Annual Report 2010

kpn

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 enable 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.

Gazing into the future is often more agreeable than casting an eye on the past. But if we don't look back, if we fail to learn from the past, if we fail to draw conclusions, the quality of our forecasts will suffer. In this Annual Report, I look back on 2010, which was the final year in which our "Back to Growth" strategy guided our direction. Our strategy has proven to be successful; we have succeeded in achieving almost all of our objectives.

2010 was the final year of this strategy period and was itself a crucial year. We have been able to show that the merger of IT and telecommunications leads to added value, both for our customers and for ourselves. Getronics and KPN's Business Market segment have proved this. The past year has also shown that we can serve our customers better by simplifying our products and processes.

The past year was a fine one for our operations in Germany: customer numbers rose to over 20 million. Profitability and sales were good. There was always an element of tension yet the final result has exceeded expectations.

Looking back, there is more that is worthy of note. 2010 was the year the smart phone made its definitive breakthrough, both in the Netherlands and elsewhere. Most of our new customers now choose a smart phone and a corresponding subscription offering mobile internet. We see mobile internet usage as a major driving force for growth over the coming years. Television is another major growth market. The number of customers choosing KPN's TV service rose in 2010 to 1.2 million. We maintained, and continue to maintain, to invest in our networks and support systems as to optimize the services we offer to our customers, whether in the Netherlands, Germany or Belgium. 2010 was the year when it became clear that KPN, as a leading service provider, has to respond even better to customer wishes.

Ad Scheepbouwer Chairman of the Board of Management and CEO, KPN

In countries such as France and Spain our ambition is different: fast growth in sim-only products. This is working well. Today we are the fastest growing mobile operator in these countries. 2010 was a very good year for iBasis, our US company trading in international voice traffic. After we acquired sole ownership of the company its new management has enabled it to flourish again. Sales rose in the second half of 2010 despite the adverse economy and a number of mandatory rate cuts.

A number of non-financial milestones certainly merit a mention. We have achieved our sustainability objectives for this year and are proud to have been admitted to the Dow Jones Sustainability Index in 2010. That listing ranks us amongst the top 10 percent of the most sustainable telecommunications companies in the world. Our #1 ranking in the annual Transparency Benchmark of the Ministry of Economic Affairs, Agriculture and Innovation is a fine recognition of our efforts. It is also pleasing to note that with an employee satisfaction score of 80% we are in the vanguard of Dutch companies, for I realize that, on occasion, we ask a great deal of our employees. Our extensive and award-winning sustainability report provides a wealth of additional interesting reading on these subjects.

2010 was my last full year as CEO of KPN; a splendid, multi-faceted company that I have had the honor of running for the past ten years. I started off in a very turbulent period and it took a year or two and a great expenditure of energy by many before we could grow again, but I am proud that we now have a robust company ready to take up the challenges of the future. I have every confidence in the prospects for 2011 and in my successor, Eelco Blok, who will take over as CEO at our annual general meeting of shareholders in April.

I look back on a wonderful period in which I have met and worked with many warm, inspiring and professional individuals. The relationship with our shareholders, small and large, is also one that I look back on with satisfaction

Ad Scheepbouwer
Chairman of the Board of Management and CEO

KPN has been bringing people together for over 125 years

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 telecommunications and ICT services to businesses.

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 multi-brand strategy in its mobile operations and holds number three market positions through E-Plus and KPN Group Belgium. KPN provides wholesale network services to third parties and operates an efficient IP-based infrastructure with global scale in international wholesale through iBasis. Ortel Mobile, KPN France and KPN Spain are implementing a successful Challenger business model by leveraging their own low-cost/no-frills brands and partner brands.

KPN has been bringing people together for over 125 years. KPN wants to offer our customers more communication opportunities and try to make our services simple and easy to use for our customers. KPN serves people of all ages and listens to the needs of people and companies. Therefore, KPN works with a range of brand names, each offering a range of products and services targeting different types of customers.

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 communication, information, entertainment and commercial services.
Business	KPN offers its business customers (small, medium size) a complete portfolio of services from fixed and mobile telephony and internet to a range of data network services, workspace management and data center services.
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.
Getronics	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 largest, corporate customers.
iBasis	Through iBasis, KPN is a top player in the international wholesale voice market. iBasis carries international phone calls worldwide.

Mobile International

Germany	E-Plus is the successful Challenger network operator with own brands (e.g. E-Plus and BASE) and partners in Germany.
Belgium	KPN Group Belgium is the successful Challenger network operator with own brands (e.g. BASE) and partners in Belgium.
Rest of World	KPN Spain, KPN France and Ortel Mobile are the successful virtual network operators offering mobile services through their own brands and partners. Ortel Mobile particularly focuses on the cultural segments in the Netherlands, Germany and Belgium and has recently expanded its footprint to France and Spain.

Our 'Back to Growth' Strategy

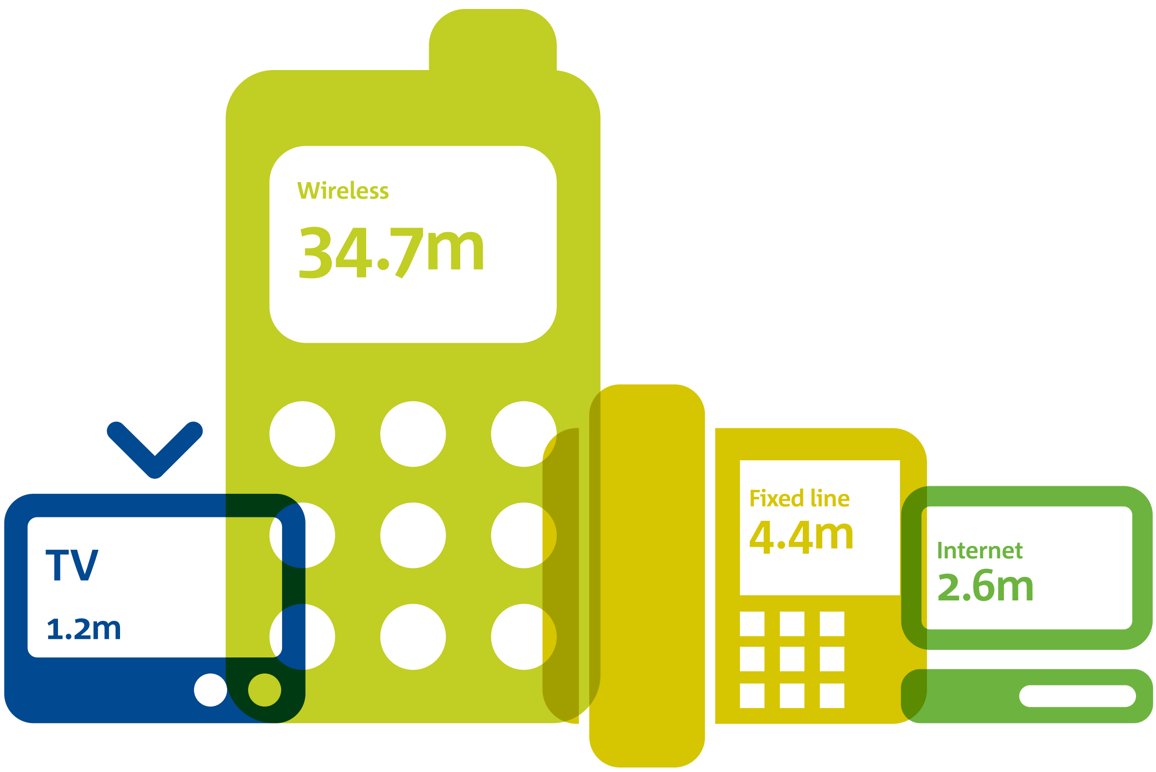
In 2008, following the 'Attack-Defend-Exploit' strategy, KPN entered its next phase with the 'Back to Growth' strategy. This strategy was based on a number of objectives including the Netherlands reaching revenue and EBITDA inflection, continued market outperformance and attractive margins at Mobile International and additional growth from its acquisitions (iBasis and Getronics). Over the past three years, KPN has made significant progress, and despite strong economic headwinds and regulatory pressure, was able to deliver on all of the objectives, except for revenue growth.

The Netherlands already showed a strong improvement in profitability following EBITDA inflection in 2008. This was the combined result of embedded cost programs in the Netherlands and a continued focus on maximizing market value and customer value. Mobile International achieved profitable market outperformance both in Germany and Belgium and was able to expand its footprint into Spain and France. In May 2010, E-Plus acquired 70MHz of additional spectrum in the frequency auctions in Germany for EUR 284 million, suiting the Challenger strategy.

Additional growth from recent acquisitions was reached through the successful integration of Getronics and recent turnaround at iBasis following the full takeover by KPN at the end of 2009. During the three years of the 'Back to Growth' period KPN was able to i) grow EBITDA by EUR 0.6 billion from EUR 4.9 billion to EUR 5.5 billion, ii) grow free cash flow per share by 32% from EUR 1.17 to EUR 1.55 and iii) grow dividend per share by 48% from EUR 0.54 to EUR 0.80. KPN continued its track record of delivering industry-leading shareholder returns: in total EUR 3.2 billion was paid in dividend and EUR 3.0 billion in shares were repurchased since 2008.

Our Customers

KPN is committed to its customers, their well-being and business success. As per December 31, 2010, KPN serves 34.7 million customers in wireless services, 4.4 million in wireline voice, 2.6 million in broadband internet and 1.2 million in TV in 2010. It is thanks to these customers that KPN has a right to exist. KPN's ambition is to be the leading ICT service provider, and does the very best to earn KPN's customers' respect and to serve them correctly. Primarily by listening to our customers' needs and ensuring KPN's products and services meet those needs, continuously focused on delivering high quality. Customer satisfaction and loyalty are of vital importance. Within KPN there are various programs and methods to improve customer satisfaction. The First Time Right program, for example, is focused on helping customers to get the required products and services in one customer-contact. The bi-annual measured Net Promoter Score (NPS) is used to permanently monitor customer satisfaction and measure customer loyalty. In addition, KPN investigates specific customer experiences, such as delivery of products and services or complaint handling. The outcome of these investigations provides insight into the strengths and weaknesses of the client delivery processes. In 2010, the customer satisfaction increased, however, KPN acknowledges the need for further improvement and will use the outcome of the investigations for customer satisfaction improvement programs in 2011.



Our People

KPN is convinced that business success in the service and product industry stands or falls with the involvement of our people in their work and the way they relate to the customer. This involvement is best promoted by offering a challenging and inspiring working environment, by being a good employer and by building up a company our people take pride in. Through the New Way of Working offered to its employees, KPN enables flexible ways of working, which allows employees to find a good balance between work and private life. The opportunity KPN gives its employees to work as a volunteer in social responsible activities of 'Mooiste Contact Fonds', is one of the cornerstones to motivate and engage its employees. KPN's employee engagement is monitored bi-annually. In the last three years the employee engagement has improved from 71% in 2008 to 80% in 2010.

KPN believes its employees should be a reflection of society and is a firm believer in the power of a diversified workforce at every level in the company. To attract top talent and to realize a diversified workforce, more women, disabled people, people with different cultural backgrounds and elderly people should be hired and retained. Currently KPN is focusing on attracting more women, specifically at top management and middle management positions. At December 31, 2010 the KPN Group had 30,599 employees (FTE's) of which 26% female, in line with 2009.

Our Management

KPN has a two-tier board structure consisting of the Supervisory Board and the Board of Management. The roles and responsibilities of these boards and their members are described in section 'Corporate Governance', starting on page 47.

The Supervisory Board oversees the strategic and organizational policies of the Board of Management. The Supervisory Board is made up exclusively of outside directors. The activities of the Supervisory Board in 2010 are described in the 'Supervisory Board Report', starting on page 54.

The Board of Management, supervised and advised by the Supervisory Board, manages KPN's strategic, financial and organizational matters and appoints senior management.

Our core values

Simple

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

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.

Trust

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.

Our Financial Policy

KPN continuously reviews options to further optimize its capital structure. 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 shareholder renumeration policy, while maintaining the flexibility to grow and invest in its business.

KPN does not intend to hold unutilized surplus cash balances, other than to manage its liquidity risks and working capital needs. KPN intends to return surplus cash to shareholders either through share repurchase or additional special dividends. Information about KPN's dividend policies, share repurchase programs, shareholders and the price of the KPN share on Euronext Amsterdam is given in the section 'Information about the KPN' share starting on page 12.

Our Corporate Social Responsibility

Corporate Social Responsibility (CSR) is an important part of KPN's strategy. KPN is convinced that CSR makes KPN a better service provider. KPN is fully aware of the need to care for society and our natural resources. This translates into our three CSR themes: Responsible Energy Use, New Way of Working and People Connected. Generations after us should be able to use natural resources, which forces KPN to careful and economical use. KPN wants to be climate-neutral by 2020. In 2010, KPN reduced CO_2 emissions to 273 thousand tons compared to 432 thousand tons in 2009. KPN's New Way of Working enables people to live and work at the place and time they like. In 2010, 9,000 employees of KPN in the Netherlands were participating in the new way of working, compared to 3,600 employees in 2009. Our third CSR theme, People Connected, is about the concern for society: addressing the people for whom social contact with others is not self-evident. KPN's 'Mooiste Contact Fonds' supports initiatives that improve social contact, with the help of our core competencies and the commitment of many professionals and volunteers from KPN. We believe that through this program, KPN is able to better understand the impact of ICT on society which will enhance KPN's aim to become an even better ICT service provider.

KPN's efforts were rewarded by inclusion in the Dow Jones Sustainability Index in September 2010. According to independent experts, KPN now belongs amongst the 10% most sustainable telecommunications companies in the world. Investors use this Index as a measure for the degree of sustainability of a company. In January 2011 the Ministry of Economic Affairs rewarded KPN's sustainability report with the first place in the transparency benchmark.

For more information about KPN's CSR, please see section 'Corporate Social Responsibility' starting on page 26, which is a summary of the Corporate Social Responsibility Report which will be published by the end of February 2011.

Our 2010 Performance

KPN showed a good performance in 2010 as a result of the 'Back to Growth' strategy, balancing profitability with market shares. Revenues excluding disposals were flat compared to 2009, this should be measured against the backdrop of economic headwinds continuing their impact on the business markets and severe regulatory pressure (EUR 180 million for the Group in 2010). KPN has been able to mitigate revenue pressure by cost reductions, without compromising on quality of service. This has resulted in a large step up in EBITDA of EUR 284 million, an increase of 5.5%.

In 2010, Group Capex[3] amounted to EUR 1.8 billion which was relatively stable compared to previous years for both the Netherlands and Mobile International. Free cash flow[4] amounted to EUR 2,428 million compared to EUR 2,446 million in 2009.

In 2010, KPN continued its leading position in shareholder remuneration whereby a EUR 1 billion share repurchase program was completed. The share repurchase supported the earnings per share, dividend per share and free cash flow per share growth. When correcting for the EUR 705 million of deferred tax assets recognition in 2009, earnings per share increased by 28% in 2010. The dividend per share proposed for 2010 is EUR 0.80, subject to AGM approval, which is also in line with guidance.

Guidance metrics [2]	Outlook 2010	Reported 2010
Revenues and other income (existing)	In line with 2009 (EUR 13.4)	EUR 13.4
EBITDA	> EUR 5.5	EUR 5.5
Capex	< EUR 2	EUR 1.8
Free cash flow	> EUR 2.4	EUR 2.4
Dividend per share	EUR 0.80	EUR 0.80[1]

1) Subject to AGM approval.
2) In billions except for dividend per share.
3) Capital expenditure includes property, plant and equipment and software.
4) Free cash flow is defined as cash from operating activities plus proceeds from real estate, minus capital expenditures, being expenditures on property, plant and equipments and software, and excluding tax recapture regarding E-Plus.

Our 2011 Outlook

During 2010, significant MTA reductions have been implemented across the Group. The impact for 2011 is estimated at approximately EUR 500 million on revenues and EUR 200 million on EBITDA. In 2012, the step down in tariffs is less significant in the Netherlands and Belgium and there will be no tariff cut in Germany. This results in an expected regulatory impact of approximately EUR 125 million on revenues and approximately EUR 50 million on EBITDA for 2012.

In 2011, KPN will continue the current strategy under the leadership of the new CEO, Mr Eelco Blok, who will take over the helm at the AGM in April 2011 from Mr Ad Scheepbouwer. KPN confirms the previously announced outlook for 2011. KPN expects EBITDA and free cash flow growth with a Capex of up to EUR 2 billion. Over the full year 2011, KPN is targeting a dividend per share of at least EUR 0.85. KPN remains committed to delivering industry-leading shareholder returns and announced on January 26, 2011 a new EUR 1 billion share repurchase program for 2011.

We use our technology and our services to connect people so that they can share important moments in their lives

The Netherlands

External revenues

69%[1]

€9,106m
(2009: €9,272m)

EBITDA[2]

70%[1]

€3,888m
(2009: €3,687m)

	Share in Group external revenues	Share in Group EBITDA[2]
Consumer	28%	20%
Business	17%	15%
Wholesale & Operations	5%	31%
iBasis	5%	1%
Getronics	14%	3%

Mobile International

External revenues

31%[1]

€4,137m
(2009: €4,037m)

EBITDA[2]

30%[1]

€1,626m
(2009: €1,553m)

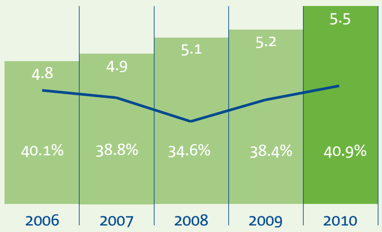
	Share in Group external revenues	Share in Group EBITDA[2]
Germany	24%	25%
Belgium	5%	5%
Rest of World	2%	0%

1) Share in Group external revenues and EBITDA.
2) 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.

