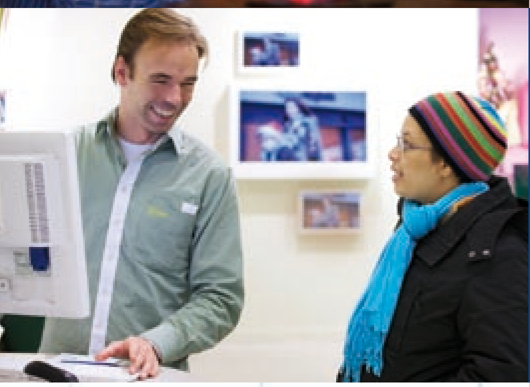


Annual Report 2009

Communication is becoming increasingly important in today's society. It is KPN's mission to enable all our customers – whether they're using our consumer products or our business (ICT) solutions – to enrich their work and leisure time with our range of communication services.

We aid communication anytime, anywhere by giving our customers the ability to access information and entertainment on any communication device, be it a (mobile) phone, a computer, a PDA or a television set.

Our customers trust us to do this with the eye for quality and reliability that they have come to expect from us. To best serve our retail customers we let them choose from a range of brands that suit different needs and customer groups. Whether premium quality, value-for-money, or transparent price plans are desired, our local brands can offer tailored propositions. For our business clients we provide a diversified portfolio to suit the differing ICT needs of companies ranging from small enterprises to global multinationals.

We believe that satisfied customers are the foundation for profitable growth and, as a result, create value for our shareholders. Equally, we believe that our commitment to quality and customer satisfaction can be realized only if our employees are proud to be KPN employees and are motivated to provide the best possible products and services.

We are conscious of our responsibilities to the wider community; it is our policy to use our knowledge and technology to contribute to the well-being of all our stakeholders. We do this by enabling people to stay in touch, with extra attention to those who are hindered by sickness, age or cultural differences. We are also actively taking steps to limit our impact on the environment as a whole.

Contents

Forward-looking statements

Certain of the statements we have made in this Annual Report are 'forward-looking statements'. These statements are based on our beliefs and assumptions and on information currently available to us. They include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance or expense improvements and the effects of future legislation or regulation.

Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words 'believe', 'expect', 'plan', 'intend', 'anticipate', 'estimate', 'predict', 'potential', 'continue', 'may', 'will', 'should', 'could', 'shall', or the negative of these terms or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. No undue reliance should be put on any forward-looking statements. Unless required by applicable law or applicable rules of the stock exchange on which our securities are listed, we have neither the intention nor an obligation to update forward-looking statements after distribution of this Annual Report.

KPN brings people closer together. We use our technology and our services to connect people so that they can share important moments in their lives. That's where our strength lies.

KPN is a leading international telecommunications service provider. We offer products and services that are easy to use and that help customers achieve personal goals or business objectives.

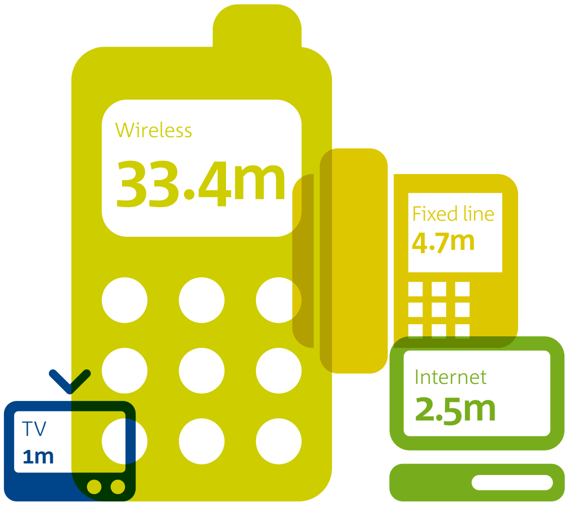
We have been bringing people together for over 125 years. We want to offer our customers more communication opportunities and above all we try to simplify our telecommunications services. KPN serves people of all ages and we listen to what people and companies want. Therefore, we work under a range of brand names, each offering an easy to understand range of products and services. We're committed to continually improving our services.

KPN plays a major part in developing services that define the future, such as Interactive TV, InternetPlusBellen and Mobile TV.

International service provider

In the Netherlands, KPN is the #1 supplier of telecommunications and IT services. KPN offers consumers fixed and mobile telephony, internet and television. KPN offers business customers complete telecommunications and IT solutions. Getronics offers global IT services and is the Benelux market leader in the area of infrastructure and network related IT solutions.

In Germany and Belgium, KPN pursues a multi-brand strategy in the mobile market. With E-Plus and KPN Group Belgium, KPN is the #3 telecommunications service provider in these markets. Through iBasis, KPN manages an efficient, IP-based infrastructure that we use to offer global network services to other operators.



Customer base at December 31, 2009

Customers

At December 31, 2009, KPN served 33.4 million customers in wireless services, 4.7 million in wireline voice, 2.5 million in broadband Internet and 1 million in TV. With 20,755 FTEs in the Netherlands (33,148 FTEs for the whole group), KPN reported revenues of EUR 13.5 billion and an EBITDA of EUR 5.2 billion in 2009.

Our core values

Simplicity

The high-tech world of ICT and telecom is complex by definition. We strive to make things simple: simple for our customers, simple for our staff, and simple for the community as a whole.

Personal touch

How one communicates is personal. Therefore we aim to provide a range of products that cater to our customers differing personal and business needs, thus enabling communication.

Reliability

KPN is renowned for the quality and reliability of our products. For us it's about more than just providing the latest technologies with the newest gadgets, for us it's about going that extra mile for our customers.

KPN has been bringing people together for over

125 years

Our ‘Back to Growth’ strategy is specifically directed at increasing market share and profit. KPN aims to remain in the premier league of European telecom operators.

KPN wants to serve more people and companies with its products and services. We never stop working on improving our services.

Our markets

With fixed and mobile telephony, internet and television, KPN offers a wide range of services in the areas of communication, information, entertainment and commercial services. Whether it’s our child friendly internet browser ‘mybee’, special mobile phones for senior citizens or highly advance network services, KPN is there to bring people together. KPN also plays a major part in developing services that define the future such as Interactive TV, reliable and high speed Internet & Telephony and mobile services.

KPN offers companies total IT solutions. Getronics, a KPN company, specializes in workspace management, data center & hosting services and IT consultancy for corporate customers. In 2009 we continued developing our products and services for the New Way of Working. This selection of products and services enables flexible working and a better work-life balance. Very high speed internet connections are becoming increasingly available for household use due to our stepwise fiber network roll-out in the Netherlands. Fiber networks also enable remote delivery of health care and other social services.

KPN also provides other telecom operators and service providers with telecom services.

With E-Plus and KPN Group Belgium, KPN Mobile International is a challenger on the German and Belgian mobile markets. Mobile International offers business and retail customers an alternative to the traditional dominant suppliers in these countries.

Corporate social responsibility

KPN contributes to helping solve major social issues. We focus on issues where we can use our knowledge and experience to really make a difference. That’s true for climate change, work-life balance, mobility issues and the problem of social isolation.

We want to be the best service provider in the telecommunications industry. KPN is convinced that corporate social responsibility (CSR) brings that objective closer. CSR also connects us to our customers. By listening carefully to society, we learn where opportunities and challenges lie and we stay abreast of what’s going on in the market.

Hundreds of KPN people volunteer to work on CSR projects that are part of the CSR foundation: ‘Mooiste contact Fonds’, a KPN initiative. They experience personally what it means to be of service which will enhance KPN’s service culture.

The Netherlands

Consumer	By providing fixed and mobile telephony, internet and TV, KPN offers retail customers a broad package of services in the areas of communications, information, entertainment and commercial services.
Business	KPN offers its business customers a complete portfolio of services from voice and internet to a range of data network services.
Getronics	KPN's subsidiary Getronics operates a global ICT services company with a market-leading position in the Benelux, offering end-to-end solutions in infrastructure and network-related IT to KPN's largests customers.
Wholesale & Operations	Wholesale & Operations (W&O) is responsible for KPN's operational activities, for the Dutch networks (both fixed and mobile) and for KPN's wholesale customers and portfolio in the Netherlands.

Mobile International

Germany	E-Plus Gruppe was launched in 1993 and became part of KPN Group in 2000. E-Plus Gruppe is the successful Challenger network operator with own brands and partners.
Belgium	KPN Group Belgium is part of the KPN Group as of 1998. KPN Group Belgium is the successful Challenger network operator with own brands (BASE) and partners.
Spain	In 2008 KPN Spain was launched as a MVNO, offering mobile services through own brands and partners.
France	In 2009 KPN France was launched as a MVNO, offering mobile services through own brands and partners.
Rest of World	'Rest of World' offers mobile services through own brands and partners targetting specific customer segments.

The Netherlands

External revenues

70%

€9,272m
(2008: €10,281m)

EBITDA

70%

€3,687m
(2008: €3,674m)

	Share in Group external revenues	Share in Group EBITDA
Consumer	29%	20%
Business	17%	15%
Getronics	15%	1%
Wholesale & Operations	9%	34%

Mobile international

External revenues

30%

€4,037m
(2008: €3,994m)

EBITDA

30%

€1,553m
(2008: €1,473m)

	Share in Group external revenues	Share in Group EBITDA
Germany	23%	26%
Belgium	6%	5%
Rest of World	1%	-1%

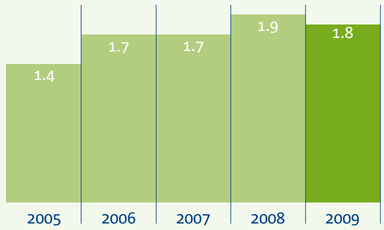
KPN Group

Revenues and other income
(in billions of EUR)

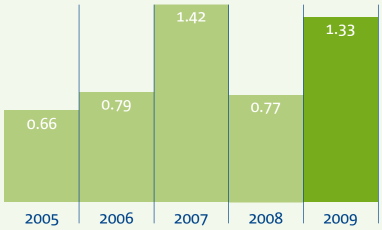
Free cash flow[2]
(in billions of EUR)

EBITDA[1] (in billions of EUR)/
EBITDA margin[6]

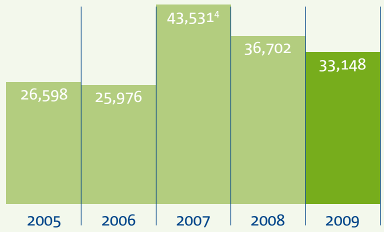
Capital expenditure[3]
(in billions of EUR)



Earnings per share
(EUR)

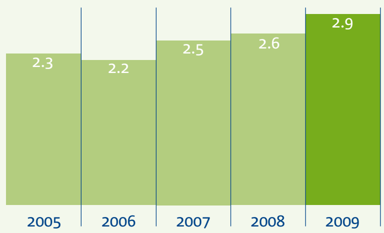


Number of FTEs as of December 31



Net debt/EBITDA[5]

Operating profit
(in billions of EUR)



1) This Annual Report contains a number of non-IFRS measures, such as EBITDA and free cash flow. These non-IFRS measures should not be viewed as a substitute for KPN's IFRS measures. EBITDA is defined as operating profit plus depreciation, amortization and impairments.
2) Free cash flow is defined as cash flow from operating activities plus proceeds from real estate, minus capital expenditures, being expenditures on property, plant and equipment and software, and excluding tax recapture regarding E-Plus.
3) Capital expenditure includes Property, plant and equipment and software.
4) The increase in the number of FTEs in 2007 resulted mainly from the acquisition of Getronics.
5) For a calculation of the Net debt/EBITDA ratio, see Note 29 to the Consolidated Financial Statements.
6) EBITDA margin is a % of revenues and other income.

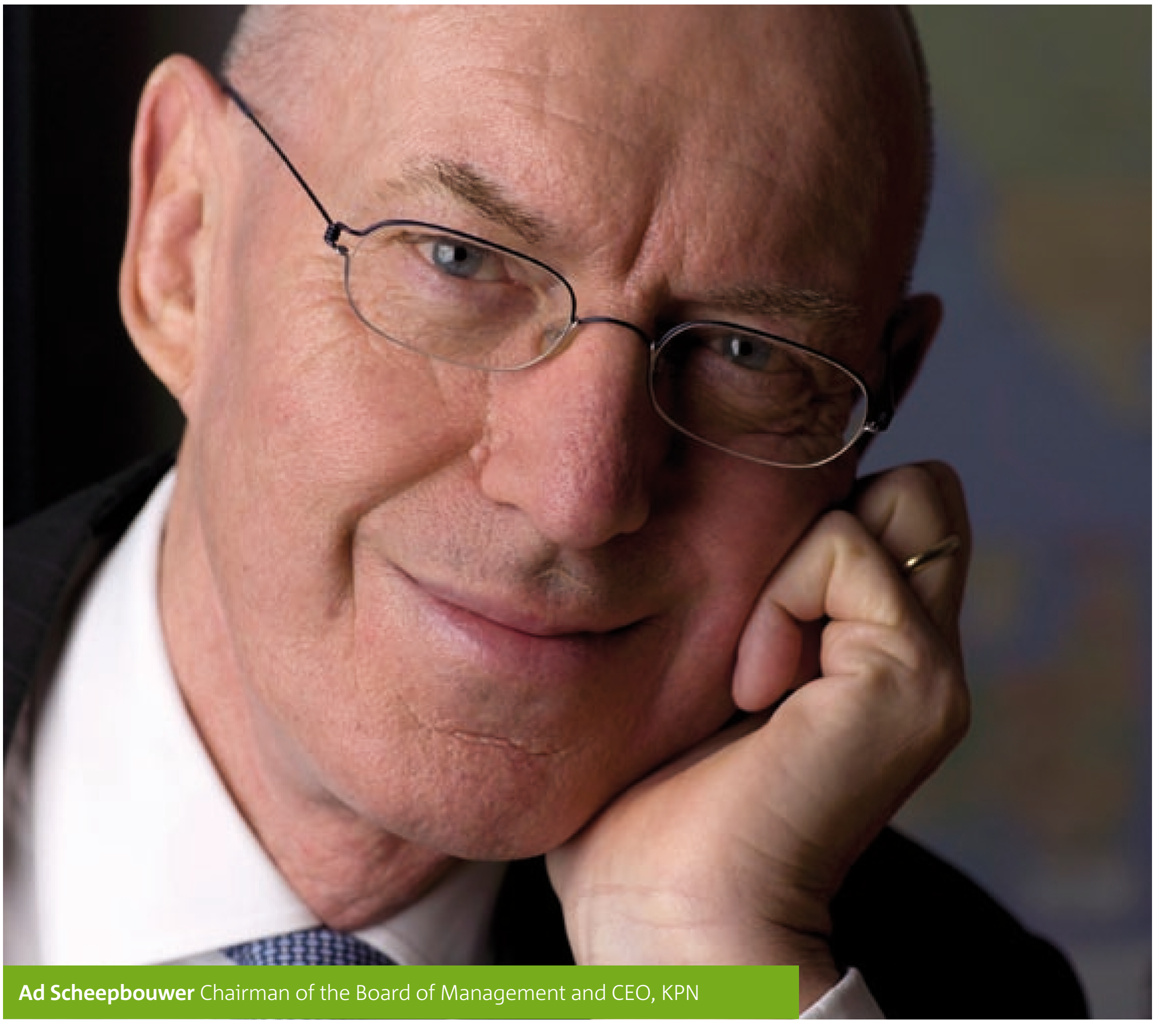
KPN is becoming a more customer oriented service company. Even in economically turbulent times, the results show strong market shares, EBITDA and cash flow.

Considering the major economic slowdown, KPN was able to report good results for the year 2009 and was able to meet expectations. Due to early adaption and cost savings, we minimized the effects of the recession. We took action by focusing on valuable customers and shifting from revenues to market shares and profitability. The proactive contingency plans helped to protect cash flows and the dividend per share is up by 15%.

KPN is committed to its customers, their well-being and business success, and realizes every day that the services are vital for them. Hospitals, ports and factories rely on KPN. Thanks to the high quality connections, KPN increasingly facilitates a society in which people can work any time, any place. It creates a new work-life balance.

KPN made extra effort to increase its quality of service. Major infrastructure investments, service levels going up and customer complaints going down, due to the First-Time-Right principle, have been the result. We are committed to remain ambitious on this topic and we have set targets for further improvement. All initiatives and hard work in each and every segment of KPN is leading towards a common goal: to strenghten the position as a leading ICT service provider in the Benelux, and to strive to be the best network operator.

Especially for a service company like KPN our employees are the most important asset crucial for customer contact and operations. KPN continued to reduce its FTE headcount in the Netherlands, but will ensure that



Ad Scheepbouwer Chairman of the Board of Management and CEO, KPN employees receive proper assistance in finding new positions inside or outside the organization. Despite ongoing FTE reduction the employees' engagement score is up compared to last year. In order to achieve a diverse company, we launched an affirmative action program for women in top management positions.

In the Consumer Segment the wireless business showed increased profitability and focused on customer value. The mobile market in the Netherlands has become a three-player market. We managed to retain our good market position and made our activities more profitable. There was an increase in profitability for consumer wireline as a result of value and cost focus. Line loss is stable at low levels, driven by retention and upselling with broadband. KPN saw a continued growth in TV. Our goal to reach 1 million TV subscribers in 2010 has been realized. Furthermore we are scaling up IPTV.

Revenues in the business markets were under pressure, with lower traffic volumes and roaming, continued price pressure, and a decline in enterprise services and consulting. Also KPN received requests for contract renegotiations and some investment decisions were postponed. Nevertheless, the business market maintained its leading position with overall stable market share and solid financial performance. In 2009, Getronics assumed full responsibility for the corporate ICT market, offering both its own ICT services in this market as well as KPN's infrastructure services, including wireless services. Getronics also felt the impact of the economic downturn, but is on track for an EBITDA uplift in 2010.

Wholesale & Operations realized substantial cost reductions and completed further network upgrades. The cost base was lowered in line with the revenue trend, driven by efficiency improvements, procurement and cost containment. In 2008, KPN acquired a minority share in Reggefiber Group B.V. for jointly rolling out open Fiber-to-the-Home networks. In 2009 the first customers were connected to the fiber network and our aim is to connect many more users to this network in the coming years. In December 2009, KPN announced its commitment to a regional fiber roll-out. Our wholesale carrier of international voice traffic, iBasis, focused in 2009 on profitability rather than volumes, driving EBITDA and cash flow. The tender offer for outstanding shares which were not owned by KPN was succesfully completed in December 2009.

The Challenger strategy of Mobile International is delivering continued market outperformance and profitability. In Belgium, with KPN Group Belgium, the ongoing implementation of the Challenger strategy is paying off. We are the market outperformer as a result of initiatives taken during the year. In Germany, with E-Plus, we will further implement and execute the Challenger strategy. Initiatives are in progress to expand the addressable market by moving into geographical regions and market segments that are currently underrepresented. In the Rest of World segment, KPN has its MVNOs in Spain and France, which are on track. The results of Ortel, with operations in the Netherlands, Belgium and Germany, are gradually improving.

During the year we held several stakeholder meetings to further understand the needs and desires of the stakeholders and address any issues. KPN's corporate social responsibility (CSR) policy is an integral part of the Company. The three themes of the CSR policy fit within KPN's business, focusing on areas where KPN can make meaningful contributions. KPN is committed to enabling flexible ways of working, to allow workers to find a good balance between their working and private lives and help resolve commuting and mobility issues. KPN provided 3,600 flexible workplaces and installed ICT equipment allowing staff to work from home or other locations. Another issue is energy. The telecoms industry is one of the biggest energy consumers in the Netherlands. KPN accepts its responsibility and has set an ambitious target to become climate-neutral by 2020. In a world of internet and mobile telephony not everybody manages to stay in touch, and there is a threat of social isolation. KPN initiates and supports a wide variety of projects to help connect people. In 2009, our employees participated in 2,000 days as volunteers for this foundation.

KPN is on track strategically, is soundly financed and confident of achieving its 2010 objectives. Therefore, we can confirm the outlook for 2010. On February 4, 2010, KPN has started a new EUR 1 billion share repurchase programme. We continue to appreciate the support and trust received from our shareholders. For 2011 we indicate ongoing growth of EBITDA, free cash flow and dividend per share. I look forward to a year with many business challenges and opportunities.

In a world full of economic challenges and changing technology we stay committed to our customers and the society KPN works and lives in.

Ad Scheepbouwer

Ad Scheepbouwer
Chairman of the Board of Management and CEO

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. Analysts' meetings and conference calls were organized after the publication of the quarterly results and broadcasted live via the 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 the 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). The deregistration from the United States Securities Exchange Act by KPN also covered its outstanding USD denominated bonds issued in 2000. KPN's obligations to its bondholders was not affected by the deregistration. Furthermore, KPN delisted its ordinary shares from the London Stock Exchange as of April 24, 2008, and from the Frankfurt Stock Exchange as of August 13, 2008.

KPN shares are included amongst others in the following leading indices (weightings at December 31, 2009): AEX 7.65%, DJ Europe Telecom 10.25%, DJS Telecom 6.10%, FTSE Eurofirst 300 Telecom 0.43% and MSCI Euro 0.99%.

Share ownership

KPN's ordinary shares are held in bearer form or held in the form of ordinary shares registered in its share register in The Hague, the Netherlands. At the General Meeting of Shareholders (AGM) of April 12, 2005, it was decided that the conversion of shares in bearer form into ordinary registered form is not possible anymore. Conversion of ordinary registered shares in ordinary bearer shares remains possible. On September 22, 2006, the State of the Netherlands sold the remainder of its share in KPN.

Capital Group International, Inc., and Capital Research and Management Company have notified the AFM that they held 4.97% (June 27, 2007) and 9.79% (May 12, 2009) respectively of the ordinary shares of KPN. Capital Research and Management Company notified the AFM on January 1, 2010, that they held 10.68% in KPN's ordinary shares. BlackRock, Inc. notified the AFM on February 5, 2010, that they held 5.05% in KPN's ordinary shares. To KPN's knowledge, no other shareholder owned 5% or more of its outstanding shares as at December 31, 2009.

Dividend policy

On February 5, 2008, KPN announced an updated mid-term dividend policy, increasing the percentage of annual free cash flow paid out as dividend. The percentage paid out as dividend is 40 – 50% in the medium term, based on an adjusted definition for free cash flow. Free cash flow is defined as cash flow from operating activities plus proceeds from real estate, minus capital expenditures, being expenditures on property, plant and equipment and software, and excluding tax recapture regarding E-Plus.

Dividend per share is expected to increase from EUR 0.60 in 2008 to EUR 0.80 in 2010 and at least EUR 0.85 in 2011, driven by the 'Back to Growth' strategy and supported by continued share repurchases. KPN proposed to declare a cash dividend of EUR 0.69 per share in respect of the year ending December 31, 2009, of which EUR 0.23 was paid out as an interim dividend in August 2009. The proposed dividend will be presented for approval at the AGM to be held on April 13, 2010, and, upon approval, paid out as from April 23, 2010.

This policy may change and is based on a number of assumptions concerning future events and is subject to uncertainties and risks that are outside KPN's control.

Financial policy

KPN seeks to ensure that net debt to EBITDA (operating result plus depreciation, amortization and impairments) remains within the range of 2.0 to 2.5 times. Furthermore, KPN intends to maintain a minimum credit rating of Baa2 (Moody's) and BBB (Standard & Poor's). KPN expects that this financial policy will allow KPN to continue with its policy of accommodating an attractive dividend policy, while maintaining flexibility to grow and invest in its business.

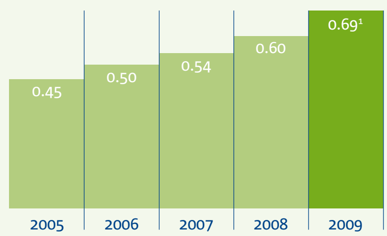
This policy may change and is based on a number of assumptions concerning future events and is subject to uncertainties and risks that are outside KPN's control.

KPN Shareholding
Estimated geographic breakdown

United States	35 – 40%
United Kingdom	25 – 30%
France	5 – 10%
Germany	5 – 10%
Netherlands	5 – 10%
Rest of World	10 – 15%

Source: Thomson Shareholder ID Q3 2009

Dividend per share
(EUR)



1) The proposed dividend for 2009 consists of a cash dividend of EUR 0.69 per share of which EUR 0.23 was paid out as an interim dividend.

Share repurchase program

KPN reaffirms it has no intention to hold unutilized surplus cash balances. KPN intends to return surplus cash to shareholders either through additional special dividends or share repurchases. Such repurchases will only be undertaken at a price which enhances value for the remaining shareholders. Under the share repurchase program announced on October 22, 2008, KPN repurchased 96.2 million shares at an average price of EUR 10.39 for a total amount of EUR 1.0 billion (for details see table below). During 2009, a total of 85.5 million ordinary shares, which were acquired in 2009 and 2008, were cancelled. The number of outstanding shares as per December 31, 2009, amounted to 1,628,855,322, representing a reduction of arround 35% of outstanding shares since the start of share repurchases in March 2004.

Within the context of the financial policy, KPN announced on January 26, 2010, to repurchase EUR 1.0 billion of its own shares. The repurchase program is expected to be finalized by the end of 2010. This program has started on February 4, 2010.

The number of shares repurchased under the share repurchase program as announced on October 22, 2008, is as follows:

Period	Number of shares purchased as part of publicly announced programs	Average price paid per share in EUR	Maximum amount of share repurchases to be made under the programs (in EUR)
October	-	-	1,000,000,000
November	1,576,910	10.60	983,286,740
December	8,088,259	10.53	898,136,271
January	12,964,568	10.36	763,818,366
February	7,332,522	10.49	686,864,311
March	10,560,628	9.87	582,598,769
April	6,197,100	9.55	523,418,033
May	12,870,574	9.27	404,100,969
June	2,164,650	9.31	383,937,843
July	6,599,223	9.93	318,388,436
August	5,626,797	10.57	258,905,310
September	8,211,629	11.09	167,833,046
October	6,793,349	11.89	87,047,128
November	6,401,573	12.04	9,950,184
December	831,341	11.97	5
Total	**96,219,123**	**10.39**	

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 financieel toezicht' 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 2010

April 13, 2010: Annual General Meeting of Shareholders
April 15, 2010: Ex-dividend listing of shares
April 23, 2010: Start of payment of 2009 final dividend
April 27, 2010: Publication of results for the first quarter of 2010
July 27, 2010: Publication of results for the second quarter of 2010
October 26, 2010: Publication of results for the third quarter of 2010
January 26, 2011: Publication of results for the fourth quarter of 2010

Note that these dates may be subject to change.

Share price 2006-2009

Source: Bloomberg, prices rebased on KPN share price of EUR 10.77 on January 1, 2007

Organizational structure

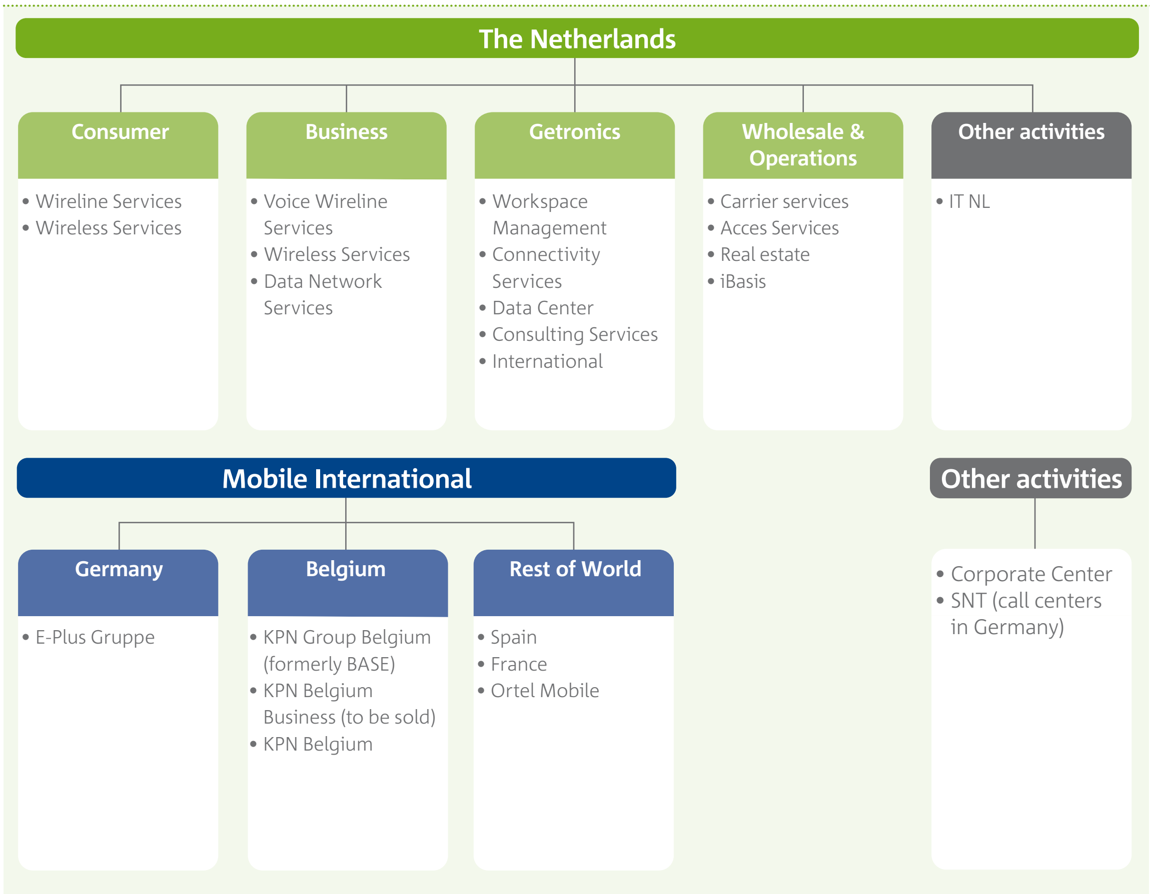
KPN's organization in the Netherlands consists of five segments: Consumer, Business, Getronics, Wholesale & Operations and Other activities. The Segments for Consumer, Business and Getronics operate with a strong external customer focus; the Wholesale & Operations Segment provides network services to internal KPN segments and external Wholesale customers with a strong emphasis on operational excellence.

Outside the Netherlands, the Mobile International segment comprises the operations in Germany, Belgium and the Rest of World.

Other activities comprises the Corporate Center and the SNT call centers in Germany.

As of January 1, 2009, some organizational changes took place of which the most important are the integration of certain units (Application Management Systems, Enterprise Communication Solutions and Corporate Solutions) of the Business Segment into Getronics, the migration of Mobile Wholesale NL to the Consumer Segment, the operations in Belgium reporting as one segment and the migration of SNT from the Consumer Segment to Other activities.

The overview below reflect the organizational structure as of December 31, 2009. The activities of each segment are described in more detail from page 14 onwards.



In 2008 KPN set its strategic ambitions with an emphasis on returning 'Back to Growth'. The year 2009 was the second year of implementation and even though the year was colored by the economic downturn, KPN remained one of the top performers among European telecom operators. This year KPN shifted its focus to value creation through profitability, free cash flow and market share, whilst focusing less on revenue growth. KPN is reaching these targets through productivity improvements and continued cost reductions, which in turn also allows KPN to keep investing in new growth initiatives. When it comes to new technologies, KPN is an innovation leader in some areas, while aiming to be a smart follower in others.

In the Netherlands, KPN remains the integrated market leader in telecommunications and a leading business ICT service provider. KPN is simplifying both its front-end customer facing units and back-end network unit. This simplification will lead to both an increase in customer satisfaction and significant cost reductions. Next to simplifying its network, KPN strives to be the 'Best-in-Class' network operator.

KPN continues to focus on growth. Important growth areas in the Consumer Segment are TV, fiber and mobile data, for the Business segment growth will stem from IP based services and mobile data.

Getronics aims to strengthen its position as the leading ICT service provider and consultant in the Benelux, with a focus on end-to-end solutions. This includes workspace management, connectivity services and data centers. Globally, Getronics offers high quality services through the Getronics Workspace Alliance. With the finalization of the acquisition of iBasis, KPN has become one of the leading carriers of international voice and data traffic in the world.

KPN's mobile footprint now covers the Netherlands, Belgium, Germany, France and Spain. All mobile activities outside the Netherlands are centralized in the Mobile International division. The strategy of Mobile International is positioned around consumers by addressing specific market segments through offering relevant 'value for money' services via a multitude of – own and partner – brands, creating a customer pull. Operations are outsourced to achieve scale and share risk. The technology investments focus on return on capital employed based on proven demand for the services that are relevant to KPN's customer segments. Following the success of this business model in Belgium and Germany, KPN has launched similar services in two other large European markets, France and Spain.

Outlook

KPN was able to achieve good results in 2009 clearly reflecting the stated focus on EBITDA, cash flow and market shares rather than revenues. As presented in the table below, the 2009 results met the EBITDA, CAPEX and free cash flow guidance, while revenues and other income came in slightly below guidance mainly due to iBasis, Getronics and the impact of regulation.

Outlook 2010

During the first two years of the 'Back to Growth' strategy, solid progress was made towards the outlined strategic objectives. EBITDA inflection was reached in the Netherlands, leveraging KPN's strong positions in its home markets. Getronics has been integrated with part of KPN's Business Segment and has delivered robust profitability despite the economic downturn. Mobile International continued to outperform its markets. In summary, KPN is on track strategically, remains soundly financed, has delivered a solid performance in 2008 and 2009 through substantial cost reductions in its core business without compromising on quality of service and overall 'health' of the business. KPN confirms its 2010 outlook and is confident it can deliver on the strategic objectives for 2010 as outlined in the table.

KPN remains committed to deliver industry-leading shareholder returns and confirms the EUR 0.80 dividend per share target for 2010 and has announced a EUR 1 bn share buyback program for 2010 which started on February 4, 2010.

Outlook 2011

The strategic direction and ambitions that were outlined in the 'Back to Growth' strategy will be continued in 2011. KPN will maintain its prudent financing policy whereby redemptions are financed well in advance. KPN remains committed to the minimum credit rating of BBB (S&P) and Baa2 (Moody's) and to the self-imposed net debt to EBITDA range of 2.0 to 2.5x. This policy includes a selective approach on M&A with a clear focus on value creation. Furthermore, KPN will maintain its shareholder remuneration policy with commitment to a growing dividend per share and using surplus cash for share repurchases.

For 2011, KPN expects a growing EBITDA, free cash flow and dividend per share. KPN is targeting a dividend per share of at least EUR 0.85 for 2011.

Guidance metrics (in billions of euro, except dividend per share)	Outlook 2009	Reported 2009	Outlook 2010	Outlook 2011
Revenues and other income (existing)	EUR 13.6 – 13.8	EUR 13.5	In line with 2009	
EBITDA	Meaningful step towards 2010 target	EUR 5.2	> EUR 5.5	Growing EBITDA
CAPEX	EUR 1.8 – 1.9	EUR 1.8	< EUR 2.0	
Free cash flow	~ EUR 2.4	>EUR 2.4	> EUR 2.4	Growing free cash flow
Dividend per share	Meaningful step towards 2010 target of EUR 0.80	EUR 0.69	EUR 0.80	At least EUR 0.85

Consumer

KPN offers consumers a complete portfolio of services, consisting of Voice, Internet and TV services. KPN provides this portfolio on both its mobile and fixed networks. KPN's strategy in the Consumer Segment focuses on strengthening its position as the leading consumer service provider. KPN's main objectives are a continued focus on its customers, halting the decline of traditional fixed line customers and a simplification in the brand portfolio. With regard to the latter, KPN has effectively made the transition to four key brands in 2009: KPN, Telfort, XS4ALL and Hi.

- KPN is the quality brand for the general Dutch market, offering a complete portfolio built around its solid and trustworthy image;
- Telfort targets the price sensitive customer, offering clear and low-priced fixed and wireless products;
- XS4ALL is Consumer Segment's high-end broadband provider aiming at customers with heavy (quality) demands; and
- Hi targets young people with a dedicated wireless portfolio focussing on social networking capabilities.

In the last quarter of 2009, Het Net has been phased out and existing customers have been migrated to the KPN brand.

Wireline Services (Internet, Telephony and TV)

In a mature and competitive broadband market, KPN managed to consolidate its market position. The phasing-out of KPN's ISP brand 'Het Net' had a slightly negative effect on churn and broadband market share. Helped by a minor acquisition of AOL's Dutch customer base, KPN Consumer Segment maintained its broadband market share at 43 %. The KPN brand (including Het Net) became the largest Dutch broadband provider, ending the year with 1.8 million customers. The total customer base of all brands together increased to almost 2.6 million in 2009. XS4ALL enjoyed the highest qualification from the Dutch Consumer Organization (Consumentenbond), based on a variety of aspects such as the quality of the Internet connection and the number of distortions.

KPN continues to address the loss of traditional fixed lines through its multi-brand propositions and retention program. This includes, for example, the migration of customers to the integrated internet and telephony offers from the KPN, Telfort, and XS4ALL brands.

KPN's basic TV proposition – Digitenne – and premium TV product – IPTV – have gained considerable market share and KPN intends to continue this trend. Many customers value either the simplicity and ease of use of Digitenne or the extensive capabilities such as Video on Demand and recording services of IPTV. In 2009, Digitenne and IPTV reached nearly 1 million customers, providing critical mass and strengthening KPN's TV market share. At the end of 2009, the deployment of VDSL-CO started. This increased the capacity of the network considerably and by mid 2010, KPN can offer many customers the possibility to watch HDTV.

In December 2009, KPN announced its commitment to a regional fiber roll-out. KPN will deploy a mix of infrastructures going forward with fiber, copper (VDSL-CO) and wireless. KPN aims to reach 1.1 to 1.3 million homes (homes passed) with 'Fiber-to-the-Home' (FttH) by 2012. It is expected that this will result in 600 to 800 thousand users (active customers) on fiber (FttH and Fiber-to-the-Curb). The combined technology approach with VDSL and fiber offers KPN the optimal balance between investments and returns.

Wireless Services (Mobile and Wholesale)

KPN continued to be successful in managing its wireless customer base for value. Both in customer numbers and in revenue terms, Consumer Segment consolidated its market leadership, with a slightly lower base market share but a revenue market share that remained strong. This is the result of a customer acquisition approach focused on value and a disciplined attitude towards subscriber acquisition costs (SAC/SRC). With regard to mobile data, KPN sees a heavy increase in the usage of internet services on mobile devices. Not only are KPN's customers using more smart phones, there is also an increase in the usage of mobile internet cards.

KPN has transferred its Dutch Mobile Wholesale activities from the Mobile International Segment to the Consumer Segment as of January 1, 2009. Mobile Wholesale successfully exploits KPN's extended and high quality mobile infrastructure offering MVNO's reliable and attractively priced opportunities in the Dutch market.

Environment and Competition

As for competition, Consumer Segment faced ongoing pressure in all key business lines. Cable companies continued to promote VoIP and high-speed broadband services, packaged with their digital TV products. New initiatives from DSL players on the broadband and IPTV market also affected market conditions. Furthermore, wireless competition remained high due to ongoing commercial activity from Vodafone and T-Mobile. Overall, industry pricing pressure and customer acquisition efforts have intensified across most product and service categories and market segments. This is expected to continue in the face of the economic downturn. As broadband penetration approached a saturation point, DSL and cable-operators have intensified their activities to compete on speed and price to differentiate their product offerings. Despite this background, Consumer Segment's leading position in the Dutch telecom market was maintained in 2009.

Business

KPN offers its business customers a complete portfolio of services, from voice and internet (wireline and wireless) to a range of data network services, workspace management and data center services. The strategic focus of the Business Segment is to remain the leading managed ICT service provider through a focus on customer demand, a migration to IP-based services and cost reductions. The largest clients were transferred to Getronics in 2009.

The Business Segment primarily generates revenues from Voice Wireline, Wireless and Data Network Services. In Voice & internet wireline, KPN offers fixed-line telephony access services over analogue lines (PSTN), digital lines (ISDN) and increasingly over IP-based connectivity (VoIP). With respect to wireless services, KPN offers a wide range of mobile communications solutions. There is a clear customer demand for wireless e-mail solutions (BlackBerry, Windows Mobile) and Mobile Internet Cards. Finally, KPN offers a wide range of Data/Network communication services from traditional data services to modern Virtual Private Network services (such as IP-VPN, Ethernet VPN) and Internet Access Services. KPN provides its business customers also with the Getronics and ApplicationNet portfolio, e.g. workspace-, datacenter- and consultancy services.

With a proactive approach towards new market opportunities, the Business Segment is able to fulfill its 'Back to Growth' objectives by providing those services that customers demand. The Business Segment aspires to reach its strategic goals by focussing on four tactical themes:

1. Service through customer focus
   KPN aims to be the leader in customer loyalty. Using the Net Promoter Score (NPS) concept, customer insights have resulted in fundamental changes in 2009. The ambition to stand out as a service company is achieved by focusing on a personal approach and offering the best solutions for customers. With the introduction of the Customer Relationship Management way of working ('OneCRM'), over 1,800 KPN and Getronics employees work together, enabling them to use an integral view of customer contacts for service and sales purposes.

2. Bundled IP-based services
   Business customers are gradually migrating to IP-based services. This will create opportunities for KPN to bundle a variety of products and services in an integral solution to business customers. In this way logical combinations are created that enable business customers and their employees to work more productively. With the introduction of 'ZIPB' in the SME market KPN offers a fixed-mobile combination with a toolbar in outlook that allows the customer to be reached anytime, anywhere.

3. Mobility solutions
   In a highly competitive market, KPN managed to maintain the largest market share for Mobile Voice and a gain in Mobile Data by offering an embedded Mobile Internet Card (Dongel) standard with a laptop. Customer loyalty increased substantially due to major improvements in the mobile delivery process. In 2010 KPN will extend its mobility efforts as it is an important topic for the Netherlands and for KPN. The New Way of Working ('Het Nieuwe Werken') combines elements that allow customers to implement solutions that support their business objectives and allow for growth. Mobile flexibility helps customers to ensure corporate sustainability, attract a new workforce and work on mobility management. Through offering customers managed value propositions integrating both telecoms and ICT, KPN is able to secure a sustainable position.

4. Best-in-class margins through operational excellence
   KPN's focus on reducing complexity and investing in a better customer experience in 2009 resulted in cost reductions while maintaining customer loyalty. A landmark change was achieved in assisting business clients with relocating offices. Where, using lean process redesigns based on radical simplification, KPN established a major increase in productivity, employee and customers satisfaction. In 2010, breakthrough initiatives will continue to be high on the agenda. The 'Service Excellence' program is expected to further improve the channel performance and thus delivering a trustworthy experience across channels that is above expectations.

5. Growth in new arreas
   On January 1, 2009, the major ICT related units have been migrated to Getronics, accelerating the 'moving up the value chain' strategic objective. The Business Segment continues to pursue growth in areas such as online services, machine-to-machine, and health care. Through partnering with parties like Menzis and Philips, KPN offers a complete e-health experience.

Environment and Competition

KPN is the largest provider in the traditional voice access market. There is continued competitive pressure from Direct Access and Carrier Select and Carrier Preselect competitors, although KPN's position remains stable. The main threat to traditional voice access, however, is substitution by mobile telephony as well as the migration to VoIP services, both strategic focus points for KPN.

Increasing broadband penetration in the market for small enterprises threatens KPN's traditional voice access services (PSTN and ISDN), where KPN encounters competition from cable operators offering VoIP solutions bundled with broadband Internet. The demand for mobile data services continues to grow strongly. KPN launched its mobile data portfolio with its successful marketing campaign 'Dongel of KPN'. The main competitors of KPN in the wireless business market are Vodafone and T-Mobile. Within Data/Network services KPN is the leading provider in the Dutch business market both in terms of revenues and in terms of number of connections. In addition, KPN offers data services in Europe through the KPN EuroRings network as well as worldwide through its partners. Competitors in the data communications services market include Tele2/Versatel, Verizon Business, Orange Business Services, BT, AT&T Business, Colt, Essent, UPC, TNF and BBNed. KPN's competitors invest in the construction of backbone infrastructures in the Netherlands and in local networks in large Dutch cities, comparable to the CityRings network. Local government fiber initiatives also increased the competitive pressure within the Netherlands and introduced new competitors.

In 2009, the Business Segment continued to be the number one partner for communication infrastructure services in the Netherlands. Communication services have become more multi-purpose and more personal. Customers can rely on KPN's trustworthy infrastructure and customer oriented approach towards end-users and workspace solutions. By focusing on value creation for the customer and cost, KPN invests in long term profitable relationships as part of its 'Back to Growth' ambition. Despite the financial crisis, KPN is still on track with EBITDA-growth in the Business Segment.

Getronics

Getronics is the ICT services company of KPN. It is a market leader in workspace management across the Benelux and has a strong presence in fifteen selected countries. This year the integration of Getronics with parts of the Business Segment in the Netherlands has been completed. This ensures maximum service quality/focus for the largest clients now and in the future. Getronics strives to strengthen its position in the Benelux in ICT services and consulting. To achieve this goal, Getronics offers end-to-end solutions centered around workspace management, connectivity solutions and data centers. The Getronics Consulting unit complements its product portfolio with additional professional services.

Workspace Management

As business becomes increasingly web-enabled, and as new models for the commissioning and use of IT and telecommunications emerge, service companies are changing too. Getronics is increasingly acting and perceived as a service integrator, offering its clients a single point of contact for multi-sourced ICT services. Getronics is an acknowledged expert in workspace design and management. This expertise is captured in its standardized and successful Future Ready Workspace offer. Getronics meets the business needs to provide the workforce with a secure and flexible workspace in support of the New Way of Working. This embraces fixed and mobile work-styles, and places a special emphasis on collaboration. Getronics workspace services are focused on three areas:

- Collaboration – with a focus on mail, conferencing, agenda and information sharing;
- Support – using self-service, remote assistance and on-site as required; and
- Devices – for PCs, printers, handhelds and local network equipment.

Getronics can provide workspace management on any scale at any location. Getronics achieves this through innovative service models which combine web-enabled self-service and remote intervention with a traditional field service presence. All services are rigorously standards-based. Besides its presence in the Benelux, global coverage is offered through the Getronics Workspace Alliance launched during 2009. The seven founder members of the Alliance are Getronics, CompuCom (USA and Canada), TecnoCom (Spain), APX (France), Getronics Middle East, ServiceOne Getronics (China) and NTT Data Getronics (Japan). This core membership is supplemented through a network of Alliance associates to ensure full global coverage. The Alliance manages over 6 million ICT assets worldwide, of which Getronics is directly responsible for 2.4 million.

Connectivity Services

Next step up from the Workspace Services 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. Getronics Connectivity Services focus on:

- Personal connectivity – ensuring that individual employees have the connectivity they need to perform;
- Enterprise connectivity – sustaining the connectivity needed for all enterprise process and information exchange; and
- Client relationships – making sure that all networked customer interaction with the enterprise is secure and reliable.

The integrated capabilities of Getronics and KPN ensure secure and high-performance connectivity for all voice and data communications. Getronics is committed to excellence and innovation in connectivity, confirmed by its acquisition of a majority stake in video-conferencing specialist Talk & Vision in 2009.

Data Center

The data center becomes the motor for business in a web-connected world. The fundamental importance of the datacenter for Getronics is reflected in the deepening integration with KPN: in January 2009, Getronics assumed responsibility for all KPN datacenter resources and managed security capabilities. In the Getronics portfolio, data center services are structured according to three families of activity:

- Systems – managing assets, servers and physical facilities;
- Security – ensuring that all security and access is effectively planned and managed; and
- Availability – delivering business, application and information availability to agreed standards.

