

1) Excluding deferred tax assets, pensions and financial instruments.

CORPORATE INCOME STATEMENT

Amounts in millions of EUR	2012	2011
Income from subsidiaries after taxes	1,366	2,314
Other income and expense after taxes	-675	-765
Profit attributable to equity holders	691	1,549

CORPORATE BALANCE SHEET

Before appropriation of profit

Assets

Amounts in millions of EUR	December 31, 2012	December 31, 2011
NON-CURRENT ASSETS		
Financial fixed assets		
Investments in subsidiaries	25,697	24,337
Loans to subsidiaries	5,622	5,440
Other financial fixed assets	390	279
Total non-current assets [A]	31,709	30,056
CURRENT ASSETS		
Accounts receivable from subsidiaries	451	708
Other receivables and accrued income [B]	14	20
Cash and cash equivalents	423	321
Total current assets	888	1,049
TOTAL	32,597	31,105

[..] Bracketed letters refer to the notes to the Corporate Balance Sheet.

Liabilities

Amounts in millions of EUR	December 31, 2012	December 31, 2011
EQUITY		
Subscribed capital stock	344	344
Additional paid-in capital	6,717	6,717
Treasury shares reserve	-138	-139
Hedge reserve	-239	-
Legal reserves	304	358
Retained earnings	-5,269	-5,899
Profit current year	691	1,549
Total equity attributable to equity holders [C]	2,410	2,930
PROVISIONS		
Provisions for retirement benefit obligations	139	292
Other provisions	27	26
Total provisions	166	318
NON-CURRENT LIABILITIES		
Loans [D]	12,995	12,317
Derivative financial instruments	179	26
Other long-term liabilities	50	14
Total non-current liabilities	13,224	12,357
CURRENT LIABILITIES		
Accounts payable to subsidiaries	14,803	13,515
Other current liabilities [E]	1,604	1,623
Accruals and deferred income	390	362
Total current liabilities	16,797	15,500
TOTAL	32,597	31,105

[..] 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, 2011	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
Exchange rate differences	4	–	–	4
Income from Group companies after taxes	1,366	–	–	1,366
Capital contributions	2	–	–	2
Received dividends	-6	–	–	-6
New loans	–	182	53	235
Withdrawals/redemptions	–	–	-1	-1
Change in derivative financial instruments	–	–	59	59
Other	-6	–	–	-6
Total changes	1,360	182	111	1,653
Balance as of December 31, 2012	25,697	5,622	390	31,709

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 pension plan asset of EUR 109 million as at December 31, 2012 (2011: EUR 101 million), as well as derivative financial instruments of EUR 228 million (2011: 172 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, 2012	December 31, 2011
Accrued income	10	15
Other receivables	4	5
Total	14	20

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	Fair value reserve available for sale financial assets	Other non-distributable reserves	Total
Balance as of January 1, 2011	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
Exchange rate differences	-	3	-	-	-	-	3
Addition/(release) retained earnings	-21	-	-37	-2	3	-	-57
Balance as of December 31, 2012	69	13	171	-	3	48	304

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, 2012, amounted to EUR 1,762 million (2011: EUR 2,228 million).

Retained earnings

Movements in retained earnings were as follows:

Amounts in millions of EUR	December 31, 2011
Balance as of January 1, 2011	-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
Prior year profit	1,549
Dividend	-979
Release/(addition) legal reserves	57
Other	3
Balance as of December 31, 2012	-5,269

Notes to the Corporate Balance Sheet continued

Retained earnings can be reconciled with the Consolidated Statement of Financial Position as follows:

Amounts in millions of EUR	December 31, 2012	December 31, 2011
Retained earnings as per Consolidated Statement of Financial Position	-4,290	-4,004
Revaluation reserve	-69	-90
Capitalized software development costs	-171	-208
Other non-distributable reserves	-48	-48
Current year profit	-691	-1,549
Retained earnings as per Corporate Statement of Financial Position	-5,269	-5,899

Non-current liabilities

[D] Loans

Loans include bonds outstanding for EUR 12,163 million (2011: EUR 11,518 million) as well as loans from subsidiaries for EUR 832 million (2011: EUR 799 million).