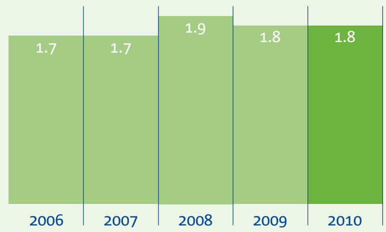
Revenues and other income
(in billions of EUR)

Free cash flow
(in billions of EUR)

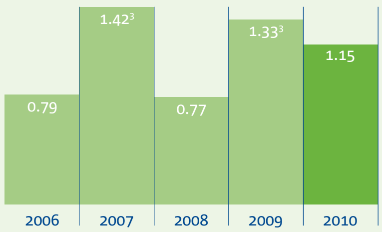
EBITDA (in billions of EUR)/
EBITDA margin



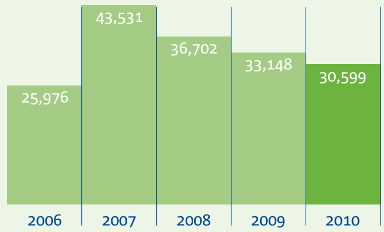
Capital expenditure
(in billions of EUR)



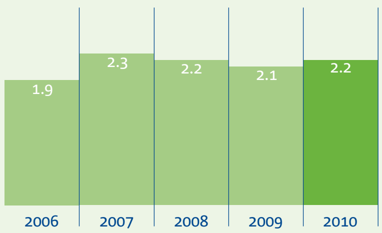
Earnings per share[1]
(EUR)



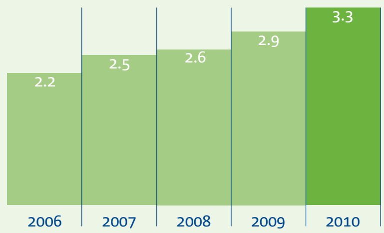
Number of FTEs as of December 31[2]



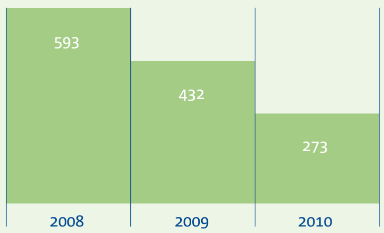
Net debt/EBITDA



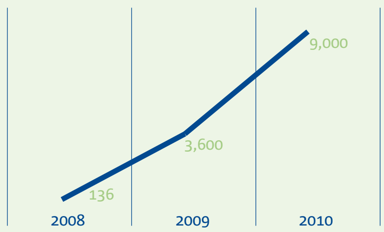
Operating profit
(in billions of EUR)



CO_2 emissions[3]
(in k tons)



New Way of Working
(working stations, the Netherlands only)



1) The increase in earnings per share in 2007 and 2009 is partly due to a tax gain of EUR 1.2 billion (2007) and EUR 0.7 billion (2009) regarding recognition of additional deferred tax assets at E-plus.
2) The increase in the number of FTEs in 2007 resulted mainly from the acquisition of Getronics.
3) No data available prior to 2008 for the whole KPN Group.

KPN attaches great importance to transparent and regular communication with its shareholders, other capital providers and their intermediaries. Presentations for, and meetings with, investors and analysts are held on a regular basis, including those in connection with the announcement of KPN's results. Analyst and investor meetings and conference calls were organized after the publication of the quarterly results and broadcasted live via 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 bond issued in 2000. KPN's obligations to its bondholders were 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, 2010): AEX 6.08%, EURO STOXX Telecommunications Index 10.0%, STOXX Europe 600 Telecommunications Index 5.8%, FTSE Eurofirst 300 Telecom Index 9.1% and MSCI Euro 0.9%.

Share ownership

Capital Research and Management Company notified the AFM on January 7, 2011 that they held 4.90% in KPN's ordinary share capital (previous notification of 9.98% shareholding on April 20 2010). BlackRock, Inc. notified the AFM on February 17, 2011 that they held 4.99% in KPN's ordinary shares (previous notification of 5.05% shareholding on February 9, 2011). To KPN's knowledge, no other shareholder owned 5% or more of KPN's outstanding shares as at December 31, 2010.

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 to be paid out as dividend is 40 – 50% in the medium term, based on KPN's 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 payments regarding E-Plus.

Dividend per share is expected to increase from EUR 0.60 in 2008 to 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 0.80 per share in respect of the year ending December 31, 2010, of which EUR 0.27 was paid out as an interim dividend in August 2010. The proposed dividend for 2010 will be presented for approval at the AGM to be held on April 6, 2011, and, upon approval, the ex-dividend date will be April 8, 2011 and the final dividend will be paid out as from April 18, 2011.

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 unutilized surplus cash balances. KPN intends to return surplus cash to shareholders through 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 January 26, 2010, KPN repurchased 89.9 million shares at an average price of EUR 11.12 for a total amount of EUR 1 billion (for details see table). During 2010, a total of 56.2 million ordinary shares, which were acquired in 2010 and 2009, were cancelled. The number of outstanding shares as per December 31, 2010, amounted to 1,572,609,884, representing a reduction of around 37% of outstanding shares since the start of share repurchases in March 2004.

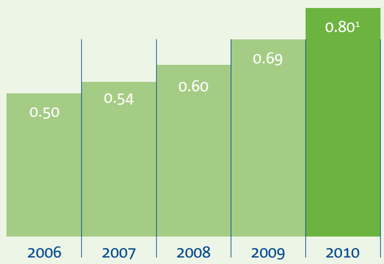
Within the context of the financial policy, KPN announced on January 26, 2011 to repurchase EUR 1 billion of its own shares. The repurchase program is expected to be finalized by the end of 2011. This program has started on February 21, 2011.

KPN Shareholding
Estimated geographic breakdown
(Based on institutional holdings)

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

Source: Thomson Shareholder ID Q3 2010

Dividend per share
(EUR)



1) The proposed dividend for 2010 consists of a cash dividend of EUR 0.80 per share of which EUR 0.27 was paid out as an interim dividend.

The number of shares repurchased under the share repurchase program as announced on January 26, 2010 is as follows:

Period	Number of shares purchased as part of publicly announced program	Average price paid per share in EUR	Amount of share repurchases made under the program (in EUR)
January	–	–	–
February	1,829,921	11.48	21,011,566
March	7,057,483	11.63	82,050,796
April	15,258,325	11.31	172,545,033
May	21,388,056	10.49	224,392,752
June	5,449,289	10.49	57,177,813
July	4,226,702	10.48	44,291,381
August	2,142,252	10.93	23,423,575
September	3,014,295	11.34	34,172,763
October	2,324,664	11.35	26,376,776
November	22,771,317	11.67	265,836,501
December	4,429,956	11.00	48,721,054
Total	**89,892,260**	**11.12**	**1,000,000,000**

Exchange controls

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

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

Obligations to disclose holdings

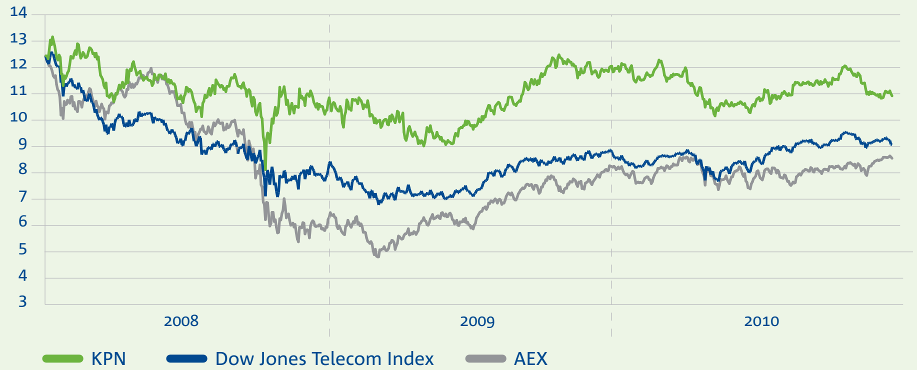
Pursuant to the Dutch Financial Supervision Act ('Wet op het financieel toezicht' or 'Wft'), legal entities as well as natural persons must immediately notify the Dutch Authority for the Financial Markets (AFM) when a shareholding equals or exceeds 5% of the issued capital. The AFM must be notified again 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 2011

April 6, 2011: Annual General Meeting of Shareholders
April 8, 2011: Ex-dividend listing of shares
April 18, 2011: Start of payment of 2010 final dividend
April 28, 2011: Publication of results for the first quarter of 2011
July 26, 2011: Publication of results half year of 2011
October 25, 2011: Publication of results for the third quarter of 2011
January 24, 2012: Publication of results for the full year 2011

Note that these dates may be subject to change.

Share price 2008-2010



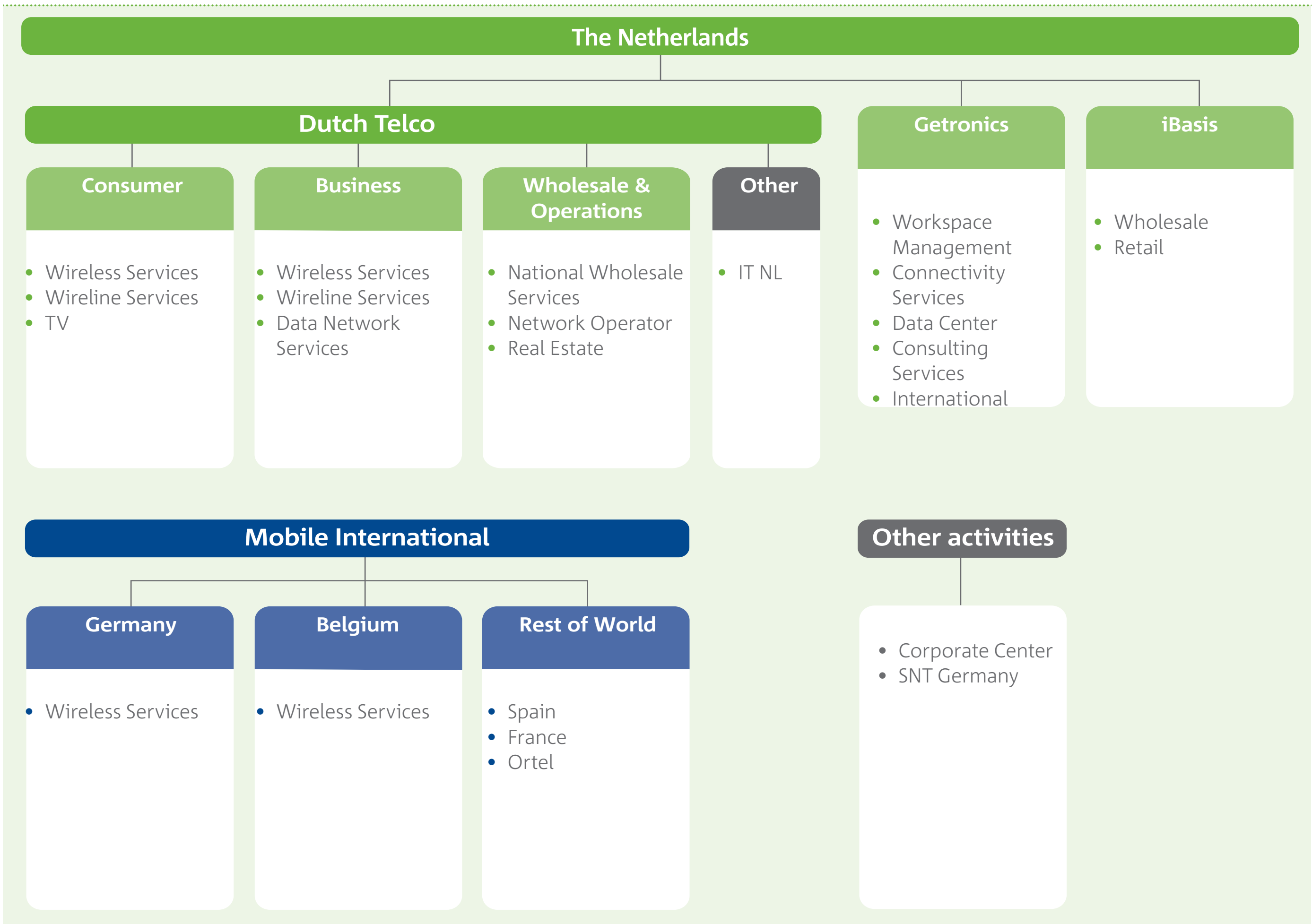
Source: Bloomberg, prices rebased on KPN share price of EUR 12.44 on January 1, 2008

Our organization

KPN's organization in the Netherlands consists of the Segments Consumer, Business, Wholesale & Operations and Other, which together form Dutch Telco, and the Segments Getronics and iBasis. The latter was part of Wholesale & Operations Segment until December 31, 2009.

Outside the Netherlands, Mobile International comprises the operations in Germany, Belgium and the Rest of World. Other activities comprises the Corporate Center and the SNT call centers in Germany.

The overview below reflects the organizational structure as of December 31, 2010. The activities of each Segment are described in more detail from page 15 onwards.



Dutch Telco

Dutch Telco offers its consumers and business customers a complete portfolio of services, consisting of Voice, Internet (wireless and wireline), TV services and a range of data network services. The main objective of Dutch Telco is to strengthen its position as leading service provider and be the best-in-class network operator.

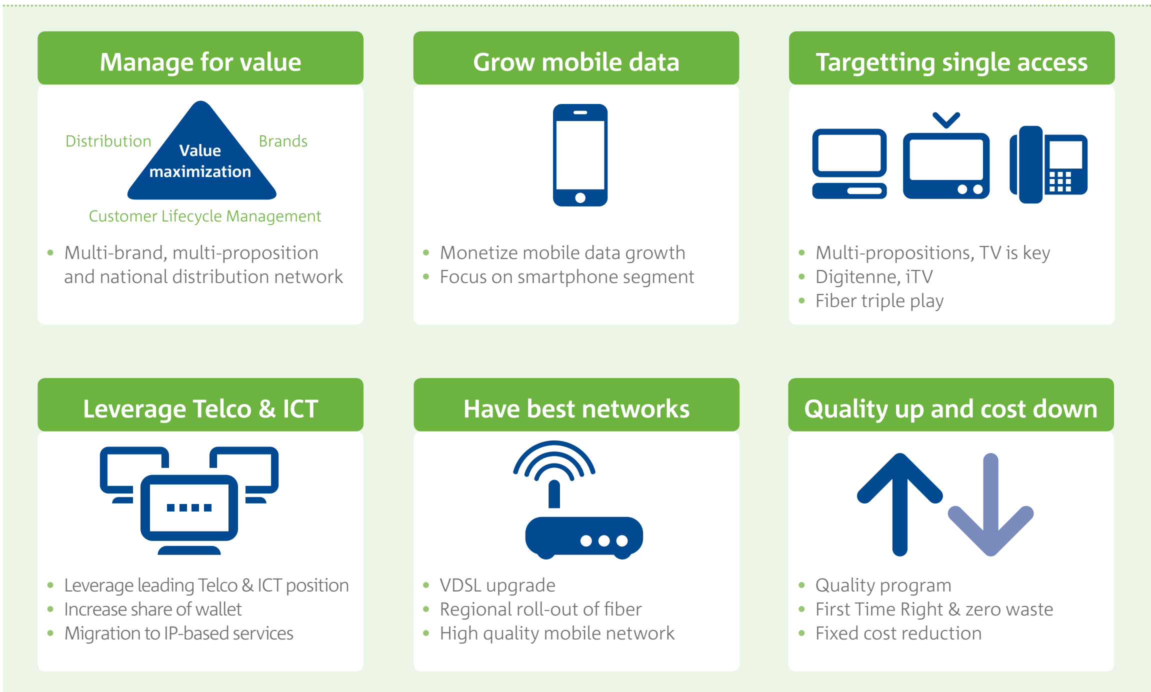
Goals and strategy

Dutch Telco continues to aim for leadership in customer loyalty by quality improvement (e.g. 'First Time Right'), improvement of customer contacts (e.g. by using Net Promotor Score) and simplification. In the fixed consumer market the goal is to have a high share of customers that exclusively use KPN for their services. In the business markets the goal is to remain market leader in the key markets and in the consumer and business mobile markets the goal is to be leading in creating value for our customers and KPN. Building KPN's reputation and employee engagement are important elements of KPN's strategy. Through a strategy of maximizing customer and market value, both in mobile and fixed markets, increasing share of wallet and offering new services (mobile data services) as well as structural cost reductions, Dutch Telco aims at continuous growth and profitability despite the effects of MTA regulation.

The key elements of KPN's strategy to achieve the objectives and goals of Dutch Telco can be summarized as follows:

Environment and competition

Dutch Telco has to deal with various major external forces. Firstly, the strong growth in demand for fixed bandwidth, driven by video, and mobile bandwidth, driven by mobile data, is ongoing and will accelerate the coming years, providing an opportunity to create value for end customers. Secondly, competition remains harsh, led by cable companies in the consumer market and with a multitude of competitors, including cable companies in the business market. Thirdly, pressure on prices by regulation through MTA cuts, which will continue to impact KPN's revenues going forward. Finally, local government fiber initiatives increase the competitive pressure within the Netherlands and introduces new competitors.



Consumer Segment

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.

In the Consumer Segment, KPN exploits a multi-brand approach, based on premium brands KPN and XS4all and the youth/budget brands Hi and Telfort, to effectively serve multiple segments. KPN is the quality brand for the 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 targeting customers with heavy demands. Hi targets young people with a dedicated wireless portfolio focusing on social networking capabilities.

KPN focuses on value maximization by aligning SAC/SRC with pricing, while keeping a close eye on market share. The number of 'unique' connections (customers fully served by KPN) is increasing, fuelled by a steadily growing penetration of triple play offers.

The Consumer Segment ambition is on strengthening its position as the leading consumer service provider with market share growth in broadband and wireless.

Products and services

Wireline Services (Internet, Telephony and TV)

During 2010, KPN enhanced its service footprint for higher-speed Internet and (HD) iTV service by building out its broadband infrastructure with VDSL and Fiber to the Home (FttH). Because the broadband fight is mainly around the 20–30 Mbps product, with higher bandwidth services just being taken by a minority of the market, KPN was able to stabilize its broadband customer base. KPN's broadband position was supported by the roll-out of fiber, securing its long-term market position. The network upgrade also enabled a successful national iTV launch in 2010 offering various features that enhance the value proposition, with a focus on interactivity and video on demand. With approximately 300 thousand iTV and 900 thousand Digitenne customers, KPN is on track for a total TV base of 1.5 million in 2012.

Wireless Services (Retail and Wholesale)

On the wireless side, KPN launched new mobile data propositions (mainly from flat fee to volume-based pricing) and invested in national distribution footprints for its three mobile brands (KPN, Hi and Telfort). Mobile data continued to grow in popularity, fuelled by the growing demand of mobile internet connectivity for smartphones as well as for laptops and notebooks. KPN's advanced network facilitated the launch of a compelling array of new smartphones, including from the fourth quarter of 2010 the Apple iPhone, giving KPN customers more choice and earlier access to the latest devices. In the fourth quarter of 2010, KPN updated its mobile data products for laptop computers and brought them in line with its fixed broadband propositions. At the same time KPN expanded its mobile data portfolio for laptop computers with a flexible prepaid offer.

KPN's Dutch Mobile Wholesale activities offer flexible customized platforms which ensure that partners can successfully introduce their own mobile proposition in the market. In particular, growth was visible in the cultural and messaging segment while also new partners contributed to the success of the mobile wholesale business in 2010. Around 2.3 million end-users are connected to the KPN network via our mobile wholesale partners.