Consulting Services

Getronics Consulting Services are 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. Getronics Consulting uses formal, standards-based tools and methods to undertake meaningful analysis and produce practical and executable recommendations. Its Information Worker Profiler, for example, helps an IT department establish improvement and transformation programs which take into full consideration the need to respond differently to the requirements of different employee communities. Effective innovation is a perennial challenge and Getronics Consulting is an expert in helping to exploit trends and evaluate the risks and opportunities presented by emerging technologies.

Environment and Competition

Getronics is expected to have maintained its position as market leader in 2009 in a competitive Dutch market. The top 10 competitors cumulatively capture approximately 50% market share. More and more companies are anticipating further convergence of telecommunications and IT, achieving significant benefits by sourcing all related services from a single vendor. The combination of Getronics' business with KPN has transformed the existing ICT business by giving critical mass and expertise to become the ICT partner for a widened client base in key territories. The ongoing trend in the ICT industry towards globalization has resulted in consolidation within the ICT industry. Notwithstanding this consolidation, the ICT industry in Europe remains fragmented. The markets in which Getronics operates are intensely competitive and undergo continuous change. Competitors can differ significantly depending upon the market, client and geographic area and include a broad spectrum of ICT services companies, ranging from systems integrators to outsourcing providers and consulting companies, such as IBM, Atos Origin, CapGemini, BT and T-Systems. As the industry is changing towards an environment where managed services are becoming more relevant, parties delivering or aiming to deliver these services are also entering the competitive landscape. At the same time competitors are also at times contracting each other to service large contracts. Globally, Getronics is positioned as the number five provider and joined with the Getronics Workspace Alliance, Getronics ranks number three globally.

Wholesale & Operations

The Wholesale & Operations Segment provides network services to both internal KPN segments and external Wholesale customers with a strong emphasis on operational excellence. Through Wholesale & Operations, KPN operates an open access model and is a dedicated wholesale partner for all providers that need connections to their clients.

Wholesale and Operations offers national wholesale services through KPN carrier services and facilitates all infrastructure needs of both KPN's Consumer Segment and Business Segment. Carrier Services also provides other telecommunication companies access to end solutions on nationwide fixed and mobile networks. Both KPN's traditional network, as well as its new expanding fiber network, enables customers to connect their end users to new products and services. Access services includes a wide range of connection options, such as giving access to the 'last mile' of the KPN network, enabling different operators to connect the homes or offices of their customers and letting customers communicate with end users connected to the KPN network. The All-IP access network allows significantly faster broadband. Carrier Services offers IP-solutions to wholesale customers targeting the consumer market as well as the business market (with equal conditions to all the network and service providers). KPN's aim is to use the fiber network to its full capacity. In addition to different access solutions, KPN also offers voice, internet and television platforms, making it possible for service providers to enter without large investments.Also part of this segment is Real Estate services which focuses on the sale of real estate as well as managing all facility management services for internal KPN segments.

KPN's infrastructure is going through a radical change. By migrating to fiber and pro-actively rolling-out an All-IP network KPN aims to become a highly efficient 'Best-in-Class' network operator. Furthermore, KPN focuses on accommodating the increasing capacity requirements in coming years on both its mobile and fixed networks.

KPN is a top player in the international wholesale voice market through iBasis. On December 21, 2009, KPN successfully completed the tender offer for the outstanding shares in iBasis not already owned by KPN. iBasis carries international voice and data traffic originating both inside and outside of the Netherlands to any place in the world. iBasis can help customers succeed with a range of global termination products that provide flexibility of coverage and features to fit their requirements. Data services are primarily handled by the Business Segment (KPN EuroRings).

The international wholesale voice business has become a commodity business that requires low-cost infrastructure and the efficiencies that come from massive scale. With its global footprint and around 20 billion minutes of international voice traffic annually, iBasis is one of the five largest carriers of international voice traffic in the world. Its main competitors in the wholesale voice business are Verizon, AT&T, Tata, and Deutsche Telekom. iBasis offers customers the scale and efficiencies they need to provide high-quality international phone service to be more profitable. iBasis pioneered the use of the Internet for high-quality voice transmission, developed patented and patent-pending proprietary technology for managing efficiency and quality in voice routing and back office support systems. In addition to scale, technology leadership and a global network footprint, iBasis has important strengths in two of the fastest-growing segments of global telecommunications: mobile services and consumer VoIP.

Wholesale & Operations infrastructure

All-IP Network

Telecommunications services depend on a core network for the transfer of data or voice information. The ongoing growth in bandwidth and services requires continuous development in design and capabilities. As part of KPN's strategy to achieve a leading position in the broadband market and develop new communication services, services and networks based on IP and broadband are rolled out. KPN expects IP and broadband to become dominant and mainstream within the industry and to replace all current services and networks. KPN develops and upgrades its networks to enable the introduction of new IP and broadband services. In many areas where KPN has not yet achieved fiber coverage, it will start to offer customers VDSL from the Central Office (VDSL-CO) as intermediate step to offer higher bandwidth and HDTV. For an explanation of the terms used, reference is made to the Glossary of Terms starting on page 141.

Fiber Network

One of the key components of KPN's future network is the roll-out of a fiber network, either to the Curb (FttC) or to the Home (FttH). The roll-out of KPN's FttH network is done by Reggefiber Group B.V. in which KPN has a minority share of 41%. The other shares are held by Reggeborgh. KPN has started with tests in 2x5 cities and these initiatives have been evaluated end of 2009. Based on the evaluation, KPN has communicated it's access strategy for the near future. KPN believes that FttH is the long-term superior technology and will proceed with FttH roll-out in the Netherlands. The FttH pilots show promising commercial results so far.

Reggefiber Group B.V. has increased its Homes Passed ('HP') base to approximately 500 thousand. The ambition is to further expand the HP base to 1.1 to 1.3 million in 2012.

With Fiber-to-the-Office (FttO), KPN has rolled out fiber to 19 business parks by the end of 2009, with further roll-out driven by market demand. In the core network the roll-out of transmission capacity and Ethernet nodes is ongoing, which will enable new consumer, business and wholesale broadband services like IPTV, Ethernet VPN and Wholesale Ethernet services. Actions are taken in KPN's networks to migrate to more cost-effective solutions like Ethernet and IP; this will contribute to KPN's ability to offer new broadband services. After extensive testing, KPN introduced VoIP business services on the IMS platform allowing a growing number of business customers to use the advantages of VoIP.

TV Services and DVB-T Network

On the TV-platform, MPEG4 compression techniques are introduced to achieve better image-quality and more TV-channels to the customers. After the completion of the DVB-T roll-out for the Digitenne TV service in 2008, in 2009 quality improvements have been implemented. These include some changes in DVB-T transmitter locations needed due to the increase of signal interference from neighbouring countries. A set-top-box with antenna wizard functionality was introduced helping new customers during the installation of the Digitenne TV service. KPN's DVB-T

Digitenne network provides 77% indoor coverage (outdoor coverage: 90%). The coverage of the DVB-H Mobile TV network remained in 2009 with 65% indoor coverage and 80% outdoor coverage.

Wireless Network

The total mobile voice traffic in KPN's network grew by 3% in 2009; about 20% of this traffic is carried by the UMTS network. Mobile data continued growth at about 130%, this growth was tempered by applying strict fair use policies to limit excessive data usage by a minority of the customers. To facilitate this growth, ultimo 2009 45% of the UMTS sites were connected by fiber optics. UMTS roll-out was increased to 500 sites to reach national coverage, comparable to KPN's GSM coverage. UMTS coverage ultimo 2009 reached 99.3% population coverage and 95.5% area coverage; the best UMTS coverage of all Dutch operators. Also the HSDPA 7.2 coverage was further extended and HSDPA 14.4 was launched. KPN is consolidating the leading position by offering the highest speeds for mobile data nationwide.

The quality of KPN's mobile networks has improved further in 2009. The call success rate of GSM reached all-time high target values. The call success rate of UMTS for the first time equalled the GSM level but KPN will further improve the quality for customers using sophisticated mobile phones. In 2009 special focus was put in the network coverage and performance on highways and railways resulting in significantly less dropped calls in these areas. In 2009 the mobile core network migration to a state-of-the-art IP based core network was almost finished. As from 2010 the last migrations of corporate customer's data links to the new network will take place and the last legacy systems will be phased out which should result in significantly lower operational costs for the core network.

The tables below show the number of active base stations, the average network usage as well as the coverage ratios of each of KPN's networks in the Netherlands as of December 31, 2009:

Active base stations[1]	
2.5G sites	4,700
3G sites	3,500
Total sites	8,200

Average network usage[1]	
Usage – as % of capacity	95% (GSM)

Network coverage ratios[1]	
GSM network	
Outdoor – as % of population	99.9%
Outdoor – as % of area	99.0%
Indoor – as % of population	99.0%

UMTS network	
Outdoor – as % of population	99.3%
Outdoor – as % of area	95.5%

1) GSM and UMTS antenna in the same location are counted as separate sites.

Germany

In Germany, through the E-Plus Gruppe, KPN continues to outperform the market with the Challenger strategy offering 'value for money' mobile services. Specific market segments are targeted through multiple own brands and wholesale partnerships with strong brands and distribution channels.

The E-Plus Gruppe continues to expand its strong distribution through own and partner shops, online distribution and exclusive wholesale channels (more than 8,300 retail outlets in Germany). The E-Plus Gruppe has a focus on regionalization, expanding the addressable market by moving into geographical regions and market segments that are currently underrepresented. The network roll-out is based on those services that consumers desire, with a strong focus on return on capital employed.

Under the E-Plus brand, a range of propositions are offered to the consumer and SME/SoHo markets. These propositions include bundled packages for consumers, such as 'Time & More' or 'Zehnsation Classic' with a minimum monthly commitment and 'Free & Easy' prepaid packages. For the SME/SoHo market, E-Plus offers 'Professional' packages (S, M, L, XL). In addition to standard mobile services, a wide range of value added voice and data services are offered under the E-Plus brand, such as SMS, GPRS and UMTS.

E-Plus embarked on its multi-brand strategy with the launch of new brands featuring innovative tariff structures: BASE offered the first flat-fee package on the German mobile market, Simyo was the first web-only prepaid mobile operator, Ay Yildiz the first tailor-made offering for Turkish-speaking people. Additionally, Vybe Mobile was launched to target youth interested in music and SMS. Wholesale solutions for an increasing number of partners are offered which act as branded resellers, including Medion, blau and Ortel and MVNOs like Versatel, NetCologne and Ecotel. In 2009 new partnerships were started with WAZ and BVB.

Environment and Competition

Four mobile network operators, all holding GSM and UMTS licenses, are currently active in the German mobile telecommunications market: T-Mobile, Vodafone, E-Plus and O2. The two largest mobile telecommunications providers, T-Mobile and Vodafone, hold an estimated combined service revenue market share of approximately 69% (2008: 70%). In recent years, E-Plus was successful in growing its service revenue market share, reaching an estimated share of 15.5% in the fourth quarter of 2009.

In addition, numerous independent service providers in Germany package and sell products and services from various network operators under either the network operators' brand or private labels. Some of these service providers operate exclusively with one network operator, while others offer competing products and services. In all cases, service providers sell to both business and private customers. The main German service providers are Freenet/Mobilcom and Victor Vox.

Infrastructure in Germany

The current network roll-out is focused on achieving maximum synergies among GSM/GPRS and UMTS, for example with respect to infrastructure and transmission. Re-utilization of 2.5G-enabled infrastructure in certain areas may provide a substantial part of the basic infrastructure.

The network roll-out is based on customer demand for services. E-Plus is investing in data networks where demand is accelerating, benefiting from increased capabilities of equipment and lower costs. A combination of EDGE and UMTS technologies is sufficient to meet current mass market demand. The EDGE network has been expanded and current coverage is 90% of the population. Additionally, the roll-out of HSPA has started in focus cities with strong demand.

For further expansion and technical upgrade of the mobile network E-Plus has selected ZTE Corporation to supply HSPA-enabled equipment. The Chinese telecoms equipment provider will support in all aspects of E-Plus' customer-oriented voice and data network strategy, focusing investment in the right technology at the right time.

Frequency auction

On October 12, 2009, the advisory committee ('Beirat') of the German Regulator approved the initial proposal for the upcoming spectrum auctions in Germany which is envisaged for the second quarter 2010. The auction shall in total comprise 360 MHz of simultaneously offered spectrum, consisting of 800 MHz spectrum (the 'digital dividend' which was freed up from broadcasters and which is connected with coverage obligations to provide broadband services to rural areas), 1800 MHz, 2100 MHz and 2600 MHz spectrum. In its auction design, the regulator has not limited the bidding rights for the 1800, 2100 and 2600 MHz spectrum. As to the 800 MHz spectrum, the regulator has however imposed a general spectrum cap of (2x) 20 MHz for spectrum below 1 GHz on every bidder. This means that, in the bids for 800 MHz spectrum, existing GSM900 spectrum assignments shall be taken into account. E-Plus and O2 are using (2x) 5 MHz of GSM900 spectrum so that the regulator has allowed each of them to additionally bid for (2x) 15 MHz of 800 MHz spectrum. Deutsche Telekom and Vodafone are using (2x) 12.4 MHz of GSM900 spectrum. Each of them has nevertheless been allowed to additionally bid for (2x) 10 MHz of 800 MHz spectrum. Consequently, Deutsche Telekom and Vodafone can each obtain (2x) 22.4 MHz of spectrum below 1 GHz and therefore 2.4 MHz more than other bidders. E-Plus and a number of other parties filed lawsuits against the auction and its design.

The tables below shows the number of active base stations, the average network usage as well as the coverage ratios of each of KPN's networks in Germany as of December 31, 2009:

Active base stations	
2.5G sites	18,804
3G sites	6,616
Total sites	25,420

Average network usage	
Usage – as % of capacity	53% (GSM)

Network coverage ratios	
2.5G network	
Outdoor – as % of population	99.9%
Outdoor – as % of area	99.2%
Indoor – as % of population	88.4%
3G network	
Outdoor – as % of population	62.5%

Belgium

In Belgium, through KPN Group Belgium, KPN aims to continue its profitable growth based on the proven Challenger strategy. KPN Group Belgium employs a regional approach (Brussels, Flanders, Wallonia) with a heavy focus on distribution through its own channels and wholesale partners (more than 1,000 retail outlets). KPN Group Belgium deploys a selective data network roll-out driven by customer demand.

KPN Group Belgium offers a portfolio of voice and data products and services in Belgium that offer 'value for money' and simplicity to its customers. It is positioned as an innovator in products and services via a segmented, multi branded approach. The brands BASE, Simyo, Ay Yildiz, BASE business and Zoniq are commercialized.

On April 20, 2009, a new product portfolio was launched, combined with a relaunch of the BASE brand. The latter focuses on core values like simplicity, flexibility, transparency and honesty. The products are offered based on a simplified tariff plan, with one prepaid offer and four postpaid offers. KPN Group Belgium further continues to expand its partnerships. In this respect a partnership was built with RTL-TVi which resulted in the 'Allo RTL' offer which was launched on June 24, 2009. RTL TVi is member of the international RTL Group and the most popular TV channel in the French speaking part of Belgium. Through this popular media partner, customers are targetted in Wallonia with a trusted brand and a very competitive offer.

As from October 1, 2009, the TELE 2 brand was replaced by the BASE brand. All consumer focused products (mobile, fixed and ADSL) are now offered to the consumer market under the BASE brand. This change further intensified the convergence between both product portfolio's and opened new opportunities to renew the existing product offers.

Environment and Competition

As in previous years, KPN Group Belgium remains by far the leading partner to MVNO's in Belgium. 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 equity interest 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.

Infrastructure in Belgium

The current network roll-out is focused on achieving maximum synergies among GSM/GPRS and UMTS, for example with respect to infrastructure and transmission. Re-utilization of 2.5G-enabled infrastructure in certain areas may provide a substantial part of the basic infrastructure.

KPN Group Belgium further increased the capacity, quality and coverage of its 2.5G-enabled network. In the current market environment, the focused 3G strategy, a combination of EDGE and targeted UMTS/HSPA is sufficient to meet mass market demand on mobile data services in Belgium. KPN Group Belgium today has an EDGE network with national coverage. In addition, the UMTS/HSPA network was commercially launched in December 2009.

3G HSPA services are introduced in focus cities where customer demand exists. 3G HSPA will be systematically rolled out in line with increasing demand for mobile data services.

On October 8, 2009, Mobistar and KPN Group Belgium announced an agreement to expand their mobile telecommunication networks jointly. The agreement will allow the operators to acquire and build new sites jointly, with a positive impact on network coverage in view of new environmental standards. The agreement will result in a more rapid deployment of mobile telecommunication networks and better services for customers.

KPN Group Belgium, together with E-Plus in Germany, has selected ZTE Corporation to supply HSPA enabled equipment. This will allow the company to plan a faster roll-out of HSPA in Belgium.

The tables below show the number of active base stations, the average network usage as well as the coverage ratios of each of KPN's networks in Belgium as per December 31, 2009:

Active base stations[1]	
2.5G sites	2,941
3G sites	558
Total sites	3,499

Average network usage[1]	
Usage – as % of capacity	34% (GSM)

Network coverage ratios[1]	
2.5G network	
Outdoor – as % of population	99.9%
Outdoor – as % of area	98.0%
Indoor – as % of population	98.2%
3G network	
Outdoor – as % of population	>50%

1) GSM and UMTS antenna in the same location are counted as separate sites.

Rest of World

The Rest of World segment includes KPN Spain, KPN France, Ortel Mobile and Yes Telecom. In Spain and France KPN is implementing its successful challenger business model by leveraging its own low-cost/no-frills brands and partner brands.

Currently KPN has launched own brands in Spain and France and ten partner brands in Spain. Simyo remains the flagship own brand with a healthy mix of prepaid and postpaid customers, next to the blau brand (in Spain) and Ay Yildiz (in France). KPN does not operate its own network in Spain and France, instead KPN is partnering with local operators (respectively Orange SA and Bouygues Telecom). KPN will not expand to new markets until proven success in these two countries.

Ortel Mobile particularly focusses on customers in the cultural segments in the Netherlands, Germany and Belgium. Market conditions in the cultural segment remain tough due to competitors' ongoing price promotions targeted at gaining market share. On January 22, 2010, KPN announced the acquisition of the remaining 35% in Ortel. KPN believes that full ownership will assist Ortel in reaching its operational and strategic objectives.

KPN Group

- **Guidance met on EBITDA and free cash flow, revenues slightly below guidance**
- **Impact of economic downturn mitigated by cost reductions**
- **Strong profitability growth of Dutch Telco business**
- **Continued market outperformance at Mobile International**

Performance versus outlook

KPN was able to achieve good results in 2009 clearly reflecting the stated focus on EBITDA, cash flow and market shares rather than revenues. EBITDA, CAPEX and free cash flow met the guidance for 2009, while revenues and other income came in slightly below guidance mainly due to iBasis, Getronics and the impact of regulation. For details about the guidance, reference is made to the section 'Group strategy' and outlook on page 13.

Revenues and other income

(In millions of EUR)	2009	2008	Δ
KPN Group	13,509	14,602	-7.5%
Consumer	4,095	4,128	-0.8%
Business	2,491	2,546	-2.2%
Getronics	2,097	2,808	-25%
Wholesale & Operations	3,459	3,870	-11%
Other[1]	-2,697	-2,813	4.1%
– The Netherlands	9,445	10,539	-10%
Germany	3,181	3,218	-1.1%
Belgium	802	773	3.8%
Rest of World	206	139	48%
Other[1]	-111	-66	-68%
– Mobile International	4,078	4,064	0.3%

1) Mainly elimination of intercompany revenues.

Revenue and other income at Group level declined by 7.5%. The decrease was largely the result of the disposal of a number of Getronics business units (excluding these disposals the decline was 3.5%). Revenues and other income for the Group were negatively impacted by lower revenues at iBasis (EUR 193 million), the impact of regulatory tariff cuts for MTA and roaming and new Wholesale Price Cap regulation (approximately EUR 290 million in total) and lower book gains on real estate disposals of EUR 76 million. Furtermore, the impact of the economic downturn became visible in the Business Segment and Getronics as order intake slowed and customers postponed investment decisions.

The Dutch Telco business (defined as the Netherlands excluding Getronics, iBasis and book gains on real estate) delivered a strong performance during 2009, as a result of the focus on profitability and market shares, despite the economic downturn and regulatory pressure. The impact on revenues from regulation in 2009 comprised EUR 124 million from additional MTA tariff reductions, around EUR 30 million from roaming tariff reductions and EUR 34 million from new Wholesale Price Cap regulation.

Revenues and other income at Mobile International were stable in 2009 compared to 2008, including a negative impact from regulation of approximately EUR 100 million. Service revenues were up 2.3% in 2009, which was the combined result of flat service revenues in Germany and growth in Belgium and Rest of World. In Belgium, the ongoing implementation of the Challenger strategy continued to pay off. Based on the successful execution in Belgium, KPN has made further progress with the implementation of similar initiatives in Germany, in order to re-ignite service revenue growth.

EBITDA

(In millions of EUR)	2009	2008	Δ
KPN Group	5,192	5,058	2.6%
Consumer	1,030	882	17%
Business	794	713	11%
Getronics	62	121	-49%
Wholesale & Operations	1,790	1,934	-7.4%
Other	11	24	-54%
– The Netherlands	3,687	3,674	0.4%
Germany	1,333	1,245	7.1%
Belgium	259	251	3.2%
Rest of World	-39	-23	-70%
– Mobile International	1,553	1,473	5.4%
Other Activities	-48	-89	46%

Starting mid 2008 and continuing through 2009, KPN has taken pre-emptive and corrective actions to reduce costs in order to mitigate the impact of the economic downturn. At Group level, EBITDA increased by 2.6%. Excluding the effects of the Getronics disposals, EBITDA increased by 3.6%.

There are several key contributors to the cost reductions. The number of FTE's was reduced as a result of simplification of the organization, reducing the number of brands, delivery processes and networks. By implementing 'First-time-right' programs across the Group, the quality of service has been increased and the number of complaints has been reduced significantly, and with that, incoming calls to call centers and related costs. Purchasing costs were significantly lowered as a result of more efficient use of suppliers and tariff reductions. Furthermore, subscriber acquisition and retention costs (SAC/SRC) was carefully managed down, without jeopardizing market shares, and traffic related costs were lower due to MTA and roaming tariffs reductions.

EBITDA in the Netherlands was stable compared to 2008. Excluding the effects of the Getronics disposals, EBITDA in the Netherlands showed an increase of 1.6%.

In 2009, the restructuring charges were EUR 56 million, comprising EUR 44 million for Getronics and EUR 12 million for the other segments in the Netherlands (mainly for vacant office space). In 2008, total restructuring charges were EUR 282 million of which EUR 230 million was recorded in Other Activities.

In 2008, a gain of EUR 199 million regarding the release of pension provisions was recorded in Other Activities.

Other financial data

(In millions of EUR)	2009	2008	Δ
Operating result	2,850	2,597	9.7%
Finance costs and other financial results	-808	-704	15%
Share profit of associates and joint-ventures	-6	-6	-
Profit before income tax	2,036	1,887	7.9%
Income taxes	139	-550	-
Profit for the period	2,175	1,337	63%
Income taxes paid	-506	-522	-3.1%
Cash flow from operating activities	3,776	4,030	-6.3%
Capital expenditures (Property, plant and equipments and software)	-1,767	-1,925	-8.2%
Proceeds from real estate	94	180	-48%
Tax recapture E-Plus	343	313	9.6%
Free cash flow	2,446	2,598	-5.9%

Finance costs and other financial results

Finance costs rose EUR 77 million in 2009 compared to 2008. The main reasons for the increased finance costs were a one-off premium of EUR 27 million related to the tender of bonds outstanding and the absolute increase in borrowings resulting in approximately EUR 74 million additional finance costs, partly offset by lower costs due to floating interest of EUR 23 million. Other financial results in 2009 include a EUR 44 million expense for the change in fair value of the option to acquire 100% of the shares in Reggefiber Group B.V. over time.

Income taxes

Per December 31, 2009, the determination of deferred tax assets for available loss carry forwards and tax deductible items at E-Plus was reassessed. The reassessment resulted in an increase of the deferred tax asset and an income tax gain of EUR 705 million reflecting the increased likelihood to utilize loss carry forwards of E-Plus in the future.

Excluding this tax gain and goodwill impairments, which are non-deductible, the effective tax rate was around 27% in both 2009 and 2008. The effective tax rate for the Group is higher than the statutory tax rate in the Netherlands of 25.5% mainly because of higher tax rates in Germany.

CAPEX

KPN has been able to lower CAPEX by EUR 158 million in 2009. For a large part this is the result of less CAPEX at Getronics (EUR 49 million) and absence of handset lease CAPEX in Germany (EUR 64 million), further supported by an increased focus on Return on Capital Employed. In the Dutch Telco business, CAPEX remained stable despite additional investments in the core network, the mobile network and IT. This is the result of lower equipment prices being offset by the volume effect ('more value for money'). Going forward, increased efficiency is expected as a result of a centralized evaluation and approval of CAPEX in the Netherlands as well as close cooperation at Mobile International for leveraging assets across the Group.

Free cash flow

Free cash flow was EUR 2,446 million in 2009 compared to EUR 2,598 million in 2008. During 2009, KPN received tax refunds of some EUR 109 million relating to prior years. Furthermore, KPN benefitted from the temporary tax facility to pay VAT on a quarterly instead of a monthly basis (working capital effect of some EUR 160 million). These fiscal benefits compensated the lower proceeds from sale of real estate (2009: EUR 94 million, 2008: EUR 180 million) and EUR 88 million additional pension contributions during 2009. Furthermore, CAPEX was EUR 158 million lower than in 2008. The improvement in working capital was lower compared to 2008 as a result of a decrease in operating expenses and CAPEX, and was partly offset by structural improvements. During 2009, the reversal of the non-structural working capital improvement in the fourth quarter of 2008 (EUR 150 million) was fully compensated.

Pension position

As at December 31, 2008, the KPN pension funds under statutory coverage measurements ended with an average coverage ratio of 94%. In 2009, KPN and the KPN pension funds reached an agreement to increase the coverage ratio of the pension funds to the minimum level of 105% as required by the Dutch Central Bank, acting as the pension regulator. It was agreed that in principle KPN would make additional contributions to the pension funds up to a maximum of EUR 390 million. In 2009, additional contributions of EUR 88 million were made. As at December 31, 2009, the KPN pension funds under statutory coverage measurements ended with an average coverage ratio of 111%. As the minimum required coverage ratio of 105% was reached, with effect from 2010 KPN is no longer obliged to make these additional payments, and will cease to do so.

Based on the nature of Getronics' pension scheme, KPN has agreed with the Getronics pension fund to provide additional security for an amount of up to EUR 12.5 million per annum for the years 2010 – 2013.

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

On February 4, 2009, KPN issued a dual tranche Eurobond consisting of two bonds for respectively an amount of EUR 750 million with a 5 year maturity and for an amount of EUR 750 million with a 10 year maturity. On June 29, 2009, KPN repurchased USD 588 million of the USD 1,750 million 8% Notes due 2010. On September 17, 2009, KPN issued a Sterling bond for an amount of GBP 850 million with a 20 year maturity. On September 30, 2009, KPN also issued a Eurobond for an amount of EUR 700 million, with a 15 year maturity.

Furthermore on July 21, 2009, a regular redemption of EUR 700 million was done.

Research and development

KPN is working on innovative solutions for its customers: new services, products and processes.

For Information about the technological developments regarding KPN's networks, reference is made to Wholesale & Operations Infrastructure on page 17 and 18.

KPN's current portfolio of intellectual property rights consists of approximately 25 registered core trademark and 400 patent families. 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. KPN's R&D expenditures with TNO Telecom amounted to EUR 13 million in 2009 which is about 20% of KPN's research spending in 2009. 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, trademarks, service marks, trade secrets, copyrights, database protection, confidentiality agreements with its employees and third parties and protective contractual provisions. Approximately 25 of the patents which KPN owns are declared essential for the commercial exploitation of telecom communication technology and services. KPN entered into license agreements with a number of suppliers related to these and other KPN patents.

Consumer

- **Small revenue decline, double digit growth in EBITDA**
- **Solid results wireless services**
- **Maintaining competitive strength in the wireline services market**

(In millions of EUR, unless indicated otherwise)	2009	2008	Δ
– Voice wireline	702	823	-15%
– Wireless services (excluding Mobile Wholesale)	1,934	1,773	9.1%
– Internet wireline	1,042	1,010	3.2%
– Mobile Wholesale	201	327	-39%
– Other (incl. intercompany revenues)	216	195	11%
Revenues and other income	4,095	4,128	-0.8%
Operating expenses	3,353	3,541	-5.3%
– of which: depreciation, amortization and impairments	*288*	*295*	*-2.4%*
EBITDA	1,030	882	17%
EBITDA margin	25.2%	21.4%	

Revenues and other income declined in 2009 by 0.8% compared to 2008. This was the result of a decline in traditional voice revenues, largely compensated by growing mobile revenues, though impacted by MTA and roaming regulation, and solid results from Internet and TV services.

- Voice wireline revenues declined by 15%, reflecting the continued loss of traditional voice customers, albeit at a decreasing rate.
- Wireless services increased by 9.1% (including debitel, excluding wholesale) despite a negative impact due to lower MTA and roaming rates. Drivers behind this performance were besides the acquisition of debitel, the increase in post paid customers and growing demand for data services.
- Mobile wholesale revenues declined by 39 %, largely linked to the transfer of debitel to Consumer wireless.
- As in 2008, Internet wireline revenues reported a solid growth of 3.2%, helped by a strong ARPU performance, and despite an almost saturated Dutch broadband market.
- Other revenues increased by 11%, in particular reflecting the growing demand for KPN's TV products.

EBITDA for the segment amounted to EUR 1,030 million, up 17 % compared to 2008. This double digit growth reflects an ongoing focus on streamlined service offerings and cost efficiency, leading to a 25.2% EBITDA margin in 2009 compared to 21.4% in 2008.

As in 2008, the Consumer Segment continued to focus on broadband services to moderate the losses in PSTN access lines. In particular, because of the slowdown in broadband market growth, net line loss is at relatively low levels.

In 2009, the Consumer Segment continued to manage its portfolio in terms of value with a reliable and secure experience. Important portfolio initiatives were:

- To support a growing number of broadband customers that always want to be able to access the internet from any location, KPN launched in 2009 a new 'Always Online' package. KPN Internet subscribers can add wireless data capabilities to their fixed broadband service for an attractive price. This new package illustrates Consumer Segment's strategy to focus on high-value customers;
- Under the name Personal Sim, a new service was introduced which offers mobile customers the possibility to change the contract offer each month at no extra cost; and
- IPTV offering was scaled up, labeled 'Interactieve TV'. The total base of KPN IPTV customers reached almost 100 thousand at the end of December 2009.

The wireless customer base increased by 300 thousand in 2009, mainly due to the acquisition of debitel. In the second half of 2009, additional churn from debitel and negative impact from the elimination of prepaid handset subsidies were limiting customer growth. With its continued focus on customer value, Consumer Segment has put more emphasis on selling high value 2-year postpaid contracts and smartphone packages. This helped to stabilize ARPU at EUR 23 in 2009. A key driver of wireless growth continued to be the growth in data services, benefitting from increased penetration of smart phones and laptop data cards. Overall, the Consumer Segment maintained its strong and leading position in the wireless services market.

Within the Consumer Segment, TV remained an important growth driver. KPN successfully continued its efforts to win customers for its Digitenne service, despite the increase in the monthly price per September 1, 2009.

Operating highlights	2009	2008	Δ
VoIP subscribers (in thousands)	1,199	1,086	10%
Net line loss (in thousands)	180	145	24%
TV customers (in thousands)	970	775	25%
ARPU wireless blended (EUR)	23	23	-
Wireless customers[1] (in thousands)	8,643	8,342	3.6%
SAC/SRC (EUR)[2]	144	150	-4.0%

1) Wireless customers includes Mobile Wholesale NL.
2) SAC/SRC excludes Mobile Wholesale NL.

Business

- **Impact of economic downturn on revenues**
- **Resilient performance Data network services**

(In millions of EUR, unless indicated otherwise)	2009	2008	Δ
– Voice & internet wireline	1,026	1,076	-4.6%
– Data network services	439	430	2.1%
– Wireless services	872	894	-2.5%
– Other (incl. intercompany revenues)	154	146	5.5%
Revenues and other income	2,491	2,546	-2.2%
Operating expenses	1,778	1,908	-6.8%
– of which: depreciation, amortization and impairments	*81*	*75*	*8.0%*
EBITDA	794	713	11%
EBITDA margin	31.9%	28.0%	

In 2009, the impact of the economic downturn became visible. The Business Segment faced slower order intake and customers postponing investment decisions which led to pressure on the order conversion rate. Market positions, however, were maintained. Against this background, good progress was made in reducing costs and a restructuring plan was announced which accelerated restructurings in the Business Segment.

Revenues and other income for the Business Segment in 2009 declined by EUR 55 million, or 2.2%. In 2009 revenues from Voice & Internet and Wireless services were impacted by the economic downturn, resulting in decreasing voice minutes and lower visitor roaming. In addition, Wireless revenues were impacted by MTA tariff cuts, roaming regulation and roaming traffic being lower due to the economic downturn. Revenues from Voice & Internet wireline slowed down by 4.6% or EUR 50 million. The decrease in Wireless services revenue was partly offset by the strong increase in wireless data. Revenues from Data network services continued its upward trend by 2.1% due to new network services.

EBITDA for the Business Segment was up 11% or EUR 81 million to EUR 794 million, largely as a result of FTE reductions, efficiency improvement and a continued focus on cost reductions. The EBITDA margin improved by 3.9% to 31.9% compared to 28.0% in 2008.

Despite tough competition, the voice and data customer base increased further. Furthermore, KPN is carefully managing SAC/SRC to maintain a competitive position.

Operating highlights	2009	2008	Δ
Access lines voice (in thousands)	1,469	1,581	-7.1%
VPN (in thousands)	47.7	52.0	-8.3%
Leased lines (in thousands)	23.3	29.0	-20%
ARPU wireless blended (EUR)	51	56	-8.9%
Wireless customers (in thousands)	1,662	1,551	7.2%

Getronics

- **Integration with large part of Business Segment activities**
- **Pressure on revenues but market position maintained**
- **EBITDA improvement despite economic downturn (excluding disposals and restructuring)**

(In millions of EUR, unless indicated otherwise)	2009	2008	Δ
– Global Services	1,124	1,055	6.5%
– ICT Services	918	976	-5.9%
– International	390	467	-16%
– Disposed	22	623	-
Revenues and other income	2,097	2,808	-25%
Operating expenses	2,187	2,882	-24%
– *of which: depreciation, amortization and impairments*	*152*	*195*	*-22%*
EBITDA	62	121	-49%
EBITDA margin	3.0%	4.3%	

Getronics underwent some major organization changes in the past years. In 2009, the Business Segment activities of Corporate Solutions, Enterprise Communication Solutions and Application Management Services were successfully integrated into Getronics. The comparative numbers for 2008 include these activities.

During 2009, Business Solutions, Document Services and Infotechnique were divested. In 2008, the Australian and North American activities as well as Everest and Business Application Services were divested.

In 2009, Getronics generated revenues of EUR 2,097 million compared to EUR 2,808 million in 2008. The underlying revenue trend (excluding divestments) is a decline of 5.0%. This revenue decline is primarily caused by the economic downturn as clients postpone investments and cut down on consulting and complementary project work. International business was impacted the most by the economic downturn and showed a 17% decline, also partly due to foreign exchange rate effects. The business in the Netherlands only showed a small decline in revenue of 1.0%. Despite the revenue decline in the Netherlands, Getronics was able to maintain its market position.

Despite challenging market conditions and pressure on the order conversion, Getronics has maintained as solid sales funnel and won several large contracts. In 2009 a EUR 70 to 80 million contract was won with Enexis in the Netherlands.

Furthermore global coverage is offered through the Getronics Workspace Alliance (GWA) which was launched in 2009. This new partner model has proofed to be successful, as since its launch, various international clients renewed their contracts with Getronics or one of the GWA members. Since its launch the renewal order intake at the GWA members increased and the alliance won new business representing over 50,000 new workspaces in Europe, the America's and Asia.

In 2009 EBITDA amounted to EUR 62 million compared to EUR 121 million in 2008. Excluding the disposed businesses, EBITDA was EUR 62 million in 2009 and EUR 76 million in 2008. EBITDA in 2009 was negatively impacted by a EUR 44 million restructuring charge. The related cost savings had a positive impact on the result in the second half of 2009 across all parts of the business and will have a full year effect in 2010.

Operating highlights	2009	2008	Δ
Serviced voice workspaces (in millions)	0.6	0.6	-
Serviced IT workspaces (in millions)	1.8	n.a.	-
Housing capacity in m^2 (in thousands)	25.0	21.6	16%
Hosted servers (in thousands)	12.0	8.9	35%

Wholesale & Operations

- **Lower voice traffic volumes**
- **Challenging real estate market**
- **Progress with the fiber roll-out**

(In millions of EUR, unless indicated otherwise)	2009	2008	Δ
Revenues	3,404	3,730	-8.7%
– of which: iBasis	*719*	*911*	*-21%*
– of which: Real Estate	*233*	*252*	*-7.5%*
Other income	55	140	-61%
– of which: iBasis	*-*	*1*	*-*
– of which: Real Estate	*39*	*116*	*-66%*
Revenues and other income	3,459	3,870	-11%
Operating expenses	2,597	2,990	-13%
– of which: depreciation, amortization and impairments	*928*	*1,054*	*-12%*
EBITDA	1,790	1,934	-7.4%
– of which: iBasis	*22*	*27*	*-19%*
– of which: Real Estate	*121*	*218*	*-45%*
EBITDA margin	51.7%	50.0%	

Revenues and other income decreased by EUR 411 million or 11% to EUR 3,459 million. The revenue decline is mainly the result of ongoing decline of traditional business in the Consumer and Business segments, costs coming from new regulation on wholesale price regulation (impacting external revenue by EUR 34 million) and lower book gains on real estate disposals of EUR 76 million compared to 2008.

In 2009 traffic volumes in the fixed network decreased for originating and terminating voice services due to strong competition in the national voice market by competitors like Tele2 in the Netherlands, BT, Verizon and from cable operators. In addition, fixed-mobile substitution contributed to a further decrease of the fixed network's traffic volumes. The loss of fixed-network traffic volumes is partly compensated by an increase in traffic volumes in KPN's mobile network. ISDN/PSTN connections continued to decline throughout 2009. This decline in traditional services was mostly offset by an increase in broadband connections. For these broadband connections focus is shifting from traditional copper based networks to fiber based networks, which allows KPN to satisfy the demand for higher bandwidth connections from its wholesale customers.

Other income decreased in 2009 to EUR 55 million mainly due to lower proceeds from real estate.

EBITDA decreased by EUR 144 million or 7.4% compared to 2008. The revenue pressure was partly offset by continuous efficiency improvements, bringing the cost base to a structurally lower level. Key drivers of the cost reduction were contract costs savings, consultancy costs reduction, workforce reductions (from 4,423 FTE at year-end 2008 to 4,104 FTE by the end of 2009), and efficiency effects in operations. The EBITDA in 2009 includes the negative impact of Wholesale Price Cap (EUR 21 million) and a one-off Telfort penalty regarding the UMTS license (EUR 5 million). Consequently, the EBITDA margin increased to 51.7%.

Although the real estate market was challenging in 2009, KPN sold part of its real estate portfolio for a total amount of EUR 94 million. Going forward, the focus will remain on value optimization rather than timing.

iBasis' revenues decreased by EUR 192 million or 21% to EUR 719 million in 2009. Total minutes were down 16%, but showed an improving trend in the second half of 2009, compared to 2008. Revenues in USD were down 26% in 2009. The EBITDA margin in 2009 was 3.1%, in line with 2008, and is the result of iBasis' focus on profitable contracts and margins.

On July 28, 2009, KPN commenced a cash tender offer for all of the outstanding shares of common stock of iBasis not already owned by KPN. The tender was succesfully completed on December 21, 2009, and KPN and paid approximately USD 93 million in total for the outstanding shares.

Operating highlights	2009	2008	Δ
Access lines retail voice (in thousands)	3,460	3,914	-12%
MDF access lines (in thousands)	3,743	3,702	1.1%
– of which: line sharing (in thousands)	*1,374*	*1,612*	*-15%*
Unbundling, estimates (in millions)	1.1	1.1	-
– Shared unbundled lines (in millions)	*0.2*	*0.3*	*-33%*
– Fully unbundled lines (in millions)	*0.9*	*0.8*	*13%*

Germany

- **Customer base up 6.8%, reaching 19.0 million subscribers**
- **EBITDA growth of 7.1% despite revenue decrease**

(In millions of EUR, unless indicated otherwise)	2009	2008	Δ
– Service revenues (wireless)	3,021	3,005	0.5%
– Hardware and other revenues	160	213	-25%
Revenues and other income	3,181	3,218	-1.1%
Operating expenses	2,536	2,641	-4.0%
– *of which: depreciation, amortization and impairments*	*688*	*668*	*3.0%*
EBITDA	1,333	1,245	7.1%
EBITDA margin	41.9%	38.7%	

Revenues and other income in Germany decreased by 1.1% in 2009 or EUR 37 million to EUR 3,181 million. The decrease is caused by lower handset revenues. Service revenues increased in 2009 by EUR 16 million or 0.5%. The negative impact of MTA on revenues in 2009 amounted to EUR 62 million.

EBITDA amounted to EUR 1,333 million in 2009, up 7.1% or EUR 88 million compared to 2008 as a result of focused cost management for customer related expenses as well as for indirect cost. The negative impact of MTA on EBITDA in 2009 amounted to EUR 31 million. The EBITDA margin was 41.9%, up 3.2% compared to 2008.

In 2009 the Challenger strategy was further executed, establishing new partnerships.

The customerbase grew by 1.2 million or 6.8% to 19.0 million at the end of 2009, which was driven by new brands like BASE and Simyo and other partners.

Operating highlights	2009	2008	Δ
Wireless customers (in thousands)	18,987	17,777	6.8%
Net adds (in thousands)	1,210	2,970	-59%
Total traffic (minutes in millions)	31,343	27,200	15%
ARPU blended (EUR)	14	15	-6.7%
SAC/SRC blended (EUR)	49	52	-5.8%

Belgium

- **Service revenues back to growth**
- **Strong performance on postpaid**

(In millions of EUR, unless indicated otherwise)	2009	2008	Δ
– Service revenues (wireless)	659	621	6.1%
– Hardware and other revenues	143	152	-5.9%
Revenues and other income	802	773	3.8%
Operating expenses	678	649	4.5%
– *of which: depreciation, amortization and impairments*	*135*	*127*	*6.3%*
EBITDA	259	251	3.2%
EBITDA margin	32.3%	32.5%	

In 2009, revenues and other income for KPN's Belgian activities increased by 3.8% or EUR 29 million to EUR 802 million.

The ongoing implementation of the Challenger strategy is paying off. KPN Group Belgium recorded a service revenue growth of 6.1%. Key drivers behind the higher service revenue growth are continued customer growth resulting in higher traffic related revenues. KPN Group Belgium is expected to have continued its market outperformance with an increased service revenue market share of approximately 18% ending 2009.

EBITDA of the Belgian activities in 2009 amounted to EUR 259 million, up 3.2% or EUR 8 million compared to 2008. The EBITDA increase was mainly driven by the mobile activities.

In 2009 another 133 thousand customers were added to the customer base, out of which 109 thousand postpaid customers (in 2008 57 thousand postpaid customers were added). The uptake in postpaid customers is largely due to the relaunch of the BASE brand with its simplified and transparent portfolio. The number of customers at the end of 2009 totalled 3.6 million, up 3.9% versus 2008.

Operating highlights[1]	2009	2008	Δ
Wireless customers (in thousands)	3,578	3,445	3.9%
Net adds (in thousands)	133	590	-77%
Total traffic (minutes in millions)	5,117	4,689	8.9%
ARPU blended (EUR)	16	17	-5.9%
SAC/SRC blended (EUR)	21	21	-

1) Refers to BASE only.

Rest of World

- **Fastest growing MVNO in Spain**
- **Launch of French MVNO**

(In millions of EUR, unless indicated otherwise)	2009	2008	Δ
Revenues and other income	206	139	48%
Operating expenses	253	166	52%
– of which: depreciation, amortization and impairments	*8*	*4*	*100%*
EBITDA	-39	-23	70%
EBITDA margin	-41.1%	-31.5%	

The revenue and EBITDA developments compared to 2008 reflect two effects: Ortel Mobile is included for the full year in 2009 after its acquisition in 2008 and the launch of KPN France in January 2009.

Despite challenging market conditions, both in terms of economic environment and competitive landscape, within two years, KPN Spain has firmly established itself as the fastest growing MVNO in that country. Following the step-up in run rate since the second quarter of 2009, the number of customers grew to more than 350 thousand driven by its own value-for-money brands and wholesale partners. The no-frills KPN brand Simyo is still the main contributor and was also launched in France.

Following the shift in Ortel's strategy, less focus on customer acquisition and more on the quality of its distribution network and selective promotion to drive usage, Ortel's performance is gradually improving and customer activity rates are increasing.

Objectives

KPN defines risk as any uncertainties regarding the achievement of its objectives and therefore risk management at KPN starts with identifying the main objectives. In the Group strategy and outlook section on page 13, KPN's ambitions have been addressed. The main objectives of KPN are highlighted below:

- Maintaining and improving customer satisfaction;
- Delivering significant cost reductions;
- Staying the best-in-class network operator;
- Becoming the best-in-class ICT provider in the Benelux;
- Continuing profitable growth internationally; and
- Maintaining a sound financial performance.

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

Risk appetite

KPN is recognized by its drive for quality, consistency and financial discipline. The Board of Management encourages the segments to seek opportunities for supporting revenue growth and cost reduction, while taking controlled risks. The risk appetite of KPN is expressed in several ways.

KPN is committed to:

- Avoiding unnecessary risks that affect the quality of customer services and network availability;
- Maintaining a well diversified portfolio of product/ market combinations;
- Full compliance with all legal requirements;
- Focusing primarily on expansion in developed markets;
- Applying strict controls in order to prevent major failings in its Internal Risk Management and Control System;
- 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
- A net debt-to-EBITDA ratio within the range of 2.0 – 2.5 times.

Principal risks and uncertainties

In achieving its objectives, KPN's business is impacted by various external developments. By anticipating and reacting on these external developments KPN is taking risk. Taking risk is inherent in doing business and the successful management of these risks delivers return to KPN's stakeholders. The table below shows the external developments eminent today, KPN's anticipation and the risks KPN faces. Particular risks and uncertainties are highlighted that could affect KPN's business subsequently, but this is not intended to be an extensive analysis of all risks and uncertainty affecting KPN's business. In general, risks could harm KPN's business, financial condition and operating results, adversely affect the revenues and profitability, and lead to a decrease in the trading price of KPN shares.

External developments	KPN impact	Risks
Changes in customer behavior (bandwidth on demand, IPTV, video on demand)	Decrease in the fixed-line vs. mobile and broadband growth	Strategic risks
Competition from internet and media companies	Search for new sources of revenues	Operational risks
Macro economy (financial crisis, credit crunch, recession)	Constant need for innovation, technology shifts and increased cost efficiency	Financial risks
Regulation pressure (price control, infrastructure shaping, refarming)	Regulatory compliance	Regulatory risks

Strategic risks

The markets in which KPN operates are very dynamic and competitive and the principal businesses face significant competition. If KPN is unable to achieve its strategic objectives and to compete effectively, this could lead to loss of revenue, reduced margins and loss of market share and adversely affect KPN's financial position. Explained in more detail hereafter are some of KPN's principal businesses, which are relevant for understanding KPN's business challenges.

