REPORT BY
THE BOARD OF
MANAGEMENT
KPN attaches great importance to transparent and regular communication with its shareholders, other capital providers and their intermediaries.

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

**Listings and Indices**

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

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

**Share ownership**

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

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

**Shareholder remuneration**

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

**KPN Shareholding**

<table>
<thead>
<tr>
<th>Estimated geographic breakdown (based on institutional holdings)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
</tr>
<tr>
<td>United Kingdom</td>
</tr>
<tr>
<td>Netherlands</td>
</tr>
<tr>
<td>France</td>
</tr>
<tr>
<td>Germany</td>
</tr>
<tr>
<td>Rest of World</td>
</tr>
</tbody>
</table>

Source: Thomson Shareholder ID Q4 2011

**Dividend**

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

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

**Share repurchases**

KPN intends to return excess cash to shareholders via share repurchases. The requirement to balance investments, including possible strategic investments such as spectrum and fiber, shareholder remuneration and a prudent financing policy in a period of macroeconomic uncertainty means there will be no share repurchase program in 2012. Later in 2012, and into 2013, there will be more clarity on these strategic investments and the success of the transition in the Netherlands.
Under the share repurchase program announced on January 26, 2011, KPN repurchased 96.7 million shares at an average price of EUR 10.34 for a total amount of EUR 1 billion (for details see table). During 2011, a total of 141.1 million ordinary shares, which were acquired in 2011 and 2010, were cancelled. The number of outstanding shares as at December 31, 2011, amounted to 1,431,522,482, representing a reduction of around 43% of outstanding shares since the start of share repurchases in March 2004.

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

<table>
<thead>
<tr>
<th>Period</th>
<th>Number of shares purchased under the program</th>
<th>Average price paid per share in EUR</th>
<th>Amount of share repurchases made under the program (in EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>February</td>
<td>2,595,548</td>
<td>11.71</td>
<td>30,398,431</td>
</tr>
<tr>
<td>March</td>
<td>12,633,159</td>
<td>11.71</td>
<td>147,970,105</td>
</tr>
<tr>
<td>April</td>
<td>9,692,086</td>
<td>11.29</td>
<td>107,124,640</td>
</tr>
<tr>
<td>May</td>
<td>24,251,523</td>
<td>10.40</td>
<td>252,266,278</td>
</tr>
<tr>
<td>June</td>
<td>13,566,116</td>
<td>10.03</td>
<td>136,047,256</td>
</tr>
<tr>
<td>July</td>
<td>3,970,046</td>
<td>9.63</td>
<td>38,216,673</td>
</tr>
<tr>
<td>August</td>
<td>17,818,998</td>
<td>9.44</td>
<td>168,273,713</td>
</tr>
<tr>
<td>September</td>
<td>12,401,468</td>
<td>9.65</td>
<td>119,702,904</td>
</tr>
<tr>
<td>Total</td>
<td>96,728,927</td>
<td>10.34</td>
<td>1,000,000,000</td>
</tr>
</tbody>
</table>

### Exchange controls

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

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

### Obligations to disclose holdings

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

### Financial calendar 2012

- **April 12, 2012:** Annual General Meeting of Shareholders
- **April 16, 2012:** Ex-dividend listing of shares
- **April 24, 2012:** Start of payment of 2011 final dividend
- **April 24, 2012:** Publication of results for the first quarter of 2012
- **July 24, 2012:** Publication half year results 2012
- **October 23, 2012:** Publication of results for the third quarter of 2012
- **January 23, 2013:** Publication of results for the full year 2012

Note that these dates may be subject to change.
GROUP PERFORMANCE

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

Performance versus outlook 2011

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

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

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

Revenues and other income

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>∆</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPN Group</td>
<td>13,163</td>
<td>13,398</td>
<td>−1.8%</td>
</tr>
<tr>
<td>Consumer</td>
<td>3,735</td>
<td>3,940</td>
<td>−5.2%</td>
</tr>
<tr>
<td>Business</td>
<td>2,373</td>
<td>2,424</td>
<td>−2.1%</td>
</tr>
<tr>
<td>Wholesale &amp; Operations (national)</td>
<td>2,688</td>
<td>2,799</td>
<td>−4.0%</td>
</tr>
<tr>
<td>Other gains/losses, eliminations¹</td>
<td>−2,032</td>
<td>−2,159</td>
<td>−5.9%</td>
</tr>
<tr>
<td>− Dutch Telco business</td>
<td>6,764</td>
<td>7,004</td>
<td>−3.4%</td>
</tr>
<tr>
<td>iBasis Group</td>
<td>977</td>
<td>912</td>
<td>7.1%</td>
</tr>
<tr>
<td>Corporate Market</td>
<td>1,901</td>
<td>1,966</td>
<td>−3.3%</td>
</tr>
<tr>
<td>Other gain/losses</td>
<td>−554</td>
<td>−549</td>
<td>−0.9%</td>
</tr>
<tr>
<td>− The Netherlands</td>
<td>9,088</td>
<td>9,333</td>
<td>−2.6%</td>
</tr>
<tr>
<td>Germany</td>
<td>3,236</td>
<td>3,241</td>
<td>−0.2%</td>
</tr>
<tr>
<td>Belgium</td>
<td>781</td>
<td>785</td>
<td>−0.5%</td>
</tr>
<tr>
<td>Rest of World</td>
<td>307</td>
<td>267</td>
<td>15%</td>
</tr>
<tr>
<td>Other¹</td>
<td>−116</td>
<td>−108</td>
<td>−7.4%</td>
</tr>
<tr>
<td>− Mobile International</td>
<td>4,208</td>
<td>4,185</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

¹ Mainly elimination of intercompany revenues.