Environment and competition

A dynamic and competitive environment remained key features of the Dutch telecom market. Competition from the cable is intense, and following the deployment of Docsis 3.0, cable operators such as UPC and Ziggo are able to offer high speed broadband. KPN's broadband market share was under pressure in 2010, and slightly decreased from 42% to 41%. The completion of the VDSL-CO network upgrade, the increasing efforts for FttH and the growth in the iTV business, reaching more than a quarter of a million customers, supported KPN's market share. Approximately 50% of all new iTV subscribers are new broadband customers while around 80% take a triple play package. Helped by increasing fiber activations, KPN's broadband base reached 2.6 million customers, including 41 thousand FttH customers.

In wireless, a fast evolution of the market with new compelling smartphones and ongoing competition from Vodafone and T-Mobile were important characteristics. Nevertheless, KPN was able to consolidate its revenue market-share position. An up-to-date handset portfolio, sales actions focused on postpaid propositions and exploiting our nationwide distribution network were important cornerstones. In line with KPN's value maximization approach, the number of postpaid customers increased by almost 100 thousand to 3.2 million. In the course of 2010, increased commercial efforts fuelled postpaid net adds while keeping ARPU stable and SAC/SRC under control. As a result, at the end of 2010, KPN's postpaid base represented 57% of the customer base compared to 48% in 2009.

Business Segment

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 objective of the Business Segment is to remain a leading infrastructure and managed ICT service provider for small and medium sized companies in the Netherlands, to be a preferred supplier to in the business market and grow with best-in-class margins.

Products and 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 also provides its business customers with the Getronics portfolio, e.g. workspace management, data centers and consultancy services.

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 for its business customers. In this way, logical combinations are created that enable business customers and their employees to work more efficiently. With 'Ondernemerspakket InternetplusBellen' in the SME market, KPN offers a bundled proposition with a toolbar in outlook that allows the customer to be reached anytime, anywhere.

In 2010 strategic focus was granted to the execution of an integrated healthcare strategy by a dedicated team, which is part of the Business Segment. This includes all the fixed as well as mobile solutions for healthcare. In addition KPN has developed some specific healthcare solutions like bedside terminals for hospitals and DiabeticStation for the healthcare chain: GP's-hospitals-homecare workers, and telemedicine solutions.

New Way of Working

In 2010 KPN extended its 2009 mobility efforts as it is an important topic for the Netherlands and for KPN. The New Way of Working ('Het Nieuwe Werken') merges multiple solutions that allow customers to support their business objectives and allow for growth. Further, it helps customers to ensure corporate sustainability, attract a new workforce, achieve cost benefits and work on mobility management.

Machine-to-Machine Connectivity

The momentum in the Machine-to-Machine (M2M) market was seized on in 2010 by means of a strategic partnership with Jasper Wireless. While noticing that scale is a key differentiator in this market, KPN aims to be a leading M2M service provider in the pan-European and local markets, selling solutions based on a single platform.

Environment and competition

In 2010, the Business Segment continued to be a leading ICT service provider to small and medium sized companies in the Netherlands.

Increasing broadband penetration in the market for small enterprises threatens KPN's traditional voice access services (PSTN and ISDN), where KPN encounters significant competition from cable operators offering VoIP solutions bundled with broadband Internet. The demand for mobile data services continues to grow strongly and is forecasted to remain strong. KPN's mobile data portfolio remained top of mind with its successful marketing campaign 'Dongel of KPN'. The main competitors of KPN in the wireless business market are Vodafone and T-Mobile. In a competitive market, KPN managed to maintain the largest market share for Mobile Voice and Mobile Data in the Netherlands.

Within Data/Network services, KPN is the leading provider in the Dutch business market both in terms of revenues and 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 (including BBned), Verizon Business, Orange Business Services, BT, AT&T Business, Colt, Essent, UPC and Vodafone-TNF. 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.

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

Wholesale & Operations

The Wholesale & Operations Segment provides network services and facilitates all infrastructure needs to internal KPN segments as well as 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.

The objective of the Wholesale & Operations Segment is to be a best-in-class network operator with very high productivity, network migration to IP and growth of the wholesale business.

Products and services

National Wholesale Services

National Wholesale Services are provided through KPN Carrier Services (CS). CS provides other telecommunication companies with 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. CS offers IP-solutions to wholesale customers targeting the consumer market as well as the business market (with equal conditions for all the network and service providers). In addition to different access solutions, KPN offers voice, internet and television platforms, enabling service providers to enter the market without significant investment.

Network Operator

KPN's infrastructure is going through a radical change. By further migrating to fiber and rolling-out the VDSL network, KPN aims to become a even more highly efficient network operator. In the coming years, KPN will focus on accommodating the increasing capacity requirements on its mobile as well as its fixed networks. Also part of the Network Operator is Customer Operations (CO), which conducts the service delivery and assurance for all KPN services and products. CO executes all installation activities on the customer premises for the consumer, business and wholesale market and is specialized in solving complex customer problems. KPN aims to increase the reliability and quality of service through implementing 'First-Time-Right' programs.

Other activities

Also part of Wholesale & Operations is Real Estate services, which focuses on managing all facility management services for internal KPN Segments as well as the sale of real estate.

Environment and competition

At National Wholesale Services, the trend seen in previous years continued whereby ISDN/PSTN connections continued to decline throughout 2010. This decline in traditional services was matched 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 wholesale customers, with a broader range of products.

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. KPN expects IP and broadband to become dominant and mainstream within the industry and to replace 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, customers are offered VDSL as intermediate step to offer higher bandwidth and HDTV. Connections up to 40 Mbps are currently supported.

Rationalization of the legacy networks

KPN's Life Cycle Management program aims at timely phase-out of legacy networks, reducing the variety of networks and related costs, and minimizes continuity risks. The further off-load of the legacy ATM-network towards future-proof Ethernet was continued in 2010, e.g. at least 70% of consumer ADSL has now been migrated.

The introduction of Voice over IP and 'mobile only' customers has decreased the number of customers on the traditional telephone network. This type of technology simplifies the network. The last PRX/A exchange was taken out of service on December 7, 2010.

Fiber network

One of the key components of KPN's future network is the roll-out of a fiber network. The roll-out of the FttH network is done by Reggefiber Group B.V. which operates on the basis of an open access model. KPN has a minority share of 41% in Reggefiber Group BV. with the other shares held by Reggeborgh. KPN believes that fiber is the long-term superior technology. In 2010, further progress was made with rolling out the network.

Reggefiber Group B.V. increased its Homes Passed (HP) base to approximately 658 thousand by the end of 2010. The ambition is to further expand the HP base to 1.1 to 1.3 million in 2012. To accelerate the roll-out of fiber and to decrease expenditures, KPN no longer rolls out copper for new residential areas, which exceed 250 houses.

TV network

In 2010, HD-channels were introduced on the iTV-platform. Because of the ongoing improvements on new compression techniques it is possible to achieve better video quality and to introduce more SD-channels. Due to the introduction of advanced network techniques it is possible to extend the coverage and reach more customers. A new set-top box and several software releases have been introduced to improve service.

The DVB-T network used for the Digitenne terrestrial TV-service is stable and performs well. Several transmitter sites have been improved and relocated to increase the coverage area. In 2010, investments in hardware were made to further improve reception of the Digitenne signals and outdoor and indoor coverage.

Wireless Network

Total mobile voice traffic was stable in 2010; about 36% of the mobile voice traffic is carried by the UMTS network. The quality of KPNs voice services remained high and further improvements to optimize the network's performance were implemented. However, the largest developments in 2010 were in mobile data traffic. The wireless network experiences a strong increase in data users, with the average data usage per customer also increasing. Both these trends and the strong uptake of smart phones and applications have resulted in an exponential growth in data and signaling traffic. Mobile data continued to grow at 40% over 2010, and signaling traffic grew at about 400%. To be able to handle the growth of mobile data and provide customers with a superior experience, further investment in the capacity of the network were made.

The tables below show the number of active base stations, the average network usage as well as the coverage ratios of KPN's network in the Netherlands as of December 31, 2010:

Active base stations[1]	
2.5G sites	4,763
3G sites	3,717
Total sites	**8,480**

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	99.1%
Indoor – as % of population	99.1%
UMTS network	
Outdoor – as % of population	99.5%
Outdoor – as % of area	94.5%

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

New equipment was installed in the radio and core network domains, heavily expanding the available network capacity. The number of sites connected to fiber optics was expanded to 2,159, and approximately 267 extra sites increased the UMTS coverage ultimo 2010 to 99.5% population coverage and 94.5% area coverage; resulting in the best UMTS coverage of all Dutch operators. Ethernet connectivity via fiber optics was introduced as part of KPN's future-proof mobile network architecture, a solution which will significantly drive down operational cost in the coming years. HSPA 7.2 and HSPA 14.4 coverage were further expanded resulting in the highest average throughput rates of all Dutch operators and provides the best customer experience in mobile data.

Getronics

Getronics is the ICT services company of KPN covering enterprise market customers. Getronics is a market leader in ICT services across the Benelux and has a well-established reputation in other selected countries, including Germany, Switzerland and the UK.

As a founding member of the Getronics Workspace Alliance (GWA), the company also offers consistent global IT support through a formal network of IT service companies.

Strategy

Getronics aims to strengthen its position in the Benelux in both 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 this product portfolio with additional professional services.

Products and services

Workspace management

Today, Getronics can provide workspace management on any scale at any location. To maximize the value of engaging with Getronics as a partner in the workspace, the company has developed its own position as a 'services aggregator'. As customers' services demands become more complex and more dynamic, they seek out partners capable of combining services and technologies from multiple sources in a way that can be delivered simply through a single point of contact. The adoption of this business model became the norm within Getronics during 2010, with over 7,500 employees using this virtual workspace. It has resulted in significant increases in productivity and in reductions of around 25% in costs (for example office space). These benefits are further enhanced by a corresponding reduction in business travel.

For international customers with a highly distributed geographical presence, Getronics' position as a services aggregator, combined with the increasingly influential GWA, delivers a distinctive combination of value and versatility. The seven members of the GWA won new business and successfully extended existing contracts during 2010. The GWA members are: Getronics, CompuCom (USA and Canada), TecnoCom (Spain), APX (France), Getronics Middle East, ServiceOne Getronics (China) and NTT Data Getronics (Japan). During 2010, the GWA serviced over 6 million ICT assets worldwide, of which Getronics is directly responsible for 2.3 million.

Connectivity services

The 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.

During 2010, the relationships and synergies between Getronics and other members of the KPN Group continued to develop. The rise in demand for collaborative video-conferencing and the increased business need for optimized and integrated IT and telecommunications services led to focused and collaborative business development between Getronics and other KPN segments. An increasing number of customers benefit from the integrated solutions that can be offered

Data center

The data center is becoming the engine for business in a web-connected world. This becomes even more pronounced as cloud and virtualization increase in importance for international enterprises. Since Getronics assumed responsibility for all KPN data center resources and managed security capabilities in 2009, the strategic importance of these resources has become even more pronounced. Data Center manages assets, servers and physical facilities, ensures that all security and access is effectively planned and managed and delivers business, application and information availability to agreed standards.

In general, data center services are under increasing scrutiny from the perspective of sustainability, and Getronics' green data centers can now both service customers' growing need for virtual access to storage and processing, and also help to quantifiably reduce carbon emissions.

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 Services uses formal, standards-based tools and methods to undertake meaningful analysis and produce practical and executable recommendations.

Environment and competition

Getronics maintained its position as market leader in 2010 in a competitive market thanks to the strong renewal rate amongst long-term Benelux customers. 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 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.

iBasis

Through iBasis, KPN is a top player in the international wholesale voice market. iBasis carries international phone calls worldwide. The company offers its carrier customers a range of global call termination products that provide flexibility of coverage and features, as well as a portfolio of value-added data services for mobile operators.

Strategy

iBasis' strategy is to leverage its global IP infrastructure and expertise, sophisticated back office systems, and massive scale to provide superior international communications services to fixed and mobile operators worldwide with high quality and efficiency.

Products and services

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

Environment and competition

Challenges are to maintain margins and market share in current markets despite strong price and margin pressure.

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 approximately 25 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, BICS and Deutsche Telekom. 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.

Mobile International

Mobile International operates in Germany, Belgium, France and Spain. The objective of Mobile International is to expand and continue profitable growth in the European mobile business.

Goals and strategy

To achieve this, Mobile International pursues a Challenger strategy. Specific market segments are targeted through multiple own brands and wholesale partnerships with new mobile data propositions. The network roll-out is based on those services that consumers desire, with a strong focus on return on capital employed. Germany and Belgium implement a regional strategy, expanding the addressable market by moving into regions and market segments that are currently under-represented. The regional strategy should increase market share through alignment of the local network roll-out and commercial activities. Distribution is strengthened through expanding the number of own shops, online sales and exclusive wholesale channels to become less dependent on external retail channels.

Mobile International's Challenger strategy is built around four pillars:

Following the proven success of the Challenger strategy in Germany and Belgium, specifically wholesale partnerships, the model has been expanded to Spain and France. KPN Spain and KPN France are focused on accelerated growth and achieving scale as MVNOs with Simyo and Ortel as leading brands.

In 2010, Mobile International started with the accelerated roll-out of high-speed data networks on a regional basis in both Belgium and Germany. Mobile International aims to achieve its fair share of the datamarket through value for money data offers, leveraging the partnership with ZTE and existing vendors and utilize its valuable spectrum.

Multi-brand

- Targeting specific customer groups with differentiated brands and offers

Partnerships

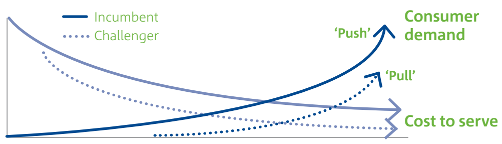
- Commercial and operational partnerships to leverage capabilities

Investment principles

Timed investments | Proven technology | Lower risk | Lower cost

- Invest at the right time in proven/standardized technology

Business model



- Strong margin due to lowest cost to serve in selective target segments

Based on regional focus

Germany

In Germany, E-Plus is the third largest mobile telecommunications network operator offering 'value for money' mobile services.

Products and services

E-Plus continued its multi-brand strategy with various tariff structures: E-Plus brand with bundle packages like Time & More, BASE offering flat-fee packages, Simyo as web-only prepaid mobile operator and Ay Yildiz offering prepaid and postpaid products for the Turkish-speaking community. Wholesale solutions are offered for an increasing number of partners which act as branded resellers, including Medion, WAZ, MTV and MVNOs like Versatel, NetCologne and Ecotel. In 2010, new propositions were launched like ADAC with Safety belt.

In February 2010, BASE was re-launched with new simple and flexible offers. The accelerated roll-out of high-speed data networks, enabled E-Plus to introduce value for money mobile data propositions. In November 2010, E-Plus introduced smartphones with internet-inclusive offerings in nine selected urban areas.

Environment and competition

Four mobile network operators, all holding spectrum 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 70%.

In addition, next to the German independent service providers like Freenet/Mobilcom and Victor Vox, numerous branded resellers like Medion, Fonic, Congstar, Klarmobil or Tchibo sell products and services from various network operators, normally exclusively with one network operator.

Infrastructure in Germany

The network roll-out is based on customer demand for services and the regionalization strategy. E-Plus is investing in high-speed 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 coverage at the end of 2010 was 84% of the population. Additionally, the roll-out of HSPA has been expanded and coverage was 45% of the population. E-Plus is currently rolling out HSPA+ with speeds up to 21.6Mbit/s.

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

Frequency auction

On May 20, 2010, the German spectrum auction for a total of 359.2 MHz of frequencies ended. E-Plus' value-driven approach has resulted in the acquisition of 70 MHz of frequencies (19% of the auctioned spectrum) for a consideration of EUR 284 million (6.5% of total proceeds). This acquisition doubled the amount of spectrum and E-Plus now holds about 25% of total spectrum in the German mobile market. The combination of four blocks in 2.1GHz provides the highest possible capacity in the most standardized frequency for mobile data, perfectly suiting the Challenger strategy. Furthermore, the 2.1GHz band is flexible in the use of technology, enabling E-Plus to upgrade to LTE when demand is there. Another important element is the fact that E-Plus' current 1800 network infrastructure can be used for the further roll-out of mobile data. There is no need to build additional sites for coverage in the areas where the company has its focus. By using its current sites, E-Plus saves time as well as investment in the network roll-out. Furthermore, E-Plus does not have any roll-out obligations following the auction, so E-Plus can concentrate on upgrading and further expanding its data network where its customers are.

The table below shows the number of active base stations, the average network usage as well as the coverage ratios of KPN's network in Germany as of December 31, 2010:

Active base stations	
2.5G sites	19,005
3G sites	7,675
Total sites	**26,680**

Average network usage	
Usage – as % of capacity	55% (GSM)

Network coverage ratios	
2.5G network	
Outdoor – as % of population	99.9%
Outdoor – as % of area	99.1%
Indoor – as % of population	90.1%
3G network	
Outdoor – as % of population	70.1%

Belgium

In Belgium, KPN Group Belgium is the third largest mobile telecommunications provider. It is positioned as an innovator in products and services via a segmented, multi-brand approach.

Products and services

KPN Group Belgium offers, under a variety of brands, a portfolio of voice and data products and services in Belgium that offer 'value for money' and simplicity. BASE is the retail brand for prepaid and postpaid products. Simyo as web-only prepaid mobile operator. Under the Ay Yildiz brand, prepaid and postpaid products for the Turkish-speaking community are offered. BASE Business offers products for the business market (Soho-SME) and the Zoniq brand has products with interesting tariffs for roaming and international calls.

Environment and competition

As in previous years, KPN Group Belgium remains 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 stake in Mobistar. Belgacom Mobile remains the market leader in Belgium with Mobistar, as the runner-up, at a clear distance. KPN Group Belgium, being the third-largest provider, is the challenger in the Belgian mobile market.

Infrastructure in Belgium

KPN Group Belgium continues its smart follower strategy and has accelerated the roll-out of its high-speed mobile data network at the lowest cost to serve. Following this accelerated high-speed mobile data network roll-out, KPN Group Belgium has started offering attractive new data services in multiple urban areas and relevant hotspots.

The table below shows the number of active base stations, the average network usage as well as the coverage ratios of KPN's network in Belgium as per December 31, 2010:

Active base stations[1]	
2.5G sites	2,967
3G sites	802
Total sites	**3,769**

Average network usage[1]	
Usage – as % of capacity	44.5% (GSM)

Network coverage ratios[1]	
2.5G network	
Outdoor – as % of population	99.9%
Outdoor – as % of area	98.1%
Indoor – as % of population	98.3%
3G network	
Outdoor – as % of population [2]	>50%

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

2) 3G outdoor coverage including Edge >90%

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.