Retail broadband

In the retail broadband market, KPN competes heavily with the cable companies and other parties for customer base and market share, which positions each party for the future. KPN rolls out FttH which is considered to be the ultimate solution for the increasing customer demands. The migration to a fiber-based access network is expected to take several years. KPN may not be successful in the timely migration to such a network and, as a consequence, the main competitors may gain market share at KPN's expense. Furthermore, KPN's investments in fiber could prove to be more expensive than we had estimated. In the meantime KPN is investing in its current copper network to achieve increased bandwidth (VDSL and FttC). The investments in the current copper network could prove to be too expensive or take too long, adversely affecting market share and financial results.

Mitigating factors and control measures:

- Further simplify brands, portfolio and organization;
- Selective roll-out of VDSL/ FttC/ FttH which could result in new revenue streams;
- Retention program for traditional business;
- Gain a considerable market share in TV;
- Participate in a joint venture for the joint investment and operation of the fiber-based access network;
- Managed migration to a new IP-based infrastructure through asset life-cycle management, optimization of operational organization and outsourcing;
- Selective migration strategy to a fiber-based access network;
- Offer multiplay propositions (internet, TV and telephony); and
- Reduce costs by rationalization of the network.

Mobile International

The Mobile International business faces intense competitive pressure in all of KPN's markets (Germany, Belgium, Spain and France). KPN competes with the largest international groups and alliances of mobile operators, such as Vodafone, T-Mobile, Telefonica and France Telecom. Competition based on price, subscription options offered, coverage and service quality remains intense and KPN expects ongoing price pressure.

In Germany, KPN Mobile International faces an auction of licenses on several frequencies in 2010. It is uncertain at the moment what the impact will be from acquiring or not acquiring additional licenses. Acquiring an expensive license could jeopardize KPN's profitability and cash flows. However, if KPN does not acquire an additional license, KPN will seek other business models which could lead to lower margins.

These risks in the Mobile International environment challenge the continuation of KPN's profitable growth internationally.

Mitigating factors and control measures:

- Further execute Challenger strategy moving into geographical regions and market segments currently under-represented and mobile broadband;
- Explore outsourcing and partnership opportunities to reduce costs and share risks;
- Prepare and analyze the bid strategy for the auction; and
- Investigate alternative scenarios should KPN not acquire an additional license.

Getronics

The challenge for Getronics is to execute the new business model going forward. In 2009, Getronics reorganized its operations and integrated parts of the Business Segment. These changes will allow Getronics to realize the synergies expected upon the acquisition of Getronics in 2007. However, there is a risk that Getronics fails to execute the new business model and does not realize the expected synergies, which eventually could result in an impairment of goodwill. Reference is made to Note 10 of the Consolidated Financial Statements for more information about the key assumptions used in the goodwill impairment test of Getronics. There is also a risk that Getronics may not be able to maintain its position as a leading ICT provider in the Benelux.

Mitigating factors and control measures:

- Monitor the execution of the strategy;
- Further improvement of cost structure; and
- Develop a more client-focused organization.

iBasis

At the end of 2009, KPN succesfully completed the cash tender to acquire all outstanding iBasis shares. During 2009, the acquisition process drew a lot of attention of management. To realize the expected synergies, iBasis should regain business focus and focus on profitable top-line growth going forward. If iBasis' management is not able to achieve profitable top-line growth, such failure could adversely affect the results of operations and eventually could result in a new impairment of goodwill.

Mitigating factors and control measures:

- Improve and refocus the management team of iBasis; and
- Strengthen cost-reduction opportunities.

Operational risks

IT systems

KPN has a diversified portfolio of IT systems, some of which have which been in place for a long time, so called legacy systems. The constant need for innovation in KPN's businesses and markets put a lot of pressure on these systems to adapt to these changes in a quick and efficient manner. KPN may not be able to act quickly and efficiently which could lead to loss of revenue and margin.

Mitigating factors and control measures:

- Rationalize applications and chains and reduce complexity;
- Focus per chain instead of 'one size fits all'; and
- Focus on timely project delivery and increased productivity.

Vulnerability technical infrastructure

KPN's ability to operate its business depends significantly upon the performance of the technical infrastructure. KPN's technical infrastructure is vulnerable to damage or interruption by power supply and other similar events. It may also be subject to break-ins, sabotage, terrorism, vandalism and other forms of misconduct. Furthermore, the security of KPN's network and related applications might be compromised, which may result in access and misuse by hackers and other unauthorized users and may adversely affect KPN's operations. System failures, including failure of KPN's network and the networks managed by KPN's suppliers, and hardware or software failures or computer viruses, could also affect the quality of services and cause temporary service interruptions, resulting in customer dissatisfaction, penalties and reduced traffic volumes and revenue.

Mitigating factors and control measures:
- Wide range of security measures, for example, Network Operation Centers which monitor the network performance and back-up facilities for power supply;
- Life Cycle Management of Technical Infrastructure;
- Existence of updated business continuity plans;
- Active monitoring of service KPIs to ensure performance of the network; and
- Stringent Security policy to protect information.

Security of confidential information

KPN possesses confidential information about customers. Employees of KPN could (un)intentionally pass this information to non-authorized persons, who could use this information in a harmful manner. Misuse of this information may harm KPN's reputation and could eventually result in loss of revenue or significant claims.

Mitigating factors and control measures:
- Stringent Security policy to protect information; and
- Code of Conduct applicable for all employees of KPN.

Relationship with suppliers

KPN's business depends upon 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. Due to downturns in economic conditions or other market developments, some of KPN's suppliers may cease operations. KPN cannot be certain that it will be able to obtain quality telecommunications equipment and support from alternative suppliers, particularly in relation to new technologies, on a timely basis if the existing suppliers are unable to satisfy the requirements set by KPN. This could lead to an interruption in KPN's operations, which may adversely affect KPN's financial position and results of operations. KPN depends on its relationships with these suppliers for the continuation of these services, some of which are vital to the business. These relationships support KPN in staying the best-in-class network operator.

In addition, in those markets in which KPN has limited or no presence, KPN depends on its ability to find and work with local service partners to meet clients' needs. An inability to find adequate service partners may place KPN at a competitive disadvantage and result in a loss of business. Moreover, the failure of any such service partners to provide service of an appropriate standard could adversely affect KPN's reputation, lead to claims and limit the ability to procure further business.

Mitigating factors and control measures:
- Create supplier default scenarios with KPN's Corporate Purchase Office; and
- Continuous and adequate monitoring of service level agreements.

Highly skilled personnel

Competition for highly skilled personnel is intense in the markets in which KPN operates. KPN depends, to a significant extent, on the continued services of key management, technical, financial and sales employees. Because there is strong competition for qualified personnel in the industry, the limited availability of qualified individuals could become an issue in the future. The growth and future success of KPN will depend in large part on the ability to attract, motivate and retain highly qualified employees.

Mitigating factors and control measures:
- Potential program for young professionals and high potentials;
- Leadership program for management;
- Remuneration programs are structured to promote a pay-for-performance culture with an orientation towards variable pay, and an emphasis on long-term value creation;
- Continuing education for financials and marketing personnel; and
- Bi-annual engagement scores to identify areas for improvement.

Financial risks

Economic downturn

In 2009, the impact from the economic downturn was mainly visible in the business markets in which KPN operates. The Business Segment and Getronics experienced a decline in traffic volumes and roaming, as well as a decline in enterprise services and consulting, combined with continued price pressure. Customers postponed investment decisions leading to pressure on the order conversion rate, resulting in slower order intake. There are at present no signs of further deterioration. However, if the circumstances worsen, the future operating results could be adversely affected, particularly relative to the current expectations and jeopardize KPN's objective for a sound financial performance.

Mitigating factors and control measures:
- Pre-emptive and corrective actions to manage and mitigate the effects of the economic downturn in the different segments;
- Monitor collection process accounts receivable; and
- Continuous evaluation of cost reduction opportunities.

KPN is exposed to the following financial risks: market risks (currency and interest rate risks), credit risk, and liquidity risks. KPN's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance. KPN uses derivative financial instruments to hedge certain risk exposures. Note 29 to the Consolidated Financial Statements includes a more detailed description of KPN's Financial Risk Management and the financial risks KPN faces.

Regulatory and compliance risk

Most of KPN's network activities are monitored by regulatory bodies, such as OPTA and NMa in the Netherlands, BNetzA in Germany, BiPT in Belgium and the European Commission generally in Europe. These authorities regulate, amongst others, the prices to be charged for a part of KPN's services and the extent to which KPN has to provide services to competitors. In recent years, these authorities have compelled KPN to reduce some of its wholesale prices. Regulatory authorities may increase the severity of pricing controls, extend the range of services to which regulations apply (including any new services to be offered in the future), and extend the services that KPN has to provide to its competitors. Regulatory decisions could also influence the roll-out planning of the All-IP network and the conditions under which KPN is allowed to migrate to an All-IP network operator such as the deferment of the dismantling of the MDF locations or the imposition of new access obligations. These and other regulatory actions may adversely impact the financial position, increase the severity of competition and decrease profitability. In addition, there is a risk of non-compliance associated with the complexity of regulation.

KPN has to comply with an extensive range of requirements regarding the licensing, construction and operation of its networks and services. Decisions by regulators regarding the granting, amendment or renewal of licenses, to KPN or to third parties, could adversely affect future operations.

Governments in the countries in which KPN operates may issue telecommunications licenses to new operators whose services will compete with KPN's services. In addition, other changes in the regulatory environment concerning the use of mobile phones may lead to a reduction in the usage of mobile phones or otherwise have an adversely effect. In the countries in which KPN operates, mobile terminating tariffs are regulated. Tariffs for mobile roaming services are now regulated by EU regulation and obligations were imposed by the EU on all mobile operators to reduce wholesale and retail roaming tariffs. Such regulatory intervention may increase pressure on pricing and could affect KPN's financial position. Reference is made to the section 'Regulatory developments' starting on page 38.

Mitigating factors and control measures:

- Dialogue with regulators on predictable and pro-competitive (wholesale-based) regulation to minimize interventions in retail markets, consistently over time and countries, in order to realize a level playing field in Europe; and
- Existence of an Internal Compliance Framework including monitoring of compliance.

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 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:

Tone at the top

The attitude and behavior of the Board of Management serves as a good example for all of KPN's 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 the Board of Management.

In 2009, a number of additional initiatives were taken, further underlining the 'tone at the top'. In April 2009, KPN held an Ethics and Compliance Survey to address the various cultural and awareness elements of the Compliance Charter. In September 2009, the results of the Survey were discussed with top 200 management in an integrity workshop. Based on the outcome of the Survey and the integrity workshop, KPN held a range of workshops at segment level, dealing with behavior, fraud protection and detection and data security. Additionally, managers discussed the importance of integrity within their teams. A new ethics and compliance survey will be held in 2010.

Code of Conduct

KPN is conscious of its social and ethical responsibilities and wishes to ensure that work practices across the Company are in strict compliance with the law and regulations and consistent with social and ethical norms. For this purpose, KPN works in accordance with 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 inter alia (e-)learning.

Internal Audit function

Internal Audit (KPN Audit) provides assurance to both the Board of Management and Audit Committee concerning the 'In Control' status of KPN, its segments, entities and processes. The Chief Auditor reports to the CEO and has full 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 activities, 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 later in this section. 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 is 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.

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 KPN Group, not only for reliable financial reporting, but also for compliance with laws and regulations and the realization of KPN's objectives. In 2009 the BCF was restructured, updated and republished. In 2010 KPN will continue the strict monitoring of adherence to the Code of Conduct and BCF.

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 BCF). These policies are established to identify and analyze the financial risks faced by KPN, to set appropriate risk limits and controls, and to monitor adherence to those limits. Treasury identifies, evaluates and hedges financial risks in close cooperation with KPN's operating entities. The Board of Management provides written policies covering specific areas such as currency risks, interest rate risks, credit risks and liquidity risks.

In 2009 the liquidity policy was reviewed and confirmed by management. The economic climate required KPN to maintain the close monitoring of counterparty risk in 2009. More information regarding Financial Risk Management at KPN can be found in Note 29 of the notes to the Financial Statements.

GRIP

In 2008, Management introduced 'GRIP', an acronym for Governance & compliance, Risk management, Internal control and Processes. GRIP is built on four pillars:

- Internal control over financial reporting;
- Compliance risk framework;
- Enterprise risk management; and
- 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. In 2009 GRIP governance was formalized further by means of the integration of the methodologies and reporting structures of these four pillars.

Internal control over Financial Reporting

Following KPN's delisting from the NYSE in 2008, the Sarbanes Oxley Act 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.

Compliance risk framework

KPN has an integrated Compliance Risk Assessment framework (CRA). The CRA 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 continously monitored. This means that the compliance controls are tested and assessed for effectiveness by dedicated staff full year round. Each quarter KPN assesses the overall effectiveness of the framework.

KPN proactively reported potential incidents and interpretations issues to OPTA during 2009. As agreed in the Charter ('Handvest') with OPTA, KPN provided OPTA with a report on compliance performance indicators in June 2009.

Enterprise risk management

The business risk assessment forms part of the business planning process whereby the most significant risks and countermeasures are identified. The assessment results are discussed by the Board of Management during the business plan cycle, and result in action plans which are monitored during both the Business and GRIP reviews. In 2010 KPN plans to increase efforts to streamline its enterprise risk management program across KPN and integrate it with the other GRIP pillars.

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 2009, KPN organized and staffed a functional security organization, covering all reporting entities in the Netherlands, aiming for increased demonstrability of Security policy compliance and integration of Security and Continuity risk management in the existing corporate and tactical risk management processes. For 2010, KPN has planned further security and continuity improvements, all contributing to increased demonstrability, efficiency and effectiveness of Security and Continuity measures and improved management of strategic and tactical Security and Continuity risks.

Disclosure Committee

The Disclosure Committee evaluates disclosure and internal control procedures to ensure that relevant information about KPN is brought to the attention of the Board of Management and the Supervisory Board. This Committee also examines other reports that are to be issued externally to ensure that they are accurate, timely and complete. The Disclosure Committee advises the Board of Management, the Audit Committee and the Supervisory Board. In 2009 the Committee consisted of the directors of Corporate Control, Corporate Treasury, Internal Audit, Corporate Legal, Corporate Communication, Investor Relations, the Secretary to the Board of Management and the finance directors of the Segments. The Committee met periodically in 2009 and reviewed disclosure controls and procedures and proposed public disclosures.

In Control Statement and Responsibility Statement

The Board of Management is responsible for the Company'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 the Company's:

- Strategic, operational, financial, financial reporting and regulatory and compliance risks, as discussed in the paragraph 'Risk factors'; 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 the Company'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 2009 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. In the fourth quarter of 2009, management identified that the determination of the off-balance sheet obligations was not consistently applied within the Group. For this reason, management changed and further clarified the related accounting principles in that quarter and further strengthened the controls for the determination of the off-balance sheet obligations. The comparative figures have been adjusted accordingly (reference is made to Note 31 to the Consolidated Financial Statements). Additionally, the Company has envisaged the following focus areas for 2010:

- Further strengthen the IT security within KPN's systems and applications by implementing structural improvements (such as Identity and Access Management);
- Further enhance compliance organization to timely implement new market analyses decisions of OPTA; and
- Continue harmonization and integration of KPN's risk management programs within GRIP.

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 2009 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its consolidated companies; and
- The Annual Report gives a true and fair view of the position as per December 31, 2009, the development during 2009 of the Company and its Group companies included in the annual financial statements, together with a description of principal risks the Company faces.

The Hague, February 22, 2010

A.J. Scheepbouwer
Chairman of the Board of Management and Chief Executive Officer

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

E. Blok
Member of the Board of Management

J.B.P. Coopmans
Member of the Board of Management

Mr Miller stepped down as from February 1, 2010.

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.

Regulation of access to next generation access networks

Following regulatory approval of the strategic partnership with Reggeborgh by the NMa and the simultaneous publication of OPTA's regulatory approach for access to FttH networks in December 2008, KPN tested both FttH and FttC networks commercially. In December 2009, KPN published the results of these commercial tests and its plans for the way forward on (fiber) next generation access networks. As part of the evaluation, KPN stated that the regulation by OPTA does not provide incentives for KPN to roll out FttH networks, but KPN also does not anticipate impediments for further roll-out.

KPN has decided to further roll-out FttH networks and expects to pass 30 – 60% of Dutch homes in the medium term. This bandwidth is based on several conditions, amongst which regulatory and competitive developments. The business case for further successful roll-out will depend on various regulatory variables, such as the possibility to develop a Wholesale Broadband Access business over these networks, the pricing of wholesale copper services, the ability to develop a customer base via (temporary) wholesale line rental via cable networks, the ability to develop wireless services in the Dutch market and more general political considerations surrounding next generation access networks.

Market analyses decisions fixed markets (the Netherlands)

On January 1, 2009, new regulatory obligations following the broadband and fixed telephony market analyses by OPTA came into force These obligations will, in principle, remain in place for the three-year period until and including 2011. These decisions are characterized by deregulation of the end-user markets. However, KPN's wholesale obligations have been tightened to facilitate this deregulation. Also, OPTA introduced symmetry in fixed call termination rates. The decision on radio transmission markets was completed in January 2009 and the decision on broadcasting markets in March 2009.

KPN has lodged appeals against (six out of eight of) these decisions to the Trade and Industry Appeals Tribunal (College van Beroep voor het bedrijfsleven or CBb). The grounds of appeal are focused on two main issues which play a prominent role in most of the decisions:

1. Existing wholesale remedies (with regard to unbundled access, wholesale broadband access and leased lines) have been extended from copper to fiber (FttH as well as FttO), except for an obligation for wholesale broadband access on (FttH). According to KPN, the accumulation of wholesale obligations is in conflict with the aim of promoting investment, competition and innovation with regard to fiber access networks. KPN considers these obligations inappropriate in the very competitive Dutch infrastructure markets (mainly with competing cable operators).
2. The introduction of a rule of conduct (so called 'gedragsregel 5') ensuring that KPN's wholesale and retail pricing do not lead to a margin squeeze preventing efficient market entry. OPTA has imposed a highly disaggregated test, requiring that the revenues from each service and customer (i.e. contract) are higher than the incremental costs of supplying that service and customer. KPN advocates a higher level of aggregation, allowing for greater flexibility for recovery of common costs across all services and customers in the relevant market (in accordance with general competition law and involving far less implementation costs).

Other providers have also submitted appeals, calling for stricter regulatory obligations to be imposed on KPN. On October 28, 2009, the CBb annulled OPTA's market analysis decision on the unbundled local loop market upon KPN's appeal and ruling that in defining the relevant market, OPTA wrongly – at any rate without sufficient grounds – included unbundled local loop access to FttO (ODF access) and FttH networks (ODF access) in the same product market. The CBb ordered OPTA to reach a new decision within six months, while keeping the obligations imposed on KPN in respect of unbundled access to the copper local loops (MDF access, SDF access) and FttH in existence. The CBb's further decisions are still pending. On February 1, 2010, OPTA published a draft decision for consultation, in which – after an additional market analysis – it intends to reconfirm its earlier decision regarding unbundled local loop access.

The tariffs for KPN's wholesale services during the regulatory period 2009 – 2011 are part of two separate decisions on the Wholesale Price Cap. The first decision covering voice services and copper-based broadband services was only published on December 16, 2009. The decision results in lower wholesale unbundled product prices as well as prices for interconnecting leased lines over a three-year period. This decision will also be subject to appeal by KPN. The second decision covering fiber-based broadband services is expected to be published early in 2010.

Since March 2009 the two largest cable operators have been obliged to provide Wholesale Line Rental – Cable (WLR-C). UPC and Ziggo must provide the cable connection including the analogue TV signals to resellers. WLR-C is expected to become operational by March 2010. Next to WLR-C, cable operators must facilitate the distribution of digital TV signals, by providing access to their digital TV platforms or by providing access to network capacity. This obligation is expected to be operational by the second half of 2010. It is not yet clear whether KPN (as an operator with its own network) will be accepted as a reseller under the WLR-C obligations.

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 non-discrimination, 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 and expected amendments thereof:

Current status				Amendment expected by
the Netherlands				
OPTA decision of December 17, 2008 (appeal procedure still running).	Tariffs on January 1, 2009 (EUR/min)	Tariffs as of April 1, 2009 (EUR/min)	Tariffs as of July 1, 2009 (EUR/min)	OPTA is conducting new market analyses which is aimed at new tariff regulation by July 2010.
KPN/Telfort	9.0 ct	8.0 ct	7.0 ct	
Vodafone	9.0 ct	9.0 ct	7.0 ct	
T-Mobile	10.4 ct	10.4 ct	8.1 ct	
Germany				
	Tariffs on January 1, 2009 (EUR/min)	Tariffs as of April 1, 2009 (EUR/min)		BNetzA will set new MTA tariffs which will be valid as of December 2010.
T-Mobile	7.92 ct	6.59 ct		
Vodafone	7.92 ct	6.59 ct		
E-Plus	8.80 ct	7.14 ct		
O2 (Germany)	8.80 ct	7.14 ct		
Belgium				
BIPT decision of December 18, 2007, suspended by Brussels Court of Appeal, BIPT. As a consequence former tariffs still applicable.	Tariffs on January 1, 2009 (EUR/min)			BIPT published its draft MTA regulation at the end of January 2010 for the period as of mid 2010 and proposed to reduce the tariff in stages to EUR 1.07 ct as of January 1, 2013.
Base	10.41 ct			
Proximus	6.56 ct			
Mobistar	8.21 ct			

On May 7, 2009, the EU Commission published a Recommendation on the regulatory treatment of fixed and mobile termination rates. The Commission recommends to apply a 'pure LRIC approach' which would no longer take account of numerous costs which have so far been considered when setting MTA's and which should be based upon an 'efficient operator' having at least 20% market share. The Commission thereby recommends symmetrical tariffs to be applied unless there are persistently exogenous-induced asymmetric frequency endowments. Based hereupon, the Commission proceeds from the assumption that MTA's should decrease to 1.5 – 3 ct/min by the end of 2012. National regulatory authorities shall take 'utmost account' of this recommendation when setting MTA's. In the Netherlands and Belgium OPTA and BIPT are preparing cost models which include the approach of the Commission, but also cost modeling which does not exclude common costs. Decisions on tariffs, taking into account the outcome of these cost models, are in the second quarter of 2010 in the Netherlands. In Belgium, BIPT published its draft MTA regulation in January 2010 for the period as of the date of entry into force (mid 2010) and proposed to reduce the tariff in stages to EUR 1.07 ct as of January 1, 2013.

In Germany, BNetzA has set the MTA's for the distinct MNO's in separate administrative proceedings. These MTA's haven't been notified to the European Commission in advance. On June 25, 2009, the EU Commission initiated infringement proceedings against Germany because of BNetzA's reluctance to notify its draft MTA decisions to the Commission and the resulting danger of regulatory-induced distortions in the internal market.

BNetzA has consulted on a cost tool which will probably have to be filled by the distinct MNO's when they file their applications for new MTA's. Alternatively, the new MTA's couldbe set by relying on other cost information.

International roaming on mobile networks

The EU Roaming Regulation was amended effectively on July 1, 2009. Thereby the glide path for retail tariff reductions was extended. As from July 1, 2009, yearly reductions will be required until July 1, 2012. For calls made in other EEA (European Economic Area) countries, the tariffs are EUR 0.43, 0.40, 0.37 and 0.34. For calls received in other EEA countries, the reductions are EUR 0.19, 0.16, 0.13 and 0.10. Wholesale tariffs are set at EUR 0.26, 0.23, 0.20 and 0.17 on the same dates. For retail and wholesale billing as of July 2009 only actually utilized minutes on a per second basis can be billed, except for the first 30 seconds for retail billing.

For SMS, new maximum tariffs are set at EUR 0.11 retail and 0.04 wholesale as of July 1, 2009. For data roaming from July 1, 2009, the maximum wholesale tariff is EUR 1.00 per Mb. Retail data roaming tariffs are not regulated, but additional information obligations towards customers are introduced, which includes services for customers to set maximum billing levels for data roaming by July 1, 2010.

Licenses for mobile communications (the Netherlands)

In the Netherlands, KPN holds licenses for GSM900, DCS1800, UMTS, DVB-T (Broadcast) and a number of licenses of minor significance. The duration of the GSM900 license has been extended up to February 25, 2013. On that date the duration of the DCS 1800 licenses will also end and the Ministry of Economic Affairs has announced its intention not to extend this date. As a consequence a reallocation of the total 900 and 1800 spectrum will be necessary prior to that date. The policy for this spectrum re-allocation has not yet been announced.

At a European level, the GSM Directive of 1987 has been amended in July 2009 to allow alternative mobile standards on 900 frequencies. A subsequent decision of the Commission of October 2010 mandates member states to allow UMTS technology on the relevant 900 and 1800 frequencies by May 2010. Draft amendments of the regulation and the licenses were published by the Ministry of Economic Affairs for consultation in December 2009.

After examining the UMTS roll-out obligations, the Ministry imposed an injunction by duress with regard to the Telfort UMTS license in 2008. After re-examination, the Radio Agency ('Agentschap Telecom', AT) concluded in May 2009 that the license requirements as interpreted by the AT had not been met by Telfort and that the first term of EUR 5 million became due and payable. KPN/Telfort appealed to the injunction, but a request for suspension thereof was denied by the Court of Rotterdam. Under the thread of another EUR 35 million to be paid, Telfort returned its UMTS license to the Minister. The appeal procedure, however, will proceed, since KPN/Telfort contest the view of the AT on the way the license conditions were interpreted and measured. Simultaneously, the AT announced a similar treatment for the national Telfort DCS 1800 license, which was also returned. The policy for reallocation, this spectrum has not yet been announced.

The auction for the 2.6 GHz spectrum, originally planned for 2008, is now planned for the first half 2010. With regard to the 2.6 GHz auction, participation for all participants is restricted to avoid strategic acquisition of spectrum. The current mobile operators, KPN, Vodafone and T-Mobile, are restricted even further with the intention to accommodate new entrants in the mobile communications market. KPN has challenged this additional restriction.

Licenses for mobile communications (Germany)

In Germany, E-Plus holds licenses for GSM (operating in the DCS1800 frequency and in the GSM900 frequency band) as well as UMTS. In 2009, there have been two major and inter-linked spectrum issues:

Refarming

The opening up of the 900 MHz frequency band for a more flexible use such as UMTS900 ('Refarming') has already been discussed for years.

Against the background of the persisting uneven spectrum assignment among the German mobile operators in the GSM900 band, only Deutsche Telekom and Vodafone could currently deploy UMTS900 technology in the GSM900 band. To prevent from further competitive distortions, E-Plus has therefore repeatedly called for a redistribution of the GSM900 spectrum prior to a refarming during the last years. On October 12, 2009, the German regulator decided that the distinct mobile operators could apply for a refarming of GSM900 frequencies.

With respect to the requested redistribution of GSM900 spectrum, the regulator has nevertheless taken the view that, for the time being, the uneven spectrum assignment would not cause competitive distortions among the mobile operators so that it would currently see no necessity to redistribute frequencies. In December 2009, the regulator however announced to analyze the status of competition in the German mobile market (and the interlink between the underlying frequency endowments) in more detail within three months after the envisaged frequency auction (see below).

Frequency auction 2010

The frequency auction which was also decided upon on October 12, 2009, and which is envisaged for the second quarter of 2010 shall in total comprise 360 MHz of simultaneously offered spectrum, consisting of 800 MHz spectrum (the 'digital dividend' which was freed up from broadcasters and which is connected with coverage obligations to provide broadband services to rural areas), 1800 MHz, 2100 MHz and 2600 MHz spectrum.

In its auction design, the regulator has not limited the bidding rights for the 1800, 2100 and 2600 MHz spectrum. As to the 800 MHz spectrum, the regulator has however imposed a general spectrum cap of (2x) 20 MHz for spectrum below 1 GHz on every bidder. This means that, in the bids for 800 MHz spectrum, existing GSM900 spectrum assignments shall be taken into account. E-Plus and O2 are using (2x) 5 MHz of GSM900 spectrum so that the regulator has allowed each of them to additionally bid for (2x) 15 MHz of 800 MHz spectrum. Deutsche Telekom and Vodafone are using (2x) 12.4 MHz of GSM900 spectrum. Each of them has nevertheless been allowed to additionally bid for (2x) 10 MHz of 800 MHz spectrum. Consequently, Deutsche Telekom and Vodafone can each obtain (2x) 22.4 MHz of spectrum below 1 GHz and therefore 2.4 MHz more than other bidders. E-Plus and a number of other parties filed lawsuits against the auction and its design.

Licenses for mobile communications (Belgium)

In Belgium, KPN Group Belgium holds licenses for DCS1800, GSM 900 and UMTS. As a result of a decision of the Belgium regulator BIPT, KPN Group Belgium was granted, as of February 1, 2009, eight additional channels in the GSM900 band (CT1+ channels). Two additional channels in this band were granted to KPN Group Belgium as of January 1, 2010. Mobistar and Belgacom Mobile received on February 1, 2009, and January 1, 2010, respectively, an equivalent number of channels in the DCS1800 band.

On December 24, 2009, BIPT launched a consultation on new draft rules that lists some of the key conditions of a fourth UMTS license in Belgium and of the renewal of the GSM licenses of the mobile operators. The main elements of the draft legislation include:

- The renewal – in two phases – of the existing GSM licenses until 2021 in return for an additional license fee of approximately EUR 52 thousand per month for the 900/1800 MHz band. The Government wants to create a legal basis for imposing an additional license fee for the renewal of the GSM licenses. According to the plans of the Government, the operators can choose to pay the additional license fee either at the beginning of the renewal period or pro-rata on an annual basis;
- The auction in 2010 to a fourth UMTS operator of 5 MHz duplex in the the 2.1 GHz band until March 2021 at a minimum license fee of approximately EUR 21 thousand per MHz and per month. After this auction, the fourth UMTS operator has a first and exclusive right to obtain additional 2.1 GHz spectrum and has also the possibility to obtain spectrum in the 900MHz/1800 MHz band;
- A frequency refarming of the 900/1800 MHz band in November 2015. Spectrum will be equally divided amongst existing operators; both Belgacom Mobile, Mobistar and KPN Group Belgium are scheduled to receive 10 MHz in the 900 MHz band and 20 MHz in the 1800 MHz band; and
- The auction in 2010 of 2.6 GHz-spectrum at a minimum license fee of EUR 2,778 per MHz per month. Both newcomers and existing operators can participate in the auction. Operators can obtain a maximum 20 MHz duplex in the 2.6 GHz band.

KPN Group Belgium disagrees with the imposition of 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.

On December 28, 2009, BIPT announced that it was withdrawing its decision of November 25, 2008, not to automatically renew KPN Group Belgium's GSM license beyond July 2013. With this decision, BIPT anticipates the annulment of its 2008 decision by the Brussels Court of Appeal (similar decisions against Belgacom Mobile and Mobistar have already been annulled by the Court of Appeal).

The Belgian Government also intends to organize beauty contests for the 3.5 GHz and 10 GHz spectrum in 2010.

Legal intercept and data retention

Based on the EU Data Retention Directive, member states have implemented the obligation into national regulation to have available for public prosecution and national security purposes all traffic data. As of September 2009 the directive was implemented in the Netherlands. The retention period for traffic data related to fixed and mobile telephony is twelve months, for data related to the internet and e-mail the initial intended period of twelve months will be decreased to six months. The costs for data retention and securing the data are borne by the operators.

In Belgium the directive is not yet implemented. Political consensus exists for implementation with a twelve months retention period. BIPT has launched a procedure to set the costs associated with data retention by operators. It is currently not determined if and to what extent the costs for data retention are to be borne by the operators.

In Germany, the transposition of the Data Retention Directive into national law has already been effective since 2008. There are, however, still a number of court cases pending, brought by different telecoms operators and a mass class action to the German Constitutional Court ('Bundesverfassungsgericht'), concerning the compatibility of the law with the German constitution. The decision of the Bundesverfassungsgericht is awaited for Spring 2010.

In the Netherlands the Telecom Agency ('Agentschap Telecom', AT) imposed a fine upon KPN for not fulfilling its obligations in relation to lawful intercept of outgoing e-mail. The fine was EUR 22,500 for five intercepting requests which were not correctly dealt with according to the AT and will be EUR 2,500 for each additional occurence were KPN does not cooperate, with a maximum of EUR 50,000 in total. KPN appealed to the decision, which appeal is ongoing.

CSR policy supports the business strategy

KPN's CSR policy is a inseparable part of its business strategy. To realize its 'Back to Growth' ambitions, KPN must strengthen its position as a leading service provider which infuses trust and loyalty among its clients, employees and other stakeholders.

It is KPN's ambition to become the best service provider in the telecom sector. To achieve this, it is imperative that KPN is close to all layers of society and sensitive to what is happening in society and the market. KPN is convinced that commitment to corporate social responsibility is crucial to establishing a stronger connection between the Company and society. Commitment to CSR can enhance trust among clients and generate pride among employees.

KPN believes its commitment to society will make people and companies, whether clients, suppliers, employees, investors or other stakeholders, keen to partner with KPN and more interested in its products and services. Alongside its 'Back to Growth' business strategy, KPN introduced a new CSR policy in 2007. KPN has traditionally supported charities and has been connecting people through KPN's services and products for more than 125 years. The new policy has made KPN's CSR initiatives more focused and coherent. In 2009, the second year since the implementation of the CSR policy, KPN took steps to further expand the policy from KPN Netherlands to KPN businesses across the world.

Three CSR themes

KPN's CSR policy is an integral part of the Company. The three themes of the CSR policy fit within KPN's business, focussing on areas where KPN can make meaningful contributions.

1. New Way of Working
   KPN is committed to enabling flexible ways of working, helping employees find a good balance between their working and private lives, and resolving commuting and mobility issues. KPN is the natural party to turn to products, ideas and services that reduce commuter traffic, whether in terms of teleworking, avoiding the peak hour commuter rush, or similar initiatives. KPN participated in several pilot projects aimed at addressing traffic congestion issues in Rotterdam, The Hague and other urban areas in the Netherlands. In 2009, KPN provided 3,563 flexible workplaces and installed ICT equipment allowing staff to work from home or other locations. KPN continued the step-by-step roll-out of a fiber network in the Netherlands, a business initiative with significant societal impact. In addition to enabling commercial services such as digital television, VoIP telephony and extremely fast internet access, the fiber network will facilitate services such as distance learning and remote health care services. The fiber network will be open for use by other communications service providers.

2. Responsible energy use
   The telecoms industry is one of the biggest electricity consumers in the Netherlands. KPN is committed to reducing its energy consumption and has set itself the ambitious target of becoming climate-neutral by 2020. This means KPN will completely eliminate net carbon dioxide emissions over the next 11 years. KPN wishes to achieve this through a more efficient use of energy and a greater use of 'green' energy. E-Plus Gruppe and KPN Group Belgium have set energy targets for the next years in line with the target of KPN. In 2009, KPN increased the share of 'green' energy to 56% of its total electricity use in the Netherlands, up from 31% in 2008. KPN saved 34 Gwh electricity in the Netherlands through replacing equipment with more energy efficient systems and implementing a range of energy saving measures. Also, KPN made its fleet of lease cars 'greener' by banning all new lease cars with greenhouse gas emissions higher than the Dutch C energy label standard.

3. People connected
   KPN's products and services connect people. Despite living in a world of internet and mobile telephony, not everybody manages to stay in touch, with some people at risk of social isolation. KPN initiates and supports a wide variety of projects to help people connect. These projects ranged from helping senior citizens get to grips with the internet on the KPN 'ComputerPlusBus' that toured the Netherlands; helping sick children stay in touch with their classmates via a fast internet connection in KPN's 'Class Contact' ('KlasseContact') project; or serving tables, washing dishes or cooking in one of the Resto VanHarte neighbourhood restaurants supported by KPN to enable people in need to meet their neighbours at the dinner table. KPN's social projects are organized by 'The Finest Contact Foundation' ('Het Mooiste Contact Fonds') which was set up by KPN. In 2009, employees of KPN participated 2,000 days as volunteer for this foundation.

Stakeholder dialogue

In 2009, KPN organized several meetings with in- and external stakeholders and KPN employees in the Netherlands to obtain feedback on its CSR activities. KPN also organized a chat session on the company's intranet where staff and the full Board of Management discussed relevant developments in the Company, including CSR.

Both the KPN employees and the external stakeholders believed the three pillars for CSR activities match perfectly with the Company's business. They indicated that KPN is on the right track in closely interlinking CSR objectives with business targets.

Stakeholders also responded that KPN should consider communicating more extensively about its CSR activities and share its vision and ideas on how to address societal issues and climate change with the outside world. In response to these comments, KPN is planning to gradually increase its CSR communication. Furtermore, partly based on feedback from suppliers, KPN will adjust its sustainable procurement policy, focusing its screening, monitoring and auditing on suppliers which KPN believes are at significant risk of not meeting the financial (e.g. solvability), environmental or social criteria of KPN.

Objectives for 2010

In 2010, KPN is planning to offer commercial propositions to enable its clients to save energy and create a better work-life balance. Responding to stakeholder comments, KPN will put more effort into communicating its vision on CSR and its ideas on how to address societal issues. KPN will increase the share of green energy in its total electricity consumption in the Netherlands to 75%, up from 56%, and increase the energy efficiency of its datacenters by 20% compared to 2005.

KPN will require suppliers from 'best cost countries' to agree to its Suppliers Code of Conduct, which sets social and environmental standards. KPN is also planning to provide information on the energy consumption of its products for the consumer and business market, allowing clients to choose the most environmentally sound option available. In addition, KPN aims to recruit 2,000 volunteers to participate in its social projects.

In 2010, KPN will report on the results of its CSR initiatives in a way comparable to the top of telecommunication companies listed in 'green' indices, such as the Dow Jones Sustainability Index (DJSI). It is KPN's goal to be enlisted in the DJSI in 2011.

CSR steering group

The Supervisory Board and the Board of Management fully support KPN's CSR policy. Chaired by Baptiest Coopmans, Board of Management member and the director responsible for CSR at KPN, the CSR steering group coordinates and monitors the CSR policy. KPN's major segments and subsidiaries – Consumer, Business, Getronics, Wholesale & Operations, E-Plus Gruppe and KPN Group Belgium – are represented in the steering group. The steering group meets once a month and issues monthly reports on the status of the implementation of KPN's CSR policy to the Board of Management. For each of its three CSR themes, KPN appointed program directors who supervise implementation of CSR policy and are responsible for meeting targets.

Please see KPN's Corporate Social Responsibility report at www.kpn.com/csr for more information on the CSR initiatives and achievements in 2009. The report achieved the GRI A+ level, the highest international CSR reporting level, up from B+ in 2008 and C+ in 2007.

Developments in 2009

The term 'Corporate Governance' refers to the relationship between the principal organs of companies. For KPN, these organs include the Board of Management, the Supervisory Board and the Annual General Meeting of Shareholders ('AGM'). 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.

As from January 1, 2009, the amendments made to the Dutch Corporate Governance Code of December 2003 by the Monitoring Committee entered into force. These amendments focus on influencing behaviour in advance, rather than compliance by means of a 'box-ticking' approach. A large part of the amendments were already standard practice within KPN, therefore the establishment of the revised Code does not have a significant impact on KPN's Corporate Governance.

The full text of the applicable Dutch Corporate Governance Code can be found on www.commissiecorporategovernance.nl.

Compliance with the amendments to Dutch Corporate Governance Code

KPN conducts a corporate governance policy consistent with the revised Dutch Corporate Governance Code ('revised Code'). This revised Code has 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 revised Code, as well as its predecessor, are based on the 'apply-or-explain' principle and define a company as a 'long-term form of collaboration between the various stakeholders involved'. The Board of Management and the Supervisory Board have overall responsibility for considering these interests, generally with a view to ensuring continuity of the Company. In doing so, the Company endeavors to create long-term shareholder value and the Board of Management and Supervisory Board should take account of the interests of the different stakeholders.

KPN supports the principles of the revised Code. KPN complies almost fully with the best practice provisions. However, KPN notes that it does not fully apply the following two provisions:

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" and 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".

Even though the current share plans are fully compliant with the revised Code, KPN does not apply provision II.2.4 on those options granted to Mr Scheepbouwer before the revised Code entered 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 shall be respected. On November 6, 2007, a new arrangement was approved by the AGM. From 2008 and onwards Mr Scheepbouwer will be entitled to a long-term incentive package based on remuneration in shares, replacing all his annual long-term incentive entitlements. For further information, see 'Remuneration and Organizational Development Report' starting on page 55.

Under the same premise that existing rights should be respected, Mr Blok and Mr Miller will receive more than one year's ('fixed') salary in the event of a dismissal, contrary to provision II.2.8. Mr Blok will receive one year's full salary (including short-term bonus) in the event of a dismissal, whereas Mr Miller received two years' fixed salary, including insurance and pension allowances. Both agreements correspond to the arrangements that were in place before they joined the Board of Management.

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

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.

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 pending on the possibility of introducing a one-tier management structure for Dutch companies including 'structuurvennootschappen'. Other pending legislation will cover shareholder rights such as raising the threshold for proposing items to the shareholders meeting and the improvement of processes surrounding shareholders' meetings such as the notice period and the use of a record date. KPN closely monitors these developments. Where relevant, changes in legislation are implemented in KPN's Articles of Association. The Articles were last amended on May 3, 2007.

None of KPN's shareholders holds 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 organizational 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 the right to recommend persons for nomination up to one third of the Supervisory Board.

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

According to the Articles of Association, the Supervisory Board must consist of at least five and not more than nine members. KPN's Supervisory Board currently consists of eight members. Members of the Supervisory Board resign according to a schedule set by the Supervisory Board. A member steps down at the first AGM following his four-year term in office. In line with the revised Code, members can be reappointed twice, leading to a maximum term in office of 12 years.

The Supervisory Board has determined its 'profile', defining the basic principles for the composition of the Supervisory Board. All nominees for the 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 by-laws of the Supervisory Board contain, among other things, rules regarding the members' duties, powers, working methods and decision-making, what decisions by the Board of Management it must approve, training and conflict handling. The by-laws are available on the website www.kpn.com under the section Investor Relations, Corporate Governance.

The composition of the Supervisory Board changed at the 2009 AGM. Mr Routs and Mr Haank were appointed by the AGM as new members.

To ensure stable leadership in the Supervisory Board in the coming years, KPN announced in December 2009 a change in the chairmanship of the Supervisory Board, effective as of the AGM 2010. As of the AGM 2010, Mr Streppel will succeed Mr Risseeuw as Chairman of the Supervisory Board and Mr Risseeuw will remain a member of the Supervisory Board. Following this change, Mr Routs will succeed Mr Streppel as Vice-Chairman of the Supervisory Board.

In 2010, Mr Jager is due to step down from the Supervisory Board, as he will reach the end of his four-year term of office and has decided not to stand for reappointment at the AGM 2010.

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 2009 can be found in the 'Report of the Supervisory Board' and on the website www.kpn.com under the section Investor Relations.

Composition of the Supervisory Board

Name	Date of birth	Start of term	End of term	Committees
A.H.J. Risseeuw (Chairman)	November 9, 1936	May 2, 2001, April 12, 2005* April 7, 2009*	2013	Chairman Nominating and Corporate Governance Committee; Member Remuneration and Organizational Development Committee
J.B.M. Streppel (Vice-chairman)	October 11, 1949	May 12, 2003, April 17, 2007*	2011	Chairman Audit Committee
M.E. Van Lier Lels	October 19, 1959	May 2, 2001, April 12, 2005* April 7, 2009*	2013	Member Remuneration and Organizational Development Committee; Member Nominating and Corporate Governance Committee
D.I. Jager	April 30, 1943	April 25, 2002, April 11, 2006*	2010	Chairman Remuneration and Organizational Development Committee; Member Nominating and Corporate Governance Committee
M. Bischoff	April 22, 1942	May 12, 2003, April 17, 2007*	2011	Member Audit Committee
C.M. Hooymans	August 28, 1951	April 17, 2007	2011	Member Remuneration and Organizational Development Committee; Member Nominating and Corporate Governance Committee
R.J. Routs	September 10, 1946	April 7, 2009	2013	Member Audit Committee
D.I. Haank	April 25, 1953	April 7, 2009	2013	Member Audit Committee

* Reappointment.

The composition of the Committees of the Supervisory Board will change. As of the AGM 2010, the Audit Committee will consist of three Supervisory Board Members, Mr Haank (Chairman), Mr Bischoff and Ms Van Lier Lels. As of the AGM 2010 , the Remuneration and Organizational Development Committee will be chaired by Mr Routs and the other members will be Mr Streppel, Mr Risseeuw and Ms Hooymans.

The Nominating and Corporate Governance Committee will be chaired by Mr Streppel, the other three members are Mr Routs, Mr Risseeuw and Ms Hooymans.

A.H.J. Risseeuw
Mr Risseeuw was first appointed as a member of the Supervisory Board on May 2, 2001, and has been the Chairman of the Supervisory Board since September 10, 2001. His current (third) term expires in 2013. Mr Risseeuw chairs the Nominating and Corporate Governance Committee and is a member of the Remuneration and Organizational Development Committee. 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 Groeneveld Groep B.V. and Intergamma B.V. and member of the Supervisory Board of Blokker Holding B.V. and a member of the Advisory Council of Deloitte The Netherlands. Mr Risseeuw is a Dutch citizen.

J.B.M. Streppel
Mr Streppel was appointed as a member of the Supervisory Board on May 12, 2003, and has been the Vice Chairman of the Supervisory Board since April 15, 2008. His current (second) term expires in 2011. He is the Chairman of the Audit Committee. Mr Streppel is the former Chief Financial Officer of AEGON N.V. and a member of the Supervisory Board of Van Lanschot N.V. 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.

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) term expires in 2013. She is a member of the Remuneration and Organizational Development Committee, as well as the Nominating and Corporate Governance 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., Maersk B.V, till December 2009 she was a member of the Supervisory Board of Connexxion Holding N.V. and till February 2009 she was a member of the Supervisory Board of Getronics N.V. She is a member of the Audit Committee of the Algemene Rekenkamer, a member of the Advisory Council for Science and Technology and the chairman of the Supervisory Council of The Netherlands Society for Nature and Environment. Ms Van Lier Lels is a Dutch citizen.

D.I. Jager
Mr Jager has been a member of the Supervisory Board since April 25, 2002, and his current (second) term expires in 2010. Mr Jager is the Chairman of the Remuneration and Organizational Development Committee, and a member of the Nominating and Corporate Governance Committee. He held various management positions at Procter & Gamble in Europe, Asia and the United States and was Chairman of the Board, President and/or Chief Executive Officer from January 1995 through June 2000. Mr Jager currently is an independent consultant and private investor. He is Chairman of the Supervisory Board of Royal Wessanen N.V. and serves on the Boards of Chiquita Brands International Inc. and Healthpro Brands Inc. as a non-executive board member. Mr Jager is both a US and Dutch citizen and resides in the United States.

M. Bischoff
Mr Bischoff was appointed as a member of the Supervisory Board on May 12, 2003, and his current (second) term expires in 2011. 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 term expires in 2011. She is a member of the Remuneration and Organizational Development Committee, as well as the Nominating and Corporate Governance Committee. Ms Hooymans is a member of the Management Board of TNO and a member of the Supervisory Board of Rabobank Vallei en Rijn. Furthermore, she is a member of the Board of the Radboud Foundation (Radboud University and Radboud University Medical Center) and a member of the Dutch government's Advisory Council for Science and Technology. Ms Hooymans is a Dutch citizen.