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

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

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

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

**Other financial data**

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>∆</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating result</strong></td>
<td>2,549</td>
<td>3,250</td>
<td>−22%</td>
</tr>
<tr>
<td><strong>Finance income and expenses</strong></td>
<td>−754</td>
<td>−916</td>
<td>−18%</td>
</tr>
<tr>
<td><strong>Share profit of associates and joint ventures</strong></td>
<td>−24</td>
<td>−31</td>
<td>−23%</td>
</tr>
<tr>
<td><strong>Profit before income tax</strong></td>
<td>1,771</td>
<td>2,303</td>
<td>−23%</td>
</tr>
<tr>
<td><strong>Income taxes</strong></td>
<td>−222</td>
<td>−508</td>
<td>−56%</td>
</tr>
<tr>
<td><strong>Profit for the period</strong></td>
<td>1,549</td>
<td>1,795</td>
<td>−14%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>∆</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flow from operating activities</strong></td>
<td>4,003</td>
<td>3,808</td>
<td>5.1%</td>
</tr>
<tr>
<td><strong>Capital expenditures</strong></td>
<td>2,047</td>
<td>1,809</td>
<td>13%</td>
</tr>
<tr>
<td><strong>Proceeds from real estate</strong></td>
<td>345</td>
<td>84</td>
<td>866%</td>
</tr>
<tr>
<td><strong>Tax recapture E-Plus</strong></td>
<td>337</td>
<td>345</td>
<td>−2.3%</td>
</tr>
<tr>
<td><strong>Free cash flow</strong></td>
<td>2,449</td>
<td>2,428</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

2) Including property, plant and equipment.

**Operating results**

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

**Finance income and expenses**

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

**Income taxes**

KPN has formalized an agreement with the Dutch tax authorities with regard to the application of the innovation tax facilities. Innovation tax facilities are facilities under Dutch corporate income tax law whereby profits attributable to innovation are taxed at an effective rate of 5%. The agreement has retroactive effect to January 1, 2007. The application of the innovation tax facilities resulted in a one-off benefit of EUR 118 million mainly reflecting the period 2007 to 2010. Compared to last year this resulted in a significant lower tax charge, also lower due to lower profit before tax.

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

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

**Net profit**

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

**CAPEX**

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

**Free cash flow**

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

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy consumption (in PetaJoule)</td>
<td>5.3</td>
<td>5.5</td>
</tr>
<tr>
<td>Reputation</td>
<td>12th place</td>
<td>16th place</td>
</tr>
<tr>
<td>Customer satisfaction (NPS)</td>
<td>-14</td>
<td>-13</td>
</tr>
<tr>
<td>Number of FTEs</td>
<td>30,941</td>
<td>30,599</td>
</tr>
</tbody>
</table>

**Energy**

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

**Reputation**

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

**Customer satisfaction**

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

**Number of FTEs**

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

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**Pension position**

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

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

**Funding profile strengthened by issuance of new long-dated bonds**

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

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

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

As at December 31, 2011, the average maturity was 73 years. The average interest rate on the nominal bonds was 5.3%.

**Equity position**

At December 31, 2011, total equity amounted to EUR 2,930 million. Reference is made to Note 29 in the Financial Statements for further information.
OUTLOOK 2012

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

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

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

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

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

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

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

Environment and competition

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

Our strategy in action

Improve and differentiate our wireline propositions

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

Launch data-centric propositions

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

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

Optimize distribution and improve service experience

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

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

Products and services

Voice, internet and TV services

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

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

Wireless services

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

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

(In millions of EUR, unless indicated otherwise) 2011 2010 ∆

- Voice wireline 500 597 −16%
- Wireless services
  (excluding Mobile Wholesale) 1,690 1,833 −7.8%
- Internet wireline 999 1,027 −2.7%
- Mobile Wholesale 215 229 −6.1%
- Other
  (incl. intercompany revenues) 331 254 30%
Revenues and other income 3,735 3,940 −5.2%

Operating expenses 2,977 3,074 −3.2%
  of which:
  depreciation, amortization and impairments 279 255 9.4%
EBITDA 1,037 1,121 −7.5%
EBITDA margin 27.8% 28.5%

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

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

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

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

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

Operating highlights 2011 2010 ∆

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

1) Excluding Mobile Wholesale NL.
Environment and competition

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

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

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

Our strategy in action

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

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

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

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

Products and services

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

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

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

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

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

BÜSESS

We offer business customers a complete portfolio of services, from voice and internet (wireline and wireless) to a range of data network services.
While traditional wireline services showed a stable decline in access lines and traffic revenues due to rationalization, Business DSL and managed data services showed a solid performance. The migration from traditional to IP-based services continued steadily, with lower prices and margins. The decline in access lines was compensated by the acquisition of Atlantic Telecom and new pricing schemes on traditional services.

### Operating highlights

<table>
<thead>
<tr>
<th></th>
<th>2011 (in thousands)</th>
<th>2010 (in thousands)</th>
<th>∆</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access lines voice</td>
<td>1,285</td>
<td>1,368</td>
<td>−6.1%</td>
</tr>
<tr>
<td>Business DSL</td>
<td>176</td>
<td>161</td>
<td>9.3%</td>
</tr>
<tr>
<td>Leased lines</td>
<td>13.5</td>
<td>18.6</td>
<td>−27%</td>
</tr>
<tr>
<td>ARPU wireless</td>
<td>42</td>
<td>46</td>
<td>−8.7%</td>
</tr>
<tr>
<td>Wireless customers</td>
<td>1,957</td>
<td>1,774</td>
<td>10%</td>
</tr>
</tbody>
</table>

1) Restated due to reclassification of MMS subscribers.

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

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

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

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

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

Environment and competition

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

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

Both impacted the revenues of Wholesale and Operations.