Products and services

KPN launched several own brands and partner brands in the Spanish and French market, through partnering with local network operators (respectively Orange SA and Bouygues Telecom) instead of operating its own network. In Spain, KPN has increased focus by optimizing its brand portfolio during 2010 through phasing out less successful brands and launching new differentiated offers. The own 'no frills' Simyo brand remains the flagship with a healthy mix of prepaid and postpaid customers. The '40 Móvil' brand has been launched (September 2010) with media partner Cuarenta to target the youth segment while the own Ortel brand has been launched (November 2010) to target the cultural segment. In France, KPN also focuses on its international Simyo brand through enhanced offerings and targeted promotions. In March 2010, Ortel France was launched, targeting cultural segments in the French market, representing an addressable market of more than eight million people.

On January 22, 2010, KPN acquired the remaining 35% shares in Ortel Mobile, enabling the accelerated expansion of Ortel's footprint to France and Spain through leveraging the successful business model of Ortel in Belgium, Germany and the Netherlands. Ortel Mobile focuses on the cultural segment which remains challenging due to competitors' ongoing price promotions targeted at gaining market share. Ortel differentiates through the quality of its distribution network and selective promotion to drive usage. In Belgium, Ortel is the undisputed market leader in the cultural segment and continues to grow through targeted promotions. In the Netherlands, market share is being gained through strengthening its distribution network. In Germany, the focus is on profitable growth through increasing customer activity and less aggressive acquisition.

Environment and competition

Next to the major MNOs (Movistar, Vodafone, Orange and Yoigo) the key competitors of KPN Spain are MVNOs Pepephone and MasMovil. In Spain, KPN remains the leading MVNO. In France key competitors are mostly the major MNOs (Orange, SFR and Bouygues Telecom). The MVNO-market is relatively undeveloped, but new players (Free and La Poste) are expected to enter the MVNO-market. Ortel's key competitors are Lebara and Lyca who also focus on the cultural segment in the markets in which Ortel is active. Following the strong growth of the cultural market segment in many countries, the number of (international) cultural MVNOs has increased.

KPN's Corporate Social Responsibility policy is a inseparable part of KPN's business strategy as it is KPN's ambition to strengthen its position as a leading service provider which infuses trust and loyalty among its customers, employees and other stakeholders.

KPN's view on Corporate Social Responsibility

Nearly everyone in the Netherlands knows KPN. KPN's existence goes back over 125 years and is a major corporation with a strong position in the Netherlands. As a company of this size that has grown together with the society it serves, KPN is dedicated to make its own contribution. Sustained financial health is of importance to the many who depend on it: our employees, shareholders, suppliers and customers. But to achieve this, a healthy operating environment is indispensable, which is why KPN invests in Corporate Social Responsibility (CSR). KPN helps create a better business environment; KPN's business operations are environmentally sensitive and climate-friendly, KPN invests in a society in which everyone can play a part in and KPN aligns products and services with the needs and/ or changes of society.

In 2010, KPN invested EUR 1.8 billion in the fixed and mobile network and other assets needed for its operations. KPN's position in the community allows us to understand how and where to deliver our added value and permits us to enter into a debate on the quest to build a sustainable future.

In 2010 KPN took several initiatives that support our CSR policy. Highlights of this year were:

- Listed in the Dow Jones Sustainability Index, a year earlier than aspired;
- 9,000 KPN employees are now working according to the New Way of Working;
- 75% of KPN's electricity in the Netherlands is green. As of 2011 KPN's electricity in the Netherlands and Belgium will be 100% green;
- The World Wildlife Fund (WWF) asked KPN to become a member of the Climate Savers Program;
- 2,200 KPN employees participated for the 'Mooiste Contact Fonds';
- Number one in the Transparency Benchmark of the Ministry of Economic Affairs; and
- 82% of our employees in the Netherlands believe that KPN operates in a sustainable way.

Making more possible for our customers

It is thanks to our customers that KPN has a right to exist. KPN does its very best to earn our customers' respect. First of all, by trying to make our services simple and easy to use for our customers and meet our customers' needs as correctly as possible. And second, thanks to the socially responsible activities KPN undertakes.

A guiding principle coming from KPN's core competencies is that of facilitating linkages and contact between people. KPN provides products and services that make life easier and more pleasant and that allow people to work free from the constraints of time or place. KPN encourages cooperation between people and between generations. We see that people have a growing need for freedom of choice. Today's new staff members want to mould their own lives and not to be restricted by office hours: the New Way of Working.

Wider freedom of choice and flexibility provide the scope needed to combine work with a role in society, such as care giving.

Innovation and the environment

KPN has set itself the target of being climate-neutral by 2020. KPN wishes to achieve this through savings on energy, by increasing the energy efficiency of KPN's network and KPN's data centers and by using green energy. CO_2 compensation is the last step. In 2011, KPN activities in the Netherlands and Belgium will only use green electricity for all the electricity we need. For Germany a stepwise approach for greening the energy has been chosen.

KPN, a sustainable service provider

KPN wants to be a service provider that is at the heart of the community. The activities volunteers carry out for the 'Mooiste Contact Fonds' illustrate the meaning of what it is to be of service. Since the Fonds' establishment in 2008 more than four thousand volunteers have put their shoulders to the wheel for one of the projects. These are aimed at promoting social contact amongst vulnerable target groups. KPN has seen that ICT offers opportunities allowing everybody to take part in society. The 'Mooiste Contact Fonds' initiates and supports projects in which ICT is deployed to permit vulnerable target groups to participate in the community.

Staffing and diversity

KPN is convinced that business success in the service industry stands or falls with the involvement of our people in their work and the way they relate to the customer. KPN believes that this involvement is best promoted by offering a challenging and inspiring working environment, by being a good employer and by building up an enterprise our people take pride in. KPN's activities in the area of CSR illustrate our approach to business and bolster that pride.

In 2010 KPN continued to implement the New Way of Working in our offices. In the Netherlands KPN reached the following targets: 7,000 New Way of Working workspots, 8,000 meetings via videoconferencing and 9,000 KPN employees who put the New Way of Working into practice. KPN sees that our business partners recognize KPN's initiatives and more and more business customers put this topic on the agenda.

KPN is a firm believer in the power of a diversified workforce at every level in the company. KPN believes that a company that reflects the society in which it operates is better equipped to detect social trends and to translate these into its business strategy. KPN wishes to be seen as an attractive employer by a diverse group of people. This enables KPN to face the challenges of an ageing population that makes it harder to attract and retain talent. A labor force drawn from every kind of background is a source of additional energy in the company, leading to innovation and revenues. This diversity policy itself enhances our attractiveness on the labor market.

Governance

The Board of Management and the CSR Steering Committee jointly set the company's CSR policy and targets. The CSR Steering Committee has a coordinating function. The Supervisory Board, in line with its advisory and supervisory duties, is closely involved in CSR. The CSR Steering Committee meets every month under the chairmanship of Baptiest Coopmans, the KPN Board of Management member with responsibility for CSR.

In 2010 the sustainability structure has been rolled out in Germany. A full time CSR Manager has been appointed and a steering committee has been put in place to shape E-Plus' sustainability policy to ensure seamless coordination with the one in place at KPN Group. A member of E-Plus' Board of Management heads the CSR Steering Committee.

Listing on the Dow Jones Sustainability Index

KPN is proud to have been admitted to the Dow Jones Sustainability Index in 2010. That listing ranks KPN amongst the top 10% of the most sustainable telecom companies in the world. The listing confirms that KPN is on the right track to becoming a sustainable leader in the ICT industry.

In dialogue

KPN is in continuous dialogue with the society of which it is part of. This dialogue is to identify trends at an early stage and to translate these into the business, but also to evaluate the Company's conduct, to ensure KPN is doing the things people expect. This transparency provides valuable information which helps to determine the CSR policy and objectives.

KPN has opened a dialogue with a wide span of stakeholders. In 2010, KPN also updated a selection of the major Dutch investors with details of the CSR operations. They advised KPN that they consider a transparent and logical CSR policy to be ever more important. A company that includes CSR as part of its corporate strategy has a better focus on the longer term which allows them, the investors, to expect more stable financial results. Specific comments were:

- KPN's CSR policy has improved significantly since 2008 and compares well with that of its peers;
- If suitable, successful CSR operations of KPN can be exploited commercially;
- KPN's sustainability report is studied carefully alongside the Annual Report as it sheds additional light on the risks facing the Company; and
- We need to do a better job of explaining what we do in terms of raising customer satisfaction and service levels.

In 2011, KPN will pursue a more consistent policy of disclosure towards CSR rating agencies and investors. In so doing we will take care to ensure that we communicate the fact that our CSR policy is not a stand-alone program but part of our corporate strategy.

Reference made to KPN's 2010 Sustainability Report for an extensive description of our CSR activities. This sets out details of the results of our efforts in 2010 and the objectives for 2011. The Sustainability Report will be published by the end of February 2011.

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

KPN identifies product & services innovations, infrastructure & network innovations and process innovations.

Product & Services Innovation

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

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

Interactive TV (Consumer)

On iTV the uptake has started. With the introduction of HDTV becomes more popular. By expanding and adapting the network the market reach has increased to 80% of the Dutch households being able to use iTV from KPN. Several technical improvements in network, technology and customer equipment have lead to improvements in the stability and picture quality. The number of available HDTV channels for customers increased significantly during 2010. By the end of 2010, the market reach of HDTV was approximately 69% of Dutch households. In addition to the increase in the number of HDTV-channels, the choice of content has been enlarged. The 'Uitzending Gemist' service is signed up for the RTL and SBS channels and the video on demand library has expanded with about 1,000 titles to 2,500 titles in 2010, making this service more popular with the customers.

Mobile data (Consumer & Business)

Rising smartphone penetration with the iPhone and Android-based devices taking shares and the iPad ramping faster than any other 'new thing', were the well-known trends in 2010 driving KPN's mobile data momentum. Consumer usage of wireless data was growing at a rapid rate and this growth trend will likely stay in place for years as consumers demand more from their wireless devices. With new, innovative devices to come, wireless options continue to grow rapidly and will drive consumers' expectations from mobile connectivity: more connected, more affordable, faster, easier to use, fun to use and access to nearly everything. As a result, mobile usage tends to be more and more about data. Therefore, though smart phones require an upfront investment, they also represent significant opportunities for further revenue growth. As well, they enable KPN to fully participate in changing markets and new revenue opportunities.

Based on consumer research, KPN launched in 2010 new dedicated rate plans which offer customers value for money and transparent data propositions . KPN expects that these offerings – a high quality, robust mobile network – will support subscriber loading and reduce churn.

Machine-to-Machine solutions: Smart metering (Business)

Smart metering is remote reading and controlling of electricity/gas meters. In the Netherlands there is a legal obligation for energy retail companies to provide all 7.7 million homes with smart meters between 2011 and 2018. The first step is reading smart meters every 15 minutes to match this obligation and the next step is adding new services like home automation. KPN has good relationships with all utilities and is positioned as a major player in the Dutch smart metering market.

eHealth (Business)

KPN participates in several eHealth initiatives related to healthcare solutions which enable self-care and independent living. For example, DiabetesStation is a successful eHealth application developed in 2010 together with Erasmus MC, University Medical Center in Rotterdam the Netherlands. The DiabetesStation is an interactive measuring station that enables patients with diabetes to measure their own vital values without assistance of a medical professional. The patients receive interactive guidance in their own language and the system gives them immediate feedback. The DiabetesStation gives patients a greater autonomy and therefore influence in managing their disease, and saves a lot of time and costs for medical professionals.

Workspace Select (Getronics)

Workspace Select is a modular and standardized workspace solution which uses a mixture of a customer's own (existing) infrastructure and online data services. The service reduces the ICT costs and maintenance efforts for customers. Customers receive a 'back-end-server' for their office applications, this way the most up-to-date software is available for all workspaces.

Service Management (Getronics)

Getronics has invested in the implementation of innovative service management in order to provide the best services. The Global Service Delivery Model ensures worldwide consistent services based upon ITIL 3, simplifying and clarifying the service delivery. Through a Self Service Portal, customers have direct access to the services needed.

Infrastructure & Network Innovation

Fixed Infrastructure (the Netherlands)

The ongoing demand in growth of bandwidth and services requires continuous development in design and capabilities. As part of KPN's strategy to maintain a leading position in the broadband market and develop new communication services, services and networks based on IP and broadband are rolled out. All IP is considered KPN's largest and most important innovation project. The use of All IP networks enables more efficient, effective and scalable usage of the telecom infrastructure, providing larger bandwidth and higher speeds.

One of the key components of KPN's future network is the roll-out of a fiber network, Fiber-to-the-Home (FttH). KPN believes that FttH is the long-term superior technology and in 2010 KPN made further progress in rolling out this network.

Mobile Infrastructure (the Netherlands, Germany, Belgium)

To be able to handle the growth of mobile data and provide customers with a superior experience, further investments in the capacity of the network are being made in the Netherlands. New equipment was installed in the radio and core network domains, heavily expanding the available network capacity. This will both optimize investments in the network and drive the development of new business models in the mobile data market.

The successful Challenger strategy is extended into mobile data. Through leveraging partnerships and timed investments, lower cost-to-serve enables low cost mobile data offerings. The timing of the roll-out of the mobile data network is in line with customer demand, with national coverage and high-speed data in target regions. In Germany, high-speed data has been available in nine selected urban areas since November 2010.

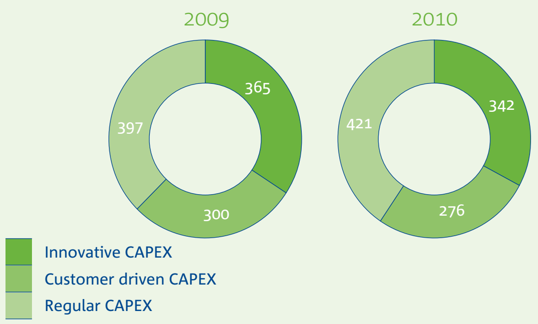
In the German spectrum auction in May 2010, E-Plus acquired valuable spectrum to meet future demand for high-speed mobile data services. The additional spectrum can be used immediately in the current roll-out of HSPA+ and for upgrading to LTE in the future.

For further information about the technological developments regarding KPN's networks, reference is made to Wholesale & Operations infrastructure on page 18, infrastructure in Germany on page 23 and infrastructure in Belgium on page 24.

Innovation expenditure

The expenditure (opex) related to these innovations in 2010 amounted to EUR 140 million in the Netherlands. In 2010 over 3,200 employees in the Netherlands were involved in projects and activities to innovate KPN's infrastructure, to create new products & services and improve processes.

Capex spent Dutch Telco



Patent applications and intellectual property rights

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

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

KPN Group

- **Good 2010 full-year results**
- **Continued increase in profitability at Dutch Telco**
- **Service revenue growth and strong profitability at Mobile International**
- **2010 dividend per share of EUR 0.80, EUR 1 billion repurchase program of 2010 completed**

The good results in 2010 reflect the continued focus on EBITDA, cash flow and market shares. For details about the guidance, reference is made to the section 'Who we are and what we stand for' on page 8.

Revenues and other income

(In millions of EUR)	2010	2009	Δ
KPN Group	**13,398**	**13,509**	**-0.8%**
Consumer	3,940	4,095	-3.8%
Business	2,424	2,491	-2.7%
Wholesale & Operations (national, excl. book gains)	2,799	2,879	-2.8%
Other[1]	-2,159	-2,251	-4.1%
– Dutch Telco	**7,004**	**7,214**	**-2.9%**
iBasis	912	719	27%
Getronics	1,966	2,097	-6.2%
Other[1]	-549	-585	-6.2%
Of which real estate	*8*	*39*	*-79%*
– The Netherlands	**9,333**	**9,445**	**-1.2%**
Germany	3,241	3,181	1.9%
Belgium	785	802	-2.1%
Rest of World	267	206	30%
Other[1]	-108	-111	-2.7%
– Mobile International	**4,185**	**4,078**	**2.6%**

1) Mainly elimination of intercompany revenues.

KPN Group revenues and other income were down 0.8%. Excluding the effect from disposals (SNT Belgium & Netherlands, the fixed Business2Business and Carrier business in Belgium and parts of Getronics) revenue was flat. Revenue performance at the Group was a combination of declining revenues and other income at Dutch Telco (EUR 210 million), Getronics (EUR 131 million) and lower book gains from real estate (EUR 31 million) on the one hand and growing revenues at Mobile International (EUR 107 million) and iBasis (EUR 193 million) on the other hand. The difficult economic climate and a challenging competitive environment impacted Getronics and Business Segment during the year. Regulatory tariff cuts for MTA had a negative impact on revenues at Group level of EUR 180 million.

Revenues and other income at Dutch Telco, down 2.9%, continued to be impacted by the decline in traditional business, regulation (1.7%) and a challenging environment in the business market. iBasis delivered a strong performance during 2010 and was able to improve its average revenue per minute. Revenues and other income increased EUR 193 million including a favorable currency effect of EUR 33 million. Revenues and other income at Getronics decreased 6.2% mainly as a result of challenging market conditions with price pressure and customers postponing investments.

Revenues and other income at Mobile International increased 2.6%, including a negative impact from MTA and roaming of about EUR 90 million, following strong performance in all markets as the Challenger strategy continued to prove successful. In 2010, high speed mobile data services have been launched on a regional basis in Belgium and Germany. Service revenues were up 4.3% in 2010, with all segments contributing to the growth.

EBITDA

(In millions of EUR)	2010	2009	Δ
KPN Group	**5,476**	**5,192**	**5.5%**
Consumer	1,121	1,030	8.8%
Business	819	794	3.1%
Wholesale & Operations (national, excl book gains)	1,719	1,742	-1.3%
Other	41	10	–
– Dutch Telco	**3,700**	**3,576**	**3.5%**
iBasis	32	22	45%
Getronics	158	62	>100%
Other	-2	27	–
Of which real estate	*-2*	*27*	–
– The Netherlands	**3,888**	**3,687**	**5.5%**
Germany	1,374	1,333	3.1%
Belgium	271	259	4.6%
Rest of World	-19	-39	51%
– Mobile International	**1,626**	**1,553**	**4.7%**
Other Activities	**-38**	**-48**	**-21%**

KPN Group EBITDA continued to grow in 2010, resulting in a EUR 284 million increase (5.5%).

In 2010, Dutch Telco showed continued EBITDA growth of EUR 124 million (3.5%) as a result of the continued focus on maximizing market value as well as customer value, cost reductions through best-in-class benchmarking and selective price increases, while absorbing regulatory pressure on tariffs of EUR 40 million or 1.1%. EBITDA was positively impact by approximately EUR 74 million of incidentals compared to approximately EUR 1 million in 2009. During 2010, overall market shares were maintained with some downward pressure on the consumer broadband market share while TV market share grew. EBITDA of iBasis was EUR 32 million, up 45% compared to 2009. At Getronics, EBITDA was up EUR 96 million, in part because of substantial lower reorganization costs compared to 2009 of EUR 40 million. Getronics realized its 8% EBITDA margin target.