R.J. Routs
Mr Routs was appointed as a member of the Supervisory Board on April 7, 2009, and his term expires in 2013. He is a member of the Audit Committee. From 2004 until his retirement in 2008 Mr Routs was an executive board member at Royal Dutch Shell PLC. Before that he held various (senior) management positions at this company in the USA, Canada and the Netherlands. Mr Routs is a member of the Supervisory Board of Aegon N.V., the Board of Directors of Canadian Utilities and of the business school INSEAD. He also serves as a member of the International Advisory Council of the Economic Development Board of Singapore. Mr Routs is a Dutch citizen.

D.J. Haank
Mr Haank was appointed as a member of the Supervisory Board on April 7, 2009, and his term expires in 2013. He is a member 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 the Supervisory Council of the Dutch broadcast association TROS. Before his appointment at Springer, Mr Haank was the CEO of Elsevier Science and Executive Board Member of Reed Elsevier PLC. Mr Haank is a Dutch citizen.

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

Board of Management

The members of the Board of Management as at December 31, 2009, were:

Name	Position	Date of birth	Start of term	End of current term
A.J. Scheepbouwer	Chief Executive Officer	July 22, 1944	November 2001/2007*	2011
C.M.S. Smits-Nusteling	Chief Financial Officer	August 18, 1966	November 2009	2013
E. Blok	Managing Director Business, Getronics and Wholesale & Operations Segments	August 3, 1957	June 2006	2010
S.P. Miller**	Managing Director Mobile International	September 6, 1958	June 2006	2010
J.B.P. Coopmans	Managing Director Consumer Segment	February 9, 1965	September 2006	2010

* Reappointment.
** Member until February 1, 2010.

The Board of Management, supervised and advised by the Supervisory Board, manages KPN's strategic, 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.

The Board of Management consisted of five members until February 1, 2010, and after this date of four members: the Chairman of the Board, the Chief Financial Officer, and the Managing Directors of the different segments.

A.J. Scheepbouwer
Mr Scheepbouwer is Chairman of the Board of Management and Chief Executive Officer. As of February 1, 2010, Mr Scheepbouwer is also responsible for Getronics.

Ad Scheepbouwer was appointed Chairman of KPN's Board of Management and Chief Executive Officer on November 1, 2001. His employment contract terminates on July 1, 2011. From 1976 to 1988, Mr Scheepbouwer was President of the Airfreight division of Pakhoed Holding N.V. (Pandair Group). In 1988, he was appointed as Managing Director of PTT Post, then part of the Dutch national post and telecommunications operator, Koninklijke PTT Nederland N.V.

In 1992, Mr Scheepbouwer joined the Board of Management of Koninklijke PTT Nederland N.V. In June 1998, the mail, express and logistics activities were demerged from Koninklijke PTT Nederland N.V. and incorporated as a separate Company, TPG N.V., of which he became Chief Executive Officer. From June 1998 until September 9, 2001, he was a member of KPN's Supervisory Board.

Mr Scheepbouwer is currently chairman of the Supervisory Board of Havenbedrijf Rotterdam N.V., chairman of the Supervisory Council of the Maasstad Hospital and member of the Supervisory Board of, and an investor in, RFS Holland Holding B.V. Furthermore, till November 2008, Mr Scheepbouwer was member of the Supervisory Board of Welzorg Group, and since November he is chairman of the Supervisory Board of Bank Oyens and Van Eeghen.

Mr Scheepbouwer is also chairman of the Audit Committee 'Sleutelgebieden' of the Innovationplatform, member of the Advisory Councils of ECP.NL and the Rotterdam School of Management and chairman of the Economic Advisory Council for the city of Dordrecht. Furthermore, he is a member of the Board of the Foundation for the support of the Dutch Bach Association, member of the Supervisory Council of the Foundation for the National Art Collection and Ambassador 'Randstad Urgent' (Project International City The Hague).

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. Most recently, she was Director of Corporate Control. Since May 2009, she was one of two interim CFOs. Before she joined KPN, she held various financial and operational management positions at TNT.

E. Blok
Mr Blok is a member of the Board of Management and until February 1, 2010, he was Managing Director of the Business Segment, Getronics and Wholesale & Operations. As of February 1, 2010, Mr Blok assumed responsibility for KPN's international operations, comprising of Mobile International and iBasis.

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. Since that date he was responsible for the aforementioned segments (Getronics as from October 2007).

Mr Blok joined KPN in 1983 and had various management positions, including positions as director of KPN's Carrier Services, Corporate Networks and Fixed Net Operator, and he was responsible for Corporate Strategy & Innovation. Most 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., of the Board of ICT-Office and will become chairman of the Board of iBasis (currently non-executive member). Until February 2009, he was a member of the Supervisory Board of Getronics N.V.

S.P. Miller
Mr Miller was a member of the Board of Management and Managing Director Mobile International untill February 1, 2010.

Stan Miller was appointed as a member of the Board of Management on June 1, 2006. Until January 1, 2007, he was (as Managing Director of the Mobile Division) responsible for all of KPN's activities in the Netherlands, Germany, Belgium and abroad. Since that date, until February 1, 2010, he was responsible for all KPN's Mobile International activities (outside the Netherlands). He was also responsible for the Group's M&A activities.

Mr Miller held various senior management positions in the (pay)television, media and IT industry in South Africa and Europe, including M-Net (South Africa), MIH (the Netherlands/ South Africa) and Nethold (the Netherlands). In November 1998, he was appointed CEO of KPN Orange, now BASE. Since then he has held various positions in KPN's mobile activities, including those of CEO of KPN Mobile the Netherlands and KPN Mobile International, and member of the Board of Management of KPN Mobile N.V. and Hutchison 3G UK Ltd. In May 2005 he was appointed CEO of KPN's international mobile activities, E-Plus and BASE. He was Chairman of the Supervisory Board of E-Plus and Chairman of the Board of BASE. He is a member of the advisory board of Tus Holding d.o.o. Slovenia.

J.B.P. Coopmans
Member of the Board of Management and Managing Director Consumer Segment and the IT division in the Netherlands. As of February 1, 2010, Mr Coopmans responsibilities had been extended to the whole of KPN's Dutch Telco activities, covering not only the consumer market and IT, but also the business and wholesale markets and operations for wireline, wireless and television services.

Baptiest Coopmans was appointed as a member of the Board of Management on September 11, 2006. As of January 1, 2007, he was responsible for KPN's Consumer Segment in the Netherlands.

Mr Coopmans held various (commercial) management positions at Unilever. In 1998 he was appointed Managing Director of DiverseyLever. In September 2000 he was appointed chairman of the Board of IgloMora 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, 2009, a total of 1,628,855,322 ordinary shares were issued.

Dutch law prohibits KPN to cast a vote on shares it holds. The ordinary shares and Class B preferred shares carry the right to cast one vote each. For a description of the preferred shares, please see 'The Foundation Preference Shares B KPN'. 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 7, 2010) 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 Prices 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, plus 41,757,889 shares that the Company acquired in the context of its share repurchase program until April 3, 2009. 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 preferred 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 Policy' on page 10 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 preferred 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

Notifications to the Dutch Authority Financial Markets

The table below provides an overview of transactions in 2009 by (former) members of KPN's Board of Management and Supervisory Board.

November 3	C.M.S. Smits-Nusteling*	Award of 4,871 conditional restricted KPN shares	EUR 0
June 12	M.H.M. Smits*	Sale of 15,500 KPN shares	EUR 9.12
June 12	M.H.M. Smits*	Sale of 200 option contract on 100 shares	EUR 6.00
June 12	M.H.M. Smits*	Sale of 200 option contract on 100 shares	EUR 6.00
June 12	M.H.M. Smits*	Exercise of 85,416 share options against cash	Exercise price option: EUR 6.07 Sale price share: EUR 9.10
June 12	M.H.M. Smits*	Exercise of 230,660 share options against cash	Exercise price option: EUR 6.73 Sale price share: EUR 9.10
April 29	D.I. Jager **	Bought 3,110 KPN ADRs	USD 12.40
April 29	D.I. Jager**	Bought 4,390 KPN ADRs	USD 12.45
April 17	A.J. Scheepbouwer*	Exchange of 177,121 conditional KPN shares for 354,242 unconditional shares upon fulfillment of performance criterium	EUR 0
April 16	A.J. Scheepbouwer*	Exercise of 310,078 share options against cash settlement on expiry date. Order given 4 months before expiry date	Sale price share: EUR 9.27
April 15	M.H.M. Smits*	Sale of 37,807 KPN shares for income tax settlement related to vesting of shares	Sale price share: EUR 9.24
April 15	E. Blok*	Sale of 31,835 KPN shares for income tax settlement related to vesting of shares	Sale price share: EUR 9.24
April 15	J.B.P. Coopmans*	Sale of 32,467 KPN shares for income tax settlement related to vesting of shares	Sale price share: EUR 9.24
April 14	M.H.M. Smits*	Exchange of 37,160 conditional KPN shares for 74,320 unconditional shares upon fulfillment of performance criterium	EUR 0
April 14	E. Blok*	Exchange of 31,290 conditional KPN shares for 62,580 unconditional shares upon fulfillment of performance criterium	EUR 0
April 14	J.B.P. Coopmans*	Exchange of 32,075 conditional KPN shares for 64,150 unconditional shares upon fulfillment of performance criterium	EUR 0
April 9	A.J. Scheepbouwer*	Award of 215,517 conditional restricted KPN shares	EUR 0
April 9	M.H.M. Smits*	Award of 79,420 conditional restricted KPN shares (forfeited upon resignation)	EUR 0
April 9	E. Blok*	Award of 79,420 conditional restricted KPN shares	EUR 0
April 9	J.B.P. Coopmans*	Award of 74,586 conditional restricted KPN shares	EUR 0
April 9	S.P. Miller*	Award of 96,5685 conditional restricted KPN shares	EUR 0

* (Former) Member of Board of Management.
** Member of the Supervisory Board.

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 should (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), J. den Hoed RA (vice-Chairman), P. Bouw, P. Wakkie and H. Zwarts. 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).

KPN has a put option to place with the Foundation a number of KPN Class B preference shares, which have the same voting rights as ordinary shares, not exceeding the total issued share capital before such issue, or, subject to prior approval by the General Meeting of Shareholders, such larger number as the parties may agree. In addition, the Foundation has a call option, which is not limited in time, to acquire a number of Class B preference shares from KPN not exceeding the total issued amount of ordinary shares, minus one share and minus any shares already issued to the Foundation.

Since October 12, 2006, the authority of the Board of Management to issue Class B preference shares under the put option expired. This expiration does not affect the obligation to issue Class B preference shares upon exercise of the call option by the Foundation.

Upon exercise of the call option, 25% of the nominal value of EUR 0.24 per Class B preference share needs to be paid by the Foundation. 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.

Highlights 2009

Back to growth in economic turmoil

2009 was a year wherein market conditions worsened as a result of the economic downturn. At the beginning of this year, the Supervisory Board reviewed several scenarios and contingency plans, which had been prepared to weather the storm. While implementing the 'Back to Growth' strategy, which had been launched in 2008 and set goals for 2010, short-term measures were put in place based on a scenario of 'sustained adjustment'. A sustained recession was considered the most likely scenario going forward. The Supervisory Board devoted considerable time and attention to the reviewing of pre-emptive and corrective measures that would support the strategic choice at the beginning of 2009 to focus on EBITDA, cash flow and market shares. It was satisfactory to see that this strategy paid off, which was clearly evidenced by solid results over the year. The Company was still on track to deliver the 'Back to Growth' targets, with the exception of the revenue guidance which inevitably had to be adjusted due to market circumstances.

The Netherlands

The Dutch Telco Business showed a resilient performance during 2009 with growing profitability. Headwind from economic circumstances and regulatory pressure on tariffs was compensated by further FTE and cost reductions as well as efficiency improvements. The Supervisory Board closely monitored that quality of services would not be compromised. The introduction of Net Promotor Score as tool for measuring customer satisfaction was therefore strongly endorsed.

The Supervisory Board kept itself abreast of developments in the broadband market where growth was decelerating and competitive pressure from the cable companies continued. Although the Company's market share remained stable with focus on high value customers the acceleration of new services was a key priority. The Supervisory Board therefore supported an action plan to substantially increase the scalability of fiber in combination with the short-term upgrade of the copper network to VDSL-CO to enable large-scale IPTV coverage.

In the Dutch Mobile Consumer Market, the Supervisory Board closely followed the developments in the focus on value growth and profitability through careful management of SAC/SRC, while maintaining its competitive position on this market.

Impact from the downturn was predominantly apparent in the business market where traffic volumes declined and order intake slowed down. Mitigating measures included, amongst other things, cost reductions, a strong reduction of temporary staff, and accelerated restructurings to bring down the number of FTE's. A large restructuring at Getronics was also inevitable. The Supervisory Board closely monitored that the restructuring plans were prepared and exercised with due care in respect of redundant personnel.

Despite the revenue decline due to adverse market circumstances, Getronics was able to maintain its market position. Next to that, profitability increased over the year. The choice to focus on the core business of workspace management, Getronics strengthened the Group with a strategic and sustainable portfolio. The Supervisory Board kept a close watch on the development of the business in this respect.

Mobile International

Mobile International continued to deliver solid EBITDA margin as a result of its Challenger strategy with strong focus on profitable growth and cash. The copying by competitors of KPN's successful value for money propositions requires a meticulous and intensified execution of this strategy. Belgium showed outperformance as a result of initiatives taken in the course of 2009. In Germany, growth initiatives were put in place.

Outsmarting the competition through selective expansion in addressable markets, for example by partnerships and regionalization, was a key factor in Mobile International's success. The Supervisory Board kept itself abreast of a prudent investment approach whereby network roll-out is driven by customer demand and higher efficiencies are being pursuit without compromising on coverage. In this respect the Supervisory Board welcomed the agreement with Mobistar on the joint building of new network infrastructure in Belgium.

Going forward

In the second half of 2009 the Supervisory Board and Board of Management discussed the current strategy going forward and how to best position the Company beyond 2010. One example of key themes was 'Operational Excellence', which should drive further efficiencies and smart deployment of innovations in order to further reduce the complexity in KPN's operations.

Against the background of the turmoil on the financial markets, the Supervisory Board closely monitored the Company's financial profile. The Supervisory Board was pleased that the funding profile could be strengthened by the successful issuance of new bonds. The conservative liquidity policy of pre-financing upcoming redemptions was continued. The Company's Net debt to EBITDA ratio remained stable and at 2.1 times was comfortably within the Company's financial framework. Going forward, the Supervisory Board will keep a close watch on KPN's liquidity and financial profile.

The appointment of Carla Smits-Nusteling as the KPN's CFO following the departure of Marcel Smits not only brings continuity to the financial policy, but will also help the Company further improving its financial organization to best-in-class levels. Her knowledge and experience will be of great value for the Company going forward.

Corporate social responsibility (CSR)

The Supervisory Board extensively discussed the enhanced implementation of the Company's CSR policy launched in 2008. The CSR policy contains the following pillars: people connected, New Way of Working and responsible energy use. The Supervisory Board fully endorses the Company's CSR policy as a key elements of the Company's license to operate. KPN's pillars are not only closely linked to KPN's core business but will create new business and drive efficiencies as well. A stakeholders' dialogue was organized on the implementation of KPN's policy, which included the participation of a Supervisory Board member. An important conclusion of the dialogue was that KPN should be a primary opinion leader in the Netherlands in the field of a new way of working and 'green IT'.

For a description of the organization and structure of KPN's Supervisory Board, see 'Corporate Governance' starting on page 44.

Meetings of the Supervisory Board

The Supervisory Board met on 11 occasions in 2009, of which 8 were regularly scheduled meetings and the remaining were ad hoc meetings (by telephone). Most meetings were held jointly with the Board of Management. The Company's Chief Legal Officer and Company Secretary, Mr Van Rooij, acted as the Supervisory Board's secretary. Throughout the year, the Chairman of the Supervisory Board was in close contact with the Chief Executive Officer, and the Chairman of the Audit Committee was in close contact with the Chief Financial Officer.

The attendance of Supervisory Board meetings was 95%. No members were frequently absent. On certain occasions, in line with the Articles of Association of the Company, the Supervisory Board took resolutions outside of a meeting, if this was required due to urgency or the matter did not require discussion in a meeting.

Independence

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

Activities of the Supervisory Board

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

The financial performance of the Company was extensively discussed at the Supervisory Board meetings preceding the publication of the quarterly and annual results. In this discussion, the Audit Committee, who had already reviewed the financial performance prior to the meeting, advised the full Supervisory Board on the most relevant matters. The Company's external auditor, as well as relevant members of senior management, attended the Audit Committee meetings and presented their findings over the preceding quarters.

The Supervisory Board engaged in a substantive discussion on the Company's strategic direction beyond 2010. The Board discussed specific strategic proposals and weighed them against alternative options. The Board decided to intensify the strategic dialogue with the Board of Management going forward.

Furthermore, the Supervisory Board held several meetings on the departure of the Company's former Chief Financial Officer Mr Smits and the search of a successor. The terms of Mr Smits' departure were agreed satisfactorily for both parties. The Supervisory Board was very pleased to inform the General Meeting of Shareholders of its intention to appoint Mrs Smits-Nusteling as the Company's new CFO.

As for the CEO, in 2007 the announcement was published that Mr Scheepbouwer had extended his contract till July 2011. Therefore, the Supervisory Board is actively pursuing the search for a successor.

The geographical as well as the business scope of the KPN portfolio was considered by the Supervisory Board during the year.

The Supervisory Board kept itself abreast of the developments in the iBasis lawsuit, and approved the terms and conditions of the settlement agreement between KPN and iBasis, which resulted in a recommendation given by the Special Committee that the iBasis stockholders tender their shares in KPN's tender offer.

In addition, the Supervisory Board discussed and approved various matters relating to the financing of the Company, such as the issue of bonds in February and September and the tender of USD 588 million bonds maturing in 2010. Furthermore, the Supervisory Board discussed and approved the granting of both a full-year dividend (January) and interim dividend (August).

The Supervisory Board is regularly updated on important technical, societal and regulatory developments through experts in the relevant topics, and through visits to the Company's operations and other organizations it cooperates with. The Supervisory Board also keeps itself abreast of the views of (major) shareholders. Prior to the AGM, members of the Supervisory Board discussed the remuneration policy with (representatives) of institutional investors who had questioned the fact that a potential additional incentive for the Board of Management had not been submitted for approval to the AGM. Although it did not concur with the view that this incentive should have been approved by the AGM, the Supervisory Board is open to dialogue with shareholders and the public debate on remuneration in general. Going forward it will timely discuss remuneration matters in relation to the AGM agenda with (representatives) of shareholders and /or other stakeholders.

The Supervisory Board also attaches a lot of weight to the relationship with regulators. The Supervisory Board welcomed the establishment of the Compliance Charter with OPTA but will monitor the effectiveness of the implementation thereof critically. Members of the Supervisory Board attended meetings of the Central Works Council. Meetings with the Board of Management's executive teams were organized throughout the year. The Supervisory Board evaluated its own performance and the performance of the Board of Management. Prior to the self-assessment, interviews were held with each Supervisory Board and Board of Management member on Board dynamics. The results were discussed during a separate meeting resulting in the aforementioned plan on intensifying the strategic dialogue between both Boards. The Supervisory Board will evaluate its own performance and effectiveness early 2010.

Committees of the Supervisory Board

As set out in chapter Corporate Governance (starting on page 44), the Supervisory Board has three Committees; the Audit Committee, the Remuneration and Organizational Development Committee and, the Nominating and

Corporate Governance Committee. All three Committees met separately throughout the year. Their main considerations and conclusions were shared with the full Supervisory Board.

Audit Committee

In 2009, the Audit Committee consisted of four Supervisory Board members, Mr Streppel (Chairman), Mr Bischoff, Mr Routs and Mr Haank (both as from April). Mr Streppel is considered to be a financial expert within the meaning of the Dutch Corporate Governance Code. The Audit Committee held 6 meetings, all of which were also attended by the CFO (one of them by the CEO) and by the internal and external auditor. The Corporate Secretary of the Board of Management, Mr Van Wissen acted as the Audit Committee's secretary (until November, thereafter Mrs Van Buren). The Committee also met separately with the external auditor.

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

Furthermore, the Audit Committee paid specific attention to the continuation of the internal control framework and risk management systems of the Company. This 'GRIP' framework is basically a continuation of the earlier implemented SOx framework. The Audit Committee received an update on 'GRIP' in each meeting.

The Committee also discussed other topics that were in its scope of attention, most notably compliance, fraud management, taxation and application of IT in financial processes. The Audit Committee carried out its self-assessment by means of an extensive questionnaire, the results of which were discussed during a separate meeting early 2010.

Remuneration and Organizational Development Committee

The Remuneration and Organizational Development Committee currently has five members, Mr Jager (Chairman), Mr Routs (member as of 1 January 2010), Mr Risseeuw, Ms Van Lier Lels and Ms Hooymans. During 2009, the Committee met 8 times. The Committee reviewed the remuneration packages of the Board of Management and established bonus targets and criteria for long- and short-term incentives for 2009. It discussed talent development issues for senior management. The Committee reviewed the alignment of the Board of Management's remuneration with the ambitious targets of the 'Back to Growth' strategy. In light of the economic downturn the relevance for the targets of declining revenues and focus on profitability and cash flow was particularly looked at (see 'Remuneration and Organizational Development Report' starting on page 55 for further details). The Committee was closely involved in the aforementioned discussions with representatives of institutional investors on the additional incentive. In reviewing the Company's remuneration policy in view of these developments and the public debate, the Committee considers the interests of the Company as leading and is of the opinion that the policy contributes to long-term and therefore sustainable value creation. Further details on the activities of the Remuneration and Organization Development Committee are provided in the 'Remuneration and Organizational Development Report' starting on page 55.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee currently has four members: Mr Risseeuw (Chairman), Mr Jager, Ms Van Lier Lels and Ms Hooymans. The purpose of the Nominating and Corporate Governance Committee is to recommend individuals to the Supervisory Board for nomination as members of the Board of Management, to support the Supervisory Board in adopting high standards and practices for the corporate governance structure, to lead the Board of Management in its periodic review of its performance, and to oversee the Company's activities in the areas of environmental and corporate responsibility. The Nominating and Corporate Governance Committee met 6 times during 2009. It discussed compliance and integrity issues with senior management and reviewed the performance of the individual members of the Board of Management. Compliance with the Dutch Corporate Governance Code and particularly the reasons for the small number of deviations thereto were reviewed in 2009. The revised Code is generally welcomed by the Company. A large part of the revisions such as the amendments in the field of the Supervisory Board's role and responsibilities were already standard Company practice. The establishment of the new Code will not affect KPN's consistent policy of compliance thereto.

As mentioned in the above, the composition of the Board of Management changed in 2009 following the departure of Mr Smits and the appointment of Mrs Smits-Nusteling as CFO and member of the Board of Management in November. For an overview of all members of the Board of Management, see 'Corporate Governance' starting on page 44.

Financial Statements

The Financial Statements for the year ended December 31, 2009, were prepared by the Board of Management and approved by the Supervisory Board. The Report of the Independent Auditor, PricewaterhouseCoopers Accountants N.V., is included in the 'Other Information' on page 138.

The Supervisory Board recommends to the AGM to adopt these Financial Statements, as well as the proposed cash dividend of EUR 0.69 per share.

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

The Hague, February 22, 2010
A.H.J. Risseeuw
J.B.M. Streppel
M.E. van Lier Lels
D.I. Jager
M. Bischoff
C.M. Hooymans
R.J. Routs
D.J. Haank

Message to shareholders

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

The Committee kept itself abreast of the public debate on incentive schemes in general and the changes in public opinion in relation to the turmoil in financial markets in particular. The Committee reviewed the Company's remuneration policy in view of these trends – whereby the interest of the Company is predominant – and concluded that it contributed to long-term and therefore sustainable value creation. The outcome of the aforementioned review has assured the Committee that our pay policy and its implementation adequately reflect KPN's culture and strategic objectives.

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

A review and discussion of the existing pay policy will be assessed in 2010, taking into account the update of the Group strategy for the year 2011 onwards as well as trends in corporate governance. Any fundamental changes to the pay policy will be subject to the approval of the Annual Meeting of Shareholders. Consequently, the Committee decided that the policy fundamentals will remain unchanged for the remaining period of our current 'Back to Growth' strategy.

We highlight the principles of the Dutch Corporate Governance Committee in our policy. Besides assessing management performance and setting targets for the coming years, relevant topics discussed by the Committee include the balance between risk and reward and alignment with the Company's strategic objectives, the discretionary power of the Supervisory Board, the procedures to be followed in the event of a change of control, and the claw-back clause. Except for the special Long-term incentive for the period 2009 – 2010, as presented at the AGM in April 2009, the composition of pay has not changed from last year.

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

The Chairman and members of the Remuneration and Organizational Development Committee are appointed by the Supervisory Board. The Committee currently consists of Mr Jager (Chairman), Mr Routs (member as of January 1, 2010), Mr Risseeuw, Ms Van Lier Lels and Ms Hooymans.

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

Part:	Provides:
A. Executive pay at a glance	Highlights of KPN pay policy (through questions and answers).
B. Duties and activities of the Committee	Insight into the topics discussed by the Committee during 2009.
C. Executive pay policy – detailed overview	In-depth insight into KPN's pay policy for the Board of Management.
D. Details of actual pay-out in 2009	Insight into actual pay-out levels for the Board of Management over 2009.
E. Supervisory Board pay	Insight into KPN's pay policy for the Supervisory Board.

A. Executive Pay at a Glance

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

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

How are executives rewarded?

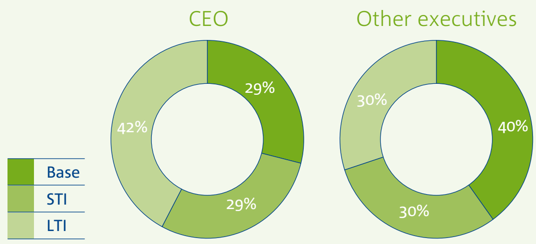
The pay mix for executives consists of the following four elements:

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

What is the ratio between fixed and variable reward?

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

Compensation policy



How do we establish the level of compensation?

We benchmark our pay levels with other companies in order to ensure that our level of compensation is line with our pay policy and objectives, as described above. In order to benchmark our pay levels, we use peer groups with companies against which we compete for talent. The peer groups consist of the largest Dutch AEX-listed and European IT companies.

The advice of an independent external consultant is used to ensure an objective benchmark for our levels of pay.

Are incentives aligned with strategy?

Our 'Back to Growth' targets are reflected in the short-term targets (both financial and non-financial) and long-term targets (solely financial), which are used to compensate executives for their performance. The following diagram shows the alignment between Company strategy and executive pay.

Strategic goals 'Back to Growth'

The Netherlands
Customer focus

- Preferred partner in consumer and business market
- Overall stable market share
- Preferred ICT provider

Network & wholesale

- Operational excellence
- Simplification programs
- Network roll-out based on new technologies

Mobile International
Expansion

- Grow service revenue share in Germany and Belgium with solid profitability
- Selective asset-light expansion in Europe

Short-term targets

Financial
Based on Outlook

Non-financial
Diversity, compliance, Net Promotor Score, Corporate social responsibility, market shares etc.

Long-term targets

Peer group position, based on relative total shareholder return

Reward
Cash incentive

Reward
Conditional shares

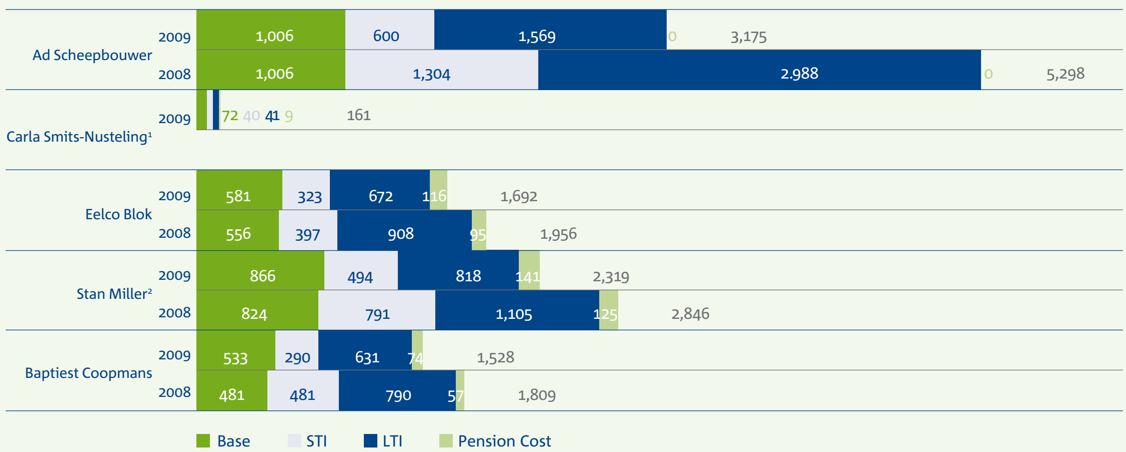
Does the level of variable compensation pose a risk to KPN's long-term strategy?

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

What was rewarded to executives in 2009?

The figure below shows the ratio between the actual components of pay and a total at the end of the bar. All figures are in thousands of Euro.

Rewards to the members of the Board of Management
(In thousands of EUR)



1) Remuneration since appointment as CFO in November 2009.
2) For comparison reasons the special LTI payment in 2008 for Mr Miller is not included.

B. Duties and activities of the Committee

Duties of the Committee

The Committee assists the Supervisory Board with:

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

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

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

Activities during 2009

The Committee met 8 times in 2009, with all members present at each meeting. Consistent with its charter, the Committee has been involved in several aspects of pay, such as:

- Taking account of pay trends in the Netherlands and abroad, assessing the potential implications of these trends for KPN in the immediate and mid-term;
- Taking account of the amendments to the Dutch Corporate Governance Code – considering the objectives and principles of the pay policy (the Committee responded to the majority of the changes to the corporate governance guidelines in 2008/2009);
- Reviewing the need for adjustments in pay levels (where applicable, and in order to ensure a consistent pay structure for the individual members of the Board of Management);
- Assessing whether the pay structure and compensation levels are in line with KPN's strategy, risk profile, pay differentials within the Company and market practice;
- Conducting a test of reasonableness for the outcomes of 2009 pay;
- Reviewing procedures to be followed in the event of a change of control;
- Proposing targets and performance criteria and ensuring that the targets would be in line with the basic principles and objectives of our pay policy;
- Monitoring the internal and external auditing of the results;
- Reviewing whether performance of the Committee is in line with the Committee's charter; and
- Preparing the Remuneration Report to be included in KPN's Annual Report.

C. Executive pay policy – detailed overview

Over the last couple of years, no fundamental changes have been considered with regard to the principles and individual elements of the Company's pay policy. The results of the Company indicate that the pay policy stimulates performance that generates long-term profitable growth and shareholder value.

Objectives of KPN's pay policy

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

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

Principles of KPN's pay policy

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

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

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

Composition of employment-market peer groups and market assessment

To ensure the overall competitiveness of KPN's pay levels, these levels are benchmarked against two employment market peer groups. The Committee uses both a Dutch and a European employment peer group. The Dutch employment market peer group consists of AEX-listed companies, whereas the European peer group consists of sector-specific companies. The tables below show the current composition of KPN's employment peer groups:

The Dutch employment peer group	
AkzoNobel NV	Randstad Holding NV
ASML Holding NV	Royal Philips Electronics NV
ING Group NV	SBM Offshore NV
DSM NV	TNT NV
Heineken NV	Unilever NV/Plc
Reed Elsevier NV/Plc	Aegon NV
Royal Ahold NV	Wolters Kluwer NV
Royal Dutch Shell Plc	

The European employment peer group	
Atos Origin SA	LogicaCMG Plc
Belgacom SA	Portugal Telecom SA
BT Group Plc	Swisscom
Cap Gemini	Telenor Group ASA
Deutsche Telekom AG	TeliaSonera AB
France Télécom SA	

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

It should be noted that KPN ranks, on average, at the upper quartile level in terms of revenues and market capitalization. In terms of the number of employees, KPN ranks between the median and upper quartile levels. Based on these factors, the relative size of KPN is at or in line with the 70th percentile of the peer groups and the relative positioning is taken into account when determining whether KPN 'pays competitively'.

Base salary

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

Short-term incentives (STI)

General

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

Objectives

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

Component	Form of compensation	Value determination	Targets	Payout at threshold performance	Payout at or above maximum performance[1]
STI	Cash	'On-target' incentive equals 100% of base salary for the CEO and 75% of base salary for the other members of the Board of Management. The 'on-target' incentive is used as input for the market- competitive benchmark against the employment market peer group.	Targets typically are Revenue, EBITDA, Profit before Tax, various measures of customer satisfaction, diversity, compliance, Net Promotor Score, Corporate Social Responsibility, market shares and strategic progress. The CEO and CFO targets are based on Group-level performance, while for the other members of the Board of Management a combination of Group-level and individual segment targets applies.	25% of the 'on-target' incentive (i.e. 25% of base salary for the CEO and 18.75% of base salary for the other members of the Board of Management). Payout below threshold performance: 0% of the 'on-target' incentive).	150% of the 'on-target' incentive (i.e. 150% of base salary for the CEO and 112.5% of base salary for the other members of the Board of Management).

1) Maximum including the effect of the modifier.

Performance incentive zone
The target ranges for financial and operational performance comprise:
- A 'threshold' below which no incentive is paid;
- An 'on-target' performance level at which an 'on-target' incentive is paid; and
- A 'maximum' at which the maximum incentive is paid.

The STI is designed to strike a balance between the Company's risk profile and the incentive to achieve ambitious targets.

The Supervisory Board's ability to apply a modifier ranges between 0.5 (i.e. cutting half of the cash incentive) and 1.5 (i.e. increasing the cash incentive by 50%) based on the achievement of individual objectives. The individual Board Member objectives are agreed upon at the beginning of the year and tend to reflect longer-term goals such as the Net Promotor Score, male/female diversity, employee engagement, compliance, and market shares. The ability to apply a modifier does not increase average achievement levels. It does, however, allow the Supervisory Board some discretion in differentiating on the basis of individual contributions to Company performance.

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

Actual pay-out levels
In recent years maximum incentive levels have only been paid out on a few occasions. This is despite the fact that the Company has consistently delivered competitive performance ahead of market expectations and has, on a number of occasions, overachieved guidance given to the financial community at the beginning of the year.

In the determination of the 2009 incentive[1], the Supervisory Board, using its discretionary authority, decided on payment in 2010 of the incentive for 2009 taking into account excellent results achieved in respect of EBITDA, Profit before Tax and free cash-flow generation despite disappointing revenues in a highly challenging economic environment during the year.

1) Revenues were below threshold, EBITDA was at least on target and profit before tax was above maximum.

Long-term incentives (LTI)

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

The number of shares granted under this plan is derived by applying a percentage to base salary and dividing this amount by the value of each granted share, as shown in the following table.

Component	Form of Compensation	Value determination	Drivers	At target	Scenario maximum (position 1 to 3 in peer group)
Long-term share-based compensation	Shares	CEO: 150% of base salary Other members of the Board of Management: 75% of base salary	Total Shareholder Return (TSR), i.e. share price development plus compounded dividends received	100% of the granted shares vest (position 7 in peer group)	200% of the granted shares vest
Special LTI[1]	Shares	50% of base salary	TSR and 'Back to Growth' targets	Top 3 position in the peer-group ranking, 'Back to Growth' targets	200% of the granted shares vest

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

Under this plan, KPN annually grants a number of shares.

The number of shares that actually vest is conditional on the extent to which the returns to KPN shareholders outperform the returns to shareholders of a peer group of Western European telecommunications companies. It is felt that comparing KPN with a wider group of companies (either geographically or with other industries) is not meaningful. Variations in returns would most likely be attributed largely to macroeconomic events and/or sector shifts rather than to variations in management actions. Therefore, benchmarking achievements relative to other, similar companies emphasizes rewarding for specific KPN performance.

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

Similar to prior years, the value used to determine the number of granted shares is typically materially substantially below the then prevailing share price. The share price is decreased to account for the characteristics of the plan. This system is chosen to include the odds of non-vesting, holding restrictions after the vesting date, conditionally of the grant on continued employment and the shares not paying any dividends prior to the vesting date.

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

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

Performance-measuring and peer group performance

Vesting of the shares is conditional on KPN's relative shareholder return. The table below provides an overview of KPN's performance peer group.

Companies included in the peer group	
Belgacom SA	Telecom Italia Spa
BT Group Plc	Telefónica SA
Deutsche Telekom AG	Telekom Austria AG
France Télécom SA	Telenor ASA
Hellenic Telecom (OTE)	TeliaSonera AB
Portugal Telecom SA	Vodafone Group Plc
Swisscom AG	KPN NV

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

Performance incentive zone

Since 2008, the design of KPN's long-term incentive plan ensures that shares are rewarded for 'above average' returns while no shares are rewarded for 'below average' returns. Once vested, the shares will have to be held for a minimum period of two years. This does not hold for shares that would have to be sold to cover income tax obligations in relation to the vested shares (typically the value taxed as income equals the amount of shares vested multiplied by the share price at the time of vesting). The table below provides an overview of the vesting schedule applied.

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

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

Actual pay-out levels

KPN's performance over the period 2007 – 2009 resulted in the 2nd position in the TSR performance peer group with respect to the 2007 phantom-stock-based award, which leads to a vesting percentage of 183% of the phantom stock that will vest in April 2010. This TSR performance justifies the conclusion that KPN's excellent short-term performance does not have to come at the expense of KPN's longer-term performance and vice versa.

Special arrangement for the CEO

The performance period of the shares granted to the CEO in 2009 is one year, and any shares vested cannot be sold before July 2011. At the end of 2009, KPN held the 5th position with respect to the 2009 share-based grant, which leads to a vesting percentage of 150% of the shares in April 2010 for the CEO. This TSR position is no indication of KPN's final ranking after the three-year performance period that applies to the other members of the Board of Management.

Position	Top 8 vesting % 2008 and 2009 share plan	Top 8 vesting % 2007 share plan	Top 8 ranking companies for 2007 share plan (vests in 2010)
Position 1	200% of the shares vest	200% of the shares vest	Telefonica SA
Position 2	200% of the shares vest	183% of the shares vest	Royal KPN NV
Position 3	200% of the shares vest	167% of the shares vest	Portugal Telecom Sgps
Position 4	175% of the shares vest	150% of the shares vest	Vodafone Group PLC
Position 5	150% of the shares vest	133% of the shares vest	Teliasonera AB
Position 6	125% of the shares vest	117% of the shares vest	France Telecom
Position 7	100% of the shares vest	100% of the shares vest	Swisscom AG
Position 8	No vesting takes place	83% of the shares vest	Belgacom SA

Main differences in pay compared to last year (Special LTI)

Although the fundamentals of our pay policy have remained unchanged, as presented in the 2009 AGM, the Supervisory Board agreed to an uplift of the LTI entitlements for 2009 and 2010 in order to reflect the extremely high ambitions of the current 'Back to Growth' strategy, in particular in this economic climate. This will result in a LTI value determination of 200% (instead of 150%) of base salary for the CEO and 125% (instead of 75%) of base salary for the other members of the Board of Management. The uplift in LTI will be rewarded if the challenging financial targets in 2009 and 2010 are met and KPN will reach a number 1, 2 or 3 position in the TSR peer-group ranking. In 2011, the Committee will review the extent to which the stretched targets have been achieved.

Change in composition of the Board of Management

KPN and its former Chief Financial Officer (CFO), Marcel Smits, agreed upon his resignation as director under the Articles of Association and as CFO. KPN and Mr Smits agreed that his employment contract would terminate on December 31, 2009.

In accordance with the Dutch Corporate Governance Code, Mr Smits receives severance pay consisting of one year's base salary.

Mr Smits retains his entitlement under the 2007 share plan (although he has resigned within three years of the date of the initial grant).

The Supervisory Board has formally appointed Carla Smits-Nusteling as Chief Financial Officer to the Company's Board of Management during an Extraordinary Meeting of Shareholders (EGM). Carla Smits-Nusteling joined KPN in 2000.

KPN's Board of Management member and CEO of Mobile International Stan Miller has left the Company on February 1, 2010.

Claw-back clause

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

Benefits

Pensions

- Members of the Board of Management are eligible for a defined contribution pension plan with a contribution based on the fiscal defined contribution table that corresponds to a retirement age of 65 and an annual accrual rate of 2.25%.
- Those members that were part of the Board of Management prior to January 1, 2006 will continue to participate in the previous pension plans.

Additional arrangements

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

Loans

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

Terms of employment

- All members of the Board of Management have entered into employment contracts for an indefinite period of time, except for the CEO.
- Members of the Board are appointed for a period of four years, which is in line with requirements of the Dutch Corporate Governance Code.

Severance arrangements

- Severance payments for the CEO and members of the Board of Management are aligned with the Dutch Corporate Governance Code (one year base salary), with the exception of Mr Miller and Mr Blok.
  - A severance arrangement of two years' base salary (plus pension contribution and medical expenses) was contractually agreed with Mr Miller.
  - A severance arrangement of one year base salary plus 100% short-term incentive was contractually agreed with Mr Blok.

Outlook for 2010

The fundamental principles of the pay policy will remain unchanged for the period during the 'Back to Growth' strategy. A review and discussion of the existing pay policy will be assessed in 2010, taking into account an update of the Group strategy for the year 2011 onwards as well as trends in corporate governance.

D. Details of actual pay-out for 2009

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

Name and position	Year	Salary & Social Security (EUR)	STI[4] (EUR)	Special LTI payment (EUR)	LTI: Share awards[2] (EUR)	Pension costs[3] (EUR)	Total (EUR)
A.J. Scheepbouwer							
Chief Executive Officer	2009	1,006,259	600,000	-	1,568,964	-	3,175,223
	2008	1,006,298	1,303,830	-	2,988,031	-	5,298,159
C.M.S. Smits-Nusteling							
Chief Financial Officer	2009	71,702	39,667		41,209	8,595	161,173
E. Blok[5]							
Board Member	2009	581,259	322,575	-	671,893	116,011	1,691,738
	2008	556,302	396,638	-	908,079	95,166	1,956,185
S.P. Miller[1]							
Board Member	2009	866,259	493,920	-	817,955	140,939	2,319,073
	2008	824,298	790,944	3,131,100	1,105,490	125,280	5,977,112
J.B.P. Coopmans							
Board Member	2009	532,927	289,667	-	630,998	73,957	1,527,549
	2008	481,302	480,942	-	789,632	56,678	1,808,554
Total current members	**2009**	**3,058,406**	**1,745,829**	**-**	**3,731,019**	**339,502**	**8,874,756**
	2008	**2,868,200**	**2,972,354**	**3,131,100**	**5,791,232**	**277,124**	**15,040,010**

1) The income of Mr Miller is partly subject to Belgian tax law, pursuant to his Belgian employment contract. It was agreed that a Dutch employment contract would not have a negative impact on his net income. In 2009, the pay payable to Mr Miller therefore includes compensation for loss of net income of EUR 261,920 (EUR 160,000 for base salary, EUR 101,920 for the STI). In 2008 this compensation for loss of net income was EUR 960,644 (EUR 151,333 for base salary, EUR 163,211 for the STI and EUR 646,100 for the separate LTI payment). Further, Mr Miller received reimbursements for tuition costs of children and for private international medical plan expenses. For Mr Miller, a separate long-term incentive arrangement applied as agreed in his previous position before he joined the Board of Management. The arrangement was based on E-Plus and BASE EBITDA for the years 2005 to 2008. This long-term incentive amounted to EUR 3.1 million, including the compensation for loss of net income, and was paid out in 2008.
2) The fair value of the 2009 grant was EUR 8.46 for Board members and EUR 7.28 for the CEO, to whom slightly different arrangements applied. This value deviates from the value attributed to the individual awards at the date of grant, due to differences in the calculation method. Please refer to the 'Long-term Incentives' section of this report for a further explanation.
3) The pension costs relate to the premiums paid for new members of the Board of Management as of 2006 and the service cost in the corresponding years for the other members. Interest charges and investment yields are not allocated on an individual basis. Since 2006, Board of Management members are eligible for a defined contribution pension plan with a contribution based on the fiscal defined contribution table that corresponds to a retirement age of 65 and an annual accrual rate of 2.25%. Those members who were already on the Board of Management prior to January 1, 2006 will continue to participate in the previous pension plan. This is a hybrid pension plan, which combined a base-defined benefit career-average component with a supplementary defined contribution component. This plan has a defined-benefit-indexed career-average module up to a maximum salary level of EUR 45,378 and an age-related defined contribution module for salary levels above EUR 45,378. The annual accrual rate in the career-average module equals 2%, with a normal retirement age of 62. A temporary defined benefit career-average pension between retirement age 62 and age 65 is applicable with an annual accrual rate of 2%. As a transitional arrangement, the retirement age was adjusted from 62 to age 65, and the annual accrual rate is 2.25%. Mr Miller's pension entitlement is insured in Belgium (based on a retirement age of 60 and a defined contribution scheme). The CEO receives a defined benefit pension based on a final pay structure with a retirement age of 65 and an attainable pension equal to 70% of his last fixed salary. The defined benefit pension of the CEO was fully funded at the start of his employment in 2001. No service charges to the pension provision are allocated because the fixed salary remains unchanged.
4) Actual bonus that relates to performance in the current year but paid out in the following financial year. On average, revenues were below threshold, EBITDA was at least on target, and profit before tax was above maximum.
5) In addition, Mr Blok received a net jubilee payment of EUR 47,917 (one month's base salary) based on 25 years of service with the Company in 2008.

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

Total Pay	Year	Salary & Social Security (EUR)	STI (EUR)	Exit Payment[1] (EUR)	LTI: Share Awards (EUR)	Pension costs (EUR)	Total (EUR)
M.H.M. Smits							
Chief Financial Officer	2009	581,259	-	575,000	-	70,204	1,226,463
	2008	564,634	628,128	-	908,079	76,194	2,177,035

1) Excluding the payment of EUR 890,961 related to the 2007 share grant (see paragraph Change in composition of the Board of Management).

The following table summarizes the shares/share-based awards granted to current and former members of the Board of Management, granted (un)conditional shares/share-based awards held by them during 2009, granted shares sold during 2009, and granted (un)conditional shares/share-based awards held by them as of December 31, 2009.