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

Our strategy in action

Expanding and upgrading the network and introducing new technologies

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

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

Focus on network quality

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

Rationalization of the legacy networks

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

Products and services

National Wholesale Services

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

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

Network and Services

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

(In millions of EUR, unless indicated otherwise)

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>∆</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>2,567</td>
<td>2,760</td>
<td>−7.0%</td>
</tr>
<tr>
<td>Other income</td>
<td>121</td>
<td>39</td>
<td>&gt;100%</td>
</tr>
<tr>
<td><strong>Revenues and other income</strong></td>
<td>2,688</td>
<td>2,799</td>
<td>−4.0%</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>1,878</td>
<td>1,938</td>
<td>−3.1%</td>
</tr>
<tr>
<td>– of which: depreciation, amortization and impairments</td>
<td>865</td>
<td>858</td>
<td>0.8%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1,675</td>
<td>1,719</td>
<td>−2.6%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>62.3%</td>
<td>61.4%</td>
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</table>

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

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

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

Operating highlights

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010*</th>
<th>∆</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access lines retail voice (in thousands)</td>
<td>2,627</td>
<td>3,032</td>
<td>−13%</td>
</tr>
<tr>
<td>MDF access lines (in thousands)</td>
<td>3,564</td>
<td>3,689</td>
<td>−3.4%</td>
</tr>
<tr>
<td>– of which: line sharing (in thousands)</td>
<td>1,040</td>
<td>1,268</td>
<td>−18%</td>
</tr>
<tr>
<td>Unbundling, estimates (in millions)</td>
<td>1.0</td>
<td>1.2</td>
<td>−17%</td>
</tr>
<tr>
<td>– Shared unbundled lines (in millions)</td>
<td>0.2</td>
<td>0.4</td>
<td>−50%</td>
</tr>
<tr>
<td>– Fully unbundled lines (in millions)</td>
<td>0.8</td>
<td>0.8</td>
<td>–</td>
</tr>
</tbody>
</table>

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

Infrastructure

**Wireline network**

Fiber network

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

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

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

Copper network

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

Wireless network

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

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

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

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

Environmental and competition

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

Our strategy in action

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

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

Cost-effectiveness and quality of service

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

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

Our Cloud strategy: services aggregation

We focus on the Cloud services aggregator role: A Cloud services aggregator has an intermediary role in Cloud computing. As aggregator we make it easier, safer and more productive for companies to navigate, integrate, consume, extend and maintain Cloud services, particularly when they span multiple, diverse Cloud services providers.

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

Customer focus

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

Products and services

Workspace management

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

We provide different service models so clients can bridge existing legacy with new Cloud-based services containing standardized IT capabilities (services, software, or infrastructure) delivered via internet technologies in a pay-per-use, self-service way. Together with the Business Market Segment, we sell and deliver packaged online, hybrid and traditional workspace services in the Netherlands in all segments ranging from midmarket to the corporate enterprise market. An example of our workspace service is Workspace Online, a standardized pay-per-use Software as a Service solution, with Microsoft Office 365 as online productivity options available on-demand.
Data centers
The data center is the engine for businesses in a web-connected world. This becomes even more pronounced as Cloud and virtualization increase in importance for international enterprises. We are facilitating the development of traditional workspace management portfolio to more Cloud-based solutions. Corporate Market is responsible for all KPN data center resources.

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

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

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

Financial review

<table>
<thead>
<tr>
<th>(In millions of EUR, unless indicated otherwise)</th>
<th>2011</th>
<th>2010</th>
<th>∆</th>
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<tbody>
<tr>
<td>Netherlands</td>
<td>1,472</td>
<td>1,505</td>
<td>−2.2%</td>
</tr>
<tr>
<td>International</td>
<td>489</td>
<td>487</td>
<td>0.4%</td>
</tr>
<tr>
<td>Other (incl. eliminations)</td>
<td>−65</td>
<td>−32</td>
<td>&gt;100%</td>
</tr>
<tr>
<td>Revenues</td>
<td>1,896</td>
<td>1,960</td>
<td>−3.3%</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>6</td>
<td>−17%</td>
</tr>
<tr>
<td>Revenues and other income</td>
<td>1,901</td>
<td>1,966</td>
<td>−3.3%</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>2,348</td>
<td>1,959</td>
<td>20%</td>
</tr>
<tr>
<td>− of which: depreciation, amortization and impairments</td>
<td>451</td>
<td>351</td>
<td>&gt;100%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>4</td>
<td>158</td>
<td>−97%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>0.2%</td>
<td>8.0%</td>
<td></td>
</tr>
</tbody>
</table>

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

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

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

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

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

KPN announced the divestment of Getronics International. The related assets and liabilities were classified as held for sale as at December 31, 2011, whereby the measurement of the asset and liabilities, at the lower of carrying amount and fair value less cost to sell, resulted in a loss of EUR 30 million.
Through iBasis, we are a top player in the international wholesale voice market, terminating international phone calls on a worldwide basis. We offer our carrier customers a range of global call termination products, as well as a portfolio of value-added data services for mobile operators.

Environmental and competition

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

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

Our strategy in action

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

Products and services

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

Financial review

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>Δ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues and other income</td>
<td>977</td>
<td>912</td>
<td>7.1%</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>966</td>
<td>905</td>
<td>6.7%</td>
</tr>
<tr>
<td>– of which</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>depreciation,</td>
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<td>amortization and</td>
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<td></td>
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<tr>
<td>impairments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>31</td>
<td>32</td>
<td>−3.1%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>3.2%</td>
<td>3.5%</td>
<td></td>
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</tbody>
</table>

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

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

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

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<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>Δ</th>
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</thead>
<tbody>
<tr>
<td>Minutes International (in billion)</td>
<td>26.2</td>
<td>24.1</td>
<td>8.7%</td>
</tr>
<tr>
<td>Average revenue per minute (EUR cents)</td>
<td>3.7</td>
<td>3.8</td>
<td>−2.6%</td>
</tr>
</tbody>
</table>
GERMANY

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

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

Environment and competition

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

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

Our strategy in action

Simplify portfolios

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

Mobile broadband network

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

Products and services

We offer various tariff structures with our multi-brand strategy: E-Plus brand with bundle packages like Time & More, BASE offering flat-fee packages, Simyo as web-only prepaid mobile operator and Ay Yildiz with a tailor-made offering for Turkish-speaking people. Wholesale solutions for an increasing number of partners are offered which act as branded resellers, including Medion, WAZ, MTV, NABU and MVNOs like Versatel, NetCologne and Ecotel.