Loans from subsidiaries have maturity dates in 2013 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, 2012	December 31, 2011
Current portion of loans	1,085	955
Income tax payable	59	72
Social security and other taxes payable	121	121
Bank overdrafts	324	75
Credit facility	–	400
Derivative financial instruments	15	–
Total	1,604	1,623

[F] Commitments and contingencies

Amounts in millions of EUR	December 31, 2012	December 31, 2011
Commitments by virtue of guarantees	270	244

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 26, 2013

Supervisory Board	Board of Management
J.B.M. Streppel	E. Blok
R.J. Routs	W.T.J. Hageman
A.H.J. Risseeuw	T. Dirks
M. Bischoff	
M.E. van Lier Lels	
C.M. Hooymans	
D.J. Haank	
P.A.M. van Bommel	

INDEPENDENT AUDITOR'S REPORT

To: the General Meeting of Shareholders of Koninklijke KPN N.V.

Report on the financial statements

We have audited the accompanying financial statements 2012 of Koninklijke KPN N.V., The Hague as set out on pages 86 to 154. 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, 2012, 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, 2012, 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 management board 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 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, 2012, 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, 2012, 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 management board 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 management board 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 26, 2013

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 2012. 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 26, 2013, the Board of Management, with approval of the Supervisory Board, has appropriated an amount of EUR 521 million out of the profit of EUR 691 million to the Other reserves. In August 2012, an interim dividend of EUR 0.12 was paid to all holders of ordinary shares, amounting to a total of EUR 170 million (including dividend tax). On December 14, 2012 KPN announced an adjustment of its dividend outlook in order to accommodate the vital strategic investment into the frequency licenses obtained in the Dutch spectrum auction. KPN will not pay a final dividend over 2012.

The Board of Management, with the approval of the Supervisory Board, will propose to the AGM to determine the total dividend over 2012 at EUR 0.12 per ordinary share, which was already paid as interim dividend. The payout ratio of the dividend amounts to 25% of the profit for 2012.

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, 2012.

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 Zakelijk B.V.	The Netherlands	100.0
E-Plus Nederland B.V.	The Netherlands	100.0
Reggefiber Group B.V.	The Netherlands	51.0
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
– E-Plus Mobilfunk GmbH & Co.KG (indirect)	Germany	77.5
Getronics N.V.:	The Netherlands	100.0
– KPN Corporate Market B.V.	The Netherlands	100.0
– Getronics Finance Holdings B.V.	The Netherlands	100.0

Glossary of terms

2G

Second Generation Mobile System, which is based on the GSM universal standard.

3G

Third Generation Mobile System, which is based on the UMTS universal standard.

4G LTE

A macronym of long-term evolution, LTE is a standard for wireless communication delivering high-speed data for mobile phones and data terminals.

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.

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.

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.

BNetzA (Bundesnetzagentur, former RegTP)

The Federal Network Agency is active as the telecommunications regulator in Germany.

CBb (College van Beroep voor het bedrijfsleven)

The Trade and Industry Appeals Tribunal in the Netherlands.

Churn

The number of mobile customers no longer connected to a mobile operator's network divided by the operator's customer base.

Cloud services

Cloud services are standardized IT capability (services, software or infrastructure) delivered via internet technologies in a pay-per-use, self-service way.

Committed ARPU

Committed ARPU is the monthly fixed fees KPN receives per user, which are included in the customer's bundle.

Customer base

Customer base is the total number of subscribers.

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.

DTA (Telecommunicatiewet)

The Dutch Telecommunications Act.

Dutch Telco business

Dutch Telco business is defined as the Netherlands excluding Corporate Market.

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.

E-VPN (Ethernet Virtual Private Network)

E-VPN is a VPN that connects two or more offices using IP-VPN and extends the benefits of ethernet technology that has traditionally been confined to the LAN.