	Grant date	Current status	Number of shares granted as of January 1, 2009	Number of shares/share-based awards granted, vested or sold in 2009[1]	Number of shares/share-based awards as of December 31, 2009	Total Pre-tax fair value of shares on grant date[3] (EUR)	Pre-tax market value of shares on vesting date in 2009 (EUR)	Pre-tax market value of shares (EUR) /End of lock-up period in 2009
A.J. Scheepbouwer	04/09/2009	Conditional		215,517	215,517	1,568,964		end of lock-up 7/1/2011
	04/17/2008	Conditional	177,121	177,121	354,242	2,988,031	3,224,616	end of lock-up 7/1/2011
	04/19/2007	Conditional	48,485	-	48,485	651,638		n.a.
C.M.S. Smits-Nusteling	11/03/2009	Conditional		4,871	4,871	41,209		end of lock-up 4/9/2014
	04/09/2009[5]	Conditional		17,017	17,017	143,964		n.a.
	04/17/2008[5]	Conditional	11,280	-	11,280	161,304		n.a.
	04/19/2007[5]	Conditional	8,810	-	8,810	118,406		n.a.
	04/13/2006[5]	Conditional	2,420	-44	2,376	28,241	43,791[5]	end of lock-up 4/13/2011
E. Blok	04/09/2009	Conditional		79,420	79,420	671,893		end of lock-up 4/9/2014
	04/17/2008	Conditional	63,502	-	63,502	908,079		end of lock-up 4/17/2013
	04/19/2007	Conditional	47,422	-	47,422	637,352		n.a.
	04/13/2006[5]	Conditional	31,290	-545	30,745	365,154	563,913	end of lock-up 4/13/2011
S.P. Miller[2]	04/09/2009	Conditional		96,685	96,685	817,955		end of lock-up 4/9/2014
	04/17/2008	Conditional	77,307	-	77,307	1,105,490		end of lock-up 4/17/2013
	04/19/2007	Conditional	28,226	-	28,226	379,357		n.a.
J.B.P. Coopmans	04/09/2009	Conditional		74,586	74,586	630,998		end of lock-up 4/9/2014
	04/17/2008	Conditional	55,219	-	55,219	789,632		end of lock-up 4/17/2013
	04/19/2007	Conditional	23,648	-	23,648	317,829		n.a.
	11/09/2006	Conditional	32,075	-392	31,683	374,315	575,086	end of lock-up 09/01/2011
M.H.M. Smits[4]	04/09/2009	Conditional		-	-	-		n.a.
	04/17/2008	Conditional	63,502	-63,502	-	908,079		n.a.
	04/19/2007	Unconditional	49,794	-49,794	-	669,231	890,961	n.a.
	04/13/2006	Conditional	37,160	-647	36,513	433,657	669,703	end of lock-up 4/13/2011

1) The shares granted to the Board members represent 18% of the total number of shares and share-based awards granted in 2009 to all employees. On the grant date (April 9, 2009) the KPN share price quoted EUR 9.59 (average price) while the fair value of each granted share was EUR 5.43 for Members of the Board of Management. The value of each granted share for the CEO (to whom slightly different arrangements apply) was EUR 6.96.
2) Mr Miller received his 2008 share-based awards in two separate grants: the first in April 2008 (34,236 shares), the second after the adjustment of his pay in July 2008 (43,071 shares).
3) Value is calculated by multiplying number of share awards by the fair value.
4) Former member, the 2007 share-based award had a vesting percentage of 183%, the 2008 share-based award forfeited upon resignation.
5) Not granted in capacity as Board Member.

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

The following table summarizes the options granted to current and former members of the Board of Management under previous policies, granted options exercised by them during 2009, and unexercised options held by them as of December 31, 2009. Options issued carry an entitlement to one KPN share.

	Grant date	Vesting date	Expiration date	Number of options as of January 1, 2009	Number of options granted in 2009	Number of exercisable options	Options exercised during the year	Number of options as of December 31, 2009	Exercise price
A.J. Scheepbouwer	04/19/2007	04/19/2010	04/18/2012	165,410	-	165,410	-	165,410	12.09
	04/13/2006[2]	04/13/2009	04/12/2011	215,278	-	215,278	-	215,278	9.29
	04/14/2005	04/14/2008	04/13/2010	297,177	-	297,177	-	297,177	6.73
	04/16/2004	04/16/2007	04/15/2009	310,078	-	-	310,078[2]	-	6.45
C.M.S. Smits-Nusteling	/	/	/	-	-	-	-	-	-
E. Blok	04/14/2005[1]	04/14/2008	04/13/2013	201,370	-	201,370	-	201,370	6.73
	04/16/2004	04/16/2007	04/15/2012	196,684	-	196,684	-	196,684	6.45
S.P. Miller	/	/	/	-	-	-	-	-	-
J.B.P. Coopmans	/	/	/	-	-	-	-	-	-
M.H.M. Smits[3]	04/14/2005	04/14/2008	04/13/2013	230,660	-	-	230,660	-	6.73
	08/09/2004	04/16/2007	08/08/2012	85,416	-	-	85,416	-	6.07

1) Options not granted in capacity as Board Member.
2) Pre-tax market value of 2004 options at the end of holding period is EUR 875,350, Pre-tax market value of 2006 options at the end of vesting period is EUR 4,306.
3) Former member.

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

Stock ownership Board of Management

The tables below show the shares held by members of the Board of Management (excluding vested shares in lock-up period).

Number of shares	December 31, 2009	December 31, 2008
A.J. Scheepbouwer	152,147	152,147
C.M.S. Smits-Nusteling	-	-
E. Blok	287	287
S.P. Miller	-	-
J.B.P. Coopmans	-	-
M.H.M. Smits[1]	-	15,500
Total	**152,434**	**167,934**

1) Former member.

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

E. Supervisory Board Pay 2009

The Committee is responsible for reviewing and, if appropriate, recommending changes to the pay of the Supervisory Board. Any recommended changes to Supervisory Board pay must be submitted to the AGM for approval.

The Committee decided to adjust the Supervisory Board pay in 2008 to reflect the increase in responsibilities of the Supervisory Board members over time. This adjustment was approved by the AGM on April 15, 2008.

The current annual pay for the Chairman of the Supervisory Board is EUR 80,000. Annual pay for Supervisory Board members is EUR 55,000. Committee fees are determined on an annual basis. Please refer to the table for further details. Members receive an additional fee if a meeting is held in a country other than the member's country of residence.

Shareholdings in the Company held by Supervisory Board members serve as a long-term investment in the Company and help to align their interest with those of our other shareholders. No Supervisory Board member is granted stock options or shares as a form of pay. No member of the

Supervisory Board held any stock options in the Company. As a policy, the Company does not provide loans to its Supervisory Board members.

The table below shows the pay-out to current and former Supervisory Board members in 2009 and fixed Committee fees on an annual basis.

Amounts in EUR	2009 (From April 15, 2008)	Until April 15, 2008
Chairman Supervisory Board	80,000	65,000
Member Supervisory Board	55,000	50,000
Chairman Audit Committee	20,000	15,000
Member Audit Committee	10,000	10,000
Chairman Remuneration and Organizational Development Committee	10,000	5,000
Member Remuneration and Organizational Development Committee	5,000	3,500
Chairman Nominating and Corporate Governance Committee	10,000	5,000
Member Nominating and Corporate Governance Committee	5,000	3,500

Actual fees received by each member of the Supervisory Board are shown below.

Amounts in EUR	Membership fees 2009	Committee fees 2009	2009 Total	2008 Total
A.H.J. Risseeuw (Chairman)	80,000	15,000	95,000	88,786
J.B.M. Streppel (Vice-chairman)	55,000	20,000	75,000	70,667
M.E. van Lier Lels	55,000	10,000	65,000	62,688
D.I. Jager	55,000	15,000	70,000	66,698
M. Bischoff	55,000	10,000	65,000	63,556
C.M. Hooymans	55,000	10,000	65,000	63,556
R.J. Routs	40,343	6,785	47,128	-
D.J. Haank	40,343	6,785	47,128	-

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

Amounts in EUR	Membership fees 2009	Committee fees 2009	2009 Total	2008 Total
D.G. Eustace	-	-	-	18,777

Stock ownership Supervisory Board

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

Number of shares	December 31, 2009	December 31, 2008
A.H.J. Risseeuw	47,370	46,524
J.B.M. Streppel	-	-
M.E. van Lier Lels	-	-
D.I. Jager	107,500	100,000
M. Bischoff	-	-
C.M. Hooymans	-	-
R.J. Routs	-	-
D.J. Haank	8,117	-
Total	**162,987**	**146,524**

Share ownership relates to normal shares or ADRs, constituting one vote in the AGM per share.

Contents

Consolidated Statement of Income

Amounts in millions of EUR, unless otherwise stated	2009	2008
Revenues [1]	13,451	14,427
Other income [2]	58	175
Total	**13,509**	**14,602**
Own work capitalized	-98	-102
Cost of materials	852	1,037
Work contracted out and other expenses	4,686	5,265
Employee benefits [3]	2,115	2,222
Depreciation, amortization and impairments [4]	2,342	2,461
Other operating expenses [5]	762	1,122
Total operating expenses	**10,659**	**12,005**
Operating profit	**2,850**	**2,597**
Finance income [6]	34	50
Finance costs [6]	-796	-719
Other financial results [6]	-46	-35
Share of the profit of associates and joint ventures, net of tax [12]	-6	-6
Profit before income tax	**2,036**	**1,887**
Income taxes [7]	139	-550
Profit for the year	**2,175**	**1,337**
Profit (loss) attributable to minority shareholders [20]	-3	5
Profit attributable to equity holders [19]	2,178	1,332
Earnings per share after taxes attributable to equity holders for the year in EUR [8]		
– basic	1.33	0.77
– fully-diluted	1.33	0.76

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

Consolidated Statement of Comprehensive Income

Amounts in millions of EUR, unless indicated otherwise	2009	2008
Profit for the period	**2,175**	**1,337**
Other comprehensive income:		
Cash flow hedges:		
Gains or (losses) arising during the period [19]	-120	3
Income tax [19]	30	-1
	-90	**2**
Currency translation adjustments:		
Gains or (losses) arising during the period [19]	-	19
Income tax [19]	-	2
	-	**21**
Fair value adjustment available for sale financial assets:		
Gains or (losses) arising during the period [19]	-1	1
Other comprehensive income for the period, net of income tax	**-91**	**24**
Total comprehensive income for the year, net of income tax	**2,084**	**1,361**
Total comprehensive income attributable to:		
Owners of the parent	2,087	1,356
Minority interest	-3	5

Consolidated Statement of Financial Position

Assets

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
NON-CURRENT ASSETS		
Goodwill	5,769	5,659
Licenses	2,853	3,156
Software[1]	783	676
Other intangibles	427	569
Total intangible assets [10]	**9,832**	**10,060**
Land and buildings	920	921
Plant and equipment	5,627	5,811
Other tangible non-current assets	177	197
Assets under construction	799	807
Total property, plant and equipment [11]	**7,523**	**7,736**
Investments in associates and joint ventures [12]	267	135
Available-for-sale financial assets [16]	51	52
Derivative financial instruments [26]	8	133
Deferred tax assets [7]	2,135	1,733
Trade and other receivables [13]	231	210
Total non-current assets	**20,047**	**20,059**
CURRENT ASSETS		
Inventories [14]	93	137
Trade and other receivables [15]	1,895	2,295
Income tax receivables [7]	9	102
Available-for-sale financial assets [16]	2	2
Cash and cash equivalents [17]	2,690	1,199
Total current assets	**4,689**	**3,735**
Non-current assets and disposal groups held for sale [18]	**115**	**119**
TOTAL ASSETS	**24,851**	**23,913**

1) Including software development, which was included in other intangibles in KPN's 2008 Annual Report, for further information see Note 10.

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

Group Equity and Liabilities

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
GROUP EQUITY		
Share capital	391	411
Share premium	8,799	9,650
Other reserves	-370	-228
Retained earnings	-4,982	-6,103
Equity attributable to equity holders [19]	**3,838**	**3,730**
Minority interests [20]	3	29
Total Group equity	**3,841**	**3,759**
NON-CURRENT LIABILITIES		
Borrowings [21]	12,502	10,876
Derivative financial instruments [26]	511	192
Deferred tax liabilities [7]	1,275	1,624
Provisions for retirement benefit obligations [22]	717	892
Provisions for other liabilities and charges [23]	414	427
Other payables and deferred income [24]	337	346
Total non-current liabilities	**15,756**	**14,357**
CURRENT LIABILITIES		
Trade and other payables [25]	3,990	4,280
Borrowings [21]	869	1,165
Derivative financial instruments [26]	51	2
Income tax payables [7]	100	128
Provisions for other liabilities and charges [23]	211	186
Total current liabilities	**5,221**	**5,761**
Liabilities directly associated with non-current assets and disposal groups classified as held for sale [18]	**33**	**36**
TOTAL EQUITY AND LIABILITIES	**24,851**	**23,913**

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

Consolidated Statement of Cash Flows

Amounts in millions of EUR	2009	2008
Profit before income tax	**2,036**	**1,887**
Adjustments for:		
– Net finance cost	808	704
– Share-based compensation [3]	33	22
– Share of the profit of associates and joint ventures	6	6
– Depreciation, amortization and impairments [4]	2,342	2,461
– Other income	-54	-141
– Changes in provisions (excluding deferred taxes)	-290	-208
Changes in working capital relating to:		
– Inventories	42	11
– Trade receivables	259	119
– Prepayments and accrued income	29	48
– Other current assets	89	18
– Trade payables	-327	536
– Accruals and deferred income	-209	-208
– Current liabilities (excluding short-term financing)	127	-106
Dividends received	3	-
Taxes paid	-506	-522
Interest paid	-612	-597
Net Cash flow provided by operating activities	**3,776**	**4,030**
Acquisition of subsidiaries, associates and joint ventures (net of acquired cash)	-180	-296
Disposal of subsidiaries, associates and joint ventures	28	341
Investments in intangible assets (excluding software)	-13	-29
Investments in property, plant and equipment and software	-1,767	-1,925
Disposals of intangible assets (excluding software)	10	5
Disposals of property, plant and equipment and software	113	197
Other changes and disposals	-20	8
Net Cash flow used in investing activities [27]	**-1,829**	**-1,699**
Share repurchases	-898	-1,103
Dividends paid	-1,039	-981
Shares purchased for option plans	-62	-68
Proceeds from exercised options	22	24
Proceeds from borrowings	3,172	1,771
Repayments of borrowings and settlement of derivatives	-1,249	-1,057
Other changes	-13	-6
Net Cash flow used in financing activities [28]	**-67**	**-1,420**
Changes in cash and cash equivalents	**1,880**	**911**
Net Cash and cash equivalents at the beginning of the year [17]	**771**	**-138**
Exchange rate differences	1	-2
Changes in cash and cash equivalents	1,880	911
Net Cash and cash equivalents at the end of the year [17]	**2,652**	**771**
Bank overdrafts	38	428
Cash and cash equivalents [17]	**2,690**	**1,199**

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

Consolidated Statement of Changes in Group Equity

Amounts in millions of EUR, except number of shares	Number of subscribed shares	Share capital	Share premium	Other reserves	Retained earnings	Equity attributable to owners of the parents	Minority interests	Total Group equity
Balance as of January 1, 2008	**1,843,482,213**	**443**	**11,120**	**-608**	**-6,465**	**4,490**	**28**	**4,518**
Share based compensation (net of tax)	-	-	-	-	8	8	-	8
Exercise of options	-	-	-	24	-	24	-	24
Shares repurchased	-	-	-	-1,170	-	-1,170	-	-1,170
Purchased from minority interests	-	-	-	-	-	-	-4	-4
Dividends paid	-	-	-	-	-981	-981	-	-981
Shares cancelled	-129,119,421	-32	-1,470	1,502	-	-	-	-
Other	-	-	-	-	3	3	-	3
Total comprehensive income for the period	**-**	**-**	**-**	**24**	**1,332**	**1,356**	**5**	**1,361**
Balance as of December 31, 2008	**1,714,362,792**	**411**	**9,650**	**-228**	**-6,103**	**3,730**	**29**	**3,759**
Share based compensation (net of tax)	-	-	-	16	-13	3	-	3
Exercise of options	-	-	-	22	-	22	-	22
Shares repurchased	-	-	-	-960	-	-960	-	-960
Dividends paid	-	-	-	-	-1,039	-1,039	-3	-1,042
Shares cancelled	-85,507,470	-20	-851	871	-	-	-	-
Purchased from minority interests	-	-	-	-	-5	-5	-20	-25
Total comprehensive income for the period	**-**	**-**	**-**	**-91**	**2,178**	**2,087**	**-3**	**2,084**
Balance as of December 31, 2009	**1,628,855,322**	**391**	**8,799**	**-370**	**-4,982**	**3,838**	**3**	**3,841**

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

The aggregate amount of current and deferred tax recorded directly in equity in 2009 was EUR 30 million positive (2008: EUR 1 million positive).

General notes to the Consolidated Financial Statements

General information

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

In the course of 2009 and 2008 KPN acquired several companies, which have an impact on the comparability in these Consolidated Financial Statements. In 2009, no material business combinations took place and in aggregate these business combinations are not material either. In 2008, all these business combinations are shown in aggregate as these are individually immaterial, refer to Note 30.

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

The Financial Statements as of and for the year ended December 31, 2009, of Koninklijke KPN N.V. were approved for issue by both the Supervisory Board and the Board of Management on February 22, 2010.

The Financial Statements are subject to adoption by the Annual General Meeting of Shareholders on April 13, 2010.

Significant accounting policies

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

Basis of preparation

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

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

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

Consolidated financial information, including subsidiaries, associates and joint ventures, has been prepared using uniform accounting policies for similar transactions and other events in similar circumstances.

Comparative figures 2008

The following changes were made to the 2008 comparative figures:

- To improve insight in the balance sheet, the software under development has been reclassified from 'other intangibles' to 'software', resulting in net increase of software of EUR 135 million as per December 31, 2008. The opening balance of software as per January 1, 2008, increased EUR 96 million. The other intangibles decreased with the same amounts. Refer to Note 10.
- During 2009 inconsistencies were noticed in the determination of off balance sheet obligations. As a result the rental and operational lease contracts as per December 31, 2008, are EUR 1.1 billion lower. Refer to Note 31 for further details.
- Following changes to KPN's internal structure and reporting to the CEO, who is the chief operating decision maker, the segment reporting has changed, including the comparative figures as per December 31, 2008. Refer to Note 34 for further details.
- To improve insight in the segment information, in 2009 goodwill and related deferred purchase price considerations originally recorded in the 'Other activities' segment, have been reclassified to segment to which they relate to within Mobile International – the comparative figures for 2008 have been adjusted. Furthermore the geographical information of 2008 has been adjusted to reflect the proper information.

Changes in accounting policies and disclosures

KPN's Annual Report 2008 mentioned the following standards, interpretations and amendments which had or could potentially have had an impact on KPN's financial position and/or results in 2009 or disclosures:

- As of January 1, 2009, IAS 1 (revised) 'Presentation of Financial Statements' became effective and has been applied by KPN. IAS 1 (revised) uses the terms 'statement of income' (previously 'income statement'), 'statement of financial position' (previously 'balance sheet') and 'statement of cash flows' (previously 'cash flow statement') and introduces a 'statement of comprehensive income.' IAS 1 (revised) also requires the presentation of a statement of financial position at the beginning of the first comparative period presented if an entity has changed its accounting policies retrospectively or made retrospective restatements. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share, statement of income and statement of financial position.
- As of January 1, 2009, IAS 23 (revised) 'Borrowings Costs' became effective and has been applied by KPN. In accordance with IAS 23 (revised), as of January 1, 2009, borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of the cost of that asset. In 2009, IAS 23 (revised) did not have a material impact.
- The IASB issued IFRIC 14 'The limit on a Defined Benefit Asset, Minimum funding Requirements and their Interaction' and has been applied by KPN which did not have an impact on KPN's pension assets or costs in 2009.

During 2009 the following standards, interpretations and amendments became effective as from January 1, 2009, which had or could potentially have had an impact on KPN's financial position and/or results in 2009 or disclosures:

- IFRS 7 (Amendments) 'Improving Disclosures about Financial instruments' the amendment requires enhanced disclosures about fair value measurement and liquidity risk and has been applied by KPN. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share, statement of income and statement of financial position;
- IFRIC 18 'Transfer of Assets from Customers' clarifies the requirements of IFRS for agreements in which a company receives an item of property, plant and equipment from a customer, that the company must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. In 2009, this IFRIC did not have an impact on KPN.

Consolidation

Subsidiaries

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

KPN uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets contributed, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Intercompany transactions, balances and unrealized results on transactions with subsidiaries are eliminated.

Associates and joint ventures

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

The Group's share of its associates' post-acquisition profits or losses is recognized in the Consolidated Statement of Income, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

Segment reporting

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

Foreign currency translation

Functional and presentation currency

Items included in the financial information of each of KPN's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial information is presented in euro (EUR), which is the functional currency of the company and the group's presentation currency.

Transactions and balances

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

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

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

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

Subsidiaries

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

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

Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the period as well as the information disclosed. For KPN's critical accounting estimates and judgments, reference is made to the notes to these Consolidated Financial Statements, including the determination of deferred tax assets for loss carry forwards and the provision for tax contingencies (see Note 7), the determination of fair value and value in use of cash-generating units for goodwill impairment testing (see Note 10), the depreciation rates for the copper and fiber network (included within property, plant and equipment) (see Note 11), the assumptions used to determine the provision for retirement benefit obligations and periodic pension cost, such as expected salary increases, return on plan assets and benefit increases (see Note 22) and the more likely than not assessment required to determine whether or not to recognize a provision for idle cables, which are part of a public electronic communications network (Note 31). Also reference is made to Note 29 'Capital and Financial Risk Management' which discusses KPN's exposure to credit risk and financial market risks.

Actual results in the future may differ from those estimates. Estimates and judgments are being continually evaluated and based on historic experience and other factors, including expectations of future events believed to be reasonable under the circumstances.

Income Statement

Revenue recognition

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

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

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

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

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

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

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

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

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

Revenue arrangements with multiple deliverables

Revenue arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet certain criteria. The arrangement consideration must then be allocated among the separate units of accounting based on their relative fair values. If the fair value of the delivered item exceeds the cash received at the time of delivery, revenue is recognized up to the cash received. Any connection fee proceeds not allocated to the delivered equipment are deferred upon connection and recognized as service revenue over the estimated customer relationship period.

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

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

Other income

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

Leases

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

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

In case KPN acts as lessor in a finance lease, the transaction is accounted for as a normal sale and the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is deferred and recognized as interest over the lease term. In case KPN acts as lessor in an operating lease, the assets remain on the balance sheet of KPN and are depreciated over the shorter of the asset's useful life and the lease term. The lease payments received from the lessee are recognized as revenue and finance income (interest part) over the term of the lease using the net investment method which reflects a constant periodic rate of return.

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

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

Subscriber acquisition and retention costs are expensed as incurred. The most common subscriber acquisition costs are handsets and dealer fees. The cost of a handset is expensed when the handset is sold. The sale could be an individual sale or a multiple-element sale with a subscription. In both cases the handset is expensed when the costs are incurred. In a case where a handset is leased out, it depends on the lease form (operational or financial) whether the costs are expensed as incurred or capitalised and depreciated over the expected lifetime (see 'leases' above).

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

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

Balance Sheet

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

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

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

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

Licenses
Licenses are valued at cost less amortization and impairment. Amortization is calculated according to the straight-line method and is incorporated as from the date that services can be offered (available for use). The amortization period for licenses equals the useful life, but is limited to the expiration date of the licenses ranging from 10 to 50 years. Licenses are impaired if the recoverable amount falls below the book value of the asset concerned. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use. Impairments are reversed if and to the extent that the impairment no longer exists.

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

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

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

Software is impaired if the recoverable amount falls below the book value of the asset concerned. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use. If software was under construction, software qualifies for interest capitalisation when an asset is constructed over EUR 5 million investmentand the construction period exceeds one year.

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

Capitalized development projects are impaired if the recoverable amount falls below the book value of the asset concerned. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use.

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

Property, plant and equipment
Property, plant and equipment are valued at cost less depreciation and impairment. The cost includes direct costs (materials, direct labor and work contracted out) and directly attributable overhead costs. If property, plant & equipment were under construction, an asset qualifies for interest capitalisation when an asset is constructed over EUR 5 million investment and the construction period exceeds one year.

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

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

Property, plant and equipment is depreciated using the straight-line method, based on the estimated useful life, taking into account residual value. Land is not depreciated. Property, plant and equipment is impaired if the recoverable amount falls below the book value of the asset concerned. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use.

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

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

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

KPN classifies its financial assets in the following four categories:
- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments; and
- Available-for-sale financial assets.

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

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

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and created by KPN by providing money, goods or services directly to a debtor, other than:
- Those KPN intends to sell immediately or in the short term, which are classified as held for trading; and
- Those for which KPN may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

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

Held-to-maturity investments
Financial assets (normally debt securities) are classified as held to maturity, if KPN has the intent and ability, from inception, to hold the securities to the maturity date. These financial assets have fixed or determinable payments and a fixed maturity.

Held-to-maturity financial assets are reported at amortized cost (effective interest method) with changes in carrying value (amortization of discount/premium and transaction costs) recognized in the Consolidated Statement of Income.

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

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

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

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

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

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

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

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

For certain derivative instruments KPN does not apply hedge accounting. Changes in the fair value of these instruments are immediately recognized in 'other financial results' of the Consolidated Statement of Income.

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

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

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

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

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

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within borrowings in current liabilities on the Consolidated Statement of Financial Position.

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

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

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

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

Purchases of minority interests are treated according to the parent company approach. Since KPN already controls the acquired entity no additional purchase price allocation is performed. Differences between the carrying amount of minority interests and the purchase price paid are capitalized as goodwill or recorded in Other income (negative goodwill).

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

Borrowings

Borrowings are recognized on settlement date at amortized cost, unless borrowings are designated as a fair value hedge which are recognized at fair value. Any difference between proceeds (net of transaction costs) and the redemption value of borrowings that are recognized at amortized costs, is recognized in the Consolidated Statement of Income over the period of the borrowings using the effective interest method. Corresponding borrowing costs are recognized in the Consolidated Statement of Income in the period in which they are incurred.

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

Provisions for retirement benefit obligations

Pension obligations

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

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

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

In 2007, IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' was issued. This IFRIC was endorsed by the EU in 2008 and clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements on such assets. IFRIC 14 did not have an impact on KPN's pension assets or costs in 2009 and 2008. The adjustment to IFRIC 14, which was issued in 2009, has no impact on KPN's accounts.

Termination benefits

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

Other long-term employee obligations

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

Provisions for other liabilities and charges

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

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

Statement of Cash Flows

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

Recent accounting pronouncements

The International Accounting Standards Board (IASB) has issued a number of new standards and interpretations, and amendments to existing standards many of which will become effective for KPN as of January 1, 2010. KPN has not early adopted them. These new standards, interpretations and amendments will have an effect on the information to be disclosed in KPN's Consolidated Financial Statements of which revised IFRS 3 'Business Combinations' is the most significant. IFRS 3 (revised) will become effective on January 1, 2010, and requires:

- Goodwill to be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. The requirement to measure every asset and liability at fair value at each step in acquisitions for the purposes of calculating a portion of goodwill has been removed;
- Acquisition-related costs are generally recognized as expenses (rather than included in goodwill);
- Contingent consideration must be recognized and measured at fair value at the acquisition date. Subsequent changes in fair value are recognized in accordance with other IFRSs, usually in profit or loss (rather than by adjusting goodwill); and
- An increase in the deferred tax asset after the one year window for losses carried forwards which stem from the period prior to the acquisition does no longer lead to an impairment of goodwill.

In accordance with the transition provisions of the standard, KPN will apply IFRS 3 (revised) prospectively to all business combinations as from January 1, 2010.

The following other interpretations and amendments will have or could potentially have an impact on KPN's financial position, results and/or disclosures in 2010 or later:

- IAS 27 (revised), 'Consolidation and separate financial statements': The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit and loss. KPN will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from January 1, 2010;
- IAS 38 (amendment): The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. KPN will apply IAS 38 (amendment) from January 1, 2010. The amendment will not result in a material impact on KPN's financial statements; and
- IFRS 5 (amendment): The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achive fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. KPN will apply IFRS 5 (amendment) from January 1, 2010. The amendment will not result in a material impact on KPN's financial statements.

The IASB has issued Discussion Papers on several topics in which significant changes on accounting and disclosures are proposed. If the current proposals lead to new or amended standards, the changes will have a substantial impact on KPN's financial statements in the coming years. KPN monitors the developments of the discussion papers on the following topics: 'Revenue recognition', 'Leasing' and 'Presentation of financial statements'. Based on the current planning of the IASB the project 'Revenue recognition' and 'Leasing' are expected to lead to new revised standards in the first half of 2011. For the project 'Presentation of financial statements' currently no planning is available.

Notes to the Consolidated Statement of Income

[1] Revenues

Amounts in millions of EUR	2009	2008
Rendering of services	12,914	13,768
Sale of goods	407	530
Royalties and other revenues	130	129
Total revenues	**13,451**	**14,427**

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

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

[2] Other income

Amounts in millions of EUR	2009	2008
Gains on the sale of property, plant and equipment	57	131
Other gains	1	44
Total other income	**58**	**175**

Gains on the sale of property, plant and equipment include sale and lease back transactions. Other gains in 2008 include a EUR 8 million non-cash additional gain as a result of the sale of iBasis Netherlands (formerly known as KPN Global Carrier Services) to iBasis Inc. in 2007 and a release of EUR 20 million of a provision relating to the sale of a subsidiary in 2002.

[3] Employee benefits

Amounts in millions of EUR	2009	2008
Salaries and wages	1,763	2,056
Pension charges (incl. Social Plan 2001)	148	-64
Social security contributions	204	230
Total employee benefits	**2,115**	**2,222**

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

Pension charges in 2008 include a release of pension obligations of EUR 199 million. This is a consequence of an agreement with the trade unions in the Netherlands with respect to the change in pension indexation for KPN's main pension plans. This indexation is now based on price inflation instead of KPN's salary increases. For more information about pensions, reference is made to Note 22 'Provisions for retirement benefit obligations'.

Board of Management and Supervisory Board

The Remuneration and Organizational Development Report included in this Annual Report contains required information comprising 'Details on all remuneration per individual' and 'Supervisory Board Remuneration 2009', which are deemed part of these financial statements.

Share option plans

KPN has granted stock options on its shares to members of the Board of Management, Senior Management and employees in the Netherlands with a collective labor agreement. Total costs related to these share option plans amounted to EUR 0.1 million in 2009 (EUR 1 million in 2008) and is included in salaries and wages.

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

		Exercise price (in EUR)	Maximum term	Exercisable (after grant date)	Vesting period	Profits in escrow if exercised within 3 years[1]	Performance related[2]
2004	CEO	6.45	5 years	immediate	3 years	yes	no
	Management	6.07 – 6.45	8 years	3 years	3 years	-	yes
	Management	6.45	8 years	3 years	3 years	-	no
	Management Belgium	6.45	8 years	3.7 years	3 years	-	no
	Personnel[3]	6.45	5 years	3 years	none	-	no
2005	CEO	6.73	5 years	immediate	3 years	yes	no
	Management	6.73 – 7.18	8 years	3 years	3 years	-	yes
	Management	6.73	8 years	3 years	3 years	-	no
	Management Belgium	6.73	8 years	3.7 years	3 years	-	no
	Personnel[3]	6.73	5 years	3 years	3 years	-	no
2006	CEO	9.29	5 years	immediate	3 years	yes	no
2007	CEO	12.09	5 years	immediate	3 years	yes	no

1) If options are exercisable immediately, the profits from any exercise prior to the third anniversary of the date of issue will be held in escrow until the third anniversary of the issue, at which time such profits will be released to the relevant option holder, provided that the option holder remains employed by KPN.
2) The number of options that vested after the three-year vesting period depended on KPN's Total Shareholder Return (stock appreciation plus dividend pay-out; TSR) relative to a peer group of European telecommunication companies. At the end of 2007, KPN held the third position with respect to the 2005 option grant, which led to a vesting percentage of 200% of the options that vested in April 2008.
3) Personnel means all Dutch employees subject to the KPN collective labor agreement. When employees leave before the third anniversary after grant date, options are exercisable from this date and expire three months later (except for April 2005 option plans: options forfeit when leaving before the third anniversary).

Summary of options outstanding as of December 31, 2009

Granted in:	Number outstanding December 31, 2009	Exercise price per option	Weighted average remaining contractual life (years)	Weighted average fair value at the date of grant
2004	682,152	6.45	2.3	3.16
2005	2,640,131	6.73 – 7.18	1.5	2.14
2006	215,278	9.29	1.3	1.20
2007	165,410	12.09	2.3	1.70
Total	**3,702,971**			

Summary of the changes in outstanding options

	2009		2008	
	Number of options	Weighted average exercise price per option in EUR	Number of options	Weighted average exercise price per option in EUR
Outstanding at the beginning of the year	**7,088,808**	**6.84**	**10,254,281**	**6.35**
Options granted	-	-	-	-
Options additional (TSR based)	-	-	695,350	6.75
Options exercised	-3,349,988	6.59	-3,773,721	6.42
Options expired	-	-	-	-
Options forfeited	-35,849	6.53	-87,102	6.46
Outstanding at the end of the year	**3,702,971**	**7.07**	**7,088,808**	**6.84**
– of which: exercisable	*3,702,971*	*7.07*	*7,085,308*	*6.84*

The actual number of options is adjusted, for the actual vesting percentages after the performance period. The average KPN stock price in 2009 was EUR 10.60. The fair value of each option is estimated at the date of grant using a binomial model.

Performance share plan

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

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

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

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

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

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

The number of share-based awards which vest depends on KPN's TSR position ranking relative to its peer group of European telecommunications companies (including KPN). The list of companies included in the peer groups can be found under 'Long-term incentives' in the 'Remuneration and Organizational Development Report' section.

The vesting schedule for share-based awards is as follows:

	Vesting % 2008 and 2009 awards
Position 8 to 14	No vesting takes place
Position 7	100% of the shares vest
Position 6	125% of the shares vest
Position 5	150% of the shares vest
Position 4	175% of the shares vest
Position 3	200% of the shares vest
Position 2	200% of the shares vest
Position 1	200% of the shares vest

The total compensation expense associated with the PSP was EUR 30 million in 2009 (2008: EUR 21 million) and the related liability (for cash-settlement) at December 31, 2009, was EUR 49 million (2008: EUR 18 million). This liability is included under Other payables and deferred income. During 2009 KPN granted 2,706,806 shares and share-based awards under the PSP (2008: 2,352,315) to members of the Board of Management and Senior Management.

The following table presents the share-based awards under the PSP for the year ended December 31, 2009. The fair value is calculated using a Monte Carlo Simulation model. This model simulates share prices, TSR ranking and fair value calculation for KPN and its peer companies.

	2009 Shares Board of Management		2009 Share-based awards Senior Management		2008 Shares Board of Management		2008 Share-based awards Senior Management		2007 Share-based awards		2006 Shares	
	Number of Shares[1]	Fair value[2]	Number of Shares[1]	Fair value[2]	Number of Shares[1]	Fair value[2]	Number of Share-based awards[1]	Fair value[2]	Number of Share-based awards[1]	Fair value[2]	Number of Shares[1]	Fair value[2]
Total at December 31, 2007					**-**		**-**		**1,442,900**	**13.44**	**862,067**	**11.67**
Granted					436,651	CEO 16.87 / Others 14.30	1,749,621	14.30	166,043[4]	15.16	-	
Exercised												
Forfeited					-		-49,987		-170,587		-77,578	
Total at December 31, 2008					**436,651**		**1,699,634**	**14.32**	**1,438,356**	**15.45**	**784,489**	
Granted	471,079	CEO 7.28 / Others 8.46	2,156,307	8.46	177,121[5]		8,668		-		1,020,845[5]	
Exercised	-				-		-		-49,794		-772,232	
Forfeited	-		-35,065		-63,502		-105,627		-80,362		-260,284	
Total at December 31, 2009	**471,079**		**2,121,242**	**11.00[3]**	**550,270**		**1,602,675**	**18.71[3]**	**1,308,200**	**21.67[3]**	**772,818**	
– of which: Non-Vested	*471,079*		*2,121,242*		*196,028*		*1,602,675*		*1,308,200*		-	

1) On the basis of 100% grant.
2) Weighted average fair value at grant date. The fair value is calculated using a Monte Carlo Simulation model.
3) At December 31, 2009, the fair value of each cash-settled share-based award was measured based on the most recent available share price of KPN and its performance compared to peer companies at the moment of valuation (i.e. closing share prices as at December 31, 2009).
4) In 2008 an additional amount of the 2007 share based award was granted which was agreed upon in 2007 and executed in 2008.
5) At the end of 2008, KPN held the second position with respect to the 2006 share grant, which led to a vesting percentage of 200% of the shares that vested in April 2009. At the end of 2008, KPN held the first position with respect to the 2008 share grant, which led to a vesting percentage of 200% of the shares of the CEO that vested in April 2009.
6) In the 2009 figures the uplift to the LTI entitlements is not included. The uplift will result in a LTI value determination of 200% (instead of 150%) of base salary for the CEO and 125% (instead of 75%) of base salary for the other members of the Board of Management. The uplift in LTI will be granted if the financial targets in 2009 and 2010 are met and KPN will reach a number 1,2 or 3 position in the TSR peer-group ranking. Please refer to the Renumeration and Organizational Development Report for further explanation on the uplift to the LTI entitlement.

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

	2009 PSP	2008 PSP
Risk-free interest rate based on euro governments bonds with a remaining time to maturity of three years (CEO 2008 grant remaining time to maturity of one year)	2.1% (CEO 1.6%)	4.4% (CEO 4.8%)
Expected dividend for KPN (based on one year's historical daily data preceding the date of award)	5.7%	4.6%
Expected volatility (based on three-years' daily historical daily data)	27.3%	21.6%
Share price at date of award (closing at grant date)	9.55	11.42

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

iBasis Stock Option Plans

The Consolidated Financial Statements of KPN include iBasis which had stock option plans under which stock options were issued as an equity incentive to employees and independent directors. The stock options issued under iBasis' stock option plans were generally for a fixed number of shares with an exercise price equal to the market value of its stock on the date of grant. The employee stock option grants generally vested quarterly in equal instalments over four years, provided that no options vested during the employee's first year of employment, and had a term of ten years. In 2009, 1,329,000 shares of stock options were granted, 50,425 shares were exercised and 546,572 shares were cancelled. As a result of the completion of KPN's acquisition of all of the outstanding stock of iBasis on December 21, 2009, for any unexercised stock options that had an exercise price of less than USD 3.00 per share, iBasis made a cash payment to option holders, totalling EUR 2.5 million, for the difference between the tender offer price of USD 3.00 per share and the exercise price of the employee's stock options. On December 18, 2009, 4,977,639 shares of stock options were outstanding, of which 3,350,625 shares were exercisable. Of the total shares outstanding on December 18, 2009, 2,487,796 shares had an exercise price of less that USD 3.00 per share. The weighted average exercise price of the total stock options outstanding at December 18, 2009, was USD 3.58 and the weighted average stock price during 2009 was USD 1.63. The following assumptions were applied to estimate the fair value of the stock options granted during 2009 using the Black-Scholes model: risk free rate 2.0%, dividend yield 0%, expected volatility 100% and expected remaining life 6.25 years. The total compensation expense associated with the iBasis Option Plans was EUR 3.2 million in 2009 and EUR 2 million in 2008. Total compensation expense of EUR 3.2 million in 2009 includes EUR 1.5 million of compensation expense related to the accelerated vesting of iBasis stock options on December 18, 2009. The accelerated vesting of stock options related to the completion of KPN's acquisition of all of the outstanding stock of iBasis and the subsequent cancellation of the iBasis stock option plans and payment to employees.

[4] Depreciation, amortization and impairments

Amounts in millions of EUR	2009	2008
Impairment of goodwill	30	125
Amortization of other intangible assets	747	702
Impairment of other intangible assets	15	20
Total amortization and impairments of goodwill and other intangible assets	**792**	**847**
Depreciation of property, plant and equipment [11]	1,518	1,585
Impairments and retirements of property, plant and equipment	32	29
Total depreciation and impairments of property, plant and equipment	**1,550**	**1,614**
Total	**2,342**	**2,461**

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

In 2009, the goodwill impairment charge of EUR 30 million includes an impairment of EUR 10 million regarding iBasis (see Note 10) and an impairment of EUR 13 million regarding the businesses of Getronics which were sold in the course of 2009 and were classified as held for sale as at December 31, 2008 (see Note 18). Furthermore a goodwill impairment of EUR 5 million is recorded for the sale of SNT the Netherlands and SNT Belgium (call center companies). The impairment regarding the Getronics and SNT businesses is based on the selling price less expenses, such as external advisors, and less the bookvalue.

During 2009, the former Telfort UMTS and DCS licenses have been returned to the government, the carrying amount of EUR 2 million was subsequently impaired and is included in the impairment of other intangible assets.

In 2008, the goodwill impairment charge of EUR 125 million includes an impairment of EUR 67 million regarding iBasis (see Note 10) and an impairment of EUR 58 million regarding the businesses of Getronics which were sold in the course of 2008 or classified as held for sale as at December 31, 2008 (see Note 18). The impairment regarding the Getronics businesses is based on the selling price less expenses, such as external advisors, to make these businesses available-for-sale.

In 2008, the impairment of other intangible assets includes EUR 2 million related to assets classified as held for sale.

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

Amounts in millions of EUR	2009	2008
By classification:		
Land and buildings	110	95
Plant and equipment	1,322	1,393
Other tangible fixed assets	110	109
Assets under construction	8	17
Total	**1,550**	**1,614**

Impairments and retirements of property, plant and equipment relate predominantly to retirements of assets. As of January 1, 2008, the remaining estimated useful life of the traditional copper infrastructure was reduced which resulted in an accelerated depreciation of EUR 70 million in 2008 and EUR 54 million in 2009 and will result in an accelerated depreciation of EUR 42 million in 2010. Based on the current useful live the copper infrastucture will be fully depreciated in year 2022.

[5] Other operating expenses

In 2009, other operating expenses comprised a net addition to the restructuring provision amounting to EUR 56 million (2008: EUR 282 million) of which EUR 48 million related to redundancy personnel costs (2008: EUR 273 million) and EUR 8 million (in 2008: EUR 9 million) related to contract obligations. In 2009, the amount of redundancy personnel costs relates primarily to a restructuring at Getronics and Debitel and severance payments for senior management and a release of EUR 15 million of the 'Back to Growth' restructuring provision. In 2008, it includes a EUR 207 million charge relating to the 'Back to Growth' strategy. For more details, reference is made to Note 23.

Cost of research and development is included in Other operating expenses and amounted to EUR 32 million in 2009 (2008: EUR 33 million). No development costs were capitalized during 2009 and 2008, except for software development (see Note 10).

Auditor's fees

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

Amounts in millions of EUR	2009	2008
Financial statements audit fees	9.4	12.7
Other assurance fees	3.1	5.2
Tax fees	0.9	0.6
All other fees	-	0.1
Total	**13.4**	**18.6**

The total fees of PricewaterhouseCoopers Accountants N.V. , the Netherlands, charged to the Company and its consolidated group entities amounts to EUR 10.3 million in 2009 (2008: EUR 12.9 million).

The financial statements audit fees include the aggregate fees in each of 2009 and 2008 for professional services rendered for the audit of KPN's annual financial statements and annual statutory financial statements of subsidiaries or services that are normally provided by the auditor in connection with the audits.

The other assurance fees include the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of KPN's financial statements and are not reported under audit services. This includes due diligence and assurance services related to potential acquisitions as well as IT related assurance services. In 2009, the other assurance fees included an amount of EUR 1.2 million related to regulatory assurance, mainly in respect of wholesale regulation. In 2008 the other assurance fees included an amount of EUR 2.6 million related to the sale of the Getronics entities in the US and in the Netherlands.

The tax category includes tax advisory and compliance services. The 2009 tax fees mainly relate to tax advisory and compliance services for KPN Belgium.

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

[6] Financial income and expenses

Amounts in millions of EUR	2009	2008
Finance income	**34**	**50**
Interest on borrowings	-754	-654
Interest on provisions	-15	-13
Other	-27	-52
Finance costs	**-796**	**-719**
Amortizable part of hedge reserve [19]	-17	-15
Ineffective portion of cash flow hedges	-1	-2
Exchange rate differences	5	-8
Other	-33	-10
Other financial results	**-46**	**-35**
Total	**-808**	**-704**

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

In 2009, interest on borrowings includes a non-cash amount of EUR 30 million (2008: EUR 20 million) relating to the effective interest expense on borrowings, which were valued at amortized cost.

In line with the Reggefiber option agreement to acquire 100% of the shares over time, KPN has recorded EUR 44 million in other financial results. The Reggefiber option agreement depends on the development of the business enterprise value of Reggefiber and the conditions of the call/put arrangements between KPN and Reggeborgh. Changes in discount rate, the business plan and the conditions of the call/put arrangements influence the value of the option agreement, refer to Note 12.

In 2009 and 2008, no gain or loss has been recognized in the Consolidated Statement of Income related to available-for-sale financial assets.

[7] Taxation

For Dutch tax purposes, KPN Mobile and Koninklijke KPN are separate tax unities. The German activities (E-Plus) of KPN form a German partnership transparent for German tax purposes and a permanent establishment for Dutch tax purposes held by KPN Mobile.

KPN Mobile tax unity

An agreement in 2004 with the Dutch tax authorities allowed KPN Mobile to offset in 2002 a EUR 11.5 billion loss related to E-Plus against its Dutch result. This loss had to be recaptured in later years by adding EBITDA of E-Plus to the taxable income of KPN Mobile. For the tax payments on this recapture a deferred tax liability has been recognized. This deferred tax liability is reduced by the tax recapture payments which were EUR 341 million in 2009 and EUR 322 million in 2008. As per December 31, 2009, the deferred tax liability for the recapture amounted to EUR 1,213 million.

Koninklijke KPN tax unity

As of January 1, 2008, the Dutch entities of Getronics are included in the Koninklijke KPN tax unity. As at December 31, 2009, the Dutch entities of Getronics reported tax loss carry forwards of approximately EUR 329 million. These losses can be offset against future taxable profits allocated to the Getronics entities. A deferred tax asset of EUR 84 million has been recognized for these tax loss carry forwards at December 31, 2009. These tax loss carry forwards will expire in 2016 at the latest.

In 2006, KPN signed a compliance covenant (`Handhavingsconvenant`) with the Dutch tax authorities to self-assess and transparently discuss KPN’s current and potential future tax issues. A few issues were outstanding at December 31, 2009, of which the deductibility of the loss of approximately EUR 110 million relating to the liquidation of a foreign entity is by far the most significant. KPN regards this liquidation loss as tax deductible which has not been accepted by the tax authorities. No deferred tax asset for the potential deductibility of this liquidation loss has been recognised nor any accrual for the other outstanding issues.

E-Plus

In Germany, the income tax consists of trade tax (‘Gewerbesteuer’) and corporate tax (‘Körperschaftssteuer’). Mainly due to impairments of goodwill and licenses in the past, E-Plus has considerable loss carry forwards for both trade tax and corporate tax. Taxable income in a certain year can only be offset for 60% against tax loss carry forwards. Trade tax and corporate tax is payable over the remaining 40% of taxable income. Information about the available tax loss carry forwards is given on page 93.

Until 2006, most separate taxable entities in the E-Plus group had a history of losses. In 2007 some taxable entities in the E-Plus group generated positive income due to improved business performance and financial restructurings. Projections of taxable income for 2008 and beyond showed that the positive income at E-Plus was expected to continue. This resulted in an increase of the deferred tax asset of EUR 1,165 million to EUR 1,301 million at December 31, 2007, for loss carry forwards and deductible temporary differences. Factors taken into account in assessing the probability of future income were amongst others the increased uncertainty over time that estimated future income will be realized and the expiration of the UMTS license in Germany. At December 31, 2008, the deferred tax asset was based on the methodology as at December 31, 2007, whereby the deferred tax asset decreased to EUR 1,190 million. The decrease was recorded as a tax expense and reflects the shorter period in which future income was considered probable, in which consideration special emphasis was given to the expiration of the UMTS license which was taken into account for the valuation of the deferred tax asset.

The valuation of the DTA was reassessed at December 31, 2009. The reassessment was prompted amongst others by an improvement of the profitability track record of E-Plus (in 2008 and 2009 the positive trend in income continued) and by a review of E-Plus’ business opportunities taking the forthcoming auctions into consideration as well as the possibilities to continue the operations of E-Plus even without the renewal of licenses. As a result of this review, lesser weight was assigned to the expiration of the existing UMTS license. The estimates of future probable taxable income, and thus the possibility to utilize loss carry forwards and temporary differences in the future, take into account the increased uncertainty over time about whether estimated future income will be realized. During 2009, the deferred tax asset decreased by EUR 173 million and the reassessment resulted in an increase with EUR 705 million to a deferred tax asset amount of EUR 1,721 million at December 31, 2009, and includes EUR 864 million estimated future tax savings due to available tax loss carry forwards and EUR 857 million estimated future realization of temporary differences.