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

Financial review

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<tr>
<th>(In millions of EUR, unless indicated otherwise)</th>
<th>2011</th>
<th>2010</th>
<th>∆</th>
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</thead>
<tbody>
<tr>
<td>Service revenues (wireless)</td>
<td>3,098</td>
<td>3,092</td>
<td>0.2%</td>
</tr>
<tr>
<td>Hardware and other revenues</td>
<td>138</td>
<td>149</td>
<td>−7.4%</td>
</tr>
<tr>
<td>Revenues and other income</td>
<td>3,236</td>
<td>3,241</td>
<td>−0.2%</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>2,533</td>
<td>2,528</td>
<td>0.2%</td>
</tr>
<tr>
<td>of which: depreciation, amortization and impairments</td>
<td>650</td>
<td>661</td>
<td>−1.7%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1,353</td>
<td>1,374</td>
<td>−1.5%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>41.8%</td>
<td>42.4%</td>
<td></td>
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</table>

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

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

Operating highlights | 2011 | 2010 | ∆ |
<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Wireless customers (in thousands)</td>
<td>22,717</td>
<td>20,427</td>
<td>11.2%</td>
</tr>
<tr>
<td>Net adds (in thousands)</td>
<td>2,290</td>
<td>1,440</td>
<td>59%</td>
</tr>
<tr>
<td>Total traffic (minutes in millions)</td>
<td>37,275</td>
<td>34,896</td>
<td>6.8%</td>
</tr>
<tr>
<td>ARPU blended (EUR)</td>
<td>12</td>
<td>13</td>
<td>−7.7%</td>
</tr>
<tr>
<td>SAC/SCR blended (EUR)</td>
<td>47</td>
<td>47</td>
<td>–</td>
</tr>
</tbody>
</table>
In Belgium, we are the third largest mobile telecommunications provider. We are offering ‘value for money’ mobile services. Specific market segments are targeted through multiple own brands and wholesale partnerships.

**Environment and competition**

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

**Challenger with regional approach**

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

**Accelerated network investment**

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

**Products and services**

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

**Financial review**

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<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>∆</th>
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<tbody>
<tr>
<td>Service revenues (wireless)</td>
<td>687</td>
<td>684</td>
<td>0.4%</td>
</tr>
<tr>
<td>Hardware and other revenues</td>
<td>94</td>
<td>101</td>
<td>-6.9%</td>
</tr>
<tr>
<td>Revenues and other income</td>
<td>781</td>
<td>785</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>648</td>
<td>636</td>
<td>1.9%</td>
</tr>
<tr>
<td>of which: depreciation, amortization and impairments</td>
<td>140</td>
<td>122</td>
<td>15%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>273</td>
<td>271</td>
<td>0.7%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>35.0%</td>
<td>34.5%</td>
<td></td>
</tr>
</tbody>
</table>

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

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

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

**Operating highlights**

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<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>∆</th>
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<tbody>
<tr>
<td>Wireless customers (in thousands)</td>
<td>4,131</td>
<td>3,728</td>
<td>11%</td>
</tr>
<tr>
<td>Net adds (in thousands)</td>
<td>403</td>
<td>150</td>
<td>&gt;100%</td>
</tr>
<tr>
<td>Total traffic (minutes in millions)</td>
<td>6,119</td>
<td>5,706</td>
<td>7.2%</td>
</tr>
<tr>
<td>ARPU blended (EUR)</td>
<td>14</td>
<td>16</td>
<td>-12.5%</td>
</tr>
<tr>
<td>SAC/SRC blended (EUR)</td>
<td>19</td>
<td>19</td>
<td>-</td>
</tr>
</tbody>
</table>

1) Relating to Mobile business only.
REST OF WORLD

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

Environment and competition

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

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

Our strategy in action

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

The strategy for the different operating companies is based on the challenger principles and business model as successfully deployed in Belgium and Germany:
- Accelerate growth via the expansion to new European markets through leveraging the differentiated business model, while increasing synergies across markets by addressing cross-border cultural communities.
- Enable flexible and low-cost mobile services across markets for KPN’s brands and international partners through our Magnum MNVO platform.

Products and services

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

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

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

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

Financial review

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<tr>
<th>(In millions of EUR, unless indicated otherwise)</th>
<th>2011</th>
<th>2010</th>
<th>∆</th>
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<tbody>
<tr>
<td>Revenues and other income</td>
<td>307</td>
<td>267</td>
<td>15%</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>317</td>
<td>294</td>
<td>8%</td>
</tr>
<tr>
<td>- of which:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>depreciation, amortization and impairments</td>
<td>20</td>
<td>8</td>
<td>&gt;100%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>10</td>
<td>-19</td>
<td>n.m.</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>3.3%</td>
<td>-7.1%</td>
<td></td>
</tr>
</tbody>
</table>

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

Ortel Mobile has recorded significant revenue growth in France and Spain following the footprint expansion in 2010. Within the existing footprint, Ortel’s focused execution of the strategy through selective acquisition, promotions and strengthened distribution has significantly increased customer quality and profitability. As part of its expansion strategy, Ortel Switzerland was launched on October 5, 2011.
In today’s society communication is key, and it is KPN’s goal to enable customers to enrich their work and leisure time with the range of communication services it offers. To maintain growth, KPN’s innovation and Capex investments are aimed at the customer and to anticipate their changing needs and requirements.

**Capital expenditures**

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

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

**Infrastructure and network innovation**

**Fixed infrastructure (the Netherlands)**

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

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

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

**Mobile infrastructure (the Netherlands, Germany, Belgium)**

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

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

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

In Germany, E-Plus has become the first MNO to operate a base station without using any German grid electricity.
Together with our partner Nokia Siemens Networks we set up a ‘green’ base station site that relies on a combination of solar and wind power, supported by fuel cell and deep cycle battery technology. Electricity grid-independent base stations can be used at locations lacking an affordable energy grid connection to cover ‘white spot’ areas and increase the broadband penetration. In addition, the environment-friendly site operation and remote energy management help to achieve zero CO2 emissions during the operation, supporting E-Plus’ target to increase energy efficiency by 5% by the year 2012, and by 20% by the year 2020.