EDGE (Enhanced Data rates for GSM Evolution)

EDGE is a technology, which elevates GPRS download speeds to above 100 kbps.

Fiber-optic cable

Fiber-optic cable is a transmission medium composed of extremely pure and uniform glass. Digital signals are transmitted across fiber-optic cable as pulses of light. While signals transmitted over fiber-optic cable travel at the same speed as those transmitted over traditional copper cable, fiber-optic cable benefits from greater transmission capacity and lower distortion of signals transmitted.

FttH (Fiber-to-the-Home)

FttH is defined as an access network architecture in which the final part of the connection to the home consists of optical fiber.

FttO (Fiber-to-the-Office)

FttO is fiber connection for business customers to the customers' office.

HP (Fiber-to-the-Home passed)

Homes passed is the number of homes which a service provider has capability to connect through fiber in a service area.

HA (Fiber-to-the-Home activated)

Homes activated is the number of homes which are connected to fiber and have a subscriber with a service provider.

GHz

GHz is one billion hertz (a unit of frequency)

GPRS

GPRS is an application that enables data packet switching via GSM networks as well as via existing voice communication. GPRS is based on and complements GSM.

HD TV

High definition, which is the new format in television, requiring higher bandwidths.

Hertz

Hertz is a unit of frequency of one cycle per second.

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.

Machine to Machine (M2M)

M2M refers to technologies that allow both wireless and wired systems to communicate between devices of the same ability.

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.

Mbps (Megabits per second)

Mbps is a unit of data transfer rate equal to 1,000,000 bits per second. The bandwidths of broadband networks are often indicated in Mbps.

MHz (Megahertz)

MHz is one million hertz (a unit of frequency).

MDF (Main Distribution Frame) access

Allows other telecommunication companies to access the local network, enabling them to connect with their customers through our main distribution frame.

MNO (Mobile Network Operator)

An MNO is a company that has frequency allocations and all the required infrastructure to run an independent mobile network, as opposed to an MVNO.

MTA/MTR 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.

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/gain

Net line loss/gain 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 NMa is the Dutch Anti-trust 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.

Open access

Open access is a model where an operator is required by regulation to provide access to its network to wholesale customers at capped prices.

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).

RGU (Revenue Generating Unit)

RGU is the total of all subscribers receiving standard cable, broadband internet or telephony services over KPN's network at a given date. Thus, one subscriber who receives a bundle of KPN's services (telephony, internet and TV) would be counted as three RGUs.

Roaming

Transfer of mobile traffic from one network to another, referring to the exchange of international mobile traffic.

Glossary of terms

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.

Spectrum Auction

A spectrum auction is a process whereby a government uses an auction system to sell rights (licences) to transmit signals over specific bands of the electromagnetic spectrum and to assign scarce spectrum resources.

Startover TV

Startover TV allows the viewer to replay the current TV show being watched from its beginning.

Subscriber

A subscriber is defined as an end-user with a connection to the mobile or fixed networks and/or service platforms of KPN. The subscriber is included in the subscriber base if there is a direct or indirect (business, wholesale) billing relation, either pre- or postpaid, with the following exceptions:

- if the connection is owned through wholesale by full MVNOs or fixed line access parties or
- if the connection has been inactive for a specific time period (prepaid or postpaid without contract).

Triple Play

Term used to describe the provision of telephony, internet and television services to a household by a single provider.

UMTS (Universal Mobile Telecommunications System)

Third generation mobile communications systems. 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.

Wholesale broadband access

Wholesale broadband access is the rental by broadband internet service providers of access to KPN's networks to supply broadband internet access to their end customers. The broadband internet service provider charges its end customer for the combined wholesale broadband access it purchases from KPN along with its service fees.

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.

Wi-Fi

Wi-Fi is a technology that allows an electronic device to exchange data wirelessly over a computer network, including broadband internet connections. Wi-Fi is a trademark of the Wi-Fi Alliance.

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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.



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