Profitability at Mobile International was good throughout 2010 with an EBITDA margin of 38.9% leading to a record 2010 EBITDA of EUR 1,626 million, up 4.7%.

Other financial data

(In millions of EUR)	2010	2009	Δ
Operating result	**3,250**	**2,850**	**14%**
Finance costs and other financial results	-916	-808	13%
Share profit of associates and joint ventures	-31	-6	>200%
Profit before income tax	**2,303**	**2,036**	**13%**
Income taxes	-508	139	n.m.
Profit for the period	**1,795**	**2,175**	**-17%**
Income taxes paid	-589	-506	16%
Cash flow from operating activities	3,808	3,776	0.8%
Capital expenditures (Property, plant and equipments and software)	1,809	1,767	2.4%
Proceeds from real estate	84	94	-11%
Tax recapture E-Plus	345	343	0.6%
Free cash flow	2,428	2,446	-0.7%

Operating result
Operating result increased EUR 400 million as a result of an increased EBITDA of EUR 284 million and lower Depreciation & Amortization of EUR 116 million. The decline in Depreciation & Amortization is mainly related to a change in the estimated remaining useful life of mobile towers from 14 to 20 years as of January 1, 2010 with an effect of EUR 80 million.

Finance costs and other financial results
Net finance costs increased by EUR 108 million to EUR 916 million, mainly due to costs related to a tender offer in September 2010 (EUR 97 million). Net finance costs also increased as a result of higher borrowings compared to prior year (EUR 13 million higher interest costs) and lower finance income (EUR 15 million), partly offset by lower floating interest rates on bonds (EUR 15 million positive). 2009 includes a EUR 27 million costs related to a tender offer.

Income taxes
As of December 31, 2009, a new methodology for the valuation of the deferred tax asset for available loss carry forwards and tax deductible items at E-Plus has been implemented. This resulted in an increase of the deferred tax asset and an income tax gain of EUR 705 million in 2009, reflecting the increased likelihood of utilizing loss carry forwards of E-Plus in the future. The lower effective tax rate is a result of the new methodology for the valuation of the deferred tax asset at E-Plus.

The effective tax rate in 2010 was 21.8% compared to 27% in 2009, adjusted for this tax gain. Reference is made to Note 7 in the Financial Statements for further information.

CAPEX
Group Capex amounted to EUR 1.8 billion and was relatively stable compared to previous years for both the Netherlands and Mobile International. In the Netherlands, KPN set up a Central Capex Board to increase investment efficiency, comparable to the efficiency improvements in Opex. Additional investments were made in the core network, the mobile networks, IT and customers but were offset by significantly lower equipment prices. The price effect also benefited the capital spend at Mobile International, which remained stable despite an accelerated roll-out of the high speed mobile data network. Going forward, KPN will continue to upgrade its fixed and mobile networks across the Group.

Free cash flow
Free cash flow amounted to EUR 2,428 million compared to EUR 2,446 million in 2009. EBITDA growth of EUR 284 million and lower pension recovery payments of approximately EUR 80 million were offset by higher interest payments of EUR 124 million, mainly due to a bond issue in 2009, higher income tax payments of EUR 83 million, mainly due to refunds received in 2009, and a positive one-off in working capital in 2009 of approximately EUR 150 million. Furthermore restructuring payments increased in 2010 compared to 2009.

Pension position
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 with a five-year period, in case the coverage ratio falls below the required 105% level. In 2010, additional contributions of EUR 11 million (2009: EUR 88 million) were made. As at December 31, 2010, the KPN pension funds under statutory coverage measurements ended with an average coverage ratio of 105%. Because KPN's main pension fund had a coverage ratio of 103% in the third quarter in 2010 and 104% at the end of 2010, KPN will make an additional cash payment of EUR 30 million in 2011.

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 to 2013. No additional payments were made to the Getronics pension fund so far. Reference made to Note 22 in the Financial Statements for further information.

Funding profile further strengthened by issuance of new long-term bonds
In September 2010, KPN conducted a tender and new issue transaction, in which KPN repurchased EUR 1.3 billion of its 2011, 2012 and 2013 EuroBonds. The tender was financed with the issue of a EUR 1.0 billion ten-year Eurobond with a coupon of 3.75%, and the remainder was financed with excess cash.

On October 1, 2010, KPN redeemed USD 1,162 million of the Global bond with a nominal amount outstanding of EUR 861 million, in accordance with the regular redemption schedule.

Net debt amounted to EUR 11.8 billion at the end of 2010 compared to EUR 11.1 billion at the end of 2009, as a result of higher shareholder remuneration and higher investments in intangible assets. This resulted in a slightly higher net debt to EBITDA ratio of 2.2x (2009: 2.1x), which remains well within KPN's financial framework with a target Net debt/EBITDA of 2.0–2.5x.

KPN considers it likely to raise bond or other funding during 2011, based on the scheduled future bond redemptions and KPN's policy of refinancing debt redemptions well ahead.

Equity position
At December 31, 2010, total equity was EUR 3,500 million. Reference made to Note 29 in the Financial Statements for further information.

Consumer

- **Decreasing revenue, continued strong growth in EBITDA**
- **Net line loss stable**
- **IPTV growth continues, slight erosion broadband market share with stable customer base**

(In millions of EUR, unless indicated otherwise)	2010	2009	Δ
– Voice wireline	597	702	-15%
– Wireless services (excluding Mobile Wholesale)	1,833	1,934	-5.2%
– Internet wireline	1,027	1,042	-1.4%
– Mobile Wholesale	229	201	14%
– Other (incl. intercompany revenues)	255	216	18%
Revenues and other income	**3,940**	**4,095**	**-3.8%**
Operating expenses	3,074	3,353	-8.3%
– *of which: depreciation, amortization and impairments*	*255*	*288*	*-11%*
EBITDA	**1,121**	**1,030**	**8.8%**
EBITDA margin	**28.5%**	**25.2%**	

In the Consumer market, KPN continued its focus on maximizing customer value whilst at the same time managing SAC/SRC. Revenues and other income were down 3.8% including a regulatory impact of EUR 74 million or 1.8%, caused by both lower revenues from both wireless (EUR 101 million) as well as voice wireline (EUR 105 million).

Wireless services (excluding Mobile Wholesale) decreased EUR 101 million of which EUR 71 million attributable to regulation. Service revenues decreased 5.4% including regulatory impact of 4.0%, whereas ARPU increased to EUR 24 compared to EUR 23 in 2009. Wireless customer base decreased to 5.6 million as a result of the focus on maximizing customer value. SAC/SRC increased slightly to EUR 167 due to a significant uptake in smart phones and an intensified sales campaign in the third quarter of 2010. At the end of November, KPN successfully introduced the iPhone 4.

Internet wireline revenue decreased slightly to EUR 1,027 million largely attributable to the migration to fiber-based solutions and lower revenues from ISPs. Net line loss remained stable at 150 thousand (excluding a clean up of the customer broadband subscriber base of 15 thousand). KPN saw a slight erosion of its broadband market share to 41% combined with a stable customer base, supported by growth of IPTV, the VDSL upgrade and FttH.

Operating highlights	2010	2009	Δ
VoIP subscribers (in thousands)	1,299	1,215	6.9%
Net line loss (in thousands)[3]	-150	-150	–
TV customers (in thousands)	1,197	984	22%
ARPU wireless blended (EUR)	24	23	4.3%
Wireless customers[1] (in thousands)	5,599	6,523	-14%
SAC/SRC (EUR)[2]	167	144	16%

1) Wireless customers excludes Mobile Wholesale NL.
2) SAC/SRC excludes Mobile Wholesale NL.
3) Corrected for a clean up of the customer broadband subscriber base of 15 thousand

Mobile Wholesale revenues increased 14%, with good performing MVNO's resulting in increasing postpaid and prepaid customers in fast growing segments such as the cultural market.

Other revenues and other income increased by 18% due to an increasing customer base at fiber and the success of iTV with 302 thousand customers at the end of 2010 (2009:106 thousand), resulting in 1,197 thousand TV customers in total and a 15% market share in the total TV market compared to 12% in 2009.
All KPN brands will benefit from the further strengthened distribution, following completion of the acquisition and rebranding of the 52 't for telecom' shops.

EBITDA increased by EUR 91 million or 8.8% reflecting the ongoing focus on maximizing market value and customer value and the continuing benefit of cost reduction. Key areas of cost control were FTE and 'First-Time-Right' as well as further simplification of products and services, resulting in an EBITDA margin of 28.5% compared to 25.2% in 2009.

Business

- **Continued EBITDA growth**
- **Challenging competitive environment**
- **Wireless service revenues stable, despite regulation**

(In millions of EUR, unless indicated otherwise)	2010	2009	Δ
–Voice & internet wireline	980	1,026	-4.5%
–Data network services	411	439	-6.4%
– Wireless services	881	872	1.0%
– Other (incl. intercompany revenues)	152	154	-1.3%
Revenues and other income	**2,424**	**2,491**	**-2.7%**
Operating expenses	1,703	1,778	-4.2%
– of which: depreciation, amortization and impairments	*98*	*81*	*21%*
EBITDA	**819**	**794**	**3.1%**
EBITDA margin	**33.8%**	**31.9%**	

In 2010, the Business Segment continued to experience a decline in traditional services due to a difficult economic climate and a challenging competitive environment. Revenues and other income decreased EUR 67 million or 2.7% including a EUR 35 million regulatory effect. Revenues and EBITDA include a positive effect of approximately EUR 22 million related to a reversal of deferred income connection fees (related to the shortened estimated customer lifetime of Voice & Internet customers) and the sale of part of the dark fiber business in Germany.

While traditional services showed a stable decline in access lines and traffic revenues due to declining traffic and customer rationalization, Business DSL showed a good performance. The migration from traditional to new services continued steadily.

Revenues and other income of Wireless services increased EUR 9 million compared to 2009. Service revenues decreased 1.6% compared to 2009. Corrected for regulation pressure on MTA and roaming revenues of EUR 35 million, services revenues increased 2.6%. Non-voice as a percentage of ARPU increased from 28% to 30% in 2010 with a declining ARPU. Wireless customer base increased from 1,662 thousand to 1,706 thousand customers in 2010.

In December 2010, KPN acquired Atlantic Telecom to strengthen KPN's market position in the SME market.

The revenue decline was off-set by cost savings, mainly from the reduction of FTEs, resulting in an EBITDA increase of EUR 25 million or 3.1%. The EBITDA margin increased to 33.8% compared to 31.9% in 2009.

Operating highlights	2010	2009	Δ
Access lines voice (in thousands)	1,368	1,469	-6.9%
Business DSL (in thousands)	161	142	13%
Leased lines (in thousands)	18.6	23.3	-20%
ARPU wireless blended (EUR)	47	51	-7.8%
Wireless customers (in thousands)	1,706	1,662	2.6%

Wholesale & Operations

- **Continued cost reductions**
- **Further progress with the fiber roll-out**

(In millions of EUR, unless indicated otherwise)	2010	2009	Δ
Revenues	2,760	2,862	-3.6%
Other income	39	17	>100%
Revenues and other income	**2,799**	**2,879**	**-2.8%**
Operating expenses	1,938	2,029	-4.5%
– *of which: depreciation, amortization and impairments*	*858*	*892*	*-3.8%*
EBITDA	**1,719**	**1,742**	**-1.3%**
EBITDA margin	**61.4%**	**60.5%**	

Revenues and other income declined 2.8% mainly as a result of the ongoing decline in traditional services and regulation (approximately 1.1%). National traffic volumes for originating and terminating voice services decreased throughout 2010 which was partly compensated by higher international traffic volumes. The decline in traditional ISDN/PSTN connections continued in 2010 but was compensated by an increase in wholesale broadband connections.

The revenue decline was offset by cost reductions such as fewer FTEs following efficiency improvements in the operations. EBITDA was positively impacted by the sale of mobile towers of EUR 37 million compared to EUR 17 million in 2009. This resulted in a slightly higher EBITDA margin of 61.4% compared to an EBITDA margin of 60.5% in 2009.

Through the Reggefiber joint venture, further progress was made in the FttH roll-out. In 2010, the number of Homes Passed ('HP') increased to approximately 658 thousand by the end of 2010. In the fourth quarter of 2010, Reggefiber also finalized external financing for a total amount of EUR 285 million, through a project finance facility with five commercial banks (50%) and the European Investment Bank (50%). The external financing was partly used to repay part of the shareholder loans.

Operating highlights	2010	2009	Δ
Access lines retail voice (in thousands)	3,032	3,459	-12%
MDF access lines (in thousands)	3,659	3,743	-2.2%
– *of which: line sharing (in thousands)*	*1,124*	*1,374*	*-18%*
Unbundling, estimates (in millions)	1.1	1.1	–
– *Shared unbundled lines (in millions)*	*0.2*	*0.2*	–
– *Fully unbundled lines (in millions)*	*0.9*	*0.9*	–

Getronics

- **Realized 8% EBITDA margin target**
- **Impacted by challenging market conditions**
- **Market share remained stable**

(In millions of EUR, unless indicated otherwise)	2010	2009	Δ
Netherlands	1,505	1,654	-9.0%
International	487	456	6.8%
Other (incl. eliminations)	-32	-13	n.m.
Revenues	**1,960**	**2,097**	**-6.5%**
Other	6	–	–
Revenues and other income	**1,966**	**2,097**	**-6.2%**
Operating expenses	1,959	2,187	-10%
– of which: depreciation, amortization and impairments	*151*	*152*	*0.7%*
EBITDA	**158**	**62**	**>100%**
EBITDA margin	**8.0%**	**3.0%**	

In 2010, Getronics generated revenues and other income of EUR 1,966 million compared to EUR 2,097 million in 2009. This revenue decline occurred primarily in the Netherlands with a decline of 9.0%. International showed a revenue increase of 6.8% including a positive foreign exchange effect of EUR 28 million or 6.3%.

Revenue and other income was negatively impacted by the continuing challenging market conditions with price pressure and customers postponing investments. Getronics market share remained stable in a highly competitive market.

The sales funnel remains solid and continues to grow. The sales order intake was still under pressure, but Getronics won a number of important deals in 2010, such as the five-year contract with TNT in the fourth quarter 2010 for delivering and managing Workspace online (a cloud solution) for 13,000 users in the Netherlands, Belgium and the United Kingdom. In 2010 the Global Workspace Alliance (GWA), continued to contribute to the business of Getronics. Some examples of contract extensions of the GWA are:

1. A German headquartered customer has signed for a Workspace Services in 37 countries for 19,000 users;
2. An international agreement for Future-Ready Workspace (FRW) for 6,000 workspaces in five countries for a European manufacturing company .

In 2010, EBITDA amounted to EUR 158 million compared to EUR 62 million in 2009. EBITDA in 2009 was negatively impacted by a EUR 40 million restructuring charge. The related cost savings had a positive impact on the result in 2010. Getronics realized its 8% EBITDA margin target.

Operating highlights	2010	2009	Δ
Serviced voice workspaces (in millions)	0.5	0.6	-17%
Serviced IT workspaces (in millions)	1.7	1.8	-5.6%
Housing services in m^2 (in thousands)	25.0	25.0	–
Hosted servers in # serves (in thousands)	14.5	12.0	21%

iBasis

- **Balancing revenue growth with profitability and improved cash flows**
- **Improved revenues per minute**
- **Structurally higher revenues**

(In millions of EUR, unless indicated otherwise)	2010	2009	Δ
Revenues and other income	**912**	**719**	**27%**
Operating expenses	905	734	23%
– of which: depreciation, amortization and impairments	*25*	*37*	*-32%*
EBITDA	**32**	**22**	**45%**
EBITDA margin	**3.5%**	**3.1%**	

iBasis' revenues and other income increased by 27% to EUR 912 million in 2010, including a favorable currency effect of EUR 33 million. Revenues were structurally higher in 2010 as a result of the sustained business focus following the full takeover by KPN in the fourth quarter of 2009, with a focus on balancing revenues with profitability while improving cash flow.

In 2010, iBasis delivered strong growth in terms of number of minutes, while sustaining the growth trend in the average revenue per minute. Furthermore, iBasis reinforced its position within the top 5 of the international voice traffic market.

EBITDA was EUR 32 million, up 45% due to an increase in premium traffic resulting in a higher average revenue per minute compared to 2009 and to continued savings on overhead costs. iBasis will continue its focus on increasing traffic volumes and revenues, resulting in increased market share.

Operating highlights	2010	2009	Δ
Minutes International (in billion)	24.1	19.8	22%
Average revenue per minutes (EUR cents)	3.8	3.6	5.6%

Germany

- **Strong EBITDA margin**
- **Service revenue growth of 2.4%**
- **Very strong postpaid net adds**

(In millions of EUR, unless indicated otherwise)	2010	2009	Δ
– Service revenues (wireless)	3,092	3,021	2.4%
– Hardware and other revenues	149	160	-6.9%
Revenues and other income	**3,241**	**3,181**	**1.9%**
Operating expenses	2,528	2,536	-0.3%
– *of which: depreciation, amortization and impairments*	*661*	*688*	*-3.9%*
EBITDA	**1,374**	**1,333**	**3.1%**
EBITDA margin	**42.4%**	**41.9%**	

Revenues and other income increased EUR 60 million or 1.9%, while service revenues were up 2.4%. Adjusted for the negative impact from regulation (EUR 58 million) and the positive impact from an intercompany transfer of the Multiconnect business (EUR 26 million) from 'Other' Segment, service revenues were up 3.5%. Service revenue growth was driven by the re-launch of the simple and transparent 'Mein BASE' proposition with positive customer experiences, a strong regional focus and a good performance of wholesale partnerships. With strong postpaid net adds of 301 thousand and 1,139 thousand prepaid net adds, the customer base passed the 20 million customer milestone.

In May 2010, E-Plus acquired 70MHz of additional spectrum in the frequency auctions in Germany for EUR 284 million, suiting the Challenger strategy with largest charge in standard bands, in order to leverage current grid as well as handset eco-system. Commercial high speed mobile data services were successfully launched in nine selected urban areas in Germany in the fourth quarter of 2010. The data propositions are centered around a selection of smart phones including an internet flat fee at attractive pricing, supporting future service revenue growth.

E-Plus was able to increase operational efficiency, resulting in a high EBITDA margin of 42.4% in 2010 leading to a record EBITDA of EUR 1,374 million, up 3.1% compared to 2009.