Other entities

There are several other entities in the Netherlands which are separately liable for income taxes. In most other countries in which KPN and Getronics operate, tax loss carry forwards are available and therefore no income tax is payable except when minimum taxes are applicable.

Income tax expense

Amounts in millions of EUR	2009	2008
Current tax	-291	-348
Changes in deferred taxes	430	-202
Income tax benefit/(charge)	**139**	**-550**

The tax benefit in 2009 includes a EUR 705 million gain due to the reassessment of the deferred tax asset at E-Plus. The reconciliation from the Dutch statutory tax to the effective tax rate is explained in the table below.

Amounts in millions of EUR	2009	2008
Profit before income tax[1]	**2,042**	**1,893**
Taxes at Dutch statutory tax rates[2]	-521	-483
Tax rate differences of foreign operations[3]	-37	-15
Non-taxable income and non-deductible expenses[4]	-4	-63
(De)recognition of deferred tax positions[5]:		
– related to prior years	757	45
– related to the current year	-42	-23
Other	-14	-11
Income tax benefit/(charge)	**139**	**-550**
Effective tax rate	**-6.8%**	**29.1%**

1) Excluding the share in profits of associates and joint ventures.
2) Taxes at Dutch statutory tax rates are calculated on the basis of profit before income tax (excluding the share of profits of associates and joint ventures) and the applicable Dutch corporate income tax rate of 25.5% in 2009 and 2008.
3) Tax rate differences of foreign operations reflect the impact of different tax rates in the fiscal jurisdictions in which KPN operates. In 2009 and 2008, the corporate tax rates amounted to 15.8% in Germany, 34% in Belgium and 40% in the United States. The German trade tax rate was 15.6%.
4) Non-taxable income and non-deductible expenses represent adjustments for income not subject to taxation (such as book gain on the sale of KPN Global Carrier Services to iBasis of EUR 8 million in 2008), non-deductible expenses (such as the EUR 125 million goodwill impairments in 2008) and the effects of the fiscal treatments of interest on intercompany loans under both the Dutch and German tax legislation.
5) (De)recognition of deferred tax positions reflects the effects of valuation or non-valuation of tax loss carry forwards and deductible temporary differences. This includes an additional recognition of deferred tax assets at E-Plus of EUR 705 million in 2009.

Deferred tax assets and liabilities

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
Deferred tax assets	**2,135**	**1,733**
– of which: to be recovered after 12 months	*2,074*	*1,520*
– of which: to be recovered within 12 months	*61*	*213*
Deferred tax liabilities	**1,275**	**1,624**
– of which: to be realized after 12 months	*894*	*1,277*
– of which: to be realized within 12 months	*381*	*347*
Deferred tax assets and liabilities	**860**	**109**

Depending on future taxable results, a part of deferred tax assets relating to tax loss carry forwards now considered to be recoverable after 12 months may be recoverable in the short term. Conversely, tax loss carry forwards now considered to be recoverable within 12 months may be recoverable in the long term.

Deferred tax assets

Amounts in millions of EUR	Tax loss carry forwards	Deductible temporary differences: Goodwill	Other intangibles	Pension provisions	Other[2]	Offset against deferred tax liabilities	Total
Balance as of January 1, 2008	**633**	**561**	**570**	**190**	**347**	**-116**	**2,185**
New consolidations	4	5	-	2	1	-	12
Exchange differences	-2	-	-	-5	2	-	-5
Income statement benefit/(charge)	-38	-74	-25	-50	-35	-	-222
Tax charged to equity	2	-	-	-	-1	-	1
Transferred to held for sale	-121	-		-	-18	-	-139
Transfer to current tax tax	-	-	-	-	-17	-	-17
Reclassification	1	2	-	-	-5	-80	-82
Balance as of December 31, 2008	**479**	**494**	**545**	**137**	**274**	**-196**	**1,733**
New consolidations	6	-	-	-	-	-	6
Exchange differences	-1	-	-	-	-	-	-1
Income statement benefit/(charge)[3]	616	-103	-80	-20	119	-	532
Transferred to current tax receivable	-	-13	-	-	-	-	-13
Transferred to held for sale	-3	-	-	-	-	3	-
Tax charged to equity	-	-	-	-	30	-	30
Reclassification	4	-	-	-	-	-156	-152
Balance as of December 31, 2009[1]	**1,101**	**378**	**465**	**117**	**423**	**-349**	**2,135**

1) At December 31, 2009, no deferred tax asset of EUR 2,674 million and EUR 1,324 million were recognized for loss carry forwards and deductible temporary differences respectively.
2) Other deductible temporary differences at December 31, 2009, includes property, plant and equipment of EUR 148 million (2008: EUR 134 million), revenue recognition of EUR 41 million (2008: EUR 52 million) and a tax benefit regarding an anticipated legal restructuring of EUR 74 million.
3) Includes a EUR 705 million increase in the deferred tax asset at E-Plus as a result of the reassessment at December 31, 2009.

Deferred tax charged to equity relates mainly to movements in the hedge reserve as well as share-based compensation and translation adjustments on intercompany loans.

Deferred tax liabilities

Amounts in millions of EUR	Deferred liability due to losses German permanent establishment	Taxable temporary differences: Other[1]	Offset against deferred tax assets	Total
Balance as of January 1, 2008	**1,876**	**295**	**-116**	**2,055**
New consolidations	-	23	-	23
Income statement charge	-	-20	-	-20
Tax payable due to E-Plus loss recapture	-322	-	-	-322
Transferred to held for sale	-	-30	-	-30
Reclassification	-	-2	-80	-82
Balance as of December 31, 2008	**1,554**	**266**	**-196**	**1,624**
Income statement charge	-	102	-	102
Tax payable due to E-Plus loss recapture	-341	-	-	-341
Transferred to current tax receivable	-	42	-	42
Transferred to held for sale	-	-3	3	-
Reclassification	-	4	-156	-152
Balance as of December 31, 2009	**1,213**	**411**	**-349**	**1,275**

1) Other taxable temporary differences at December 31, 2009, includes intangible fixed assets of EUR 154 million (2008: EUR 116 million), property plant and equipment of EUR 115 million (2008: EUR 55 million) and provisions for early retirement and pension benefits of EUR 43 million (2008: EUR 52 million).

Tax loss carry forwards

Amounts in millions of EUR	Dec, 31, 2009 Tax loss carry forwards	Dec, 31, 2009 Recognized deferred tax assets	Dec, 31, 2008 Tax loss carry forwards	Dec, 31, 2008 Recognized deferred tax assets
Koninklijke KPN – corporate tax[1]	555	104	464	91
KPN Group Belgium – corporate tax	275	93	380	129
E-Plus – trade tax[2]	4,643	361	5,239	172
E-Plus – corporate tax[2]	16,876	503	16,329	33
Getronics[3]	196	1	189	5
Other	318	39	351	26
Total	**22,863**	**1,101**	**22,952**	**456**

1) The tax loss carry forwards are pre-consolidation losses ('voorvoegingsverliezen') limited in their use as such losses may only be compensated by taxable income generated by the specific company itself. The amount at December 31, 2009, and 2008 includes the tax loss carryforwards of the Dutch operations of Getronics.
2) The loss carry forwards of trade tax and corporate tax can be used to offset future taxable income without any time limit. However, taxable income in a certain year can only be offset for 60% against tax loss carry forwards. Trade tax and corporate tax have to be paid over the remaining 40% of taxable income.
3) The amount of tax loss carry forwards at December 31, 2009, and 2008 mainly relate to the operations In the United Kingdom and Germany. As of January 1, 2008, the Dutch operations of Getronics and the related tax loss carry forwards are included in the Koninklijke KPN tax unity.

Recognized deferred tax assets reflect management's estimate of realizable amounts. The amounts of tax loss carry forwards are subject to assessment by local tax authorities.

The expiration of the available tax loss carry forwards and recognized tax assets at December 31, 2009, is as follows:

Amounts in millions of EUR	Tax loss carry forwards	Maximum deferred tax asset	Recognized deferred tax asset
2010	1	-	-
2011	124	32	12
2012	116	29	27
2013	50	13	2
2014	105	40	28
Later	382	98	66
Total limited	**778**	**212**	**135**
Unlimited[1]	**22,085**	**3,563**	**966**
Total	**22,863**	**3,775**	**1,101**

1) Including trade tax and corporate tax at E-Plus.

The available tax loss carry forwards at December 31, 2008, expired as follows:

Amounts in millions of EUR	Tax loss carry forwards	Maximum deferred tax asset	Recognized deferred tax asset
2009	11	3	-
2010	1	-	-
2011	133	34	19
2012	131	33	28
2013	21	5	1
Later	417	122	63
Total limited	**714**	**197**	**111**
Unlimited[1]	**22,238**	**3,620**	**345**
Total	**22,952**	**3,817**	**456**

1) Including trade tax and corporate tax at E-Plus.

[8] Earnings per share

The following table shows the average number of subscribed ordinary shares and calculates the weighted average number of subscribed ordinary shares/weighted average number of subscribed ordinary shares taking into account the dilution effects:

Number of shares	2009	2008
Weighted average number of subscribed ordinary shares outstanding	1,638,558,191	1,739,181,536
Dilution effects:		
– options and non-vested shares	4,620,194	5,932,560
Weighted average number of subscribed ordinary shares outstanding including dilution effects	**1,643,178,385**	**1,745,114,096**

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Share options and non-vested shares are regarded to have potential dilutive effects on the ordinary shares. For the share options and share plans, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price over 2009, being EUR 10.60) based on the monetary value of the subscription rights attached to outstanding share options.

The profit attributable to equity holders used for calculations on a diluted basis is equal to the profit attributable to equity holders used for calculations on a non-diluted basis.

[9] Dividend per share

At the Annual General Meeting of Shareholders on April 13, 2010, a 2009 dividend of EUR 0.69 per share, will be proposed. During 2009 KPN paid an interim dividend of EUR 0.23 per share. These financial statements do not reflect the proposal for the remaining dividend payable, which will be accounted for in the Consolidated Statement of Changes in Group Equity as an appropriation of retained earnings in the year ending December 31, 2010.

Notes to the Consolidated Statement of Financial Position

[10] Intangible fixed assets

Reclassification of software development

Amounts in millions of EUR	December 31, 2009	December 31, 2008	January 1, 2008
Goodwill	5,769	5,659	5,781
Licenses	2,853	3,156	3,457
Software	783	676	506
Other intangibles	427	569	680
Total intangible assets	**9,832**	**10,060**	**10,424**

As from 2009 software development is recorded under Software in the Statement of Financial Position, where in KPN's Annual Report 2008 this was recorded under Other intangibles. In the table above the figures for December 31, 2008, and January 1, 2008, are restated to reflect the accounting treatment as from 2009. In the statement of changes in intangible fixed assets with finite lives, which is included in this Note, the figures of software development of December 31, 2009, and 2008 and January 1, 2008, are disclosed.

Statement of changes in goodwill

Amounts in millions of EUR	2009	2008
Cost	5,926	5,976
Accumulated impairments	-267	-195
Balance as of January 1	**5,659**	**5,781**
Investments	72	206
Impairment	-17	-67
Subsequent purchase price adjustments	-	-6
Subsequent purchase price allocation adjustments	-4	16
Exchange rate differences	-1	2
Other	64	-6
Transferred to held for sale	-4	-267
Total changes	**110**	**-122**
Accumulated acquisition cost	**6,050**	**5,926**
Accumulated impairments	-281	-267
Balance as of December 31	**5,769**	**5,659**

For impairment testing on goodwill the cash-generating units are determined on segment level. The allocation of goodwill is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The allocation of goodwill to cash-generating units is shown below:

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
Germany Segment	4,138	4,117
Belgium Segment[4]	70	73
Rest of World Segment[6]	73	58
Consumer Segment[3]	394	420
Business Segment[1]	248	236
Getronics Segment[1]	561	537
Wholesale & Operations Segment[2]	255	205
Other activities Segment[5]	30	13
Balance as of December 31	**5,769**	**5,659**

1) In 2009, parts of Business Segment integrated into Getronics segment, the allocated goodwill to these parts of the Business Segment are recognized in the Getronics Segment at the end of 2009. The figures of 2008 are restated to reflect the new structure. The Getronics Segment consists of the following cash-generating units: the Benelux (including the Netherlands and Belgium), the United Kingdom, the Americas and the Rest of the World. Goodwill is allocated to this group of cash-generating units.
2) iBasis is included in Wholesale & Operations Segment and was treated as a separate cash-generating unit for impairment testing on goodwill.
3) In 2009, Mobile Wholesale The Netherlands Segment integrated into the Consumer Segment. The goodwill of the former Mobile Wholesale The Netherlands Segment is part of the cash-generating unit Consumer Segment as from 2009. The figures of 2008 are restated to reflect the new structure.
4) At the end of 2009, the Belgium Segment consists of the former KPN Group Belgium Segment and KPN Belgium Business/KPN Belgium of which Tele2/KPN Belgium was recorded in the Rest of World Segment at the end of 2008. The figures of 2008 are restated to reflect the new structure.
5) The cash-generating unit SNT moved from the Consumer Segment to Other activities Segment in 2009.
6) Tele2/KPN Belgium was recorded in the Rest of World Segment at the end of 2008 and in 2009 Tele2/Belgium is recorded in the Belgium Segment. The figures of 2008 are restated to reflect the new structure.

In 2009, the investments relate primarily to the acquisition at year end of the minority interest of iBasis for which EUR 65 million goodwill has been recorded, refer to Note 20. For the investments in 2008, reference is made to Note 30 'Business combinations and other changes in consolidation'.

Early 2009 an impairment has been recorded for EUR 10 million to iBasis (2008: EUR 67 million). Futhermore an impairment of EUR 5 million to the sale of SNT the Netherlands and Belgium (call center companies) has been recorded in 2009.

In 2009, Other include for EUR 48 million revisions of the deferred purchase considerations for the future acquisition of minority interests, among others these relate to Ortel Mobile Holding B.V., blau Mobilfunk GmbH and Applicationnet B.V., and an amount of EUR 18 million which was classified as held for sale at December 31, 2008, see also Note 18.

Goodwill is tested for impairment annually. Goodwill is impaired if the recoverable amount of the cash-generating unit to which it is allocated is lower than the book value of the cash-generating unit concerned including goodwill. The recoverable amount is defined as the higher of the cash generating unit's fair value less cost to sell and its value in use.

A third-party valuation specialist (Duff & Phelps) supported KPN in the impairment testing of Germany, Getronics and iBasis in 2009 and 2008. This involves, among others, determining the reasonableness of the fair value and value in use calculations by analyzing comparable companies and comparable transactions.

For Germany, the recoverable amount used in the impairment testing was the fair value less cost to sell. The fair value was determined based on the present value of the future cash flows expected to be derived from this cash-generating unit and incorporates assumptions that market participants would use in estimating the fair value such as synergies, tax benefits and restructurings (strategic premium). The future expected cash flows are discounted at the weighted average cost of capital commensurate with the cash-generating unit's inherent risk.

For Getronics, the recoverable amount was based on the value in use. The goodwill for Getronics has not been allocated to each of its cash-generating units as KPN paid goodwill to acquire Getronics as a group. Therefore, the goodwill impairment test for Getronics was done for its cash-generating units as a group rather than for each separate cash-generating unit. The value in use is calculated as the present value of the cash flows expected to be derived from the cash-generating unit's continuing use. The discount rate used is the weighted average cost of capital commensurate with the cash-generating unit's inherent risk. The margin between the recoverable amount and the carrying amount decreased in 2009, leaving a margin of approximately EUR 100 million.

In 2008 the price of iBasis' shares on NASDAQ decreased considerably, as a consequence the fair value of iBasis was lower than the book value and a goodwill impairment charge of EUR 67 million was recorded, based on KPN's share in iBasis. In the beginning of 2009 a further decline by the price of iBasis' shares led to an additional impairment of EUR 10 million.

The impairment tests in 2009 and 2008 of the other cash-generating units were entirely performed by KPN and based on values in use.

The key assumptions used in the cash flow projections are growth of sales and estimated capital expenditure together with the rate used for discounting the cash flow projections (weighted average cost of capital). The cash flow projections for the first three to eight years (depending on the cash-generating unit) are a management's best estimate based on the most recent business plans, market information, comparisons to (expected) developments for peer companies and historical growth rates. Cash flow projections beyond the three- to eight-year period are captured in the terminal value and are estimated by extrapolating the projections using a long-term growth rate of sales between 0% and 2%. The rates used for discounting the projected cash flows were between 8% and 13.9% for all cash generating units.

The expected future cash flows used in the impairment analysis are based on management's estimates. Events in technology and telecommunications markets as well as the financial markets and the overall economy may have an adverse impact on the estimated future cash flows of KPN's businesses. The following table gives an indication of the approximate goodwill impairments which would have been recognized in 2009, on an aggregated basis, if key assumptions change adversely and would have been used in the impairment testing of each cash-generating unit.

Indication of the approximate goodwill impairments (Amounts in millions of EUR)		Decrease in long-term growth rate (delta)		
		By 0%	By 1%	By 2%
	By 0%	-	<100	100
Increase in discount rate	By 1%	<100	600	1,100
	By 2%	1,100	1,600	2,000

Statement of changes in intangible fixed assets with finite lives

Amounts in millions of EUR	Licenses	Computer software	Software development	Customer relationships	Trade names	Other	Total
Balance as of January 1, 2008	**3,457**	**410**	**96**	**523**	**85**	**72**	**4,643**
Investments	-	388	42	7	-	24	461
Changes in consolidation	-	4	-	52	39	25	120
Transfer to held for sale	-	-22	-	-88	-14	-	-124
Exchange rate differences	-	-2	-	-2	2	1	-1
Reclassification	-	22	-	7	-	-7	22
Amortization	-301	-245	-	-127	-8	-21	-702
Impairment	-	-14	-3	-1	-	-	-18
Total changes	**-301**	**131**	**39**	**-152**	**19**	**22**	**-242**
Cost	9,777	1,441	135	669	117	162	12,301
Accumulated amortization/ impairments	-6,621	-900	-	-298	-13	-68	-7,900
Balance as of December 31, 2008	**3,156**	**541**	**135**	**371**	**104**	**94**	**4,401**
Investments	1	365	47	1	-	10	424
Changes in consolidation	-	-	-	1	-	-	1
Transfer to held for sale	-	-	-	-3	-1	-	-4
Exchange rate differences	-	-	-	-	-	-1	-1
Reclassification	-	4	-	4	-4	-	4
Amortization	-302	-297	-	-117	-10	-21	-747
Impairment	-2	-1	-11	-1	-	-	-15
Total changes	**-303**	**71**	**36**	**-115**	**-15**	**-12**	**-338**
Cost	9,069	1,651	171	412	110	168	11,581
Accumulated amortization/ impairments	-6,216	-1,039	-	-156	-21	-86	-7,518
Balance as of December 31, 2009	**2,853**	**612**	**171**	**256**	**89**	**82**	**4,063**

Licenses

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
Germany	2,232	2,450
Wholesale & Operations	481	552
Belgium	138	152
Other	2	2
Balance as of	**2,853**	**3,156**

KPN started rendering UMTS services in the Netherlands and Germany in 2004 and hence started to amortize these licenses. The terms of the licenses are used as the basis for the amortization period. In Germany the 3G-license expires in 2020, in the Netherlands in 2016 and in Belgium in 2021. KPN has started amortizing the UMTS license of Belgium at the end of 2009.

On November 21, 2006, KPN announced the sale of Telfort's E-GSM license to T-Mobile. In 2007 the transfer was approved by the Minister of Economic Affairs and the E-GSM license was sold for an amount of EUR 26 million, of which EUR 10 million was received in 2009 whereby KPN fulfilled the condition that it formally informed T-Mobile that it will not use its right to have the E-GSM license returned by 2010. During 2009, the former Telfort UMTS and DCS licenses have been returned to the government, the residual value EUR 2 million was subsequently impaired.

Impairment tests for the Mobile activities are performed for the combined GSM and UMTS activities as cash flows can not be determined independently from each other.

For details about the acquired customer relationships and trade names, reference is made to the Note 30 'Business combinations and other changes in consolidation'.

Included in the book value of computer software EUR 202 million is recognized as book value for internally generated software at the end of 2009 (2008: EUR 210 million).

[11] Property, plant and equipment

Statement of changes in property, plant and equipment

Amounts in millions of EUR	Land and buildings	Plant and equipment	Other tangible non-current assets	Assets under construction	Total
Balance as of January 1, 2008	**793**	**6,070**	**211**	**792**	**7,866**
Investments	214	1,055	122	123	1,514
Disposals	-5	-12	-	-	-17
Changes in consolidations	-	7	8	-	15
Depreciation	-93	-1,383	-109	-	-1,585
Impairments and retirements	-2	-10	-	-17	-29
Exchange rate differences	-1	-1	-	-1	-3
Reclassifications to intangible fixed assets and other	10	96	-35	-90	-19
Transferred to held for sale (net)	5	-11	-	-	-6
Total changes	**128**	**-259**	**-14**	**15**	**-130**
Cost	2,101	15,492	528	812	18,933
Accumulated depreciation/impairments	-1,180	-9,681	-331	-5	-11,197
Balance as of December 31, 2008	**921**	**5,811**	**197**	**807**	**7,736**
Investments	127	1,217	93	5	1,442
Disposals	-4	-1	-2	-	-7
Depreciation	-103	-1,310	-105	-	-1,518
Impairments and retirements	-7	-12	-5	-8	-32
Exchange rate differences	-	-	-	-	-
Reclassifications	-	-	-	-4	-4
Transferred to held for sale (net)	-14	-78	-1	-1	-94
Borrowing costs	-	-	-	-	-
Total changes	**-1**	**-184**	**-20**	**-8**	**-213**
Cost	2,150	15,059	463	810	18,482
Accumulated depreciation/impairments	-1,230	-9,432	-286	-11	-10,959
Balance as of December 31, 2009	**920**	**5,627**	**177**	**799**	**7,523**

Property, plant and equipment primarily concerns assets located in the Netherlands (2009: approximately 64%; 2008: approximately 64%) and Germany (2009: approximately 30%; 2008: approximately 28%). Assets under construction mainly relate to the construction of networks.

The book value of property, plant and equipment of which KPN as the lessee is the beneficial owner under financial lease programs amounted EUR 248 million (2008: EUR 239 million). The book value of property, plant and equipment of which KPN is the lessor under operating lease programs amounted to EUR 82 million (2008: EUR 89 million). The future minimum lease payments receivable related to KPN as the lessor is the legal owner and not the beneficial owner is EUR 71 million in total of which EUR 48 million matures within one year and the remainder EUR 23 million matures within one to five years.

The net amount of reclassifications and other, in the table above, relates to assets under construction made available for use.

Sensitivity analysis

At the end of 2009 the book value for Copper and Fiber cables is EUR 2,307 million, which is included in plant and equipment. The current depreciation rates for these investments are based on estimates and judgement about the useful lives of these assets. For Copper cables KPN estimates that the current useful life ends in year 2022, if the useful life was set at 20 years, the depreciation charge for 2010 would be EUR 58 million lower. For the Fiber cables KPN estimates that the current useful life is 20 years, if the useful life was set at 25 years, the depreciation charge for 2010 would be EUR 15 million lower.

[12] Investments in associates and joint ventures

Amounts in millions of EUR	2009	2008
Balance as of January 1	**135**	**27**
Additions	140	115
Disposals	1	-
Income from associates and joint ventures	-6	-6
Changes in consolidations/Other	-	-1
Received/(paid) dividend	-3	-
Total changes	**132**	**108**
Balance as of December 31	**267**	**135**

Reggefiber

On December 19, 2008, KPN took a minority stake of 41% in Reggefiber Group B.V. ('Reggefiber'), a strategic partnership with Reggeborgh for the rollout of the Fiber-to-the-Home network. Reggeborgh owns 59% of Reggefiber. KPN has the possibility to increase its share in Reggefiber through call/put arrangements at a later stage, if Reggefiber reaches specific milestones. These call/put arrangements were valued as part of the purchase price allocation of KPN's contribution. The invested value by KPN for the 41% stake in Reggefiber Group B.V. is summarized in the table below:

Amounts in millions of EUR	
– Cash contribution (included in additions 2008)	100
– Contribution in assets (included in additions 2008)	16
Subtotal investment 2008 by KPN	**116**
– Cash contribution (included in additions 2009)	74
Subtotal investment 2009 by KPN	**190**
Call/put arrangements valuation in the purchase price allocation (included in additions 2009)	58
Total investment by KPN for 41%	**248**

The purchase price allocation resulted in EUR 94 million goodwill. The table below summarizes the purchase price allocation:

Amounts in millions of EUR	
Investment by KPN for 41%	248
Less: net fair value of the assets and liabilities of Reggefiber as per December 19, 2008	154
Goodwill (included in the investment by KPN for 41%)	**94**

The call/put arrangements are valued at fair value and recorded as derivative financial instruments, which can be divided into an asset of EUR 7 million and a liability of EUR 65 million, net EUR 58 million as per December 19, 2008. At the end of 2009 the value of the call/put arrangements amounted to net EUR 102 million and is recorded as derivative financial instruments (an asset of EUR 8 million and a liability of EUR 110 million). The change in value of the call/put arrangements in 2009 of EUR 44 million is recorded in the consolidated statement of income under other financial results. Changes in discount rate, the business plan and the conditions of the call/put arrangements influence the value of the option agreement, refer to Note 6.

In 2009, KPN's stake in Reggefiber amounted to a loss of EUR 11 million. The book value at the end of 2009 amounted to EUR 237 million, which is comprised of KPN's investment of EUR 248 million and the loss over 2009 of EUR 11 million. At the end of 2009, KPN contributed EUR 21 million in the form of a temporary shareholder loan to Reggefiber. This shareholder loan is recorded under current trade and other receivables. For its stake, Reggeborgh, also contributed a temporary shareholder loan to Reggefiber of EUR 31 million.

At the end of 2009, Reggefiber had capital commitments (100%) for EUR 175 million (2010: EUR 127 million, 2011: EUR 40 million and 2012: EUR 8 million). For rental and operational lease contracts Reggefiber had commitments for EUR 15 million (less than 1 year: EUR 2 million, 1 – 5 years EUR 5 million, more than 5 years: EUR 8 million). Furthermore Reggefiber had a contingent liability (100%) of EUR 22 million regarding the acquisition of a company, which acquisition is closed in January 2010.

Other

As of December 31, 2009, investments in associates and joint ventures also include NTT Data Getronics (30%) for an amount of EUR 16 million.

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

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
Current assets	38	102
Non-current assets	271	164
Current liabilities	55	68
Non-current liabilities	60	7
Total revenues	54	24
Total operating expenses	47	23

The difference in value between the assets and liabilities of the table above and the investment value is recorded as goodwill by KPN.

[13] Trade and other receivables (non-current)

Amounts in millions of EUR	2009	2008
Opening balance January 1	**210**	**197**
Current portion of non-current receivables	14	17
Gross	**224**	**214**
Additions	49	62
Changes in consolidations	-	1
Redemptions	-33	-52
Impairment	-1	-
Transferred to held for sale	-	-1
Total gross at December 31	**239**	**224**
Current portion of non-current receivables	-8	-14
Balance as of December 31	**231**	**210**

The balance as of December 31, 2009, and 2008 includes the following:

Amounts in millions of EUR	2009	2008
Accrued income and prepayments	104	92
Receivables from financial leases	2	9
Pension assets [22]	119	101
Other loans	6	8
Total	**231**	**210**

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

Accrued income and prepayments mainly consist of prepaid rent recognized at net present value. The gross amount with respect to receivables from financial leases amounts to EUR 4 million (2008: EUR 16 million) of which EUR 3 million matures within five years and the remainder later than five years. The short-term portion of the financial leases amounting to EUR 2 million (2008: EUR 7 million) is classified as current trade and other receivables.

In 2009, an amount of EUR 119 million (2008: EUR 101 million) relates to a surplus of plan assets in excess of benefit obligations in pension plans. Reference is made to Note 22.

[14] Inventories

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
Resources, parts, tools and measuring instruments	94	117
Finished goods	50	68
Total inventories, gross	**144**	**185**
Provision for obsolescence	-51	-48
Total inventories, net	**93**	**137**

The fair value of the inventories does not materially differ from the amount as recorded as of December 31, 2009. During the year 2009 a net amount of EUR 2 million (2008: EUR 11 million) was added to the provision for obsolete stock through 'cost of materials' in the Consolidated Statement of Income.

The transition expenses relating to fixed-price contracts involving managed ICT services are included under finished goods and amount to EUR 7 million at the end of 2009 (2008: EUR 7 million).

In 2008, an amount of EUR 12 million was transferred to held for sale.

[15] Trade and other receivables

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
Trade receivables	1,197	1,468
Social security and other taxes	11	32
Other receivables	78	127
Accrued income	493	554
Prepayments	116	114
Balance as of	**1,895**	**2,295**

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
Trade receivables – gross	1,323	1,612
Provision for doubtful receivables	-126	-144
Balance as of	**1,197**	**1,468**

The carrying amounts of trade and other receivables approximate their fair value. Trade and other receivables are non-interest bearing, except for the temporary shareholder loan to Reggefiber.

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

Amounts in millions of EUR	2009	2008
Balance as of January 1	**144**	**180**
New consolidations	-	5
Addition through income statement	30	56
Usage	-44	-95
Transfer to held for sale	-4	-2
Balance as of December 31	**126**	**144**

The maximum exposure to credit risk on trade receivables is limited to their gross amount. The concentration of KPN's trade receivables as at December 31, 2009, over the different segments can be summarized as follows:

	December 31, 2009		December 31, 2008	
Amounts in millions of EUR	Gross	Provision	Gross	Provision
Consumer Segment	104	23	212	34
Business Segment	143	10	189	8
Getronics Segment	326	7	393	9
Wholesale & Operations Segment	250	17	261	15
Germany Segment	369	50	403	59
Belgium Segment	92	16	109	17
Other	39	3	45	2
Balance as of December 31	**1,323**	**126**	**1,612**	**144**

For a discussion of each segments' activities and related customer base, reference is made to the section 'KPN's operations' starting on page 14. For a discussion of KPN's policies to reduce credit risk on trade receivables, reference is made to Note 29 'Capital and Financial Risk Management'. Credit risks with regard to postpaid mobile services is considered to be the highest within the business of KPN (Germany, Belgium, part of Business and Consumer Segment). Overall, concentrations of credit risk with respect to trade receivables are limited due to the Group's large and unrelated customer base. The provision for doubtful trade receivables is predominantly collectively determined based on ageing and reviewed periodically. The concentration of credit risk in the integrated, outsourced and managed ICT solutions businesses is somewhat larger. The gross amounts due from trade receivables in these businesses at December 31, 2009, was EUR 326 million (2008: EUR 393 million) for which a provision of EUR 7 million (2008: EUR 9 million) was recorded. The provision for doubtful trade receivables in these businesses has been determined on an individual basis.

The ageing of the gross trade receivables at the reporting date was as follows:

	December 31, 2009		December 31, 2008	
Amounts in millions of EUR	Gross	Provision	Gross	Provision
Amounts undue	768	6	662	3
Past due 0–30 days	196	4	463	3
Past due 31–60 days	72	11	112	7
Past due 61–90 days	42	4	62	4
Past due 91–180 days	76	14	58	10
Past due 181–270 days	30	9	44	10
Past due 271–360 days	24	14	36	8
More than one year	115	64	175	99
Total	**1,323**	**126**	**1,612**	**144**

The breakdown per segment of the amounts undue was as follows:

Amounts in millions of EUR	Dec 31, 2009	Dec 31, 2008
Consumer Segment	20	65
Business Segment	71	9
Getronics Segment	229	163
Wholesale & Operations Segment	149	117
Germany Segment	239	255
Belgium Segment	54	39
Other	6	14
Total undue	**768**	**662**

[16] Available-for-sale financial assets

Amounts in millions of EUR	2009	2008
Balance as of January 1	**54**	**3**
– of which: current	*2*	*3*
Additions	-	50
Sale of assets	-	-1
Exchange rate differences	-1	1
Fair value adjustment recorded in comprehensive income	-	1
Balance as of December 31	**53**	**54**
– of which: current	*2*	*2*

In 2008, KPN obtained an equity stake of approximately 11% in Tecnocom, a listed Spanish ICT services company, as part of the consideration for the sale in 2007 of Getronics' operations in Spain and Portugal. In 2008, KPN obtained also a stake of approximately 11% in the total equity of CompuCom, a privately held IT outsourcing company in North America, as part of the consideration for the sale in 2008 of Getronics' operations in North America. This equity stake in CompuCom consists of ordinary shares and preferred shares (see Note 18). KPN cannot sell its shares in CompuCom without the consent of other investors. Overall the fair value of the stakes in Tecnocom and CompuCom did not change in 2009.

[17] Cash and cash equivalents

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
Cash	1,045	772
Short-term bank deposits	1,645	427
Total cash and cash equivalents	**2,690**	**1,199**

Cash and cash equivalents as at December 31, 2009, is for more than 96% denominated in the functional currency of the related entities. On December 31, 2009, KPN's total outstanding bank guarantees amounted to EUR 99 million (2008: EUR 60 million), which were issued in the ordinary course of business. The effective interest rate on the outstanding bank deposits as at December 31, 2009 ranges from 0.32% to 0.39%.

Due to German capital maintenance rules, KPN is required to keep certain funds available at E-Plus. As of December 31, 2009, KPN's cash and cash equivalents position amounted to EUR 2,690 million (including EUR 38 million in non-netted notional cash pools).

All other cash and cash equivalents are at free disposal to the Company within three months.

Net cash and cash equivalents

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
Total cash and cash equivalents	**2,690**	**1,199**
Bank overdraft	-38	-428
Net cash and cash equivalents	**2,652**	**771**

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

Amounts in millions of EUR	Non-current assets and disposal groups classified as held for sale	Liabilities directly associated with non-current assets and disposal groups classified as held for sale
Balance as of January 1, 2008	**27**	**-**
Additions	695	190
Impairments	-58	-
Disposal	-543	-163
Exchange rate differences	-	1
Other	-2	8
Balance as of December 31, 2008	**119**	**36**
Additions	121	48
Impairments	-13	-
Disposal	-94	-51
Other	-18	-
Balance as of December 31, 2009	**115**	**33**

As of December 31, 2008, the Getronics' businesses Business Solutions for local government and healthcare and Document Services were classified as disposal groups held for sale, as a result of the disposal of non-core assets of Getronics. The transactions of Business Solutions for local government and healthcare and Document Services, both in the Netherlands, were closed in January 2009.

KPN, Wholesale & Operations Segment, is selling part of its real estate portfolio which becomes redundant after migration to the new All-IP infrastructure. The buildings and accompanying land are located mainly in city center areas and offer significant redevelopment opportunities. At the end of 2009 properties with a book value of EUR 19 million (2008: EUR 10 million) were classified as 'non-current assets held for sale'.

KPN has entered into an agreement with Mobistar for the sale of its fixed Belgian B2B and Carrier business, including its fixed fiber network. Consequently KPN has classified this business as held for sale with a book value of EUR 63 million.

Furthermore SNT the Netherlands and Belgium (call center companies), part of segment 'Other Activities' were sold in 2009. These businesses were first classified as held for sale in 2009 and at the end of 2009 disposed through held for sale, refer to Note 10 for more information.

In 2009, Other include an amount of EUR 18 million which was classified as held for sale at December 31, 2008, and is reclassified to goodwill, see also Note 10.

The assets and the related liabilities of the above-mentioned disposals at December 31 can be specified as follows:

Amounts in millions of EUR	2009	2008
Intangible assets (including goodwill)	8	184
Property, plant and equipment	9	26
Deferred income tax assets	-	-
Current assets	77	333
Total disposed assets	**94**	**543**
Deferred income tax liabilities	-	-
Current liabilities	51	163
Total disposed liabilities	**51**	**163**

Note: included in assets EUR 8 million relate to buildings.

In 2009 the disposals relate to Getronics' businesses Business Solutions for local government and healthcare and Document Services, real estate portfolio and SNT the Netherlands and Belgium (call center companies).

In the course of 2008, a number of businesses of Getronics were classified as disposal groups held for sale. These businesses include the operations of Getronics in North America and Business Application Services, Business Solutions for local governments and healthcare and Document Services in the Netherlands.

The North American businesses of Getronics were sold in 2008 to CompuCom, a privately held IT outsourcing company in North America, for an amount of USD 156 million (EUR 102 million) in cash. As part of the consideration KPN also obtained a stake of approximately 11% in the total equity of CompuCom, with whom KPN has also entered into a partnership (see Note 16). Business Application Services was sold in 2008 for an amount of EUR 240 million. An agreement in principle was reached on December 1, 2008, regarding the sale of Business Solutions for local governments and healthcare. This sale is closed in January, 2009.

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

Amounts in millions of EUR	2009	2008
Intangible assets (including goodwill)	11	41
Property, plant and equipment	92	6
Deferred income tax assets	-	-
Current assets	12	72
Total assets held for sale	**115**	**119**
Provisions	5	-
Current liabilities	28	36
Total liabilities held for sale	**33**	**36**

[19] Equity attributable to equity holders

For a breakdown of Equity attributable to equity holders, reference is made to the Consolidated Statement of Changes in Group Equity.

Total distributable reserves at December 31, 2009, amount to EUR 3,063 million (2008: EUR 2,872 million). For a detail of the non-distributable reserves, reference is made to the Corporate Financial Statements.

Share capital

KPN's authorized capital stock totals EUR 1,440,000,000, divided into 3 billion ordinary shares of EUR 0.24 each and 3 billion Class B preferred shares of EUR 0.24 each. As of December 31, 2009, a total of 1,628,855,322 ordinary shares were outstanding and fully paid-in. Dutch laws prohibit KPN to cast a vote on shares KPN holds. The ordinary shares and Class B preferred shares carry the right to cast one vote each. For a description of the preferred shares, please see 'The Foundation Preference Shares B KPN' hereafter. The ordinary shares are registered or payable to bearer. Shareholders may request the Company to convert their registered shares to bearer shares but not vice versa.

Share premium

The additional paid-in capital is exempt from Dutch tax up to an amount of EUR 8,382 million (2008: EUR 8,830 million).

Other reserves

Below is a detailed overview of the movements in the number of treasury shares and other reserves:

Amounts in millions of EUR, unless indicated otherwise	Number of treasury shares	Treasury shares reserve	Hedge reserve	Tax effect hedge reserve	Fair value reserve available for sale financial assets	Currency translation reserve	Total other reserves
Balance as of January 1, 2008	**53,293,437**	**-594**	**-17**	**4**	**-**	**-1**	**-608**
Sold (exercise options) [3]	-3,777,988	24	-	-	-	-	24
Purchased	104,241,810	-1,170	-	-	-	-	-1,170
Cancelled	-129,119,421	1,502	-	-	-	-	1,502
Release	-	-	-12	3	1	-	-8
Amortization [6]	-	-	15	-4	-	-	11
Exchange rate differences	-	-	-	-	-	21	21
Balance as of December 31, 2008	**24,637,838**	**-238**	**-14**	**3**	**1**	**20**	**-228**
Sold (exercise options) [3]	-3,349,988	22	-	-	-	-	22
Share based compensation	-1,226,829	16	-	-	-	-	16
Purchased	92,453,954	-960	-	-	-	-	-960
Cancelled	-85,507,470	871	-	-	-	-	871
Release	-	-	-137	34	-1	-	-104
Amortization [6]	-	-	17	-4	-	-	13
Other	-	-	-	-	-	-	-
Balance as of December 31, 2009	**27,007,505**	**-289**	**-134**	**33**	**-**	**20**	**-370**
– of which: to be cancelled	10,711,653						
Total treasury shares	**16,295,852**						

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

Hedge reserve

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
Effective portion cash flow hedges	-69	64
Amortizable part	-65	-78
Balance of	**-134**	**-14**

For details of cash flow hedges reference is made to Note 29 'Capital and Financial Risk Management'.

Treasury shares and treasury shares reserve

KPN purchases shares in its own capital under a share repurchase program and also for delivery upon exercise of share options by management and personnel under the share option and performance share plans (see Note 3). Votes on purchased shares may not be cast and they do not count towards determining the number of votes required at a General Meeting of Shareholders.

In 2009, 86,553,954 shares were purchased under the share repurchase program of which 85,507,470 were cancelled, including 9,665,169 that were purchased in 2008 for the EUR 1 billion share repurchase program. The remaining 10,711,653 shares that were repurchased under the 2009 EUR 1 billion share repurchase program will be cancelled in the first quarter of 2010.

In 2009, 5,900,000 ordinary shares were repurchased to cover KPN's cash-settled performance share plans. Treasury shares are accounted for at cost, representing the market price on the acquisition date. The average share price of the shares purchased in 2009 to cover share and stock compensation plans was EUR 10.49. The proceeds at delivery of the treasury shares are recognized directly in the other reserves. In the event that more options are exercised than available as treasury shares for option plans, KPN anticipates providing shares through the issuance of new shares or the purchase of shares in the market. All rights with respect to repurchased treasury shares are suspended until those shares are delivered.

Foundation Preference Shares B KPN

As of December 31, 2009, KPN has option arrangements regarding the issue of preference shares B in place with the Foundation Preference Shares B KPN ('the Foundation'). Please see the description regarding the Foundation in the Annual Report, section 'Corporate Governance'.

KPN has a put option to place with the Foundation a number of its Class B preference shares, which have the same voting rights as ordinary shares, not exceeding the total issued share capital before such issue, or, subject to prior approval by the General Meeting of Shareholders, such larger number as the parties may agree. In addition, the Foundation has a call option, which is not limited in time, to acquire a number of Class B preference shares from KPN not exceeding the total issued amount of ordinary shares, minus one share and minus any shares already issued to the Foundation. Since October 12, 2006, the authority of the Board of Management to issue Class B preference shares under the put option expired. This expiration does not affect the obligation to issue Class B preference shares upon exercise of the call option by the Foundation. Upon exercise of the call option, 25% of the nominal value of EUR 0.24 per Class B preference share needs to be paid by the Foundation. KPN's Board of Management can decide to request the Foundation to pay the remainder. Such decision is subject to the approval of the Supervisory Board.

KPN is of the opinion that neither the put option nor the call option represent a significant value as meant in IAS 1, paragraph 31 due to the fact that the put option can no longer be exercised by KPN and the fact that the likelihood that the call option will be exercised is very remote. In the remote event that the call option will be exercised, the preference shares B will be cancelled relatively shortly after issuance. The options are therefore not accounted for in the annual accounts nor is any additional information as meant in IAS 32 and 39 added.

[20] Minority interests

On December 21, 2009, KPN successfully completed its tender offer for the outstanding shares (44%) it did not already own in iBasis. The final offer amounted to USD 3.00 per share in cash, or approximately USD 93 million in total. Upon this acquisition KPN recorded EUR 65 million goodwill, refer to Note 10. In 2008, minority interests mainly related to iBasis (44%).

[21] Borrowings

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

	December 31, 2009		December 31, 2008	
Amounts in millions of EUR	Carrying amount	Fair value	Carrying amount	Fair value
Eurobonds EUR	10,080	10,898	8,577	8,297
Eurobonds GBP	1,525	1,562	541	458
Global Bonds USD	1,555	1,709	2,322	2,202
Financial lease obligations	159	159	141	121
Bank overdraft	38	38	428	428
Credit facility	-	-	-	-
Other loans	14	14	32	28
Total borrowings	**13,371**	**14,380**	**12,041**	**11,534**
– of which: current	*869*	*909*	*1,165*	*1,181*
– of which: non-current	*12,502*	*13,471*	*10,876*	*10,353*

The fair value is based on the listed price of the bonds.

KPN's weighted average interest yield on the borrowings outstanding before swap at December 31, 2009, was approximately 5.7% (2008 5.5%) and the weighted average effective interest yield of these borrowings before swap was approximately 5.9% (2008 5.7%). The weighted average interest yield on borrowings outstanding after swap was approximately 5.4% (2008: 5.4%).

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

Bonds

On February 4, 2009, KPN issued a dual tranche Eurobond consisting of two bonds for respectively an amount of EUR 750 million, with a five-year maturity and a coupon of 6.25% and for an amount of EUR 750 million, with a ten-year maturity and a coupon of 7.50%.

On September 17, 2009, KPN issued a GBP 850 million Sterling bond with a twenty-year maturity and a Sterling coupon of 5.75%. The Sterling bond has been swapped into EUR 971 million with a Euro-equivalent coupon of 5.98%.

On September 30, 2009, KPN issued an EUR 700 million Eurobond with a fifteen-year maturity and a coupon of 5.625%.

All new bonds in 2009 have been issued under KPN's Global Medium Term Note program and have been listed on Euronext Amsterdam.

On June 29, 2009, KPN repurchased USD 588 million, with settlement date July 2, 2009, of the USD 1,750 million 8% Notes due 2010. In accordance with the regular redemption schedule, KPN redeemed in 2009 EUR 700 million of the Eurobond 2004 – 2009 (matured on July 21, 2009).

On April 2, 2008, KPN issued an EUR 850 million Eurobond with a long seven-year maturity and a coupon of 6.50% and in June 2008 a tap of EUR 75 million was issued.

On September 16, 2008, KPN issued an EUR 850 million Eurobond with a five-year maturity and a coupon of 6.25%. All new bonds in 2008 have been issued under KPN's Global Medium Term Note program and have been listed on Euronext Amsterdam.

In accordance with the regular redemption schedule, KPN redeemed in 2008 GBP 175 million of the Eurobond 2001 – 2008 (matured on April 11, 2008) and EUR 768 million of the Eurobond 1998 – 2008 (matured on November 5, 2008).

Financial lease obligations and other loans

As of December 31, 2009, the financial lease obligations amounted to EUR 159 million, refer to Note 29 for more information. iBasis has a revolving credit facility amounting to USD 35 million of which USD 19 million (EUR 13 million) was drawn as per December 31, 2009. This credit facility will mature on October 1, 2011. The revolving credit facility is secured by a first priority lien and security interest on the assets of iBasis and its wholly owned subsidiaries in the United States who act as guarantors. In addition, iBasis has pledged two-thirds of all its shares of iBasis Netherlands, which is a wholly-owned subsidiary of iBasis, as collateral for the revolving credit facility.

Credit rating

KPN's credit ratings on December 31, 2009, were BBB+ with stable outlook from Standard & Poor's and Baa2 with stable outlook from Moody's.

[22] Provisions for retirement benefit obligations

Provisions for retirement benefit obligation consist of pension provisions and the provision for the Social Plan 2001.

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
Pension provisions	626	756
Provision for Social Plan 2001	91	136
Total	**717**	**892**

Pensions

The majority of KPN's employees in the Netherlands are covered by defined benefit plans. The majority of the employees outside the Netherlands are covered by defined contribution plans. The measurement date for all defined benefit plans is December 31. KPN makes contributions to provide sufficient assets to fund the benefits payable to participants of defined benefit plans in most jurisdictions.