**Product and services innovation**

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

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

**Interactive TV (Consumer)**

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

**New mobile subscriptions (Consumer)**

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

**Mobile data usage apps (Consumer)**

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

**Innovation expenditure**

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

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**Patent applications and intellectual property rights**

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

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

Compliance with the Dutch Corporate Governance Code

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

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

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

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

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

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

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

II.2.8: “the remuneration in the event of a dismissal may not exceed one year’s salary (the ‘fixed’ remuneration component). If the maximum of one year’s salary would be manifestly unreasonable for a Management Board member who is dismissed during his first term of office, such Board member shall be eligible for severance pay not exceeding twice the annual salary.”

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

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

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

Legal structure of the Company

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

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

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

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

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

Supervisory Board

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

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

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

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

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

Committees of the Supervisory Board

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

Composition of the Supervisory Board

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

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

A.H.J. Risseeuw
Mr. Risseeuw was first appointed as a member of the Supervisory Board on May 2, 2001. His current (third and final) term expires in 2013. Mr. Risseeuw is member of the Nominating and Corporate Governance Committee as well as of the Remuneration and Organizational Development Committee. Mr. Risseeuw was the Chairman of the Supervisory Board of KPN from September 10, 2001 till April 13, 2010. He has held various management positions with Dutch international companies and is the former President of Getronics N.V. He is Chairman of the Supervisory Boards of the Groeneveld Groep B.V. Mr. Risseeuw is a Dutch citizen.
M.E. van Lier Lels
Ms. Van Lier Lels was first appointed as a member of the Supervisory Board on May 2, 2001, and her current (third and final) term expires in 2013. She is a member of the Audit Committee. Ms. Van Lier Lels held various management positions with Dutch international companies and is the former Chief Operating Officer of Schiphol Group. She is a member of the Supervisory Boards of USG People N.V., TKH Group N.V., Reed Elsevier N.V. and Maersk B.V. She is the chairman of the Supervisory Council of The Netherlands Society for Nature and Environment and a member of the Council for Transport and Waterways. Ms. Van Lier Lels is a Dutch citizen.

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

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

R.J. Routes
Mr. Routes 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. Routes 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. Routes 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. Routes is Chairman of the Supervisory Board of DSM, Chairman of the Supervisory Board of Aegon N.V., member of the Board of Directors of Canadian Utilities, and member of the Boards of AP Moller-Maersk Denmark, KPM-Kymman Finland and AECOM. Mr. Routes is a Dutch citizen and resides in Switzerland.

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

The business address of each of the members of the Supervisory Board is Maanplein 55, 2516 CK, The Hague, the Netherlands.
The Board of Management, supervised and advised by the Supervisory Board, manages KPN’s strategic, commercial, financial and organizational matters and appoints senior managers. The Supervisory Board appoints and discharges members of the Board of Management and establishes their individual remuneration within the boundaries of the remuneration policies approved by the AGM and the recommendations by the Remuneration and Organizational Development Committee.

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

E. Blok

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

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 member of the Cyber Security Council.
C.M.S. Smits-Nusteling
Mrs. Smits-Nusteling is a member of the Board of Management and Chief Financial Officer.

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

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

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

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

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

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

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

Shareholders’ rights

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

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

Purchase of shares in the Company’s own capital
The shareholders have authorized the Board of Management (for a period of 18 months until October 6, 2012) to purchase shares in the Company’s own capital at a price per share of at least EUR 0.01 and at most the highest of (i) the Quoted Share Price plus 10% and (ii), if purchases are made on the basis of a program entered into with a single counterparty or using a financial intermediary, the average of the Volume Weighted Average Share Price during the course of the program. The Quoted Share Price is defined as the average of the closing prices of KPN shares as reported in the official price list of Euronext Amsterdam N.V. over the five trading days prior to the acquisition date. The Volume Weighted Average Share Price is defined as the volume weighted average price of trades in KPN shares on Euronext Amsterdam N.V. between 9:00 am (CET) and 5:30 pm (CET) adjusted for block, cross and auction trades.
Any such purchase requires the approval of the Supervisory Board. Votes may not be cast on purchased shares and they do not count towards determining the number of votes required at a General Meeting of Shareholders. KPN may only purchase shares in its own capital if the shares are fully paid-up and the distributable part of the shareholders’ equity is at least equal to the purchase price. The Board of Management was authorized to cancel up to 10% of the issued capital. In practice, this meant that KPN could acquire up to 10% of its own issued shares, cancel these shares, and acquire a further 10%.

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

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

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

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

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

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

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Name</th>
<th>Transaction Details</th>
<th>Average selling price shares:</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 26</td>
<td>E. Blok</td>
<td>Exercise of 398,054 share options, of which 360,054 shares were sold</td>
<td>EUR 11.57</td>
</tr>
<tr>
<td>January 28</td>
<td>A.H.J. Risseeuw</td>
<td>Bought 2,630 KPN shares</td>
<td>EUR 11.29</td>
</tr>
<tr>
<td>February 2</td>
<td>M. Bischoff</td>
<td>Bought 9,000 KPN shares</td>
<td>EUR 11.68</td>
</tr>
<tr>
<td>April 6</td>
<td>E. Blok</td>
<td>Award of 95,000 conditional restricted KPN shares</td>
<td>EUR 0</td>
</tr>
<tr>
<td>April 6</td>
<td>C.M.S. Smits- Nusteling</td>
<td>Award of 66,000 conditional restricted KPN shares</td>
<td>EUR 0</td>
</tr>
<tr>
<td>April 6</td>
<td>J.B.P. Coopmans</td>
<td>Award of 66,000 conditional restricted KPN shares</td>
<td>EUR 0</td>
</tr>
<tr>
<td>April 13</td>
<td>E. Blok</td>
<td>Exchange of 30,745 restricted KPN shares for 30,745 unconditional shares upon fulfillment of performance criterion</td>
<td>EUR 0</td>
</tr>
<tr>
<td>April 13</td>
<td>C.M.S. Smits-Nusteling</td>
<td>Exchange of 2,375 restricted KPN shares for 2,375 unconditional shares upon fulfillment of performance criterion</td>
<td>EUR 0</td>
</tr>
<tr>
<td>April 18</td>
<td>E. Blok</td>
<td>Exchange of 63,502 conditional KPN shares for 65,253 unconditional shares upon fulfillment of performance criterion, Sale of 48,410 shares for income tax settlement related to vesting of shares</td>
<td>EUR 0, Average selling price shares: 11.78</td>
</tr>
<tr>
<td>April 18</td>
<td>J.B.P. Coopmans</td>
<td>Exchange of 55,219 conditional KPN shares for 82,829 unconditional shares upon fulfillment of performance criterion, Sale of 42,096 shares for income tax settlement related to vesting of shares</td>
<td>EUR 0, Average selling price shares: 11.78</td>
</tr>
<tr>
<td>September 1</td>
<td>J.B.P. Coopmans</td>
<td>Exchange of 31,683 restricted KPN shares for 31,683 unconditional shares upon fulfillment of performance criterion</td>
<td>EUR 0</td>
</tr>
</tbody>
</table>