Operating highlights	2010	2009	Δ
Wireless customers (in thousands)	20,427	18,987	7.6%
Net adds (in thousands)	1,440	1,210	19%
Total traffic (minutes in millions)	34,896	31,343	11%
ARPU blended (EUR)	13	14	-7.1%
SAC/SRC blended (EUR)	47	49	-4.1%

Belgium

- **Severe regulatory impact**
- **Good underlying service revenue growth**
- **Strong EBITDA margin**

(In millions of EUR, unless indicated otherwise)	2010	2009	Δ
– Service revenues (wireless)	684	659	3.8%
– Hardware and other revenues	101	143	-29%
Revenues and other income	**785**	**802**	**-2.1%**
Operating expenses	636	678	-6.2%
– of which: depreciation, amortization and impairments	*122*	*135*	*-9,6%*
EBITDA	**271**	**259**	**4.6%**
EBITDA margin	**34.5%**	**32.3%**	

Revenues and other income in Belgium were down EUR 17 million (2.1%) compared to 2009, impacted by the divestment of the fixed Business2Business and Carrier Business (EUR 31 million) and severe regulation (EUR 34 million). Service revenues increased 3.8%. Corrected for the impact of regulation, service revenues increased 9.4% compared to 2009. This is a combined result of a strong regional focus with an increasing number of shops, good performance of the simplified BASE proposition and a good take-up of flat fee data bundles.

Net adds amounted to 150 thousand in 2010, of which 65 thousand net adds postpaid and 85 thousand prepaid net adds, resulting in 3,728 thousand customers by the end of 2010. Following acceleration of the high speed mobile data network roll-out, KPN Group Belgium started offering commercial high speed mobile data services in multiple selected urban areas and relevant hotspots in the fourth quarter of 2010.

EBITDA increased by EUR 12 million or 4.6% compared to 2009, affected by regulation (EUR 23 million). The EBITDA margin in 2010 was strong at 34.5%.

Operating highlights[1]	2010	2009	Δ
Wireless customers (in thousands)	3,728	3,578	4.2%
Net adds (in thousands)	150	133	13%
Total traffic (minutes in millions)	5,706	5,117	12%
ARPU blended (EUR)	16	16	–
SAC/SRC blended (EUR)	19	21	-9.5%

1) Relating to Mobile business only

Rest of World

- **Strong growth at low cost**
- **Ortel expansion to France and Spain**

(In millions of EUR, unless indicated otherwise)	2010	2009	Δ
Revenues and other income	267	206	30%
Operating expenses	294	258	14%
– of which: depreciation, amortization and impairments	*8*	*13*	*-38%*
EBITDA	**-19**	**-39**	**51%**
EBITDA margin	**-7.1%**	**-18.9%**	

The revenue and EBITDA developments compared to 2009 reflect the strong growth of KPN Spain, KPN France and revenue inflection at Ortel Mobile which is driven by focused execution following full ownership by KPN. The low cost business model was further established through focused execution during 2010. This resulted in increased revenues and other income of 30% through customer growth driven by own international brands, while EBITDA went up EUR 20 million through increased sales and efficiency.

Customer growth to approximately 400 thousand customers in Spain is driven by the no-frills KPN brand Simyo with a relatively high postpaid share and local partners. Spain concluded a new, improved contract with its network provider and reinvested the benefits into the market to accelerate growth. Growth in France continued to be strong with approximately 400 thousand customers with Simyo and further fueled by the launch of Ortel in France with more than 1,000 gross adds per day.

Ortel expanded its footprint to France (March 2010) and Spain (November 2010), leveraging the successful business model of Ortel in Belgium, Germany and the Netherlands. Within the existing footprint, Ortel's focused execution of the strategy through selective acquisition, promotions and strengthened distribution has significantly increased customer quality and profitability.

In the fourth quarter of 2010, a new international Mobile Virtual Network Enabler (MVNE) platform was launched to shorten the time-to-market at lower cost-to-serve for KPN's own brands and its wholesale partners.

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

Risk appetite

KPN is recognized for its drive for quality, consistency and financial discipline. The Board of Management encourages the Segments to seek opportunities to achieve the strategic objectives 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;
- Complying with applicable legal requirements;
- Focusing primarily on expansion in developed markets;
- Maintaining a robust framework of controls to prevent major failings in its Internal Risk Management and Control System;
- A prudent financing policy by covering refinancing obligations well ahead; and
- A minimum credit rating of BBB with Standard & Poor's and Baa2 with Moody's.

Principal risks

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

Internal Risk Management and Control System

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

Tone at the top

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

In 2010, a number of additional initiatives were taken, further underlining the 'tone at the top'. In May 2010, KPN held an Ethics and Compliance Survey to address the various cultural and awareness elements of the Compliance Charter. The results of the Survey were discussed with the Board of Management in July and September and with the top 70 management in the Netherlands in November during an integrity workshop. In November 2010 an integrity workshop was held for the top 50 of Mobile International. A new Ethics and Compliance Survey will be held in 2011.

Code of Conduct

KPN is conscious of its social and ethical responsibilities and wishes to ensure that work practices across the company are in compliance with the law and regulations and consistent with social and ethical norms. For this purpose, KPN has a Code of Conduct, which sets out the key values: personal, trust and simple. 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 (e-)learning.

Internal Audit function

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

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

Principal Risks

Risk	Description and impact	Mitigating factors and counter measures
Unable to generate revenue growth	KPN undertakes many initiatives to generate revenue growth by means of both traditional and non-traditional services. However, KPN may find it lacks the necessary creativity and execution power to initiate and execute new revenue drivers. This could result in being unable to return to long-term KPN Group revenue growth as a driver of free cash flow. Furthermore, the economic climate could worsen. Both items lead to lower revenue growth and results, which could lead to impairment of goodwill and intangibles specifically related to E- Plus and Getronics.	• Focus on continued growth of Mobile International; • Investments in iTV and fiber; • Improving sales effectiveness Getronics/Business market, e.g. by means of sector approach; • Enabling profitable mobile data growth; • Participate in license auctions where relevant.
Increasing competition and consolidating markets International	KPN acts as challenger of the incumbent mobile operators in Germany, Belgium, France and Spain and 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 which can jeopardize revenue growth for Mobile International.	• Re-launch of BASE brand; • Further enhance regionalization strategy in Germany and Belgium; • E-Plus acquired the desired frequency spectrum during the auctions in 2010, which can be employed for high speed data network roll-out; • Acceleration of mobile data launch in Germany and Belgium.
Increasing competition from cable	In the Dutch broadband market KPN is competing with cable companies and other parties for customer base and market share. The roll out of the fiber network is one of the key elements in KPN's broadband strategy, while the existing copper network is being upgraded. Increasing competition from cable can result in lower (fiber) penetration than planned. Furthermore, the investments in fiber and copper can proof to be too expensive while for the roll-out KPN is dependent on its suppliers. A delayed roll-out or lower penetration than expected may result in loss of broadband market share and customer satisfaction.	• Investments to upgrade KPN network speed; • Ramp up of fiber roll-out; • Intense marketing of iTV; • Projects to improve execution power and speed.
Competition in Dutch mobile market	The Dutch mobile market is dominated by only a few players in which KPN acts as incumbent. A new market entrant or sudden price competition can lead to loss of KPN mobile market share.	• Maintain balance between profitability and incentives to customers.
Competition in business market the Netherlands	The Dutch business markets are dominated by only a few players in which KPN acts as an incumbent. A new market entrant or price competition can lead to loss of the KPN business market share.	• Improving sales effectiveness Getronics and Business market e.g. by means of a sector approach; • Maintain balance between profitability and incentives to customers.
Disruptive technologies	KPN operates in a dynamic environment driven by many technical developments. Some of these developments can prove to be disruptive for KPN 's business model and therefore for its profitability in the long run.	• Develop new business models (such as cloud computing services, grow iTV partnerships, and partnerships) and new pricing models mobile data NL.
Damaged reputation	KPN's relationship with its customers, regulators and supervisors could be damaged due to compliance and quality-related incidents. These incidents can include a breach of legislation, lack of information security, network failure or insufficient client service or transparency. Such incidents have a negative impact on KPN's reputation and customer satisfaction.	• Pro active in communication with OPTA; • Benchmark network quality and maintain investment level in network; • 'First-Time-Right'; • Focus on drivers to improve Net Promoter Score; • Maintaining a robust control framework dedicated to complying with Telco regulation (CRA framework).
Increased regulatory pressure	Telecommunication is an industry highly regulated by both European and national regulators. KPN could be compelled into further price reduction by these regulators (i.e. MTA and roaming) which negatively affects revenues.	• Dialogue with regulators on predictable and pro-competitive (wholesale-based) regulation to minimize interventions in retail markets, consistently over time; • Flat fee bundles for roaming to avoid price reduction.
Legacy IT systems	KPN has a diversified portfolio of IT systems, some of which have been in place for a long time, so-called legacy systems. These legacy IT systems might limit , for example, a timely roll-out of new services or create additional costs due to forced migrations. Also they may prove to be a weakness in KPN's Information Security framework. Overall the legacy IT systems can negatively impact flexibility, innovation power, information security and quality of services.	• Robust control organization; • Phase out of legacy systems and investing in new integrated systems; • Develop roadmap towards new IT organization.

Risk	Description and impact	Mitigating factors and counter measures
Vulnerability of infrastructure	KPN's technical infrastructure is vulnerable to damage or interruption of power supply and other similar events. Furthermore, the mobile infrastructure has to be well equipped to handle the expected data growth in the coming years. Otherwise, this could affect the quality of services and cause temporary service interruptions, resulting in customer dissatisfaction and reduced traffic volumes.	• Monitor performance of technical infrastructure; • Back-up and recovery plans in case of emergencies; • Maintain investment level in network; • Increase network cooperation between countries.
Supplier risk	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. 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 customer needs. An inability to find adequate service partners may result in a loss of business and could adversely affect KPN's reputation.	• Create supplier default scenarios ; • Strong demand organization that defines, enforces and monitors compliance with terms of contracts with suppliers and outsourcing parties.
Employees	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 personel could become an issue in the future. The growth and future success of KPN will depend for a large part on the ability to attract, motivate and retain highly qualified employees.	• Potential program for young professionals and high potentials; • Leadership program for management; • Continue efforts to achieve a better male/female balance in the management teams; • 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 personnel; • Bi-annual employees engagement survey to identify areas for improvement.

Business planning and review cycles

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

Business Control Framework

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

Financial Risk Management

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

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

GRIP

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

- Internal control over financial reporting;
- Compliance risk framework;
- Strategic and Business Risk Assessment; 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 2010 the GRIP approach was further integrated by issuing one single manual and methodology for all disciplines. The methodology was introduced by means of two-day courses for all GRIP related staff.

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 continuously monitored. This means that the compliance controls are tested and assessed for effectiveness by dedicated staff all year round. Each quarter KPN assesses the overall effectiveness of the CRA.

KPN proactively reported potential incidents and interpretation issues to OPTA during 2010. Based on the Charter ('Handvest') with OPTA, KPN provided OPTA in November 2010 with a year report regarding the period covering the second quarter 2009 to the first quarter 2010. Furthermore, KPN has provided OPTA with quarterly reports on compliance performance indicators regarding the second quarter 2010 in September 2010, and regarding the third quarter 2010 in December 2010.

Strategic and Business Risk Assessment

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 periodic Business and GRIP reviews. Twice a year a risk assessment with the Board of Management is held and results are discussed with the Audit Committee. In 2010, KPN further streamlined its strategic and business risk program by issuing clear definitions of risks, assuring follow-up on countermeasures and clarifying roles and responsibilities.

Security function

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

In 2010, KPN strengthened the demonstrability of security policy compliance by implementing and integrating a 'Security and Continuity Control Framework' in the existing GRIP framework, processes and supporting tooling.

Disclosure Committee

The Disclosure Committee examines all relevant reports on financial information which are disclosed externally, to ensure that they are accurate, timely and complete. In this perspective, the Committee reviews the disclosure controls and procedures. Based on the findings, the Disclosure Committee advises the Board of Management, the Audit Committee and the Supervisory Board. As in 2009, in 2010 the Committee consisted of the directors of Corporate Control, Corporate Treasury, Internal Audit, Corporate Legal, Corporate Communication, Investor Relations, Public Affairs, the Secretary to the Board of Management and the finance directors of the Segments. The Committee met periodically in 2010 and reviewed disclosure controls and procedures and proposed public disclosures.

In Control Statement and Responsibility Statement

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

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

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

With reference to best practice provision II.1.5 of the Dutch Corporate Governance Code, the Board of Management, to the best of its knowledge, believes that the internal risk management and control system, with regard to financial reporting, worked properly in 2010 and that the internal risk management and control system provides a reasonable assurance that the financial reporting does not contain any errors of material importance.

The Board of Management is continuously improving the quality of the internal risk management and control system. The Company has envisaged the following focus areas for 2011:

- Further strengthen the General Computer Controls in the Netherlands and Belgium;
- Further strengthen the continuity management processes in the datacenters of KPN the Netherlands.

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

- The annual financial statements of 2010 give a true and fair view of the assets, liabilities, financial position and profit or loss of KPN and its consolidated companies; and
- The Annual Report gives a true and fair view of the position as per December 31, 2010, the development during 2010 of KPN and its Group companies included in the annual financial statements, together with a description of principal risks KPN faces.

The Hague, February 21, 2011

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 and Chief Operating Officer

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

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

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

In April 2010 the European Commissioner for Digital Agenda published 'the Digital Agenda for Europe'. The document outlines policies and actions to maximize the benefit of the digital economy by 2020 for European citizens. The announced actions include a strengthened European policy for spectrum (e.g. aimed at allocating additional spectrum for mobile internet access), targets for broadband penetration in the EU and the promotion of next generation access networks (NGA's). In relation to NGA's the European Commission on September 20, 2010 published a Recommendation on regulated access to NGA's. The recommendation aims at the provision of regulatory certainty to telecom operators in order to promote the deployment of NGA's.

In the Netherlands Reggefiber (a joint venture of KPN and Reggeborgh) rolls out fiber NGA's in specific areas. In July 2010 KPN reconfirmed its expectations on the roll-out of FttH. The ambition is to further expand the HP base to 1.1 to 1.3 million in 2012. 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 NGA's.

Market analyses decisions fixed markets (the Netherlands)

The current decisions of OPTA, following the fixed telecommunications market analyses, came into force on January 1, 2009. The obligations resulting from these decisions will, in principle, remain in place for the three-year period until and including 2011. These decisions were characterized by deregulation of the end-user markets. However, KPN's wholesale obligations have been tightened to facilitate this deregulation. The wholesale obligations imposed upon KPN include access and tariff regulation on copper as well as on fiber networks (except for an obligation for wholesale broadband access on FttH) and 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. For this, 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.

All of the relevant decisions are or were subject to appeals by KPN and/or other market parties to the Trade and Industry Appeals Tribunal (College van Beroep voor het bedrijfsleven or CBb). Some of these appeals have not yet led to court decisions. This includes decisions on the wholesale broadband access and telephony markets. The appeals to the decisions of OPTA that were decided upon by the CBb have all resulted in annulment of OPTA's decisions, mainly based on the conclusion of the court that OPTA had insufficiently defined the relevant markets on which these decisions were based:

- On October 28, 2009, the CBb annulled OPTA's market analyses decision on the unbundled local loop market. The CBb decided that OPTA without sufficient grounds had included unbundled local loop access to FttO (ODF access) and FttH networks (ODF access) in the same product market. Upon this annulment OPTA reinvestigated the markets and – after an additional market analysis – reconfirmed its earlier decision regarding unbundled local loop access in a new decision of April 27, 2010. This decision is once again subject to appeal by KPN and other market parties.
- On April 13, 2010, the CBb annulled OPTA's market analyses decision on leased lines. The CBb concluded that OPTA had insufficiently motivated the distinction between a high capacity and a low capacity leased lines market at 20 Mb. OPTA announced in October 2010 that it would re-investigate the leased lines and data communications market in its market review procedures for 2012–2014 and that it would not publish a new decision prior to the results thereof. The markets for leased lines thereby remain unregulated for the remainder of the period.
- On August 18, 2010, the CBb annulled OPTA's market analyses decision on broadcast (cable) networks. OPTA had decided that cable network operators had significant market power in their respective areas of operation and had mandated the two largest cable operators (Ziggo and UPC) to provide Wholesale Line Rental – Cable (WLR-C), i.e. cable connections including the analogue TV signals to resellers. The CBb decided that OPTA had not sufficiently investigated whether the relevant markets were limited in geographical scope to the area of operation (instead of the national market). OPTA announced in October 2010 that it would re-investigate the broadcast market in its market review procedures for 2012 to 2014 and that it would not publish a new decision prior to the results thereof. The broadcast markets thereby remain unregulated for the remainder of the period.

The tariffs for KPN's regulated wholesale services during the regulatory period 2009 to 2011 are part of separate decisions on the Wholesale Price Cap, which are also still subject to appeal by KPN.

In October 2010, OPTA started the third round analyses of the fixed markets for the period of 2012 to 2014. In order to improve the process, OPTA announced that it would seek more interaction with the market and concentrate more on actual market developments. It expects to publish draft decisions on the broadcast markets by March 2011 and on other fixed markets by May 2011.

OPTA separated the analyses of the market of fixed call termination from the investigation of fixed markets and combined the investigation with the mobile call

The following table provides details of the current and future Mobile Terminating Access tariffs:

(Tariffs in EUR ct/min, as of the dates specified)

the Netherlands[1]

	January 1, 2010	July 7, 2010	September 1, 2010	January 1, 2011	September 1, 2011	September 1, 2012
KPN/Telfort	7.00	5.60	5.60	4.20	2.70	1.20
Vodafone	7.00	5.60	5.60	4.20	2.70	1.20
T-Mobile	8.10	7.10	5.60	4.20	2.70	1.20

Germany[2]

	January 1, 2010	December 1, 2010
T-Mobile	6.59	3.36
Vodafone	6.59	3.33
E-Plus	7.14	3.33
O2 (Germany)	7.14	3.37

Belgium[3]

	January 1, 2010	August 1, 2010	January 1, 2011	January 1, 2012	January 1, 2013
Base	11.43	5.68 (5.81 after indexation)	4.76 (4.90 after indexation)	2.92	1.08
Proximus	7.20	4.52 (4.62 after indexation)	3.83 (3.94 after indexation)	2.46	1.08
Mobistar	9.02	4.94 (5.05 after indexation)	4.17 (4.29 after indexation)	2.62	1.08

1) OPTA decision of July 7, 2010 (appeal procedure running)
2) BNetzA decision of November 30, 2010 (National consultation procedure running).
3) BIPT decision of June 29, 2010

termination markets. On July 7, 2010, OPTA published a decision, replacing its earlier decision on fixed termination markets. For the period until January 2012, OPTA applies symmetric termination rates for all fixed operators of 0.71 EUR cent/minute until July 1, 2011 and 0.72 EUR cent/minute until January 1, 2012. As of January 1, 2012 the symmetric tariffs will be decreased to 0.54 EUR cent/minute and further to 0.36 EUR cent/minute as of September 1, 2012, reflecting pure BULRIC tariffs levels as defined in a cost model developed by OPTA.