The following table gives an overview of KPN's main defined benefit plans based on size and risk profile as at December 31, 2009:

Pension Plan	Characteristics	Funding	Minimum funding requirement
KPN Main plan PF	KPN's main Dutch pension plan covers employees who are subject to KPN's collective labor agreement. The benefits provided are based on the employee's years of service and compensation level and consists of a defined benefit average pay plan for the salary up to EUR 45,378 per annum and a defined contribution plan for the salary exceeding EUR 45,378 per annum. Furthermore, employees can opt to participate in an individual pension saving scheme. The retirement age is 65 years.	This plan is funded externally with 'Stichting Pensioenfonds KPN'. Premiums are paid to this fund based on a long-term horizon regarding the desired coverage ratio. The employee contribution is fixed and based on the collective labor agreement. For the defined contribution part, KPN guarantees a conditional 0% return on the nominal contribution. For the individual pension saving scheme, all contributions are made entirely by the employees.	These plans are mandated by Dutch law ('Pensioenwet') which requires minimum coverage ratios. The coverage ratio is calculated based on vested benefit obligations and differs from the defined pension obligation as calculated under IFRS, among others due to different discount rates. At December 31, 2009 the actual coverage ratios, on average, are 111%. At December 31, 2008 the actual coverage ratios were below 105%, and the Dutch funds were required to recover to this coverage ratio by additional contributions and reduction of indexation (short-term recovery plan). Next to that, the Dutch funds are required to recover to a coverage ratio of approximately 120% over a 15-year period either by additional contributions or a decrease in indexation (long-term recovery plan).
KPN OPF	KPN's OPF covers Senior Management with a personal labor agreement in the Netherlands. The benefits provided are based on the employee's years of service and compensation level and consist of a defined benefit average pay plan for the salary up to EUR 45,378 per annum and a defined contribution plan for the salary exceeding EUR 45,378 per annum. Furthermore, employees can opt to participate in an individual pension saving scheme. The retirement age is 65 years.	This plan is funded externally with 'Stichting Ondernemingspensioenfonds'. Premiums are paid to this fund based on the expected accrual of pension benefits for the year. The employee contribution is fixed. For the individual pension saving scheme, all contributions are made entirely by the employees.	
Getronics NL SVG	Plan participants accrue retirement benefits by means of an individual savings account. The retirement age is 65.	The individual savings accounts are externally funded in 'Stichting Voorzieningsfonds Getronics' (SVG). The annual accrual of the individual savings account is based on a defined contribution scheme. For this scheme, contributions are made both by Getronics and by the employees. The SVG pension plan qualifies as a defined benefit plan under IAS 19 as the plan has a conditional return on investment guarantee.	
KPN early retirement	This comprises a number of transitional early retirement plans (VUT, Vroegpensioen) for retirement before the age of 65. These plans are closed.	These plans are unfunded. The benefits are paid by KPN when due.	Not applicable.
Getronics UK	Getronics UK sponsors a defined benefit arrangement, mostly for inactive members and a number of defined contribution arrangements. The defined benefit plan is closed for new entrants.	The defined benefit plan is funded externally in a trust.	In line with the requirements of the UK pension regulator, any deficit in the defined benefit plan must be recovered by means of annual fundings. As at December 31, 2009 the defined benefit plan was in deficit and additional employer contributions have been agreed upon for a recovery period.
Getronics US	Getronics US was sold in 2008 but is was agreed not to sell the remaining closed (frozen) defined benefit plans to the new owner.	These plans are closed and merged into one plan.	Until the merged plans is fully funded to 100% of liabilities, US funding rules require quarterly contributions to recover to a fully funded position over a seven year period based on a roll-over system. As at December 31, 2009 the merged defined benefit plan was in deficit and additional employer contributions have been concluded for the aforementioned mentioned recovery period.

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

Amounts in millions of EUR	2009	2008
Defined benefit obligation – balance as of January 1	**5,851**	**6,697**
Service costs	91	141
Interest costs	301	343
Benefits paid	-225	-231
Employees' contribution	26	26
Other employers' contributions	-	-
Past-service costs	-	20
Transferred to held for sale	-	-
Actuarial (gains)/losses	489	-892
Business combinations	-5	17
Exchange rate differences	9	-50
Curtailment/settlement/transfer	-3	-220
Defined benefit obligation – balance as of December 31	**6,534**	**5,851**
– of which: funded plans	*6,306*	*5,556*
– of which: unfunded plans	*228*	*295*
Fair value of plan assets – balance as of January 1	**5,234**	**6,205**
Actual return on plan assets	759	-933
Employer's contribution	275	201
Employees' contribution	26	25
Curtailment/settlement/transfer	-	-6
Transferred to held for sale	-	-4
Benefits paid	-225	-231
Business combinations	-	12
Exchange rate differences	7	-35
Fair value of plan assets – balance as of December 31	**6,076**	**5,234**
Benefit obligation in excess of plan assets	**458**	**617**
Unrecognized past service cost	-4	-5
Unrecognized gains/(losses)	53	43
Pension provisions (net)	**507**	**655**
– of which: funded plans	*325*	*416*
– of which: unfunded plans	*182*	*239*
– of which: classified as non-current liabilities [22]	*626*	*756*
– of which: classified as non-current assets [13]	*119*	*101*

Break down of non-current liabilities

Amounts in millions of EUR	2009	2008
KPN Main plan PF	305	400
KPN early retirement	154	214
Getronics NL SVG	29	19
Getronics UK	53	56
Getronics US	29	18
Other	56	49
Total	**626**	**756**

Break down of non-current assets

Amounts in millions of EUR	2009	2008
KPN OPF	87	73
Other	32	28
Total	**119**	**101**

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

The total pension costs recognized for the years 2009 and 2008 were as follows:

Amounts in millions of EUR	2009	2008
Service costs	-91	-141
Interest costs	-301	-343
Expected return on assets	298	374
Other costs	-5	-2
Recognized actuarial losses/gains	-28	-8
Past service costs	-1	194
Curtailments/settlements	3	14
Total defined benefit plans	**-125**	**88**
Defined contribution plans	**-19**	**-20**
Total pension costs	**-144**	**68**

In 2008, past-service costs relate to an agreement reached with trade unions in the Netherlands with respect to the change in pension indexation now based on price inflation instead of salary increases. The change in indexation resulted in 2008 in a release of pension obligations of EUR 197 million and a release of Social Plan 2001 obligations of EUR 2 million which were recognized as a gain (negative past service cost) in the Consolidated Statement of Income.

The weighted average of the actuarial assumptions used in the calculation of the defined benefit obligations and the pension costs for the subsequent year are as follows:

	Dec. 31, 2009		Dec. 31, 2008	
As a %	Main plan PF	Other	Main plan PF	Other
Discount rate	5.1	5.0	5.2	5.2
Expected salary increases	2.0	1.8	2.0	2.3
Expected return on assets	5.5	5.6	5.6	5.9
Expected benefit increases	1.8	1.6	1.4	1.4

The discount rate is based on yield curves of AA zero-coupon corporate bonds, with maturities equal to the duration of the benefit obligations and in the applicable currency. For the obligations in EUR, the yield curve is based on more than 400 corporate bonds in different industries.

The expected return on assets is determined per asset category (i.e., equities, fixed-interest securities, real estate, market neutral hedges and commodities). The expected return on fixed-interest is derived from the actual interest rate on balance sheet date for similar interest bearing securities. The return on equities is based on the return on fixed interest plus a risk premium which was 4.0% in 2009 and 4.5% in 2008. The return on the other asset categories is derived from historic returns. The mortality assumptions in the Netherlands are based on the GBM/GBV (2005 – 2050) post-retirement prospective mortality table. Recent developments in Dutch mortality tables in 2010 are not included in the figures and the impact is not yet assessed. For the other countries the most recent generally accepted mortality tables are applicable.

Sensitivity analysis

In 2010, the expected net pension costs for KPN as a whole will amount to approximately EUR 137 million for defined benefit and defined contribution plans.

The table below shows the approximate 2010 net periodic pension costs if mentioned key assumptions would have been different.

	Increase		Decrease	
Amounts in millions of EUR	by 1%	by 2%	by 1%	by 2%
Discount rate	85	33	229	322
Expected salary increases	138	140	131	126
Expected return on assets	132	128	168	200
Expected price inflation	154	171	120	103

The table below shows the approximate impact on the defined benefit obligation as at December 31, 2009, if mentioned key assumptions would change by one percentage point:

	Increase		Decrease	
Amounts in millions of EUR	by 1%	by 2%	by 1%	by 2%
Discount rate	-903	-1,805	1,123	2,245
Expected salary increases	30	60	-30	-60
Expected price inflation	899	1,798	-714	-1,427

If more than one of the assumptions would change, the impact of each change would not necessarily be the same as if only one assumption changed in isolation.

Plan assets: investment policies/strategies

The pension funds actively manage their investment portfolio. In most cases, the investment strategy is determined based on an asset-liability study in consultation with investment advisers and within the boundaries given by regulatory bodies for pension funds (in the Netherlands the regulatory body is 'De Nederlandsche Bank'). The pension funds mainly invest in the global equity and debt markets. The investments of the KPN Dutch funds are reviewed daily by investment managers and on a monthly basis by the board of the pension funds. When necessary the board decides on a change in the investment policy in consultation with investment advisers. As the pension fund invests in market indices like MSCI, a minor part of these investments is related to KPN equities.

The weighted average investment portfolio for KPN's main plan PF is as follows:

	Strategy as from 2009	As per December 2009	As per December 2008
Equities	41%	41%	37%
Fixed income	40%	45%	45%
Real estate	13%	10%	13%
Other	6%	4%	5%
Total	**100%**	**100%**	**100%**

KPN's weighted average investment portfolio in other plans and countries at December 31, 2009, and 2008 is as follows:

	As per December 2009	As per December 2008
Equities	36%	30%
Fixed income	47%	33%
Real estate	5%	6%
Other	12%	31%
Total	**100%**	**100%**

Expected contributions and benefits

In 2009, the total employer contributions and all benefit payments for unfunded plans amounted to EUR 294 million, consisting of EUR 111 million for defined benefit premiums, EUR 88 milion for additional payments relating to the minimum required coverage ratio, EUR 19 million defined contribution premiums and EUR 76 million benefit payments for unfunded plans. For 2010, the defined benefit premiums are expected to decrease by approximately EUR 70 million, mainly due to an increase in the coverage ratio of the funded pension plans.

Experience adjustments

Actuarial gains and losses are defined in IAS 19 as experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. They include changes in the fair value of plan assets other than the expected returns. Actuarial gains and losses can be large and volatile. A five-year record shows the defined benefit obligation, the fair value of plan assets and the resulting surplus or deficit, and the 'experience adjustments' in each year on the assets and liabilities.

Amounts in millions of EUR	**2009**	2008	2007	2006	2005
DBO	6,534	5,851	6,697	5,461	5,737
Plan assets	6,076	5,234	6,205	4,783	4,461
Deficit	-458	-617	-492	-678	-1,276
Experience adjustments arising on liabilities	-75	210	-32	-1	[1]
Experience adjustments arising on plan assets	466	-1,306	-230	32	[1]

1) IAS 19 requires a five-year history to be disclosed, however reliable information with respect to the year 2005 is not available and is therefore not required to be disclosed.

Provision for Social Plan 2001

Amounts in millions of EUR	2009	2008
Balance as of January 1	**136**	**189**
Withdrawals	-49	-57
Interest	4	6
Release	-	-2
Balance as of December 31	**91**	**136**

This provision relates to the costs for KPN employees who voluntarily left under the Social Plan agreed upon with the trade unions and Works Council in 2001. This Plan provides for the reduction of KPN's workforce in the Netherlands by at most 5,280 employees. Approximately 2,300 employees of age 55 and older were offered an early retirement scheme under conditions similar to the KPN early retirement plans. The amount and timing of the cash outflows are certain except for mortality rates. The aforementioned change in pension indexation resulted in 2008 in a release of obligations (negative past service cost) for the Social Plan of EUR 2 million which was recognized as a gain in the Consolidated Statement of Income (see Note 3).

[23] Provisions for other liabilities and charges

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
Restructuring provision	194	238
Asset retirement obligations	304	223
Other provisions	127	152
Balance	**625**	**613**
– of which: non-current	*414*	*427*
– of which: current	*211*	*186*

Restructuring provision

The restructuring provision consists of the following components:

Amounts in millions of EUR	2009	2008
Personnel (redundancy obligations)	169	218
Contractual obligations	25	20
Restructuring provision	194	238

Of the restructuring provision, approximately EUR 167 million had a term of less than one year, EUR 24 million a term of between one and five years and EUR 3 million a term of more than five years.

The movements in the restructuring provision are as as follows:

Amounts in millions of EUR	Personnel	Contractual obligations	Total
Balance as of January 1, 2008	**61**	**22**	**83**
– of which: current portion	*33*	*5*	*38*
Additions	273	9	282
Usage	-119	-2	-121
Other movements	3	-9	-6
Balance as of December 31, 2008	**218**	**20**	**238**
– of which: current portion	*120*	*11*	*131*
Additions	48	8	56
Usage	-93	-5	-98
Other movements	-4	2	-2
Balance as of December 31, 2009	**169**	**25**	**194**
– of which: current portion	*156*	*11*	*167*

Personnel (redundancy obligations)

During 2009 and 2008, KPN continued to substantially reduce its staff. In 2009 KPN announced restructurings at Getronics and Debitel for which a restructuring provision has been set up. Restructuring charges for these and other restructuring plans and other restructuring plans implemented in 2009 amounted to EUR 56 million of which EUR 44 million relates to Getronics.

In 2008, as part of the 'Back to Growth' strategy, KPN announced plans to increase the total FTE reductions to 10,000 by 2010. For this FTE reduction a restructuring provision of EUR 207 million was recognized in segment 'Other' in 2008. Restructuring charges for existing restructuring plans and other restructuring plans implemented in 2008 amounted to EUR 75 million of which EUR 19 million relates to 'Other'.

The redundancy obligation of the restructuring provision is calculated based on the Social Plan agreed upon with the trade unions and Works Council.

Asset retirement obligations

Amounts in millions of EUR	2009	2008
Balance as of January 1	**223**	**249**
Changes in assumptions	74	-39
Additions	1	1
New consolidations	-	2
Interest	10	12
Usage	-7	-2
Release	-2	-
Transferred to held for sale	-2	-2
Other movements	7	2
Balance as of December 31	**304**	**223**
– of which: current	*5*	*9*

The asset retirement obligations at December 31, 2009, amounted to EUR 304 million (2008: EUR 223 million), of which EUR 28 million (2008: EUR 46 million) has a term of less than five years. The main assumptions of calculation for the asset retirement obligations relate to the estimated costs of removal, discount rate and estimated period of removal which vary per type of asset. The changes in assumptions for 2009 and 2008 mainly relate to a change in discount rate. The discount rate for 2009 is 3.6% (2008: 8.2%).

As defined in the changed Telecommunications Act the obligation for landlords to tolerate cables which are part of a public electronic communications network terminates as soon as those cables have been idle for a continuous period of 10 years. In that situation, a public electronic communications network supplier is required to remove cables on request of a landlord. As many factors are currently unpredictable and uncertain, KPN is not able to make a reliable estimate of the impact and no provision was recognized at December 31, 2009.

Other provisions

The movements in other provisions are as follows:

Amounts in millions of EUR	2009	2008
Balance as of January 1	**152**	**131**
Additions/release through p&l	2	28
Interest	5	1
New consolidations	-	36
Usage	-29	-42
Transferred to held for sale	-3	-2
Balance as of December 31	**127**	**152**
– of which: current	*39*	*45*

Other provisions relates to various risks and commitments, claims and litigations and onerous contracts. Of the other provisions, approximately EUR 39 million had a term of less than one year, EUR 22 million a term of between one and five years and EUR 65 million a term of more than five years.

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

Deferred income concerns amounts received in advance for revenues that will be recognized in the future. As of December 31, 2009, an amount of EUR 130 million (2008: EUR 159 million) is recorded as deferred income in Other payables and deferred income (non-current). The short-term portion, an amount of EUR 77 million (2008: EUR 97 million), is included in Trade and other payables (current). Other payables and deferred income as of December 31, 2009, include an amount of EUR 129 million (2008: EUR 85 million) relating to deferred purchase considerations. In addition, an amount of EUR 26 million (2008: EUR 40 million) is recorded as non-current payable and EUR 14 million is recorded as current with respect to the GSM 900 license for the period from April 1, 2010, up to February 25, 2013, which needs to be paid in three installments during the period from 2010 up to 2012.

[25] Trade and other payables (current)

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
Trade payables	1,104	1,424
Deferred income	833	965
Accrued interest	396	300
Social security and other taxes payable	304	167
Other payables and accrued expenses	1,353	1,424
Balance as of	**3,990**	**4,280**

[26] Derivative financial instruments

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

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
Assets	**8**	**133**
Non-current	8	133
Current	-	-
Liabilities	**-562**	**-194**
Non-current	-511	-192
Current	-51	-2
Total derivative financial instruments	**-554**	**-61**
– of which: interest-bearing liabilities	*-452*	*-60*
– of which: forward exchange contracts	*-*	*-1*
– of which: call/put arrangements Reggefiber Group B.V. (net)	*-102*	*-*

The ineffective portion of the cash flow hedges during 2009 recognized in the Consolidated Statement of Income was a loss of EUR 1 million (2008: EUR 2 million).

In 2009, the call/put arrangements regarding Reggefiber Group B.V. are included in Derivative financial instruments for a net liability of EUR 102 million, refer to Note 12 for more information.

Bonds denominated in foreign currency

All bonds denominated in foreign currencies are hedged with cross-currency interest rate swaps. The swaps are used to mitigate the exposure on currency risk and/or interest risk. For all these hedge relations, KPN meets the criteria of, and also applies, hedge accounting, except for USD 150 million maturing October 1, 2010.

KPN determines the effectiveness of the hedges using the dollar offset method.

An overview of the cross-currency interest rate swaps at December 31 is presented on the next page (in millions unless stated otherwise):

Nominal	Currency	Maturity date	Pay	Receive	Hedge accounting	Fair value in Euro[1]
2009						
150	USD	October 1, 2010	Fixed	Fixed	-	-7
1,000	USD	October 1, 2010	Fixed	Fixed	Cash Flow	-44
275	GBP	March 18, 2016	Fixed	Fixed	Cash Flow	-53
250	GBP	May 29, 2019	Fixed	Fixed	Cash Flow	-87
850	GBP	September 17, 2029	Fixed	Fixed	Cash Flow	-85
1,000	USD	October 1, 2030	Floating	Fixed	Fair Value	-176
					Total	**-452**
2008						
1,750	USD	October 1, 2010	Fixed	Fixed	Cash Flow	-2
275	GBP	March 18, 2016	Fixed	Fixed	Cash Flow	-102
250	GBP	May 29, 2019	Fixed	Fixed	Cash Flow	-88
1,000	USD	October 1, 2030	Floating	Fixed	Fair Value	133
					Total	**-59**

1) Negative amounts are liabilities.

For a USD 1,162 million bond, maturing in October 2010 with semi-annual interest payments, KPN hedged the currency exposure by fixing the counter value of USD 1,150 million to EUR 852 million. KPN also hedged the interest rate exposure by swapping the interest rates from US dollar fixed to euro fixed on an annual basis (approximately 7.29% per annum).

For the GBP 275 million bond, maturing in March 2016 with annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in GBP to EUR 362 million. KPN also hedged the interest rate exposure by swapping the interest rates from GBP fixed to euro fixed on annual basis (approximately 4.89% per annum).

For the GBP 250 million bond, maturing in May 2019 with annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in GBP to EUR 367 million. KPN also hedged the interest rate exposure by swapping the interest rate from GBP fixed to euro fixed on annual basis 5.12% per annum.

For the GBP 850 million bond, maturing in September 2029 with annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in GBP to EUR 971 million. KPN also hedged the interest rate exposure by swapping the interest rate from GBP fixed to euro fixed on annual basis (approximately 5.98% per annum).

For the USD 1,000 million bond, maturing in October 2030 with semi-annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in USD to EUR 891 million. Also KPN hedged the interest rate exposure by swapping the interest rates from US dollar fixed to euro floating (six-month Euribor plus 2.72% margin).

Interest rate swaps

An overview of the interest rate swaps at December 31 is presented below (in millions unless stated otherwise):

Nominal	Currency	Maturity date	Pay	Receive	Hedge	Fair value in Euro[1]
2009						
-	-	-	-	-	-	-
					Total	
2008						
700	EUR	July 21, 2009	Fixed	Floating	Cash Flow	-1
					Total	**-1**

1) Negative amounts are liabilities.

The EUR 700 million interest rate swap was for hedging the interest on the EUR 700 million bond, matured in July 2009, from floating (3-month Euribor plus 0.40% margin) to fixed (4.02% per annum) on an annual basis.

The weighted average interest yield on borrowings outstanding at December 31, 2009, after swaps was approximately 5.4% (2008: 5.4%).

Foreign exchange contracts

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.

Amounts in millions of EUR	Contract volume 2009	Fair value 2009	Contract volume 2008	Fair value 2008
Term shorter than 1 year	49	-	12	-1
Term longer than 1 year	-	-	-	-
Total	**49**	**-**	**12**	**-1**

For further details on derivative financial instruments, reference is made to Note 29 'Capital and Financial Risk Management – Exposure to Foreign Currency Risk'.

Notes to the Consolidated Statement of Cash Flows

[27] Net Cash flow used in investing activities

In 2009, the amount of acquisitions of subsidiaries, associates and joint ventures in the Consolidated Statement of Cash Flows include EUR 74 million cash contribution to Reggefiber, refer to Note 12. Furthermore this includes the acquisition of the minority interest regarding iBasis for EUR 65 million.

In 2008, the amount of acquisitions of subsidiaries, associates and joint ventures in the Consolidated Statement of Cash Flows mainly relate to the acquisition of SMS Michel, Ortel Mobile, blau Mobilfunk and debitel and the cash contribution to Reggefiber.

For more details about the acquisitions, see Note 30 'Business Combinations and other changes in consolidation'.

In 2009, disposals of subsidiaries, associates and joint-ventures mainly relate to the proceeds from the sale of the Getronics units Business Solutions (EUR 41 million) and Document Services (EUR 1 million). These proceeds are compensated by selling expenses related to former disposals.

In 2008, disposals of subsidiaries, associates and joint-ventures include the proceeds from the sale of the Getronics operations in North America (EUR 99 million) and Business Application Services (EUR 230 million).

KPN is selling part of its real estate portfolio which becomes redundant after migration to the new All-IP infrastructure. The disposals of property, plant and equipment and software mainly relate to these types of disposals in 2009 and 2008.

[28] Net Cash flow used in financing activities

On February 4, 2009, KPN issued a dual tranche Eurobond consisting of two bonds for respectively an amount of EUR 750 million, with a five-year maturity and a coupon of 6.25% and for an amount of EUR 750 million, with a ten-year maturity and a coupon of 7.50%. Following the execution of these Eurobond transactions, KPN terminated its EUR 0.4 billion backstop credit facility which was signed in October 2008.

On September 17, 2009, KPN issued a GBP 850 million Sterling bond with a twenty-year maturity and a Sterling coupon of 5.75%. The Sterling bond has been swapped into EUR 971 million with a Euro-equivalent coupon of 5.98%.

On September 30, 2009, KPN issued an EUR 700 million Eurobond with a fifteen-year maturity and a coupon of 5.625%.

On June 29, 2009, KPN repurchased USD 588 million, with settlement date July 2, 2009, of the USD 1,750 million 8% Notes due 2010. In accordance with the regular redemption schedule, KPN redeemed in 2009 EUR 700 million of the Eurobond 2004 – 2009 (matured on 21 July 2009).

On April 2, 2008, KPN issued an EUR 850 million Eurobond with a long seven-year maturity and a coupon of 6.50% and in June 2008 a tap of EUR 75 million was issued.

On September 16, 2008, KPN issued an EUR 850 million Eurobond with a five-year maturity and a coupon of 6.25%. Following the execution of this bond transaction KPN terminated the EUR 1 billion bilateral backstop credit agreement which was signed in July 2008.

In accordance with the regular redemption schedule, KPN redeemed in 2008 GBP 175 million of the Eurobond 2001 – 2008 (matured on April 11, 2008) and EUR 768 million of the Eurobond 1998 – 2008 (matured on November 5, 2008).

Other notes to the Consolidated Financial Statements

[29] Capital and Financial Risk Management

Capital management

Financing policy

KPN seeks to ensure that net debt to operating result plus depreciation, amortization and impairments remains within the range of 2.0 to 2.5 times. Furthermore, KPN intends to maintain a minimum credit rating of Baa2 (Moody's) and BBB (S&P). This financial policy allows KPN to continue with its policy of accommodating an attractive dividend policy, while maintaining flexibility to grow and invest in its business.

This policy may change and is based on a number of assumptions concerning future events and is subject to uncertainties and risks that are outside our control.

Amounts in billions of EUR	2009	2008
Total borrowings (including derivatives, see breakdown below)	13.82	12.10
Cash and cash equivalents	2.69	1.20
Net Debt	**11.13**	**10.90**
EBITDA	5.19	5.06
Net Debt / EBITDA	**2.1x**	**2.2x**

Breakdown of total borrowings	2009	2008
Bonds	13.16	11.44
Financial lease obligations	0.16	0.14
Bankoverdraft	0.04	0.43
Derivatives (excluding call/put arrangements Reggefiber)	0.45	0.06
Other	0.01	0.03
Total borrowings	**13.82**	**12.10**

KPN defines EBITDA as operating result before depreciation and impairments of PP&E and amortization and impairments of intangible assets. Note that KPN's definition of EBITDA deviates from the literal definition of earnings before interest, taxes, depreciation and amortization and should not be considered in isolation or as a substitute for analyses of the results as reported under IFRS. In the net debt/EBITDA ratio, KPN defines EBITDA as a 12 month rolling average excluding book gains, release of pension provisions and restructuring costs, when over EUR 20 million.

Dividend policy

In 2008 KPN announced an updated mid-term dividend policy, increasing the percentage of annual free cash flow paid out as dividend. The percentage paid out as dividend is 40 – 50% in the medium term, based on an adjusted definition for free cash flow. Free cash flow is defined as net cash flow provided by operating activities plus real estate proceeds minus capital expenditure and excluding tax recapture regarding E-Plus.

This policy may change and is based on a number of assumptions concerning future events and is subject to uncertainties and risks that are outside KPN's control.

Share repurchase program

KPN has no intention to hold unutilised surplus cash balances. KPN intends to return surplus cash to shareholders either through additional special dividends or share repurchases.

Financial risk management

KPN is exposed to a variety of financial risks. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on KPN's financial performance. KPN uses derivative financial instruments to hedge certain risk exposures.

The financial risks are managed by KPN's Treasury department under policies approved by the Board of Management. Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group companies and business operations. The Board provides written policies covering specific areas such as:

- Credit risk;
- Liquidity risk; and
- Market risk (currency risk and interest rate risk).

In addition, KPN's Treasury department provides cash management and funding services to the Group companies and business operations.

This note presents information about the Group's exposure to each of the above-mentioned risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these Consolidated Financial Statements.

The Group's risk management policies with respect to the financial risks mentioned above are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor and adherence to limits.

The table below summarizes the Group's financial assets and liabilities:

	December 31, 2009		December 31, 2008	
Amounts in millions of EUR	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Fair value through profit and loss:				
Derivatives – non-current [26]	8	8	133	133
Loans and receivables:				
Non-current receivables from financial leases [13]	2	2	9	9
Loans to associates and joint ventures [12]	21	21	-	-
Trade receivable [15]	1,197	1,197	1,468	1,468
Income tax receivables [7] and social security and other taxes [15]	20	20	134	134
Other receivables [15]	78	78	127	127
Cash and cash equivalents [17]	2,690	2,690	1,199	1,199
Subtotal	4,008	4,008	2,937	2,937
Available for sale financial assets [16]	53	53	54	54
Total	**4,069**	**4,069**	**3,124**	**3,124**
Financial liabilities				
Fair value through profit and loss:				
Derivatives – non-current [26]	511	511	192	192
Derivatives – current [26]	51	51	2	2
Subtotal	562	562	194	194
Financial liabilities measured at amortized costs:				
Borrowings [21]	13,371	14,380	12,041	11,534
Non-current payable [24]	26	26	40	40
Trade payables [25]	1,104	1,104	1,424	1,424
Income tax payables [7] and social security and other taxes [25]	404	404	295	295
Other payables and accrued expenses and interest [25]	1,749	1,749	1,724	1,724
Subtotal	16,654	17,663	15,524	15,017
Total	**17,216**	**18,225**	**15,718**	**15,211**

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

The following table presents the group's assets and liabilities that are measured at fair value at December 31, 2009.

Amounts in million of EUR	Level 1	Level 2	Level 3	Total Balance
Assets				
Financial assets at Fair value through profit and loss:				
Derivatives (cross currency interest rate swap)	-	-	-	-
Other derivatives [12]	-	-	8	8
Available-for-sale financial assets:				
Listed securities	24	-	-	24
Unlisted securities	-	-	29	29
Total assets	**24**	**-**	**37**	**61**
Liabilities				
Financial liabilities at Fair value through profit and loss:				
Derivatives (cross currency interest rate swap)	-	452	-	452
Other derivatives [12]	-	-	110	110
Total liabilities	**-**	**452**	**110**	**562**

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

The fair value of financial instruments traded in active markets is based on quoted market prices. If applicable these instruments are included in level 1.

If the fair value of financial instruments are not traded in an active market and determined by using valuation techniques and maximize the use of observable market data for all significant inputs, the instrument is included in level 2. For the derivatives used for hedging, KPN uses the estimated fair value of financial instruments determined by using available market information and appropriate valuation methods. The estimated fair value approximates the value at which the instruments could be exchanged in an arms length transaction between knowledgable, willing parties, other than in a forced liquidation or sale. For derivatives used for hedging, the fair value of derivatives is estimated by using discounted cash flow models taking into account spot rates on the balance sheet date and euro and foreign currency swap curves. Only derivative instruments with financial institutions with a credit rating of A2 with Moody's, or better, at December 31, 2009, were outstanding.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The other derivatives asset and liability relate to the call/put arrangements of Reggefiber Group B.V. The options were valued using a binominal tree approach, for more information refer to Note 12. The valuation of the available for sale unlisted securities is based upon a discounted cashflow model.

The following table presents the net changes in 'other derivatives' in level 3:

Amounts in million of EUR	2009	2008
Balance as of January 1	**-**	**-**
Purchase price allocation Reggefiber [12]	58	-
Losses recognised in profit or loss [12]	44	-
Gains and losses recognized in equity	-	-
Balance as of December 31	**102**	**-**

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

For the other financial assets and liabilities the following methods and assumptions were used to determine the fair value:
- Borrowings: based on the listed price of the bonds; and
- Cash, cash equivalents, accounts receivable and payable: As the maturity of these financial instruments is short, the carrying value approximates the fair value.

Credit risk

KPN's financial assets are subject to credit risk. Credit risk arises from the possibility of asset impairment occurring because counterparties are not able to meet their obligations in transactions involving financial instruments.

Pursuant to the policy of managing credit risk related to financial counterparties, KPN sets limits for the maximum exposure per counterparty and investment periods primarily based on certain minimum credit ratings. Following this policy KPN spreads its cash and cash equivalents balances over several counterparties. Separate limits are set for some strong counterparties without credit ratings and limited credit risk such as the Dutch State. Furthermore KPN only invests in liquid securities and (short-term) deposits.

During 2008, KPN increased the monitoring of the counterparty risk to a daily monitor, against which the credit rating, Credit Default Swap (CDS) levels and share price movements of the counterparties were monitored closely in relation to the fair value of the derivatives. In 2009, KPN has maintained this increased monitoring. At the end of 2009 cash and cash equivalents were spread over several counterparties with a minimum credit rating of A1.

Credit risk on trade receivables is controlled based on restrictive policies for client acceptance. Credit management is focused on mobile services as the credit risk is considered to be the highest within this part of KPN's business. Before accepting certain new clients in this segment KPN requests credit watchers to provide credit management reports. In addition, KPN keeps track of the payment performance of customers. In cases where customers fails to meet set criteria, payment issues have to be solved before a new transaction with this customer will be entered into.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large and unrelated customer base. The Board of Management believes there is no additional credit risk provision required in excess of the allowance for doubtful receivables (see Note 15). Receivables relating to integrated, outsourced and managed ICT solutions are monitored on an individual basis. Reference is made to 'Significant Accounting Policies – trade and other receivables'.

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. As per December 31, 2009, KPN has issued BW 2: Article 403 statements to third parties for its Dutch wholly-owned subsidiaries including Getronics N.V.

Maximum exposure to credit risk

As KPN does not provide financial guarantees other than to wholly-owned subsidiaries, the carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at reporting date amounts to the total of the financial assets including cash (EUR 4,069 million at December 31, 2009, and EUR 3,124 million at December 31, 2008).

Liquidity risk

All KPN's financial liabilities are subject to liquidity risk. Liquidity risk is the risk that the Group will not be able to meet its financial obligations associated with financial instruments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of financing sources at reasonable capital resource covenants.

The Group's approach to managing liquidity is to ensure sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group. In 2009 KPN improved its liquidity position with bonds issued in February and September for a total amount of EUR 3.2 billion versus EUR 1.1 billion bond redemptions. KPN's financing policy could result in temporary cash and cash equivalents positions at the balance sheet for an additional safety margin which gives flexibility in current market circumstances. KPN has a EUR 1.5 billion syndicated Credit Facility, valid until 2013 with more then 10 banks all of which had a rating of A2 with Moody's or higher as at December 31, 2009.

The table below provides a maturity analysis of the financial liabilities based on the remaining contractual maturities as of December 31, 2009.

	Borrowings				Derivatives[1]				
Amounts in millions of EUR	Bonds and Loans	Interest on Bonds and Loans	Financial lease obligations	Other Debt	Derivatives inflow (including interest)	Derivatives outflow (including interest)	Non-current payable	Trade, income tax and other payables and accrued expenses	Total
2010	807	751	23	41	-1,010	1,043	-	2,861	4,516
2011	1,425	687	24	12	-148	129	13	-	2,142
2012	1,250	623	20	-	-148	128	14	-	1,887
2013	1,700	560	12	-	-148	128	-	-	2,252
2014	1,400	469	5	-	-148	128	-	-	1,854
2015 and subsequent years	6,617	2,853	75	-	-4,118	4,132	-	-	9,559
Contractual cashflows	**13,199**	**5,943**	**159**	**53**	**-5,720**	**5,688**	**27**	**2,861**	**22,210**

1) The Reggefiber call/put arrangements are not included as these arrangements do not contain contractual maturities.

The present value of the financial lease obligations amount to EUR 159 million at December 31, 2009 (2008: EUR 141 million). The financial lease obligations primarily include lease obligations for buildings which are sold and leased back by KPN (see also Note 11). In some of these lease arrangements for buildings, an option is included to extend the lease term.

The table below provides a maturity analysis of the financial liabilities based on the remaining contractual maturities as of December 31, 2008.

	Borrowings				Derivatives				
Amounts in millions of EUR	Bonds and Loans	Interest on Bonds and Loans	Financial lease obligations	Other Debt	Derivatives inflow (including interest)	Derivatives outflow (including interest)	Non-current payable	Trade, income tax and other payables and accrued expenses	Total
2009	700	596	17	449	-213	234	-	3,144	4,927
2010	1,257	590	22	1	-1,451	1,505	13	-	1,937
2011	1,425	489	18	-	-93	111	13	-	1,963
2012	1,250	425	8	5	-93	111	14	-	1,720
2013	1,700	362	6	5	-93	111	-	-	2,091
2014 and subsequent years	4,845	1,649	70		-2,437	3,064	-	-	7,191
Contractual cashflows	**11,177**	**4,111**	**141**	**460**	**-4,380**	**5,136**	**40**	**3,144**	**19,829**

With regard to other purchase commitments, capital commitments reference is made to 'Commitments, contingencies and legal commitments'.

Available financing sources in 2009

Due to German capital maintenance rules, KPN is required to keep certain funds available at E-Plus. As of December 31, 2009, KPN's cash and cash equivalents position amounted to EUR 2,690 million (including EUR 38 million in non-netted notional cash pools).

In addition to the available cash and cash equivalents, cash flows from operations and cash flows from any further sales of non-core assets, KPN has the following financing resources available:

EUR 1.5 billion multi-currency revolving credit facility

KPN has a EUR 1.5 billion multi-currency credit facility maturing in August, 2013. The credit facility can be used for general corporate purposes, working capital and refinancing indebtedness. The interest rate margin amounts to 0.175% over Euribor till August 2011 and 0.20% thereafter. In the event the total drawings exceed 50% of the total commitment under the credit facility, KPN must pay an additional utilization fee of 0.025%. KPN also must pay a commitment fee over undrawn amounts, which is equal to 30% of the interest rate margin applicable at the time.

As of December 31, 2009, and 2008, there were no amounts drawn under this facility.

Overdraft facilities

During 2009, KPN had four uncommitted overdraft facilities with four banks, worth EUR 50 million each. The overdraft facilities may be cancelled at any time and do not have a specified maturity date. In 2009 KPN drew on these facilities from time to time. As of December 31, 2009, and 2008, there were no amounts drawn under any of the overdraft facilities.

Backstop facilities

KPN had a 2-year EUR 0.4 billion backstop facility with a starting date of January 2, 2009. This facility was terminated following the successful issue in February 2009 of a dual tranche Eurobond consisting of two bonds for respectively an amount of EUR 750 million, with a five-year maturity and a coupon of 6.25% and for an amount of EUR 750 million, with a ten-year maturity and a coupon of 7.50%.

Global Medium Term Note Program

In April 2009 KPN updated its GMTN program. The program contains no commitment from investors to provide funding to KPN. Funding will be available subject to market conditions and other factors at the relevant time.

Capital Resources Covenants

KPN's existing capital resources contain the following covenants as at December 31, 2009, which could trigger additional financial obligations or early redemption of the outstanding indebtedness.

All of KPN's bonds issued after January 1, 2006, adding up to EUR 9.4 billion at December 31, 2009, contain a change of control clause by means of which KPN may be required to redeem such outstanding bonds early, in the event that (i) certain changes of control occur and (ii) within the change of control period a rating downgrade to sub investment grade occurs in respect of that change of control. The change of control period ends 90 days after the change of control event occurs.

In addition, many of KPN's capital resources contain a covenant prohibiting KPN from entering into any amalgamation, demerger, merger, corporate restructuring or reorganization, unless prior written consent has been given by a majority of the lenders or bondholders or the resulting company assumes all of the rights and obligations with respect to the loans or bonds.

Market risk

KPN is exposed to various kinds of market risks in the ordinary course of business. These risks include:
- Foreign currency exchange rate risks;
- Interest rate risks; and
- Other market price risk.

KPN has established policies that deal with the use of derivative financial instruments in order to reduce foreign currency exposure and to manage the interest rate profile. KPN's centralized Treasury department matches and manages intercompany and external foreign currency reported by the various business operations and Group companies. Hedges are applied on a full coverage basis, when economically feasible.

In line with these policies, derivative financial instruments are used solely for the purpose of hedging underlying exposures to foreign currency exchange rate risk and interest rate risk. KPN does not enter into derivative financial instruments for speculative purposes. Contracts related to derivative financial instruments are entered into for periods consistent with the underlying exposures (when economically feasible) and do not constitute positions independent of these exposures. None of these financial instruments are leveraged, used for trading purposes or taken as speculative positions.

KPN's policy is to apply hedge accounting for derivative financial instruments related to interest-bearing debt and foreign exchange risk for bonds that are not denominated in euro. Management has set up a policy to apply hedge accounting only when certain criteria are met regarding formal designation and documentation of the hedging relationship, the risk management objective, the strategy for undertaking the hedge and the effectiveness of the hedge. As a consequence, KPN tests effectiveness of the hedge relationship at inception and every quarter. Reference is made to Note 26.

Foreign currency exchange rate risks
Currency risk is the risk that the fair value or future cash flows will fluctuate because of changes in foreign exchange rates. Although KPN acquired iBasis and Getronics during 2007, the risks associated with foreign currency transactions positions arising from operating activities are limited for KPN since operating income and operating expenses are largely denominated within the eurozone. The risk mainly results from settlement of international telecommunications traffic, purchase of goods and equipment and primarily exists of pound sterling and US dollar exposure (iBasis and Getronics). Foreign currency exchange rate risks related to bonds that are not denominated in euro are hedged into euro in line with KPN's hedging policies.

As a result of currency fluctuations, the value of subsidiaries operating outside the eurozone markets could fluctuate and affect KPN's balance sheet and equity positions from year to year.

Group companies and business operations are obliged to hedge their firm commitments and highly predictable anticipated transactions in foreign currencies with a counter value above EUR 100,000 by forward contracts transacted with KPN's Treasury department. Accordingly, Treasury matches and manages the intercompany and external exposures using forward exchange contracts. KPN does not apply hedge accounting for these hedge instruments.

As of December 31, 2009, more than 96% of cash and cash equivalents was denominated in the functional currency of the related entities. At December 31, 2008, more than 98% of the net amount of trade receivables and trade payables was outstanding in the functional currency of the related entities.

Reference is made to Note 6 for the recognized exchange rate differences in the Consolidated Statement of Income.

Interest rate risk and interest rate profile
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. Borrowings, derivatives, cash and cash equivalenst are subject to interest rate risk. As KPN has a mix of financial instruments bearing a floating or a fixed interest rate, KPN is subject to risk from movements in interest rates. An unfavorable interest rate movement would result in additional interest expenses.

With regard to interest rate risk exposure, KPN evaluates periodically the desired mix of fixed and floating interest rate liabilities. As of December 31, 2009, approximately 93% of KPN's interest-bearing debt was at fixed interest rates. With a view to existing and forecasted debt structure, KPN's Treasury department enters into additional future derivative instruments to adjust the mix of fixed and floating interest rate liabilities. For all these hedges, KPN applies hedge accounting, except for USD 150 million bond maturing October 1, 2010.

Other market price risk
KPN does not enter into commodity contracts other than for its own use to meet the Group's expected usage. KPN has entered into energy contracts for own use with a nominal amount of approximately EUR 162 million at December 31, 2009 (see Note 31 'Commitments, Contingencies and legal proceedings' section purchase commitments').

Sensitivity analysis
As of December 31, 2009, KPN carried out a sensitivity analysis with regard to interest rate risk on interest-bearing assets and liabilities. With all other variables held constant, each adverse change of 100 basis points would hypothetically not result in higher interest costs per annum (2008: none).

As of December 31, 2009, KPN carried out a sensitivity analysis with regard to interest rate risk and currency on the cash flow hedges. With all other variables held constant, an adverse change of 100 basis points would hypothetically result in EUR 29 million higher negative amount of the balance of the hedge reserve included in the equity attributable to equity holders (2008: EUR 93 million). An adverse change of 200 basis points would hypothetically result in EUR 60 million higher negative amount of the balance of the hedge reserve (2008: EUR 193 million). An adverse change of 10% of the EUR/USD rate and the EUR/GBP rate would with all other variables held constant hypothetically result in a EUR 43 million lower negative amount of the balance of the hedge reserve (2008: EUR 47 million). An adverse change of 20% would hypothetically result in a EUR 97 million lower negative amount of the balance of the hedge reserve (2008: EUR 93 million).

For a sensitivity analysis on interest rate risk with regard to pensions, reference is made to Note 22.

[30] Business combinations and other changes in consolidation

Changes in consolidation 2009
In 2009 no material acquisitions took place and in aggregate these acquisitions are not material either. During 2009, KPN finalized the purchase price allocation for Debitel, which was provisional at the end of 2008.

Changes in consolidation 2008

Amounts in millions of EUR	
Total acquisition of subsidiaries net of acquired cash	181
Purchase price reduction not yet received	-8
Considerations paid for business combinations acquired (net of cash)	**173**
Total cash included in acquired companies	24
Deferred considerations [25]	80
Total	**277**
Fair value net assets acquired	71
Goodwill paid for business combinations [10]	**206**

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

The acquisitions in 2008 were SMS Michel Communication GmbH (February 12), Applicationnet BV (February 20), Gemnet CSP BV (January 9) and IPT Medical Services BV (February 29), Ortel Mobile Holding BV (April 22), blau Mobilfunk GmbH (April 22), Station to Station BV (May 1) and the Dutch operations of Debitel (December 30). KPN has performed purchase price allocations for these acquisitions of which Debitel was provisional at the end of 2008.

The assets and liabilities arising from these acquisitions were as follows:

Amounts in millions of EUR	Fair value	Book value
Trade name	41	-
Customer relationships	51	-
Other intangibles	31	6
Property, plant and equipment	9	9
Other non-current assets	15	8
Inventory	13	13
Other current assets	42	44
Cash	24	24
Provisions	-18	-1
Long-term interest bearing debt	-14	-12
Deferred tax liabilities	-34	-1
Current liabilities	-89	-87
Net assets at acquisition date	**71**	**3**

Goodwill paid for Ortel (EUR 58 million) and blau Mobilfunk (EUR 60 million) reflect the strengthening of the distribution network in the cultural segments in the Netherlands and Germany, which these acquisitions are expected to deliver. The goodwill paid for SMS Michel (EUR 23 million) reflects the strengthening of KPN's position in the German mobile telecoms market in the long term through an increase in KPN's retail footprint.

If the acquisitions had occurred on January 1, 2008, KPN estimates consolidated revenues would have been approximately EUR 70 million higher. Profit for the year would have been approximately EUR 10 million lower.

[31] Commitments, contingencies and legal proceedings

Commitments

		Amounts due by period			
Amounts in millions of EUR	**Total Dec. 31, 2009**	Less than 1 year	1 – 5 years	More than 5 years	Total Dec. 31, 2008
Capital commitments	485	433	50	2	508
Rental and operational lease contracts	2,078	448	983	647	1,905
Guarantees	210	35	121	54	180
Purchase commitments	1,099	732	361	6	801
Other	12	2	10	-	11
Total commitments	**3,884**	**1,650**	**1,525**	**709**	**3,405**

As a result of entering into various large new lease contracts in 2009, KPN evaluated the determination of the off-balance sheet obligations. As inconsistencies were noticed, KPN decided to only disclose committed obligations in its off-balance sheet obligations, in line with IFRS. Voluntary prolongations and cancellable periods will no longer be included under rental and operational lease contracts. As a consequence, the comparative figures as at December 31, 2008, for the rental and operational lease contracts were adjusted, resulting into a decrease of EUR 1.1 billion, leading to a revised amount of EUR 3.4 billion as at December 31, 2008.

Rental and operational lease contracts

For buildings, the majority of contracts include options for renewal and rental fees that are subject to a yearly indexation. Some contracts give KPN an option to buy the property when the landlord wants to sell that property.

For site rentals and radio site contracts, the majority of agreements include an option for renewal of the contract and rental fees that are subject to a yearly indexation percentage. In addition, the majority of contracts can be cancelled by KPN only, with a notice period of 12 months.

The minimum non-cancellable sublease amounts expected to be received amount to EUR 225 million, which relate to subleases of buildings and sitesharing arrangements.

The total costs of operating leases and rental contracts totalled EUR 560 million in 2009 (2008: EUR 369 million) and is included in 'cost of work contracted out and other expenses' and 'other operating expenses' in the Consolidated Statement of Income. These operating lease and rental commitments mainly relate to property, plant and equipment.

Guarantees

These commitments mainly consist of financial obligations of Group companies under certain contracts guaranteed by KPN.

Purchase commitments

The increase in purchase commitments relates to new supplier contracts entered into during 2009 such as energy contracts and IT suppliers.

KPN intends to continue to benefit from the telecommunication and technology expertise of The Dutch Organization for Applied Scientific Research Informatie- en Communicatie-technologie (TNO) in order to support the technological innovations required for KPN's business. The total remaining commitments until December 31, 2011, amount to EUR 20.7 million.

Contingencies

Contingent assets

In 2003, KPN Group Belgium (BASE) launched a damages claim against Belgacom Mobile (Proximus), claiming that the latter had abused its dominant position by applying very low onnet-rates. In 2004, Mobistar launched a similar claim. In 2007, the Commercial Court determined Belgacom Mobile's dominant position on the retail market until the end of 2004, and ordered an expertise. In a preliminary report of October 2, 2009, the court experts have concluded that Proximus has indeed abused its dominance and that, for the period 1999 – 2004, this abuse has resulted in damages of EUR 824 million for KPN Group Belgium (BASE) and of EUR 357 million for Mobistar. Parties can now comment on this preliminary report which will need to be finalized by April 30, 2010.