Subcode ‘Inside Information’

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

The Foundation Preference Shares B KPN (‘Stichting Preferente Aandelen B KPN’)

According to its Articles of Association, the statutory goal of the Foundation Preference Shares B KPN (the ‘Foundation’) ‘is to protect KPN’s interests (which includes the interests of stakeholders, such as customers, shareholders and employees), by, amongst others, protecting KPN from influences that may threaten the continuity, independence and identity.’ Consequently, in the event of any circumstances where the Company is subject to influences as described above and taking public security considerations into account, the Board of the Foundation may decide to exercise the call option (as described below), with a view to enabling the Company to determine its position in relation to the circumstances as referred to above, and seek alternatives. The Board of the Foundation is of the opinion that under normal circumstances it should not exercise its voting rights for longer than a limited period. The Board of the Foundation considers it undesirable for the Board of Management to ignore a shift in the balance of power in the AGM over an extended period of time per event. It is furthermore undesirable that the Board of Management would (be able to) use anti-takeover measures to further the personal interests of individuals involved with the Company.

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

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

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

Upon exercise of the call option, 25% of the nominal value of EUR 0.24 per Class B preference share needs to be paid by the Foundation. The Board of Management can decide to request the Foundation to pay the remainder. Such decision is subject to the approval of the Supervisory Board.
KPN defines risks as any uncertainties regarding the achievement of its main objectives under the ‘Strengthen–Simplify–Grow’ strategy.

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

### Risk appetite

In January 2012, the Board of Management discussed and updated the risk appetite of KPN Group. Risk appetite is defined as the total impact of risk that KPN is willing to accept in the pursuit of its (strategic) objectives. The risk appetite was discussed and determined by means of an internally developed dashboard. In the dashboard several risk themes were defined like financial, business, compliance and security themes. For each theme the appetite was discussed and determined by means of an updated 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 Board of Management stimulates entrepreneurship within KPN and encourages Segments financial discipline. The Board of Management stimulates entrepreneurship within KPN and encourages Segments financial discipline.

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

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

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

### Principal risks

Taking risks is inherent in doing business and the successful management of these risks delivers return to KPN’s stakeholders. The table on pages 48 and 49 shows the principal strategic, operational, financial, financial reporting, regulatory and compliance risks KPN is facing and mitigating factors and initiatives taken to manage these risks. These risks could prevent KPN from achieving its objectives and mitigating factors and initiatives are taken to manage these risks. This is not intended to be an extensive analysis of all risks affecting KPN’s business. The principal risks are presented in random order. The risks of the economic downturn especially, may have significant impact on KPN’s performance and results in 2012. In the business plans for the next three years, KPN has included scenario analyses (like Monte Carlo simulations) to estimate the possible impact of the worsened economic climate on the Company’s revenues, EBITDA, cash flow and financial framework for 2012 and following years. Based on these scenario analyses, KPN has defined contingency plans to mitigate the impact of the economic crisis as much as possible.

### Internal Risk Management and Control System

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

**Tone at the top**

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

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

In May 2011, KPN held an Ethics and Compliance Survey to address the various cultural and awareness elements of the Compliance Charter. The results of the Survey were discussed with the Board of Management and with the top 70 management in the Netherlands during the integrity workshop. A new Ethics and Compliance Survey will be held in 2012.
Code of Conduct
KPN is conscious of its social and ethical responsibilities and wishes to ensure that work practices across the Company are in compliance with the law and regulations and consistent with social and ethical norms. For this purpose, KPN has a Code of Conduct, which sets out the key values: personal, trust and simplicity. KPN can be held accountable for its performance by all of its stakeholders (customers, shareholders, employees, business associates, competitors, environmental organizations, international business relations and the community in the broadest sense). The Code of Conduct is available on the KPN website (www.kpn.com).

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

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

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

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

As of Q3 2011 the business risk management approach of KPN (formerly known as Strategic Business Risk Assessment (SBRA)) is fully integrated in the Planning and Control cycle. This implies that every quarter segments perform a ‘most likely’ forecast six quarters ahead on their main financials and key performance indicators (the ‘Rolling Forecast’). Combined with the Rolling Forecast, Segments identify the main risks and opportunities, so a bandwidth around expected performance can be determined. These risks and opportunities are discussed during the business reviews with the Board of Management.