Market analyses decisions mobile markets (mobile call termination)

With their latest decisions the National Regulatory Authorities of Belgium and the Netherlands have adhered to the EU Commission's Recommendation on the regulatory treatment of fixed and mobile termination rates, of May 7, 2009. The Commission recommended applying a 'pure BULRIC approach', which no longer takes into account various costs which had so far been considered when setting MTA's. OPTA applies a glide path from tariffs at the date of the decision towards the tariffs defined by the pure BULRIC cost models. BIPT has applied a bottom-up LRAIC+ methodology (2010) followed by a glide path towards the pure BULRIC cost (2011 to 2013).

KPN Group Belgium and Mobistar have both launched a suspension and an annulment procedure against the BIPT decision, while Belgacom is supporting the BIPT. The suspension procedure by KPN Group Belgium focuses on the fact that BIPT has unduly awarded a glide path to Proximus (Belgacom) and Mobistar, instead of forcing them immediately to the pure BULRIC-based MTA of 1.08 EUR cent/minute. Oral pleadings for the suspension procedure took place end of October 2010. A judgment was initially scheduled for December 1, 2010, but has been postponed to an undefined date.

On November 30, 2010, based on a top-down cost tool, BNetzA adopted its preliminary MTA decisions in four separate administrative proceedings, resulting in the tariffs mentioned in the table for the period from December 1, 2010 up and until November 30, 2012. To terminate a respective EU infringement proceeding, BNetzA subjects these preliminary decisions to a national and a EU consultation procedure and will adopt its final MTA decisions afterwards (most likely in March 2011).
These final decisions shall then retroactively apply as of December 1, 2010. BNetzA has announced, to set the MTA's as of December 1, 2012 on the basis of a BULRIC cost model in line with the EU Commission's Recommendation.

International roaming on mobile networks

Based on the EU Roaming Regulation (as amended in 2009), additional tariff reductions for roaming calls and SMS were implemented in 2010. Further tariff reductions for calls made, calls received and SMS in other EEA (European Economic Area) countries are foreseen in the Regulation by July 2011 and July 2012. For data roaming only a maximum wholesale tariff is regulated. Retail data roaming tariffs are not regulated, but by March 1, 2010 the Regulation required operators to offer tariff caps to customers for data roaming (with at least a cap of EUR 50), these caps had to be implemented by July 1, 2010 for all customers who did not opt out.

On December 10, 2010 the European Commission launched a consultation on the future of the Roaming Regulation. The Commission seeks input and proposals aimed at reaching the target that it included in the Digital Agenda for Europe, which is that by 2015 the difference between national tariffs and roaming tariffs within the European Union should approach zero.

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 GSM900 and the DCS 1800 licenses will end on February 25, 2013. On December 10, 2010, the Minister of Economic Affairs, Agriculture and Innovation published a Strategy Note on mobile communications, in which the policy for reallocation of mobile spectrum is clarified. The Minister intends to auction 800, 900 and 1800 spectrum simultaneously, ultimately beginning 2012 for mobile communications. The 800 spectrum is currently still in use for digital video broadcast, but is expected to be made available by 2013 (or ultimately 2014). A specific part (2*10 MHz) of the 800 spectrum will be reserved for new operators. The license will have a duration until 2030, in line with the 2.6 GHz licenses auctioned in 2010.

During the 2.6 GHz auction in April 2010 KPN obtained a license of 2*10 MHz (maximum amount of spectrum it was allowed) for EUR 909 thousand. The other licenses were obtained by Vodafone, T-Mobile, Tele-2 and Ziggo IV (a joint venture of Ziggo and UPC).

Licenses for mobile communications (Germany)

In Germany, two major and inter-linked spectrum events occurred in 2010:

Frequency auction 2010

From April 12 until May 20, 2010, BNetzA auctioned a total of 360 MHz frequencies from the 800, 1800, 2100 and 2600 MHz frequency bands. The usage rights for these frequencies expire on December 31, 2025. E-Plus was able to obtain 70 MHz (2 x 2*5 MHz in the 1800 MHz band, 2 x 2*5 MHz in the 2100 MHz band, 2 x 2*5 MHz in the 2600 MHz band and 2 x 1*5 Mhz in the 2600 MHz band) out of these 360 MHz. E-Plus has thereby doubled its spectrum.

The EU Commission had raised concerns with regard to BNetzA's auction design (which has made BNetzA commit to investigate the frequency situation in the German mobile market after the auction). BNetzA had, namely, imposed a 2*20 MHz bidding cap for the 800 / 900 MHz frequency bands (i.e. a cap on existing 900 MHz frequency endowments were counted against) for every operator, but allowed Deutsche Telekom and Vodafone to exceed that cap and to bid for 2*22.4 MHz in the 800 / 900 MHz frequency bands. Deutsche Telekom and Vodafone made use of this regulatory advantage and each acquired 2*22.4 MHz in the 800 / 900 MHz frequency bands.

Refarming

In the German mobile market, Deutsche Telekom and Vodafone are each endowed with 2*12.4 MHz, E-Plus and Telefónica O2 are each endowed with 2*5 MHz 900 MHz frequencies. This uneven spectrum assignment would enable Deutsche Telekom and Vodafone to offer UMTS900 services in parallel to their GSM900 services, whereas E-Plus and Telefónica O2 lack sufficient of 900 MHz frequencies to do so.

After respective discussions with the EU Commission, BNetzA is currently evaluating whether the existing 900 MHz endowments would distort competition when the 900 MHz band is opened up for flexible use (Refarming). In this context, E-Plus has repeatedly called for a reallocation of 900 MHz frequencies among the mobile operators.

Licenses for mobile communications (Belgium)

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

BIPT published on February 6, 2011 the detailed auction rules and the indicative timings of the 3G and the 4G auctions. According to BIPT's indicative time plan, the auction for spectrum in the 2100 MHz spectrum (3G) will take place on June 6, 2011 and is followed mid October 2011 by an auction of the 2600 MHz band (4G).

Compliance with the Dutch Corporate Governance Code

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

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

After revision of the Dutch Corporate Governance Code that came into force on January 1, 2009, no further changes were introduced to the Code in 2010. In December 2010, the Dutch Corporate Governance Code Monitoring Committee presented its report on compliance with the Dutch Corporate Governance Code in 2010, particularly regarding responsibility of the shareholders and composition of the Supervisory Board and the evaluation of its functioning. KPN fully endorses the underlying principles of the Code which is reflected in a policy that complies with the best practice provisions as stated in the Dutch Corporate Governance Code. As of the AGM in 2011, KPN expects to fully apply the provisions of the Dutch Corporate Governance Code.

The Code is based on the 'comply-or-explain' principle. There are two principles that KPN does not (yet) apply:

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 came into force. At the time of Mr Scheepbouwer's appointment, KPN and Mr Scheepbouwer agreed that the Supervisory Board could annually grant Mr Scheepbouwer unconditional options. Stock options already granted before 2008 shall be respected. On November 6, 2007, a new arrangement was approved by the AGM. From 2008 and onwards Mr Scheepbouwer is 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 58.

Under the same premise that existing rights should be respected, KPN does not fully apply principle II.2.8. Mr Blok will receive one year's full salary (including short-term bonus). Mr Miller received two years' fixed salary, including insurance and pension allowances when he left the company in February 2010. Both agreements correspond to the arrangements that were in place before they joined the Board of Management.

However, as Mr Scheepbouwer will step down from his position on April 6, 2011, KPN will apply best practice principle II.2.4. Furthermore, the terms and conditions of Mr Blok's contract that will come into force after the appointment of Mr Blok as CEO fully apply all principles of the Dutch Corporate Governance Code, including best practice principle II.2.8. Therefore, as of July 1, 2011, KPN will fully comply and apply the provisions of the Dutch Corporate Governance Code.

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

Legal structure of the Company

Under Section 6, Part 4 of Book 2 of the Dutch Civil Code, the rules for large companies ('structuurvennootschap') are mandatory for KPN. As such, KPN has a two-tier management structure with a Board of Management and a Supervisory Board.

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.

As of July 1, 2010, the Shareholder Rights Act and the Right of Speech of Works Council Act came into force. The key changes of these Acts related to the notice period (extended from 15 to 42 days) and registration date (now set on 28 days before the AGM). Both changes were already implemented by KPN at the AGM in 2010 when these Bills were still pending legislation. The amendments were generally current practice at KPN and therefore had not resulted in major changes in the KPN policies.

Currently, legislation is still pending on the possibility of introducing a one-tier management structure for Dutch companies including 'structuurvennootschappen'. Other pending legislation covers other shareholder rights such as raising the threshold for proposing items to the shareholders meeting and decreasing the threshold for disclosure obligations for shareholders regarding their voting and capital interest. KPN closely monitors these developments. Where relevant, changes in legislation will be implemented in KPN's Articles of Association. The Articles were last amended on May 3, 2007.

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

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

Management

Supervisory Board

The Supervisory Board oversees strategic and 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 seven members. Members of the Supervisory Board resign according to a schedule set by the Supervisory Board. A member steps down at the first AGM following his four-year term in office. In line with the revised Code, members can be reappointed twice, leading to a maximum term in office of 12 years.

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

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

The composition of the Supervisory Board changed at the 2010 AGM. Mr Jager was due to step down from the Supervisory Board, as he reached the end of his four-year term of office. Mr Jager decided not to stand for reappointment at the AGM 2010.

To be able 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, that was effected as of the AGM 2010. Mr Streppel succeeded Mr Risseeuw as Chairman of the Supervisory Board as of the AGM 2010 and Mr Risseeuw remained a member of the Supervisory Board. Following this change, Mr Routs succeeded Mr Streppel as Vice-Chairman of the Supervisory Board.

Committees of the Supervisory Board

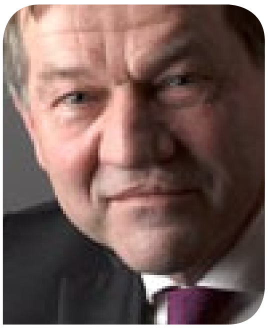
Three committees assist the Supervisory Board: the Audit Committee, the Remuneration and Organizational Development Committee and the Nominating and Corporate Governance Committee. The committees consist of members of the Supervisory Board. They report their findings to the Supervisory Board, which is ultimately responsible for all decision-making. The tasks of these committees are laid down in charters which are available on KPN's website. Further information on the activities of the committees in 2010 can be found in the 'Report of the Supervisory Board' and on the website www.kpn.com under the section Investor Relations, Corporate Governance.

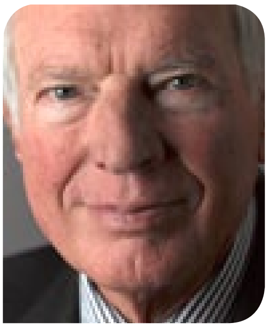
Composition of the Supervisory Board

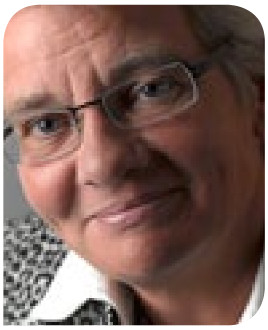
Name	Date of birth	Start of term	End of current term	Committees
J.B.M. Streppel (Chairman)	October 11, 1949	May 12, 2003, April 17, 2007*	2011	Chairman Nominating and Corporate Governance Committee; Member Remuneration and Organizational Development Committee
A.H.J. Risseeuw	November 9, 1936	May 2, 2001, April 12, 2005* April 7, 2009*	2013	Member Nominating and Corporate Governance Committee; Member Remuneration and Organizational Development Committee
M.E. van Lier Lels	October 19, 1959	May 2, 2001, April 12, 2005* April 7, 2009	2013	Member Audit 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 Nominating and Corporate Governance Committee; Member Remuneration and Organizational Development Committee
R.J. Routs (Vice-Chairman)	September 10, 1946	April 7, 2009	2013	Chairman Remuneration and Organizational Development Committee; Member Nominating and Corporate Governance Committee
D.J. Haank	April 25, 1953	April 7, 2009	2013	Chairman Audit Committee

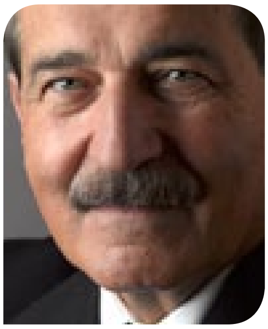
* Reappointment.

Supervisory Board

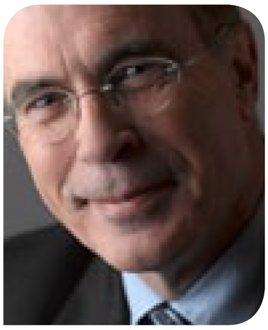

J.B.M. Streppel

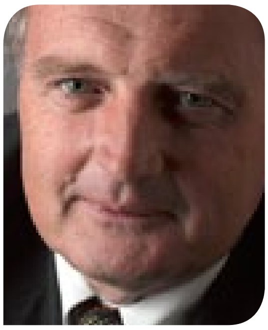

A.H.J. Risseeuw


M.E. van Lier Lels


M. Bischoff


C.M. Hooymans


R.J. Routs


D.J. Haank

J.B.M. Streppel

Mr Streppel was appointed as a member of the Supervisory Board on May 12, 2003, and has been the Chairman of the Supervisory Board since April 13, 2010. His current (second) term expires in 2011. Mr Streppel chairs the Nominating and Corporate Governance Committee and is a member of the Remuneration and Organizational Development Committee. Mr Streppel is the former Chief Financial Officer of AEGON N.V. and 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.

A.H.J. Risseeuw

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

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 Audit Committee. Ms Van Lier Lels held various management positions with Dutch international companies and is the former Chief Operating Officer of Schiphol Group. She is a member of the Supervisory Boards of USG People N.V., TKH Group N.V. and Maersk B.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.

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

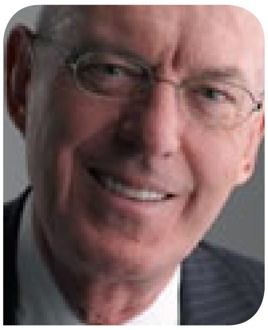
Nominating and Corporate Governance Committee. Ms Hooymans is a member of the Management Board of TNO and a member of the Supervisory Board of Rabobank Vallei en Rijn. Furthermore, she is a member of the Board of the Radboud Foundation (Radboud University and Radboud University Medical Center) and a member of the Dutch Government's Advisory Council for Science and Technology. Ms Hooymans is a Dutch citizen.

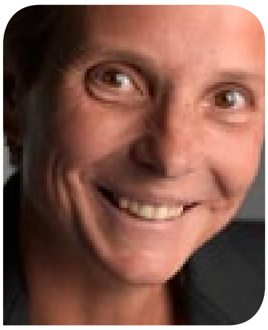
R.J. Routs
Mr Routs was appointed as a member of the Supervisory Board on April 7, 2009, and has been the Vice Chairman of the Supervisory Board since April 13, 2010. His term expires in 2013. Mr Routs chairs the Remuneration and Organizational Development Committee and is a member of the Nominating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

D.J. Haank
Mr Haank was appointed as a member of the Supervisory Board on April 7, 2009, and his term expires in 2013. He is the Chairman of the Audit Committee. Mr Haank is currently CEO of Springer Science+Business Media (Springer). Mr Haank holds several supervisory and advisory positions, including those of member of the Supervisory Board of NUON and 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


A.J. Scheepbouwer


C.M.S. Smits-Nusteling


E. Blok


J.B.P. Coopmans

Composition of the Board of Management

Name	Position	Date of birth	Start of term	End of current term
A.J. Scheepbouwer (Chairman)	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 International and Chief Operating Officer **	August 3, 1957	June 2006/2010	2014
J.B.P. Coopmans	Managing Director Dutch Telco	February 9, 1965	September 2006/2010	2014

* Reappointment.
** As of the AGM in April 2011, Eelco Blok will become the Chairman of the Board of Management and Chief Executive Officer.

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, the Managing Director International and the Managing Director Dutch Telco.

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 the Port of 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, he is chairman of the Supervisory Board of Bank Oyens and Van Eeghen.

Mr Scheepbouwer is also member of the Advisory Councils of ECP.NL and 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, Managing Director International and Chief Operating Officer.

Eelco Blok was appointed as a member of the Board of Management on June 1, 2006 and was responsible for KPN's Fixed division until January 1, 2007. Until February 1, 2010, he was Managing Director of the Segments Business, Getronics and Wholesale & Operations (including iBasis). As of February 1, 2010, Mr Blok assumed responsibility for KPN's international operations, comprising Mobile International and iBasis, KPN's wholesale international voice traffic carrier. He assumed the additional role of Chief Operating Officer, following his nomination on October 18, 2010, to become Chairman of the Board of Management and Chief Executive Officer of KPN as of the AGM in April 2011.

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 until the AGM 2011, chairman of the Board of iBasis.

J.B.P. Coopmans
Mr Coopmans is a member of the Board of Management and Managing Director Dutch Telco.

Baptiest Coopmans was appointed as a member of the Board of Management on September 11, 2006 and was responsible for KPN's Consumer Segment in the Netherlands until January 1, 2007. Until February 1, 2010, he was Managing Director of the Consumer Segment and the unit IT in the Netherlands. As of February 1, 2010, Mr Coopmans' responsibilities had been extended to the whole of KPN's Dutch Telco activities, covering not only the consumer market and IT, but also the business and wholesale markets and operations for wireline, wireless and television services.

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, 2010, a total of 1,572,609,884 ordinary shares were outstanding.

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

Purchase of shares in the Company's own capital
The shareholders have authorized the Board of Management (for a period of 18 months until October 13, 2011) 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 11,342,404 shares that the Company acquired in the context of its share repurchase program until April 9, 2010. In practice, this meant that KPN could acquire up to 10% of its own issued shares, cancel these shares, and acquire a further 10%.

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

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

Dividends
Under the Articles of Association, the Class B preference shares carry preferred dividend rights. Subject to the approval of the Supervisory Board, the Board of Management will determine what proportion of the profit remaining after satisfaction of these preferred dividend rights will be appropriated to the reserves. The Board of Management may decide to allocate the complete remainder to the reserves. Any remaining profit resulting after this appropriation is available for distribution on the ordinary shares. The decision to pay out a dividend is made by the AGM, upon proposal by the Board of Management with the approval of the Supervisory Board. In addition, the Board of Management may, subject to approval by the Supervisory Board, decide to pay out the entire dividend on ordinary shares in shares instead of in cash. Subject to Supervisory Board approval and certain legal requirements, the Board of Management may furthermore decide to pay out interim dividends on ordinary shares. Please see section 'Information about the KPN share – Dividend Policy' on page 12 for more information.