Contingent liabilities

In KPN's Articles of Association and in a further decision by the Board of Management, which was approved by the Supervisory Board, KPN has indemnified the members and former members of KPN's Board of Management and Supervisory management, as well as a number of KPN's officers and directors and former officers and directors against liabilities, claims, judgments, fines and penalties incurred by such officer or director as a result of any threatened, pending or completed action, investigation or proceeding (whether civil, criminal or administrative) brought by a third party in relation to acts or omissions in or related to his capacity as officer or director. The indemnification does not apply to claims and expenses reimbursed by insurers, nor to an officer or a director that is adjudged to be liable for willful misconduct ('opzet') or intentional recklessness ('bewuste roekeloosheid').

As defined in the changed Telecommunications Act the obligation for landlords to tolerate cables which are part of a public electronic communications network terminates as soon as those cables have been idle for a continuous period of 10 years. In that situation, a public electronic communications network supplier is required to remove cables on request of a landlord. As many factors are currently unpredictable and uncertain, KPN is not able to make a reliable estimate of the impact and no provision was recognized at December 31, 2009.

Legal proceedings

KPN is involved in several legal proceedings, most of which are primarily related to regulatory or other ordinary course of business issues. KPN does not expect these proceedings to result in liabilities that have a material effect on KPN's financial position. Where it is probable that the outcome of the legal proceedings will be unfavorable for KPN, and the financial outcome of these proceedings can be reliably estimated, a provision has been accounted for in the Consolidated Financial Statements. In the following paragraphs, the main pending proceedings are described.

SOBI

On July 10, 2001, a writ of summons was served upon KPN by one of KPN's shareholders SOBI ('Stichting Onderzoek Bedrijfsinformatie', or Foundation for the Research of Business Information). SOBI filed a claim with the Enterprise Chamber ('Ondernemingskamer') of the Amsterdam Court of Appeal that seeks the annulment of KPN's annual financial statements for 2000.

On February 10, 2006, the Supreme Court judgment overturned the ruling made by the Enterprise Section of the Amsterdam Court of Appeal. The Supreme Court concluded that the Court of Appeal issued rulings on questions that had not been tabled (such as the classification of the gain related to NTT DoCoMo in the Consolidated Statement of Income) and arguments that KPN had put forward had unjustly been ignored. With regard to the explanatory notes on the valuation of goodwill and licenses and the valuation of financial instruments issued to BellSouth, the Supreme Court ordered the Court of Appeal to reconsider and remotivate their verdict.

KPNQWEST

KPN is involved in several legal proceedings related to the bankruptcy of KPNQwest. On September 13, 2006, KPN was served with a writ of summons by Citibank N.A. and Cargill Financial Markets Plc. claiming EUR 218.9 million, excluding interest and costs, from various former officers and former shareholders, including us, of KPNQwest. Citibank and Cargill claim compensation for damages on a EUR 525 million syndicated loan provided to KPNQwest in 2002 on the basis of misrepresentation and concealment by former management and former shareholders when the loan was provided to KPNQwest. Citibank acted as agent of the syndicate and as a 14.7% principal lender of the syndicated loan. Cargill claims that it acquired 85.3% of the claim by assignments of their part in the syndicated loan by other original lenders. KPN has delivered it statement of defence on November 26, 2008 and Citibank N.A. and Cargill Financial Markets Plc. have delivered their reply on September 16, 2009. A decision by the District Court is not expected before year end 2010.

The VEB ('Vereniging van Effectenbezitters or Dutch Investors' Association') a private organization for retail investors in the Netherlands requested the Enterprise Chamber of the Amsterdam Court of Appeal to conduct an enquiry into the policy-making and the affairs of KPNQwest (in particular the relationship between KPNQwest on the one hand and Qwest and KPN on the other hand) in the period from August 30, 1999, until May 31, 2002. Various parties, including KPN, filed a defense against the request. The Enterprise Chamber granted the request and ordered an enquiry over the period from January 1, 2002, until May 23, 2002. The Enterprise Chamber may authorize the investigators to inspect relevant books, records and other sources of information and to request the production of evidence of any company closely connected with KPNQwest. After completion of the report, the Enterprise Chamber may be asked to issue a judgment as to whether there had been mismanagement ('wanbeleid') and, if so, it can take one or more further measures. The Enterprise Chamber has appointed three Investigators on December 5, 2008.

Telfort/Agentschap Telecom

On April 3, 2008, the Dutch Telecom Agency of the Ministry of Economic Affairs ('Agentschap Telecom') announced the results of its monitoring of the UMTS roll-out obligations. It concluded that KPN met its license requirements, but roll-out of Telforts' license was insufficient. On June 11, 2008, the Agentschap Telecom formally ordered Telfort to complete its UMTS roll-out in compliance with the requirements of its UMTS license. Telfort was ordered to accomplish the roll-out within three months of June 11, 2008, or face penalty payments of EUR 5 million for each quarter during which appropriate levels have not been met (up to two years or an aggregate fine of EUR 40 million). After re-examination the Radio Agency ('Agentschap Telecom', AT) concluded in May 2009 that the license requirements as interpreted by the AT have not been met by Telfort and that the first term of EUR 5 million became due and payable. Telfort appealed to the injunction, but a request for suspension thereof was denied by the Court of Rotterdam. Under the threat of another EUR 35 million to be paid, Telfort returned its UMTS license to the Minister. The appeal procedure however will proceed, since Telfort contest the view of the AT on the way the license conditions were interpreted and measured.

[32] Related-party transactions

In the normal course of business activities, KPN enters into agreements and transactions with shareholders, joint ventures and associated undertakings, for various business purposes, including the furnishing of services or financing of operating activities. KPN also enters into such transactions in the ordinary course of business with certain companies or organizations over which KPN, members of the Supervisory Board or Board of Management, may have a significant influence. The related-party transactions are described below. KPN considers none of these transactions to be material on an individual basis. Transactions within the KPN Group are not included in the description as these are eliminated in the Consolidated Financial Statements.

Transactions with shareholders

On February 5, 2010, BlackRock, Inc. notified the AFM that they held 5.05% in KPN's ordinary share capital. On January 1, 2010, Capital Research and Management Company notified the AFM that they held 10.68% in KPN's ordinary share capital. Capital Group International, Inc. have notified the AFM that they hold less than 5% (June 27, 2007: 4.97%) of the ordinary shares of KPN.

To KPN's knowledge, no other shareholder owned 5% or more of KPN's outstanding shares as at December 31, 2009. KPN did not enter into material agreements with either company. These companies are investment companies, which may have shareholdings in other companies with which KPN has contracts in the ordinary course of business. To the best of KPN's knowledge, such contracts, if any, were not influenced by any of these shareholders.

Transactions with joint ventures and associated companies

Associated, non-consolidated companies and joint ventures of KPN sell goods and provide services to consolidated KPN companies. In addition, consolidated KPN companies sell goods or provide services to these non-consolidated companies and joint-ventures (see Note 12 and 16).

The total value of sales transactions by KPN in 2009 with joint ventures and associated companies amounted to approximately EUR 58 million and the total value of purchase transactions amounted to approximately EUR 60 million.

Transactions with directors and related parties

For details of the relation between directors and the Company, reference is made to the 'Remuneration and Organizational Development Report'.

The Company has not been, and is not now, a party to any material transactions, or proposed transactions, in which members of the Supervisory Board or Board of Management or close members of their families had a direct or indirect material interest in 2009.

The total value of sales transactions by KPN in 2009 with parties in which members of the Supervisory Board or Board of Management or close members of their families had a direct or indirect material interest amounted to approximately EUR 62 million and the total value of purchase transactions amounted to approximately EUR 67 million, all in the ordinary course of business.

[33] Subsequent events

On January 26, 2010, KPN announced its EUR 1 billion share repurchase program for full year 2010. The share repurchase program has already commenced and will run until the end of the year.

[34] Segment reporting

Based on KPN's internal structure and internal reporting to the CEO the reportable segments are summarized below. For a description of the activities of these segments, reference is made to the section 'KPN's operations', starting on page 14.

As of January 2009, KPN adopted a new internal structure and changed the internal reporting accordingly. The following organizational changes were made as from January 2009:

- Integration of parts of Business Segment into Getronics Segment;
- Migration of Mobile Wholesale The Netherlands Segment to Consumer Segment;
- Operations in Belgium reported as one Segment;
- Migration of SNT from Consumer Segment to Other activities Segment; and
- Some other minor migrations.

These changes resulted in a new Segment reporting as from 2009. The comparative figures of 2008 have been adjusted accordingly.

The Netherlands

The Netherlands consists of the following:

- Consumer Segment;
- Business Segment;
- Getronics Segment;
- Wholesale & Operations Segment; and
- The Netherlands' Other Segment.

The basis for inter-segment pricing for wireless services is as follows:

1. KPN's mobile terminating services are in some aspects regulated. The price level of the mobile terminating services to external wholesale operators has been set in consultation with and approved by the Dutch competition and telecommunications regulators. The mobile terminating tariffs are applied on a non-discriminatory basis within the segment Consumer, Business and Wholesale & Operations and to other (external) operators; and
2. Roaming tariffs between KPN's Mobile operators are based on bilateral agreements and contain generally similar terms as bilateral agreements with third parties.

The basis for inter-segment pricing within the Netherlands, other than mentioned in category 1) and 2) above can be described as follows:

3. For identical products which are also sold to external parties, KPN uses wholesale prices;
4. For non-regulated retail products which do not fall within the scope of category 3, KPN uses cost-based prices; and
5. For regulated retail products which do not fall within the scope of category 3, KPN uses external purchase costs and an additional charge which is equal to a pre-determined percentage of the difference between the gross external retail revenues and external purchase costs; this method is also referred to as 'retail-minus'.

Mobile International

Mobile International comprises:

- Germany Segment, including SMS Michel and blau Mobilfunk acquired in 2008;
- Belgium Segment, including KPN Group Belgium, KPN Belgium Business and KPN Belgium; and
- Rest of World Segment, including Simyo, Ay Yildiz and, acquired in 2008, Ortel Mobile.

Other activities Segment

Other activities comprise the results of KPN's Corporate Center (support) and the call center activities of SNT. Due to the fact that KPN neither allocates interest expenses to all segments nor accounts for taxes in the segments, the disclosure is limited to profit for the year.

The Netherlands

Amounts in millions of EUR, unless otherwise stated	Consumer Segment		Business Segment		Getronics Segment		Wholesale & Operations Segment		Other (including eliminations)		Total The Netherlands	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Statement of Income												
External revenues[1]	3,890	3,906	2,219	2,260	1,948	2,675	1,214	1,439	1	1	9,272	10,281
Other income	1	-	-	-	-	7	55	140	-	-	56	147
Inter-division revenues	204	222	272	286	149	126	2,190	2,291	-2,698	-2,814	117	111
Total revenues	**4,095**	**4,128**	**2,491**	**2,546**	**2,097**	**2,808**	**3,459**	**3,870**	**-2,697**	**-2,813**	**9,445**	**10,539**
Total operating expenses excluding depreciation, amortization and impairments	-3,065	-3,246	-1,697	-1,833	-2,035	-2,687	-1,669	-1,936	2,708	2,837	-5,758	-6,865
EBITDA[2]	**1,030**	**882**	**794**	**713**	**62**	**121**	**1,790**	**1,934**	**11**	**24**	**3,687**	**3,674**
Depreciation, amortization and impairments	-288	-295	-81	-75	-152	-195	-928	-1,054	-43	-33	-1,492	-1,652
Operating profit	**742**	**587**	**713**	**638**	**-90**	**-74**	**862**	**880**	**-32**	**-9**	**2,195**	**2,022**
Total assets	3,203	3,099	2,956	5,783	2,765	3,357	9,652	11,763	-785	-1,605	17,791	22,397
Total liabilities	2,989	2,985	2,963	5,841	1,889	3,165	9,671	11,731	-785	-1,607	16,727	22,115
Other												
Investments in intangible assets	111	155	68	80	29	58	161	115	30	25	399	432
Investments in property, plant and equipment	113	86	45	39	94	204	623	611	20	22	895	962
Investments in associates and joint ventures	1	-	-	-	20	18	238	113	-	-	258	131
Results associates and joint ventures	-	-5	-	-6	2	5	-11	-	-	-	-9	-6
Employees end of period (FTEs)	4,128	4,358	2,933	2,891	12,960	14,913	4,459	4,796	606	672	25,086	27,629
Employees average (FTEs)	4,243	4,341	2,912	2,908	13,936	17,841	4,627	5,026	639	701	26,358	30,817

1) External revenues mainly consist of rendering of services.
2) Earnings before interest, tax and depreciation, amortization and impairments.

Mobile International

Amounts in millions of EUR, unless otherwise stated	Germany 2009	Germany 2008	Belgium 2009	Belgium 2008	Rest of World (incl, eliminations) 2009	Rest of World (incl, eliminations) 2008	Total Mobile International 2009	Total Mobile International 2008
Statement of Income								
External revenues[1]	3,098	3,146	744	730	195	118	4,037	3,994
Other income	1	7	-	-	-	1	1	8
Inter-division revenues	82	65	58	43	-100	-46	40	62
Total revenues	**3,181**	**3,218**	**802**	**773**	**95**	**73**	**4,078**	**4,064**
Total operating expenses excluding depreciation, amortization and impairments	-1,848	-1,973	-543	-522	-134	-96	-2,525	-2,591
EBITDA[2]	**1,333**	**1,245**	**259**	**251**	**-39**	**-23**	**1,553**	**1,473**
Depreciation, amortization and impairments	-688	-668	-135	-127	-13	-4	-836	-799
Operating profit	**645**	**577**	**124**	**124**	**-52**	**-27**	**717**	**674**
Statement of Financial Position								
Total assets	10,343	9,974	1,876	1,753	143	120	12,362	11,847
Total liabilities	29,180	29,934	330	362	145	105	29,655	30,401
Other								
Investments in intangible assets	61	156	31	14	1	-	93	170
Investments in property, plant and equipment	465	423	75	114	2	9	542	546
Investments in associates and joint ventures	1	1	-	-	-	-	1	1
Employees end of period (FTEs)	2,846	2,968	902	917	206	138	3,954	4,022
Employees average (FTEs)	2,907	2,626	909	872	172	92	3,988	3,590

1) External revenues mainly consist of rendering of services.
2) Earnings before interest, tax and depreciation, amortization and impairments.

KPN Total

Amounts in millions of EUR, unless otherwise stated	Other activities Segment 2009	Other activities Segment 2008	Total segments 2009	Total segments 2008	Eliminations 2009	Eliminations 2008	Consolidated 2009	Consolidated 2008
Statement of Income								
External revenues[1]	142	152	13,451	14,427	-	-	13,451	14,427
Other income	1	20	58	175	-	-	58	175
Inter-division revenues	-	1	157	174	-157	-174	-	-
Total revenues	**143**	**173**	**13,666**	**14,776**	**-157**	**-174**	**13,509**	**14,602**
Total operating expenses excluding depreciation, amortization and impairments	-191	-262	-8,474	-9,718	157	174	-8,317	-9,544
EBITDA[2]	**-48**	**-89**	**5,192**	**5,058**	**-**	**-**	**5,192**	**5,058**
Depreciation, amortization and impairments	-14	-10	-2,342	-2,461	-	-	-2,342	-2,461
Operating profit	**-62**	**-99**	**2,850**	**2,597**	**-**	**-**	**2,850**	**2,597**
Balance sheet								
Total assets	27,346	24,887	57,499	59,131	-32,648	-35,218	24,851	23,913
Total liabilities	24,978	22,299	71,360	74,815	-50,350	-54,661	21,010	20,154
Other								
Investments in intangible assets	4	65	496	668	-	-	496	668
Investments in property, plant and equipment	5	6	1,442	1,514	-	-	1,442	1,514
Investments in associates and joint ventures	8	3	267	135	-	-	267	135
Result associates and joint ventures	3	1	-6	-6	-	-	-6	-6
Employees end of period (FTEs)	4,108	5,049	33,148	36,702	-	-	33,148	36,702
Employees average (FTEs)	4,579	5,320	34,925	40,116	-	-	34,925	40,116

1) External revenues mainly consist of rendering of services.
2) Earnings before interest, tax and depreciation, amortization and impairments.

Changes in segment reporting compared to Annual Report 2008

In the previous tables the comparative figures of 2008 have been changed, see pages 74 and 126 for more information. In the tables below the original figures from the Annual Report 2008 and the restated figures of 2008 are stated to provide a clear view on the changes in the comparative figures of 2008.

The Netherlands

Amounts in millions of EUR, unless otherwise stated	Consumer Segment Restated 2008	Consumer Segment Annual Report 2008	Business Segment Restated 2008	Business Segment Annual Report 2008	Getronics Segment Restated 2008	Getronics Segment Annual Report 2008	Wholesale & Operations Segment Restated 2008	Wholesale & Operations Segment Annual Report 2008	Other (including eliminations) Restated 2008	Other (including eliminations) Annual Report 2008	Total The Netherlands Restated 2008	Total The Netherlands Annual Report 2008
Statement of Income												
External revenues[1]	3,906	3,778	2,260	3,084	2,675	1,867	1,439	1,397	1	1	10,281	10,127
Other income	-	-	-	5	7	3	140	140	-	-1	147	147
Inter-division revenues	222	251	286	166	126	63	2,291	2,367	-2,814	-2,621	111	226
Total revenues	**4,128**	**4,029**	**2,546**	**3,255**	**2,808**	**1,933**	**3,870**	**3,904**	**-2,813**	**-2,621**	**10,539**	**10,500**
Total operating expenses excluding depreciation, amortization and impairments	-3,246	-3,276	-1,833	-2,479	-2,687	-1,854	-1,936	-1,981	2,837	2,645	-6,865	-6,945
EBITDA[2]	**882**	**753**	**713**	**776**	**121**	**79**	**1,934**	**1,923**	**24**	**24**	**3,674**	**3,555**
Depreciation, amortization and impairments	-295	-275	-75	-121	-195	-146	-1,054	-1,055	-33	-34	-1,652	-1,631
Operating profit	**587**	**478**	**638**	**655**	**-74**	**-67**	**880**	**868**	**-9**	**-10**	**2,022**	**1,924**
Total assets	3,099	2,891	5,783	2,772	3,357	2,178	11,763	10,109	-1,605	-942	22,397	17,008
Total liabilities	2,985	2,936	5,841	2,779	3,165	2,286	11,731	10,076	-1,607	-942	22,115	17,135
Other												
Investments in intangible assets	155	159	80	131	58	7	115	115	25	25	432	437
Investments in property, plant and equipment	86	90	39	199	204	43	611	611	22	22	962	965
Investments in associates and joint ventures	-	-	-	-	18	18	113	113	-	-	131	131
Results associates and joint ventures	-5	-5	-6	-2	5	-	-	-	-	-	-6	-7
Employees end of period (FTEs)	4,358	8,906	2,891	5,507	14,913	11,629	4,796	5,376	672	672	27,629	32,090
Employees average (FTEs)	4,341	9,128	2,908	5,477	17,841	14,830	5,026	5,739	701	705	30,817	35,879

1) External revenues mainly consist of rendering of services.
2) Earnings before interest, tax and depreciation, amortization and impairments.

Mobile International

Amounts in millions of EUR, unless otherwise stated	Mobile Wholesale The Netherlands		Germany		Belgium		Rest of World (incl, eliminations)		Total Mobile International	
	Not applicable[3]	Annual Report 2008	Restated 2008	Annual Report 2008	Restated 2008	Annual Report 2008	Restated 2008	Annual Report 2008	Restated 2008	Annual Report 2008
Statement of Income										
External revenues[1]		274	3,146	3,146	730	604	118	273	3,994	4,297
Other income		-	7	7	-	-	1	-	8	7
Inter-division revenues		74	65	65	43	43	-46	-90	62	92
Total revenues		**348**	**3,218**	**3,218**	**773**	**647**	**73**	**183**	**4,064**	**4,396**
Total operating expenses excluding depreciation, amortization and impairments		-203	-1,973	-1,973	-522	-407	-96	-215	-2,591	-2,798
EBITDA[2]		**145**	**1,245**	**1,245**	**251**	**240**	**-23**	**-32**	**1,473**	**1,598**
Depreciation, amortization and impairments		-27	-668	-668	-127	-107	-4	-26	-799	-828
Operating profit		**118**	**577**	**577**	**124**	**133**	**-27**	**-58**	**674**	**770**
Statement of Financial Position										
Total assets		274	9,974	10,130	1,753	1,580	120	201	11,847	12,185
Total liabilities		115	29,934	29,934	362	310	105	195	30,401	30,554
Other										
Investments in intangible assets		1	156	156	14	13	-	1	170	171
Investments in property, plant and equipment		1	423	423	114	94	9	30	546	548
Investments in associates and joint ventures		-	1	1	-	-	-	-	1	1
Employees end of period (FTEs)		46	2,968	2,968	917	732	138	420	4,022	4,166
Employees average (FTEs)		41	2,626	2,626	872	692	92	365	3,590	3,724

1) External revenues mainly consist of rendering of services.
2) Earnings before interest, tax and depreciation, amortization and impairments.
3) Mobile Wholesale The Netherlands migrated to Consumer Segment in the 2009 organizational structure.

KPN Total

Amounts in millions of EUR, unless otherwise stated	Other activities Segment		Total segments		Eliminations		Consolidated	
	Restated 2008	Annual Report 2008	Restated 2008	Annual Report 2008	Restated 2008	Annual Report 2008	Restated 2008	Annual Report 2008
Statement of Income								
External revenues[1]	152	2	14,427	14,427	-	-	14,427	14,427
Other income	20	21	175	175	-	-	175	175
Inter-division revenues	1	-	174	317	-174	-317	-	-
Total revenues	**173**	**23**	**14,776**	**14,919**	**-174**	**-317**	**14,602**	**14,602**
Total operating expenses excluding depreciation, amortization and impairments	-262	-118	-9,718	-9,861	174	317	-9,544	-9,544
EBITDA[2]	**-89**	**-95**	**5,058**	**5,058**	**-**	**-**	**5,058**	**5,058**
Depreciation, amortization and impairments	-10	-2	-2,461	-2,461	-	-	-2,461	-2,461
Operating profit	**-99**	**-97**	**2,597**	**2,597**	**-**	**-**	**2,597**	**2,597**
Balance sheet								
Total assets	24,887	24,765	59,131	53,958	-35,218	-30,045	23,913	23,913
Total liabilities	22,299	21,976	74,815	69,665	-54,661	-49,511	20,154	20,154
Other								
Investments in intangible assets	65	60	668	668	-	-	668	668
Investments in property, plant and equipment	6	1	1,514	1,514	-	-	1,514	1,514
Investments in associates and joint ventures	3	3	135	135	-	-	135	135
Result associates and joint ventures	1	1	-6	-5	-	-	-6	-5
Employees end of period (FTEs)	5,049	446	36,702	36,702	-	-	36,702	36,702
Employees average (FTEs)	5,320	513	40,116	40,116	-	-	40,116	40,116

1) External revenues mainly consist of rendering of services.
2) Earnings before interest, tax and depreciation, amortization and impairments.

Geographical information

KPN's divisions mainly operate in five geographical areas. The Netherlands is the home country, also being the main operating territory. The Americas consist of the United States, including Canada and all other countries of the American continent.

Amounts in millions of EUR	Financial year	Total non-current assets[1]	Investments in intangible assets	Investments in property, plant and equipment	Revenues and other income
Regions					
The Netherlands	2009	8,763	389	884	8,357
	2008	8,928	487	945	9,025
Germany	2009	8,016	63	469	3,239
	2008	8,166	161	427	3,306
Belgium	2009	660	32	78	864
	2008	775	15	115	852
United Kingdom	2009	103	-	3	142
	2008	97	-	5	184
The Americas	2009	186	11	5	558
	2008	217	8	11	688
Other	2009	65	1	4	349
	2008	42	-3	11	547
Consolidated	**2009**	**17,793**	**496**	**1,443**	**13,509**
	2008	**18,225**	**668**	**1,514**	**14,602**

1) Excluding deferred tax assets and pensions.

Changes in geographical information compared to Annual Report 2008

In the table above the comparative figures of 2008 have been changed, see page 74 for more information. In the table below the original figures from the Annual Report 2008 are stated to provide a clear view on the changes in the figures of 2008.

Amounts in millions of EUR	Financial year	Total non-current assets[1]	Investments in intangible assets	Investments in property, plant and equipment	Revenues and other income
Regions					
The Netherlands	2008	9,022	481	941	8,544
Germany	2008	8,166	161	427	3,292
Belgium	2008	782	15	118	841
United Kingdom	2008	22	-	5	175
The Americas	2008	116	8	11	716
Other	2008	117	3	12	1,034
Consolidated	**2008**	**18,225**	**668**	**1,514**	**14,602**

1) Excluding deferred tax assets and pensions.

Corporate Statement of Income

Amounts in millions of EUR	2009	2008
Income from Group companies after taxes	2,812	1,749
Other income and expense after taxes	-634	-417
Profit attributable to equity holders	2,178	1,332

Corporate Statement of Financial Position

Before appropriation of profit

Assets

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
NON-CURRENT ASSETS		
Financial fixed assets		
Investments in Group companies	19,746	15,442
Loans to Group companies	5,370	6,077
Derivative financial instruments	-	133
Other financial fixed assets	133	126
Total non-current assets [A]	**25,249**	**21,778**
CURRENT ASSETS		
Receivables [B]	1,547	2,520
Prepayments and accrued income	24	18
Cash and cash equivalents	1,926	420
Total current assets	**3,497**	**2,958**
TOTAL	**28,746**	**24,736**

[..] Bracketed letters refer to the notes to the Corporate Statement of Financial Position.

Liabilities

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
Subscribed capital stock	391	411
Additional paid-in capital	8,799	9,650
Treasury shares reserve	-289	-238
Hedge reserves (net of tax)	-101	-11
Legal reserves (net of tax)	384	447
Retained earnings	-7,524	-7,861
Profit current year	2,178	1,332
Total equity attributable to equity holders [C]	**3,838**	**3,730**
PROVISIONS		
Provisions for retirement benefit obligations	551	741
Other provisions	33	28
Total provisions	**584**	**769**
NON-CURRENT LIABILITIES		
Loans [D]	13,071	11,416
Derivative financial instruments [E]	400	192
Other long-term liabilities	24	18
Total long-term liabilities	**13,495**	**11,626**
CURRENT LIABILITIES		
Derivative financial instruments	51	2
Other liabilities [F]	10,342	8,293
Accruals and deferred income	436	316
Total current liabilities	**10,829**	**8,611**
TOTAL	**28,746**	**24,736**

[..] Bracketed letters refer to the notes to the Corporate Statement of Financial Position.

General notes to the Corporate Financial Statements

With reference to the Income Statement of Koninklijke KPN N.V., use has been made of the exemption pursuant to Section 402 of Book 2 of the Dutch Civil Code.

For the principles for the recognition and measurement of assets and liabilities and determination of the result for its Corporate Financial Statements, Koninklijke KPN N.V. applies the option provided in Section 2:362 (8) of the Dutch Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as 'Accounting policies') of the Corporate Financial Statements of Koninklijke KPN N.V. are the same as those applied for the Consolidated Financial Statements under IFRS. Participating interests, over which significant influence (including control) is exercised, are stated applying the equity method. The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the European Union. Reference is made to the notes to the Consolidated Financial Statements.

Notes to the Corporate Statement of Financial Position

Non-current assets

[A] Financial fixed assets

Amounts in millions of EUR	Group companies	Loans to Group companies	Other financial fixed assets	Derivative financial instruments	Total
Balance as of January 1, 2008	**14,904**	**6,692**	**199**	**11**	**21,806**
Exchange rate differences	20	-	-	-	20
Received dividends	-1,237	-	-	-	-1,237
Income from Group companies after taxes	1,749	-	-	-	1,749
New loans	-	234	-	-	234
Withdrawals/redemptions	-	-850	-	-	-850
Change in deferred taxes	-	-	-102	-	-102
Change in derivative financial instruments	-	-	-	122	122
Other	6	1	29	-	36
Total changes	**538**	**-615**	**-73**	**122**	**-28**
Balance as of December 31, 2008	**15,442**	**6,077**	**126**	**133**	**21,778**
Exchange rate differences	1	-	-	-	1
Received dividends	-1	-	-	-	-1
Income from Group companies after taxes	2,812	-	-	-	2,812
New loans	-	55	-	-	55
Withdrawals/redemptions	-	-762	-	-	-762
Change in deferred taxes	-	-	-8	-	-8
Change in derivative financial instruments	-	-	-	-133	-133
Other	1,492	-	15	-	1,507
Total changes	**4,304**	**-707**	**7**	**-133**	**3,471**
Balance as of December 31, 2009	**19,746**	**5,370**	**133**	**-**	**25,249**

The loans to Group companies have with maturity dates between 2010 and 2016 and a mixture of interest rates: floating, fixed or profit depending.

Other financial fixed assets include a deferred tax asset of EUR 44 million in 2009 and EUR 52 million in 2008.

For derivative financial instruments refer to Note 26 of the Consolidated Financial Statements.

Current assets

[B] Receivables

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
Short-term loans to Group companies	1,532	2,420
Income tax receivable	14	99
Other receivables	1	1
Balance as of	**1,547**	**2,520**

Equity attributable to equity holders

[C] Equity attributable to equity holders

For a break down of Equity attributable to equity holders, reference is made to the Consolidated Statement of Changes in Group Equity and the notes thereto.

Legal reserves

Movements in legal reserves (net of tax), which can not be distributed freely, are presented below:

Amounts in millions of EUR	Revaluation reserve property, plant and equipment	Cumulative translation adjustments	Capitalized software development costs	Other non-distributable reserves	Fair value reserve	Total
Balance as of January 1, 2008	**291**	**-**	**115**	**48**	**-**	**454**
Exchange rate differences	-	21	-	-	-	21
Addition/(release) retained earnings	-69	-1	41	-	1	-28
Balance as of December 31, 2008	**222**	**20**	**156**	**48**	**1**	**447**
Addition/(release) retained earnings	-56	-	-6	-	-1	-63
Balance as of December 31, 2009	**166**	**20**	**150**	**48**	**-**	**384**

The legal reserves and the subscribed capital stock are non-distributable. The total distributable reserves at December 31, 2009, amount to EUR 3,063 million (2008: EUR 2,872 million).

Retained earnings

Movements in retained earnings are as follows:

Amounts in millions of EUR	
Balance as of January 1, 2008	**-9,571**
Prior year profit	2,652
Dividend	-981
Release/(addition) legal reserves	28
Other	11
Balance as of December 31, 2008	**-7,861**
Prior year profit	1,332
Dividend	-1,039
Release/(addition) legal reserves	63
Other	-19
Balance as of December 31, 2009	**-7,524**

The reconciliation with retained earnings as per Consolidated Statement of Financial Position is as follows:

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
Retained earnings as per Consolidated Statement of Financial Position	**-4,982**	**-6,103**
Revaluation reserve	-166	-222
Capitalized software development costs	-150	-156
Other non-distributable reserves	-48	-48
Current year profit	-2,178	-1,332
Retained earnings as per Corporate Statement of Financial Position	**-7,524**	**-7,861**

Non-current liabilities

[D] Loans
Loans include loans from Group companies for EUR 718 million (2008: EUR 676 million) with maturity dates between 2010 and 2016 and with a mixture of fixed and floating interest rates.

[E] Derivative financial instruments
For derivative financial instruments refer to Note 26 of the Consolidated Financial Statements.

Current liabilities

[F] Other liabilities
Other liabilities include financial current accounts and loans from Group companies for EUR 9,849 million (2008: EUR 7,199 million). They also include EUR 142 million taxes payable and social security contributions (2008: EUR 2 million).

Commitments and contingencies

Amounts in millions of EUR	Dec. 31, 2009	Dec. 31, 2008
Commitments by virtue of guarantees	201	143

KPN has issued several declarations of joint and several liabilities for various Group companies in compliance with Section 403, Book 2 of the Dutch Civil Code. These declarations of joint and several liabilities for Group companies are included in a complete list of subsidiaries and participating interests, which is available at the offices of the Chamber of Commerce in The Hague.

Directors' remuneration

Reference is made to Note 3, Employee benefits of the Consolidated Financial Statements.

The Hague, February 22, 2010

Supervisory Board	Board of Management[1]
A.H.J. Risseeuw	A.J. Scheepbouwer
J.B.M. Streppel	C.M.S. Smits-Nusteling
M.E. van Lier Lels	E. Blok
C.M. Colijn-Hooymans	J.B.P. Coopmans
D.I. Jager	
M. Bischoff	
C.M. Colijn-Hooymans	
R.J. Routs	
D.I. Haank	

1) Mr. Miller stepped down as from February 1, 2010.

Auditor's Report

To the General Meeting of Shareholders of Koninklijke KPN N.V.

Report on the financial statements

We have audited the accompanying financial statements 2009 of Koninklijke KPN N.V., The Hague as set out on pages 68 to 137. The financial statements consist of the consolidated financial statements and the corporate financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at December 31, 2009, the consolidated statement of income, the consolidated statement of changes in group equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, comprising a summary of significant accounting policies and other explanatory notes. The corporate financial statements comprise the corporate statement of financial position as at December 31, 2009, the corporate statement of income for the year then ended and the notes thereto.

Board of Management's responsibility

The Board of Management of the company is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Board of Management's Report, set out on pages 13 to 51, in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board of Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the Consolidated Financial Statements

In our opinion, the consolidated financial statements, set out on pages 68 to 131, give a true and fair view of the financial position of Koninklijke KPN N.V. as at December 31, 2009, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the Corporate Financial Statements

In our opinion, the corporate financial statements, set out on pages 132 to 137, give a true and fair view of the financial position of Koninklijke KPN N.V. as at December 31, 2009, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the Board of Management's Report, set out on pages 13 to 51, is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

The Hague, February 22, 2010
PricewaterhouseCoopers Accountants N.V.

Original has been signed by M. de Ridder RA

Proposed appropriation of result

On outstanding Class B preferred shares, a dividend is paid out equal to the average of the 12-month Euribor increased by 1%. If the 12-month Euribor is no longer determined, the dividend on preference shares will be calculated based on the yield on State loans (article 35 sub 1, Articles of Association). No Class B preferred shares were outstanding in 2009. Subsequently, subject to the approval of the Supervisory Board, the Board of Management will determine what proportion of net income remaining after payment of the dividend on any Class B preferred shares will be appropriated to the reserves (article 35 sub 2, Articles of Association). The part of the profit remaining after the appropriation to the reserves shall be at the disposal of the general meeting (article 35 sub 3 Articles of Association). The Board of Management, with the approval of the Supervisory Board, may also appropriate the complete profit to the reserves.

On February 22, 2010, the Board of Management, with approval of the Supervisory Board, has appropriated an amount of EUR 1,075 million out of the profit to the Other reserves. The remaining part of the profit over 2009, amounting to EUR 1,103 million, is available for distribution as dividend. In August 2009 an interim dividend of EUR 0.23 was paid to all holders of ordinary shares, amounting to a total of EUR 375 million. The remaining part of EUR 728 million is available for distribution as final dividend.

The Board of Management, with the approval of the Supervisory Board, will propose to the AGM to determine the total dividend over 2009 at EUR 0.69 per ordinary share. After deduction of the interim dividend of EUR 0.23 per ordinary share, the final dividend will be EUR 0.46 per ordinary share. Subject to the provisions of Article 37 of the Articles of Association, the 2009 final dividend will become payable as of April 23, 2010, which is 8 working days after the date of the AGM. The payout ratio of this dividend amounts to 51% of the profit for 2009.

Subsequent events

Reference is made to Note 33 Subsequent events in the Consolidated Financial Statements.

Legal structure

The following table sets forth the name and jurisdiction of incorporation of, and our ownership and voting interest (if different) in, our principal operating subsidiaries and other principal interests as of December 31, 2009.

Name of Subsidiaries and other principal interests	Country of incorporation	Percentage ownership/voting interest
KPN B.V.	The Netherlands	100.0
KPN EuroRings B.V.	The Netherlands	100.0
Infonet Nederland B.V.	The Netherlands	100.0
XS4ALL Internet B.V.	The Netherlands	100.0
iBasis Inc.	USA	100.0
Telfort B.V.	The Netherlands	100.0
E-Plus Nederland B.V.	The Netherlands	100.0
Reggefiber Group B.V.	The Netherlands	41.0
KPN Telecommerce B.V.:	The Netherlands	100.0
SNT Deutschland A.G.	Germany	100.0
KPN Mobile Holding B.V.:	The Netherlands	100.0
E-Plus Mobilfunk Geschäftsführungs GmbH	Germany	100.0
– E-Plus Mobilfunk GmbH & Co.KG	Germany	22.5
KPN Mobile N.V.:	The Netherlands	100.0
– KPN Mobile International B.V.	The Netherlands	100.0
– KPN Group Belgium N.V.	Belgium	100.0
– KPN Belgium N.V.	Belgium	100.0
– KPN Belgium Business N.V.	Belgium	100.0
– E-Plus Mobilfunk GmbH & Co.KG	Germany	77.5
– Ortel Mobile Holding B.V.	The Netherlands	65.0
– KPN Spain S.L.	Spain	100.0
– KPN France SNC	France	100.0
Getronics N.V.:	The Netherlands	100.0
– NV Getronics Belgium SA	Belgium	100.0
– Getronics Ltda	Brazil	100.0
– Getronics Columbia Ltda	Columbia	100.0
– Getronics (Schweiz) AG	Switzerland	100.0
– Getronics Deutschland GmbH	Germany	100.0
– Getronics UK Ltd	United Kingdom	100.0
– Getronics Hungary Kft	Hungary	100.0
– Getronics Mexico SA	Mexico	100.0
– Getronics Nederland B.V.	The Netherlands	100.0
– Tetraned B.V.	The Netherlands	100.0
– Pharma Partners B.V.	The Netherlands	100.0
– PR Call-2 B.V.	The Netherlands	100.0
– KPN CSS Telecom B.V.	The Netherlands	100.0
– Newtel Essence B.V.	The Netherlands	100.0
– KPN Outsourcing Services N.V.	Belgium	100.0
– Getronics Solutions (S) Pte Ltd	India	100.0

ADR
American Depository Receipt

ADS
American Depository Share

ADSL (Asymmetric Digital Subscriber Line)
With ADSL, transmissions from provider to user take place at a higher speed than from user to provider. ADSL allows high-speed digital communication, including video signals, across an ordinary twisted-pair copper phone line. An ADSL modem is required.

All-IP
IP is a technology based on the Internet Protocol. 'All-IP' refers to the transformation of KPN to an ICT- Multimedia organization which offers its customers all needs for communication. The new organization will be fully based on IP-service using a new fibre-network.

AMPU (Average Minutes Per User)
Weighted AMPU are calculated by taking the weighted average of the monthly AMPU during the year. The monthly AMPU is calculated by dividing total traffic volumes during a month by the average number of customers in that month. Each month is weighed according to the average number of customers in that month.

ARPU (Average Revenue Per User)
ARPU is the sum of connection fees, monthly fixed subscription revenues, traffic revenues and gross service provider revenues less related discounts during a one-month period, divided by the average number of customers during that month. Gross service provider revenues represent revenues generated by third-party providers. We account for the net part as gross service provider revenues. Gross service provider revenue is mainly generated by E-Plus.

ATM (Asynchronous Transfer Mode)
ATM is a transfer mode in which the information is organized into cells. It is asynchronous in the sense that the recurrence of cells containing information from an individual user is not necessarily periodic.

Backbone
Part of network infrastructure used for transmission of data.

BiPT (Belgisch instituut voor Postdiensten en Telecommunicatie)
The Belgian Institute for Postal Services and Telecommunications is active as the telecommunications regulator in Belgium.

Bitstream access
Unbundled access to KPN's metallic local loops using DSL and ATM technology over KPN's copper infrastructure. A BitStream access connection consists of an xDSL broadband connection combined with an ATM Permanent Virtual Circuit.

Broadband
Broadband refers to telecommunication that provides multiple channels of data over a single communications medium, typically using some form of frequency or wave division multiplexing.

Bundesnetzagentur (BNetzA, former RegTP)
The Federal Network Agency is active as the telecommunications regulator in Germany.

Carrier Select
Method to opt for a different operator by entering an access code.

Churn
The number of mobile customers no longer connected to a mobile operator's network divided by the operator's customer base.

CityRing
Fiber optic access network for data and Internet traffic in and across several Dutch cities.

Co-location
The provision of space and technical facilities (such as power supply and air-conditioning) for a customer's telecommunications equipment on the service provider's premises, in the framework of interconnection or special access.

Content
The information presented on Internet sites, including its structure.

Customer base
The customer figures of mobile network operators of KPN consist of the number of registered SIM cards – excluding dual cards but including data-only PC connections and machine-based SIM cards – at the end of each reporting period. The customer base also comprises inactive prepaid users, who have had neither incoming nor outgoing traffic during a three-month period, but have not yet met the disconnection criteria (generally 12 months of inactivity).

DCS (Digital Cellular System)
Mobile telephone network based on the GSM standard.

DSL (Digital Subscriber Line)
DSL is a technology for bringing high-bandwidth information to homes and small businesses over ordinary copper PSTN lines. The widely used term xDSL refers to different variations of DSL, such as ADSL, HDSL, VDSL and SDSL.

Dutch Telco business
Dutch Telco business is defined as the Netherlands excluding Getronics, iBasis and book gains on real estate.

DVB-T (Digital Video Broadcasting – Terrestrial)
DVB-T constitutes a transparent transmission channel, via which all types of digital signal can be broadcast. In addition to digitalized video and audio data, multimedia and computer data can be broadcast as well.

EDGE (Enhanced Data rates for GSM Evolution)
Enhanced data rates for GSM evolution. EDGE is a behind-the-scenes technology, pushing GPRS download speeds to above 100 kbps.

E-VPN (Ethernet Virtual Private Network)
Connects two or more offices using IP-VPN.

EuroRing
Fiber optic network for data and Internet traffic, running through several European cities.

Fiber-to-the-Curb (FttC)
FttC is a fiber connection to the street and last part of the connection up to the consumers' location is a copper cable.

Fiber-to-the-Home (FttH)
FttH is a fiber connection to the consumers' location.

Fiber-to-the-Office (FttO)
FttO is fiber connection for business customers to the customers' office.

GPRS (General Packet Radio Service)
Particularly suited for voice, text and images. GPRS is an application that enables data packet switching via the GSM network as well as via the existing voice communication. GPRS will complement the existing CSD (Circuit Switched Data) of the GSM system. GPRS is based on the Global System for Mobile communications.

Gross churn ratio
Gross churn ratio is defined as the number of end-user relations terminated as a percentage of the average subscriber base. The ratio includes postpaid customers discontinuing the usage of our services due to involuntary churn (e.g. disconnections due to non-payment) and voluntary churn (e.g. customers switching to other operators) as well as prepaid customers whose call credits were not recharged in the past 13 months.

GSM (Global System for Mobile communications)
GSM is a second generation, digital mobile telephone system that is widely used in Europe and other parts of the world to send and receive voice and data.

HSDPA (High-Speed Downlink Packet Access)
HSDPA is a new mobile telephony protocol that, as an evolution of UMTS, is designed to increase the available data rate by a factor 5 or more.

ICT
Information and Communication Technology.

IP-VPN (Internet Protocol – Virtual Private Network)
Offers a secured and private network using IP-based infrastructure.

ISDN (Integrated Services Digital Network)
A worldwide digital communications network evolving from existing telephone services. A standard ISDN connection consists of three channels, i.e. two B channels to carry data and voice at a speed of 64 Kbps and one D channel to carry control information at a speed of 16 Kbps.

ISP (Internet Service Provider)
A company that provides individuals and companies access to the Internet. Therefore, ISP maintains one or more connection points to the Internet for ISP subscribers. An ISP itself can be a subcontractor of an ISP that is connected with an Internet backbone.

Lambda
Our national fiber optic network in the Netherlands.

LAN (Local Area Network)
A LAN is a network designed to move data between stations within a campus.

Local Loop
The system, being a wired connection from a telephone company's central office in a locality to its customers' telephones at homes and businesses, was originally designed for voice transmission only using analog transmission technology on a single voice channel. Today, a computer modem converts analog signals and digital signals. With ISDN or DSL, Local Loop can carry digital signals directly and at a much higher bandwidth than for voice only.

Market share
Market share is the percentage or proportion of the total available market that is being serviced by KPN. These figures are based on externally available market data, which may not be completely accurate.

MDF (Main Distribution Frame)
Allows other telecommunications companies to access the local network, enabling them to connect with their customers through our main distribution frame.

MetroRings
City-level networks.

MMS (Multimedia Message Service)
MMS is the ability to send messages comprising a combination of text, sounds, images and video to MMS capable handsets.

MoU (Minutes of Use)
Minutes of Use is calculated by taking the weighted average of the monthly MoU during the year. The monthly MoU is calculated by dividing total traffic volumes during a month by the average number of customers in that month. Each month is weighed according to the average number of customers in that month.

MTA tariff (Mobile Terminating Access tariff)
The tariff, charged by mobile operators for the termination of incoming telephone traffic (originating from either a fixed or a mobile network) on their network.

MVNO (Mobile Virtual Network Operator)
A mobile operator that does not have its own spectrum, nor its own network infrastructure. Instead, MVNOs have business arrangements with traditional mobile operators to buy minutes of use to sell to their own customers.

Net line loss
Net line loss figures are defined as the difference from one period to the other period in PSTN/ISDN lines plus consumer VoIP plus ADSL only and plus Wholesale line rental (WLR).

NMa (Nederlandse Mededingingsautoriteit)
The Dutch Anti-trust Authority is the Dutch authority responsible for monitoring compliance with anti-trust rules.

OPTA (Onafhankelijke Post en Telecommunicatie Autoriteit)
The Independent Post and Telecommunications Authority operates as the telecommunications regulator in the Netherlands.

PABX
PABX is a Private Automated Branch eXchange, also expressed as PBX. It is an exchange (switch) for business customers.

PSTN (Public Switched Telephone Network)
Traditional telephone system that runs through copper cables (voice up to 64 Kbps, data up to 56 Kbps).

Service revenues
Service revenues are defined as the aggregate of connection fees, monthly subscription fees and traffic fees.

SIM card (Subscriber Identity Module card)
A chip card inserted into a mobile phone, which contains information such as telephone numbers and memory for storing a directory.

SMS (Short Message Service)
SMS is a service for sending messages of up to 160 characters to mobile phones that use GSM communications.

SoHo/SME
SoHo refers to Small Office/Home Office companies. SME refers to Small and Medium Enterprises.

UMTS (Universal Mobile Telecommunications System)
One of the major third generation mobile communications systems being developed. UMTS is suited to deliver voice, text, music and animated images. Data can be sent via UMTS at approximately 6 times the speed of ISDN.

VPN (Virtual Private Network)
A virtual network constructed from logic connections that are separated from other users.

VoIP (Voice over IP)
Voice traffic is transported over an IP-based data network. It enables new ways of communicating, such as combinations of telephony, messaging and videoconferencing.

WiMax (Worldwide Interoperability for Microwave Access)
WiMax is a standards-based wireless technology providing high-throughput broadband connections over long distances that can be used for a number of applications, including 'last-mile' broadband connections, hotspots and high-speed enterprise connectivity for business. It is conceptually similar to WiFi, but has certain improvements aimed at a better performance and permitting usage over much greater distances.

WLR (Wholesale Line Rental)
This system enables telecommunications providers to invoice customers for line rental and phone charges on the same bill, as opposed to having to pay for calls and line rental separately. With WLR, one can rationalize his organization's invoicing with one bill for line rental and call charges.

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