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

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

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

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

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

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

In January 2012, the Board of Management performed an annual risk assessment to identify the main strategic risks of the Company, that will also give focus on the main attention areas for GRIP in next years.
**Risk** | **Description and impact** | **Mitigating factors and counter measures**
--- | --- | ---
**Increased competition, especially in mobile and broadband market** | Mobile  
- Significant increase of investment in customer acquisition and retention costs by the competition: this could put further pressure on KPN’s market share in the mobile market in the Netherlands or may increase KPN’s acquisition costs.  
- New market entrants may lead to a loss of KPN’s mobile market share or results. |  
- Maintain balance between profitability and incentives to customers  
- Innovation of products and services  
- Expand distribution footprint  
- Investment in quality  
- Multi-brand strategy  
- Further enhance regionalization strategy in Germany and Belgium  
- Acceleration of mobile data penetration in Germany and Belgium  
- Improved postpaid propositions

| **Broadband** |  
- Significant increase of investment in infrastructure by cable companies and improvement of their triple-play portfolio: this could put further pressure on KPN’s market share in the broadband market. |  
- Investments to upgrade KPN network speed to make copper more competitive  
- Ramp-up of fiber roll-out; intensify marketing of FttH and iTV  
- Improve quality of service and execution power

| **Business Market and Corporate Market** |  
- The Dutch business markets are dominated by only a few players in which KPN acts as an incumbent. A new market entrant or further price competition can lead to loss of the KPN business market share. |  
- Improving sales effectiveness Corporate Market and Business market e.g. by means of a sector approach  
- Maintain balance between profitability and incentives to customers

| **Reputation** |  
- KPN’s relationship with its customers, regulators and supervisors could be damaged due to compliance (e.g. security, privacy), operational issues and quality-related incidents. These incidents may include breach of legislation, lack of information security, network failure or insufficient client service or transparency. Such incidents would have a negative impact on KPN’s reputation and customer satisfaction. |  
- Proactiveness in communication with OPTA  
- Benchmark network quality and maintain investment level in network  
- Execution of ‘First-Time-Right’ programs  
- Focus on drivers to improve Net Promoter Score  
- Improving and maintaining a robust control framework dedicated to complying with Telco regulation (CRA framework)

| **New technologies and introduction of new products and services in mobile and fixed markets** |  
- New disruptive technologies and the introduction of new products or services in the market may influence KPN’s business model and profitability in the long run. |  
- Develop new business models and new pricing models  
- Monitoring developments in technology and new market developments  
- Develop strategic partnerships

| **Internal risks** |  
- Business continuity and security: KPN’s technical infrastructure and IT, as perceived by the customers, may be vulnerable to damage or service interruptions, theft or loss of information (caused by power supply interruptions, cyber attacks and other similar events). Furthermore, the mobile infrastructure has to be well equipped to handle the expected data growth in the coming years.  
- Legacy IT systems: legacy IT systems may negatively impact business continuity, flexibility, innovation power, information security and quality of services. |  
- Monitor performance of technical infrastructure and IT  
- Back-up and recovery plans in case of emergencies  
- Benchmark network quality  
- Maintain investment level in network  
- Increase network cooperation between countries  
- Strengthening the IT infrastructure and continued implementation of an enhanced security policy  
- Phase-out of legacy systems and investing in new integrated systems  
- Develop road map towards new IT organization and IT target architecture
<table>
<thead>
<tr>
<th>Risk</th>
<th>Description and impact</th>
<th>Mitigating factors and counter measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal risks (continued)</td>
<td>Supplier and outsourcing/offshoring risks: KPN could depend too heavily on the ability to obtain adequate supplies of telecommunications equipment, related software and IT services; KPN’s contractors’ ability to build and roll-out telecommunications networks on schedule, and suppliers’ ability to deliver dependable technical support. This could lead to inability to deliver the required services at the right quality level.</td>
<td>Create supplier default scenarios</td>
</tr>
<tr>
<td></td>
<td>Key talent: KPN may not be able to recruit, keep and invest in talents at leadership level and specialised technical levels. This could negatively affect the quality of the work performed by certain functions.</td>
<td>Continued attention to leadership development</td>
</tr>
<tr>
<td></td>
<td>Regulatory compliance: New regulations (e.g. related to MTA and roaming) could impact KPN’s future operations and results.</td>
<td>Benchmarking of remuneration programs and on retention measures</td>
</tr>
<tr>
<td></td>
<td>Internal risks (continued)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Possible participation in frequency auction in the Netherlands 2012 and Germany (2013): KPN may not be able to acquire the required frequency blocks or may have to pay too high a price for the acquired spectrum.</td>
<td>Good reputation as an employer</td>
</tr>
<tr>
<td></td>
<td>Financial risks (— some resulting from abovementioned risks)</td>
<td>KPN may not be able to maintain its Net debt / EBITDA ratio within the self-imposed financial framework, due to higher net debt levels and/or lower profitability. In that case, KPN would probably not be able to maintain its current credit rating, which could negatively impact pricing and availability of financing sources.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Return on Capital: High investments in fiber, copper or mobile infrastructure (e.g. to handle the expected growth in data) may not be recovered due to lower revenues or results.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Group equity position may be negatively impacted by impairments of goodwill (specifically Corporate Market, E-Plus) or lower results (or even could lead to Group equity lower than self-imposed minimum thresholds).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Continuing gloomy macroeconomic conditions: If economic climate would continue to decline, this could lead to lower revenue growth and lower results (especially within Business Market and Corporate Market), and may lead to an impairment of goodwill of E-Plus and Corporate Market.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Continued uncertainty in financial markets and the Euro zone, which could negatively impact pricing and availability of KPN’s funding sources.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pensions: Specifically for the Defined Benefit schemes of KPN, (unexpected) movements in interest rates, equity values, inflation rates and mortality rates could lead to volatility in KPN’s equity, cash and P&amp;L. At the end of 2011, KPN faced coverage deficits leading to additional payments relating to most defined benefit plans and increasing P&amp;L charges. Further negative economic developments and turbulence in the financial markets could result in additional cash outflow. Furthermore, if new accounting standards for pensions are endorsed by the EU, this will lead to higher volatility in KPN’s equity position as from 2013.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>
Internal control over financial reporting
Following KPN’s delisting from the NYSE in 2008, the Sarbanes-Oxley Act section 404 (SOx) is no longer applicable. As the Board of Management attaches great value and reliance on a high standard of internal control over financial reporting, KPN continued scoping, design and effectiveness testing of the internal control measures, developed under the SOx program, using the integrated GRIP framework. The controls within GRIP are tested and assessed for effectiveness by dedicated staff year-round. Each quarter KPN assesses the overall effectiveness of the GRIP framework before publication of the quarterly figures. The overall evaluation conclusions are in line with the observations discussed in the Board Report of the external auditors as part of their audit of the 2011 Financial Statements.

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

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

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

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

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

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

- Strategic, operational, financial, financial reporting and regulatory & compliance risks, as discussed in the paragraph ‘Principal risks’; and
- The design and operating effectiveness of the internal risk management and control system, as discussed in the paragraph ‘Internal Risk Management and Control System’ of this Annual Report.
The outcome of this review and analysis was shared with the Audit Committee and Supervisory Board and discussed with KPN’s external auditors.

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

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

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

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

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

The Hague, February 17, 2012

E. Blok  
Chairman of the Board of Management  
and Chief Executive Officer

T. Dirks  
Member of the Board of Management  
and Chief Executive Officer KPN Mobile International

C.M.S. Smits-Nusteling  
Member of the Board of Management  
and Chief Financial Officer

J.B.P. Coopmans  
Member of the Board of Management  
and Managing Director Strategic Programs Simplification, Quality, Reputation & Branding
Telecommunications regulations are, to a large extent, based on EU regulations and directives, but the application is national and depends on national market characteristics. Therefore the regulatory treatment of KPN’s activities in different countries differs. KPN chooses a pro-competition strategy in all countries where it is active.

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

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

Implementation of European Regulatory Framework 2009

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

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

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

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

Market analyses decisions fixed markets (the Netherlands)

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

The decisions for 2009–2011 were characterized by deregulation of end-user markets and tightening of KPN’s wholesale obligations to facilitate this deregulation. The wholesale obligations imposed upon KPN included access obligations and tariff regulation for copper as well as on fibre networks (except for an obligation for wholesale broadband access on Fibre to the Home) and the introduction of a strict margin squeeze preventing rule of conduct. All of the relevant decisions are or have been subject to appeals to the Trade and Industry Appeals Tribunal (‘College van Beroep voor het bedrijfsleven’ or CBB). The appeals to the decisions that have been decided upon by the CBB have resulted in (partial) annulment of OPTA’s decisions, mainly based on conclusion of the court that OPTA had insufficiently proved the definition of the relevant markets on which these decisions were based:
• In 2009 – and upon renewal of the decision of OPTA again on May 3, 2011 – the CBb annulled OPTA’s market analyses decisions on the unbundled local loop market, because OPTA without sufficient grounds have included unbundled local loop access to FttO (ODF access) and FttH networks (ODF access) in the same product market. In its 2011 decision the CBb left the regulation for unbundled access to copper and FttH in place.

• In 2010, the CBb annulled OPTA’s market analyses decision on leased lines. The markets for leased lines remains unregulated until new decisions enter into force in 2012.

• In 2010, the CBb annulled OPTA’s market analyses decision on broadcast (cable) networks, which thereby remains unregulated.

• On May 3, 2011, the CBb concluded that the annulment of the decision on the market for unbundled access of that date should lead to annulment of the decision on the wholesale broadband market. The CBb left the regulation for the wholesale broadband market in place except for High Quality WBA.

• On September 30, 2011, the CBb partially annulled OPTA’s market analyses decision on the fixed telephony market in so far as OPTA had withdrawn retail regulation for the business market as of January 1, 2010 and ordered OPTA to take a new decision on that market.

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

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

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

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

**Market analyses decisions mobile markets (mobile call termination)**

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

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

<table>
<thead>
<tr>
<th>Tariffs in EUR ct/min, as of the dates specified</th>
<th>January 1, 2011</th>
<th>January 1, 2012</th>
<th>January 1, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>All mobile operators</td>
<td>4.20</td>
<td>2.70</td>
<td>2.40</td>
</tr>
<tr>
<td>Germany1</td>
<td>December 1, 2010 – November 30, 2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>T-Mobile</td>
<td>3.38</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vodafone</td>
<td>3.36</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E-Plus</td>
<td>3.36</td>
<td></td>
<td></td>
</tr>
<tr>
<td>O2 (Germany)</td>
<td>3.39</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base</td>
<td>(4.90 after indexation)</td>
<td>(3.11 after indexation)</td>
<td>1.08</td>
</tr>
<tr>
<td>Proximus</td>
<td>(3.94 after indexation)</td>
<td>(2.62 after indexation)</td>
<td>1.08</td>
</tr>
<tr>
<td>Mobistar</td>
<td>(4.29 after indexation)</td>
<td>(2.79 after indexation)</td>
<td>1.08</td>
</tr>
</tbody>
</table>

1) OPTA decision of July 7, 2010 (amended by CBb decision of August 31, 2011).
2) BNetzA decision of November 30, 2010.
3) BIPT decision of June 29, 2010 (appeal procedure running).
With their decisions the National Regulatory Authorities of Belgium and the Netherlands adhered to the EU Commissions Recommendation on the regulatory treatment of fixed and mobile termination rates of May 7, 2009. The Commission recommended applying a ‘pure BULRIC approach’, which no longer takes account various costs which had so far been considered when setting MTRs.

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

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

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

**Supervision by OPTA**

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

**International roaming on mobile networks**

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

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

**Licenses for mobile communications (the Netherlands)**

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

**Licenses for mobile communications (Germany)**

**BNetzA’s 900 MHz Frequency Investigation**

On November 21, 2011, BNetzA published its final decision on the distribution of 900 MHz frequencies in the German mobile market (‘Frequenzverteilungsuntersuchung’). Based on the assumption that only E-Plus will refactor its 900 MHz frequencies to offer both GSM 900 and UMTS 900 services, BNetzA finds that the current distribution of 900 MHz frequencies is not distorting competition in the German mobile market and that it will therefore not reallocate those frequencies until December 31, 2016. E-Plus is evaluating whether to challenge this decision in court.
900 / 1800 MHz usage rights as of January 1, 2017

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

Licenses for mobile communications (Belgium)

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

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

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

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