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

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

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

Insider transactions

Notifications to the Dutch Authority Financial Markets

The table below provides an overview of transactions in 2010 by members of KPN's Board of Management and Supervisory Board.

April 26	A.J. Scheepbouwer	Award of 180,941 conditional restricted KPN shares	EUR 0
April 26	C.M.S. Smits-Nusteling	Award of 49,727 conditional restricted KPN shares	EUR 0
April 26	E. Blok	Award of 76,053 conditional restricted KPN shares	EUR 0
April 26	J.B.P. Coopmans	Award of 69,033 conditional restricted KPN shares	EUR 0
April 14	A.J. Scheepbouwer	Exercise of 297,177 share options against cash settlement on expiry date. Order given 4 months before expiry date	Sale price share: EUR 11.97
April 9	A.J. Scheepbouwer	Exchange of 215,517 conditional KPN shares for 323,276 unconditional shares upon fulfilment of performance criterion	EUR 0

Subcode 'Inside Information'

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

The Foundation Preference Shares B KPN ('Stichting preferente aandelen B KPN')

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

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

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

Highlights 2010

- **Final year of 'Back to Growth' strategy in a challenging environment**
- **The Supervisory Board has extensively discussed the final year of the Back to Growth strategy with the Board of Management**
- **Company well positioned to move forward with new CEO**

After the economic turmoil in 2008 and 2009, there were no signs of economic recovery or further deterioration in 2010. The Supervisory Board devoted considerable time and attention to reviewing the measures to face the economic challenging market conditions, predominantly in the business markets, combined with pressure due to regulation. Despite the economic headwind, the Dutch Telco business maintained its record of good performance. A continued focus on costs, customer value and market shares, closely monitored by the Supervisory Board, led to increased profitability in 2010. Mobile International continued its successful Challenger strategy resulting in a higher service revenue growth in Germany and a strong EBITDA margin. Further, the 2010 agenda of the Supervisory Board was largely determined by the frequency auctions – especially the spectrum auction in Germany – and CEO succession. Overall, the Supervisory Board was pleased to see that the 'Back to Growth' objectives – as set in 2008 before the economic turmoil started – were achieved, with the exception of the revenue objective. The Supervisory Board is confident regarding the platform for KPN to move forward in 2011 under the leadership of Eelco Blok.

The Netherlands

The Dutch Telco Business showed a resilient performance during 2010 with growing profitability. The continued pressure on traditional businesses, the headwind from the difficult economic environment and regulatory pressure on tariffs were compensated by further FTE and cost reductions as well as operational efficiency improvements. The Supervisory Board monitored that the quality of services would not be compromised. The Net Promotor Score was a functional tool for measuring customer satisfaction, which remained a key area of attention. Whilst reducing costs, the Supervisory Board supported the continued investments in new services like TV, fiber, mobile data and IP connectivity services.

The Supervisory Board was kept informed by the Board of Management of developments in the broadband market where competitive pressure from the cable companies continued. The company's broadband market share slightly eroded, while focus on high-value customers continued and the acceleration of new services remained a key priority. The Supervisory Board therefore supported the further roll-out of fiber in combination with the short-term upgrade of the copper network to VDSL Central Office as well as a roll-out of VDSL outside Central Office ('outer rings') to further increase its high-speed broadband coverage and enable large-scale iTV coverage. In the overall fiber strategy, the Supervisory Board further was informed on the partner relationship with Reggeborgh in the Reggefiber joint venture and its operational progress in activating homes.

In the Dutch mobile consumer market, the Supervisory Board closely followed the developments in mobile data. Through the increased use of smart phones, KPN experienced a strong growth in both data users and the average data use per customer on its network, resulting in an exponential growth in data and signalling traffic. In order to monetize the data growth opportunity, the Supervisory Board supported the pricing differentiation and continued investments in capacity. With reference thereto, the Supervisory Board endorsed the acquisition of 2 x 10 MHz of 2.6 GHz spectrum for a total consideration of EUR 909 thousand. The focus on value maximization by aligning SAC/SRC with pricing, while maintaining its competitive position in this market was continued.

The challenging economic climate had a large impact on the Business Segment, showing an ongoing decline in traffic volumes and order intake. An additional negative impact on revenues was caused by regulation. Mitigating measures included cost savings and reducing the number of FTEs. The Supervisory Board monitored that these mitigating measures were prepared and exercised with due care without losing the high quality service levels. Further, the Supervisory Board was kept au fait with the intensified competition in the growing mobile data market with dongles and smart phones, where KPN had been able to maintain its market share.

The ongoing price pressure and business clients postponing investments also impacted the results at Getronics, closely monitored by the Supervisory Board. Despite the revenue decline due to these adverse market circumstances, Getronics was able to maintain its market position. Next to that, profitability increased over the year. The Supervisory Board followed the Getronics investigation of optimization opportunities in order to further improve quality and service at a lower cost level.

The new path iBasis took after the full takeover by KPN at the end of 2009, initiated a turnaround. The new management team focused on balancing revenue and profitable growth with improved market shares, which resulted in a substantial minute and revenue growth improvement.

Mobile International

The Challenger strategy continued to prove successful in both Germany and Belgium. The regional focus and simplified tariff structures and portfolios paid off, resulting in strong EBITDA margins in 2010. The Supervisory Board kept itself abreast of the progress with the accelerated roll-out of high-speed data networks in both Belgium and Germany in order to benefit from this growing market. The accelerated roll-out and data opportunity are supported by the spectrum acquired in the German auction and the various operational, technological and commercial partnerships in place. The value-driven approach of KPN in the German spectrum auction resulted in the acquisition of 70 MHz out of 359.2 MHz auctioned frequencies for a consideration of EUR 284 million. The key considerations for the Supervisory Board were to acquire the right amount of frequencies to continue with the growth ambitions in the German market, without overpaying. With the acquired frequency blocks, E-Plus can quickly establish the highest network capacity in Germany at only limited additional investment. Furthermore, the Supervisory Board supports the relaunch of the BASE brand in Germany, resulting in a large increase in postpaid customers.

Revenue increase in Spain largely driven by Simyo was endorsed as the result of increased focus on postpaid and an improved contract with the network provider. The unique distribution model and focus on the cultural segment by Ortel resulted in a strong growth in France. The footprint expansion of Ortel into the Spanish market was further supported.

Other considerations of the Supervisory Board related to the negative impact on service revenues caused by MTA and roaming tariff reductions. On the other hand, the benefits from improved purchase conditions from suppliers were welcomed.

Going forward

In the second half of 2010 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 '(mobile) data growth', which should drive further smart deployment of innovations in order to create and strengthen a stronger position in the growing data markets.

Against the background of the economically challenging environment, the Supervisory Board closely monitored and discussed in depth the company's financial profile with the Board of Management. 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 2.2 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.

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 three themes: responsible energy use, the New Way of Working and people connected. The Supervisory Board fully endorses the company's CSR policy as a key element of the company's license to operate. Since KPN's pillars are closely linked to KPN's core business, they will create new business and drive efficiencies as well. Due to the considerable achievements in 2009 and 2010 regarding transparency of the Company as a whole, the CSR policy on green ICT and social initiatives like 'Mooiste Contact Fonds', KPN was admitted to the Dow Jones Sustainability Index, one year earlier than aspired.

For a description of the organization and structure of KPN's Supervisory Board, see 'Corporate Governance' starting on page 47.

Meetings of the Supervisory Board

The Supervisory Board met on ten occasions in 2010, of which eight were regularly scheduled meetings and the remaining were ad hoc meetings (by telephone). After the Annual Meeting of Shareholders on April 13, 2010, Mr Streppel succeeded Mr Risseeuw as Chairman of the Supervisory Board. On the same date, Mr Routs took on the Vice-Chairmanship. Most Supervisory Board meetings were held jointly with the Board of Management. The company's Chief Legal Officer and company Secretary, Mr Van Rooij, acted as 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 88%. 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 was extensively discussed at the Supervisory Board meetings preceding the publication of the quarterly and annual results. During the business plan review, the Supervisory Board paid special attention to the stress test which had been performed by management in respect of the financial framework. A thorough analysis of upside and downside risks combined with the likelihood of occurrence of such risks had indicated that the financial framework was viable and robust. In these discussions regarding the financial performance of KPN, the Audit Committee, who had already reviewed the financial performance prior to the meeting, advised the full Supervisory Board on the most relevant matters.
The Company's external auditor, as well as relevant members of senior management, attended the Audit Committee meetings and presented their findings over the preceding quarters.

The Supervisory Board engaged in a discussion on KPN's strategic direction beyond 2010. The Board discussed specific strategic proposals and weighed them against alternative options. The Board had intensified the strategic dialogue with the Board of Management going forward.

The Supervisory Board conducted a thorough search and selection process prior to appointing Eelco Blok as the successor of Ad Scheepbouwer. Both the search and the selection process were prepared by the Nominating and Corporate Governance Committee for thorough review and discussion in the Supervisory Board. The starting point was the selection of two very strong and capable internal candidates. In order to have an open, unbiased and fully objective opinion, the Supervisory Board then conducted an external search. This process led to the final conclusion that Eelco Blok was the right person to succeed Ad Scheepbouwer. Eelco Blok played an integral role in establishing KPN's reputation for generating shareholder value. His skills fitted with the Board's ambition to continue with its strategy. Eelco Blok's unparalleled understanding of the industry and of KPN, its operations, strategy and its potential, both in the Netherlands and internationally were key decision points. As Mr Blok had proven his worth as an outstanding telecoms executive over the years, playing a pivotal role in KPN's transformation into an efficient and agile organization, the Supervisory Board expects his Chairmanship and strategic vision to furthermore ensure continuity for KPN.

On important technical, societal and regulatory developments, the Supervisory Board received regular updates through experts in the relevant topics, and through visits to the company's operations. The geographical as well as the business scope of the KPN portfolio was considered by the Supervisory Board during the year. The Supervisory Board also kept itself abreast of the views of (major) shareholders. Prior to the AGM, members of the Supervisory Board discussed the remuneration policy with (representatives of) institutional investors.

The Supervisory Board discussed various acquisition opportunities. The acquisition of the remaining minority stake of 35% in Ortel Mobile and the acquisition of 52 shops (former T for Telecom shops) received Supervisory Board approval.

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

The Supervisory Board furthermore discussed and approved various matters relating to the financing of KPN, such as the EUR 1.3 billion buyback of the 2011, 2012 and 2013 bonds and a EUR 1 billion new bond issue maturing in 2020. In addition, the Supervisory Board discussed and approved the granting of both a full-year 2009 dividend (January) and interim 2010 dividend (July 2010).

The Supervisory Board also attaches a lot of weight to the relationship with regulators. The Supervisory Board monitored critically the effectiveness of the implementation of the Compliance Charter with the Independent Post and Telecommunications Authority of the Netherlands (OPTA). 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.

Early 2010, the Supervisory Board conducted the self-assessment regarding its performance in 2009. This internal self-evaluation was based on a questionnaire, that was completed by each Supervisory Board member and plenary discussed. The outcome of the self-assessment was generally positive, with suggestions for improvement of Board dynamics. These suggestions related, for example, to the attention given to the CSR policy and familiarization with specific business activities. In order to professionalize the evaluation of its own performance and the performance of the Board of Management, an independent consultant is involved to facilitate the self-assessment regarding the performance in 2010 by conducting interviews with each Supervisory Board member and Board of Management member on Board dynamics.

Committees of the Supervisory Board

As set out in section 'Corporate Governance, starting on page 47, 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 2010, the Audit Committee consisted of three Supervisory Board members, Mr Haank (Chairman as of April), Mr Bischoff, and Mrs van Lier Lels (as of April). Mr Bischoff is considered to be a financial expert within the meaning of the Dutch Corporate Governance Code. The Audit Committee met on eight occasions, of which six were regularly scheduled meetings. With reference to the renewed composition of the Audit Committee, the two additional 'training day' meetings were held to give more detailed information regarding the role and responsibilities of the Audit Committee combined with a look into specific Audit Committee related subjects such as the financial details of the Company, risk assessment, compliance and IT. These two additional meetings were attended by two out of three Audit Committee members. All Audit Committee meetings were also attended by the CFO, Director Corporate Control and by the internal and external auditor. The Committee also met separately with the external auditor.

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

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

The Committee also discussed other topics that were within its scope of attention, most notably compliance, fraud management, application of IT in financial processes and taxation, such as the prepayment of the preliminary Dutch corporate income tax assessment for 2010.

The Audit Committee carried out its self-assessment by means of an extensive questionnaire, the results of which were discussed during the last meeting of the Audit Committee in 2010.

Remuneration and Organizational Development Committee

The Remuneration and Organizational Development Committee currently has four members, Mr Routs (Chairman), Mr Streppel, Mr Risseeuw and Ms Hooymans. During 2010, the Committee met ten times. The Committee reviewed the remuneration packages of the Board of Management, particularly with reference to the increased responsibilities of Mr Blok and Mr Coopmans due to the departure of Mr Miller. The Committee further established bonus targets and criteria for long- and short-term incentives for 2010. 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 60 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 to the evaluation of the remuneration policy of KPN, the Supervisory Board will propose several changes to the current remuneration policy at the General Shareholders Meeting in 2011. The key principles for these proposed changes are that the interests of the company in the medium and long term are promoted, that the incentives will not encourage Board of Management members to act in their own interests or take risks that are not in line with the adopted strategy and that the performance of members of the Board of Management is reflected in the way in which they are rewarded.

Further details on the activities of the Remuneration and Organization Development Committee are provided in the 'Remuneration and Organizational Development Report' starting on page 58.

Nominating and Corporate Governance Committee

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

The Nominating and Corporate Governance Committee met seven times during 2010. Key subject of the meetings in 2010 was the succession of the CEO. As mentioned in the above, the Committee conducted a thorough search and selection process that resulted in the appointment of Mr Blok. Further, it discussed compliance and integrity issues with senior management and reviewed the performance of the individual members of the Board of Management.

As mentioned in the above, the composition of the Board of Management changed in 2010 following the departure of Mr Miller. For an overview of all members of the Board of Management, see 'Corporate Governance' starting on page 47.

Financial Statements

The Financial Statements for the year ended December 31, 2010, 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 0.80 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 21, 2011

J.B.M. Streppel

A.H.J. Risseeuw

M.E. van Lier Lels

M. Bischoff

C.M. Hooymans

R.J. Routs

D.J. Haank

Message to shareholders

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

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

We are 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 in general the level and structure of the Board of Management pay is in line with management development goals and pay differentials within the Company.

For the remaining period of our current 'Back to Growth' strategy, the Committee decided that the fundamentals of the existing pay policy will remain unchanged. The existing pay policy was assessed in 2010, taking into account KPN's risk profile, pay trends in The Netherlands and abroad as well as trends in Corporate Governance.

Subject to adoption by the Annual Meeting of Shareholders and based on the outcome of this assessment, adjustments to the pay policy will be proposed for the year 2011 onwards.

Besides assessing management performance and setting targets for the coming years, relevant topics discussed by the Committee included the balance between risk and reward and alignment with the Company's strategic objectives, the Company's efforts and achievements in the domain of talent management, the procedures to be followed in the event of a change of control and the CEO succession.

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

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

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

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

Part:	Provides:
A. Executive pay at a glance	Highlights of KPN's pay policy (through questions and answers).
B. Duties and activities of the Committee	Insight into the topics discussed by the Committee during 2010.
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 2010	Insight into actual pay-out levels for the Board of Management over 2010
E. Supervisory Board pay	Insight into KPN's pay policy for the Supervisory Board.

A. Executive Pay at a Glance

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

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

How are executives rewarded?

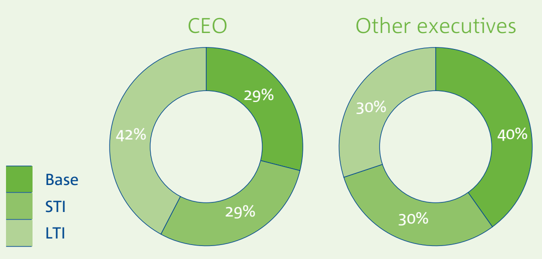
The pay mix for executives consists of the following four elements:

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

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-hand pie chart represents the pay mix for the CEO in case of an on-target performance, whereas the right-hand chart represents the pay mix for the other Board members in case of an on-target performance.

Compensation policy



How is the level of compensation established?

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

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

Are incentives aligned with strategy?

KPN's '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

Long-term targets

Peer group position, based on relative total shareholder return

Reward
Cash incentive

Reward
Conditional shares

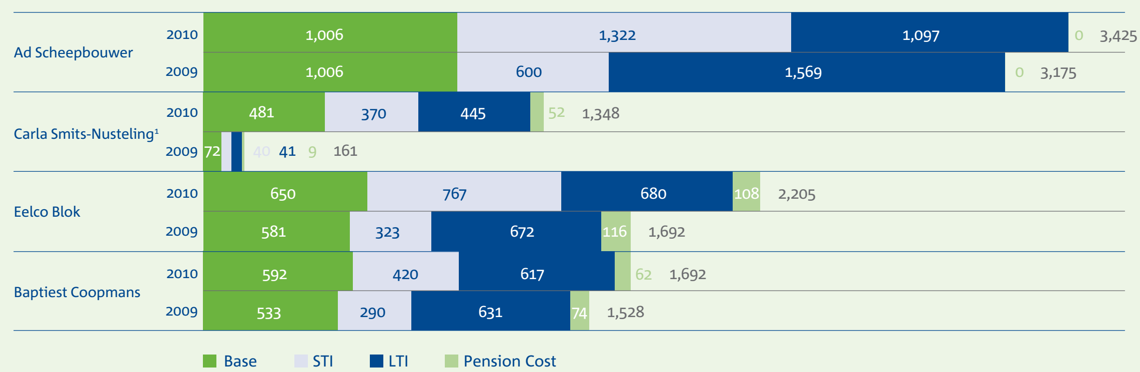
Does the level of variable compensation pose a risk to KPN's long-term strategy?

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 which is assured by KPN's standards of internal control over financial reporting

What was rewarded to executives in 2010?

The bar chart below shows 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.

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 counselling the Company on Organizational and Management Development;
- Holding an annual review of senior managers; and
- Reviewing the succession plans for the members of the Board of Management and other senior managers.

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

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

Activities during 2010

The Committee met 10 times in 2010, with all members present at each meeting. Consistent with its charter, the Committee has been involved in several aspects, such as:

- Reviewing the existing pay policy and recommending adjustments subject to adoption by the Annual Meeting of Shareholders, taking into account KPN's risk profile, pay trends in the Netherlands and abroad as well as trends in Corporate Governance;
- Proposing a pay package for the new CEO;
- 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);
- Reviewing procedures to be followed in the event of a change of control (the accelerated vesting of shares in the event of a change in control);
- Proposing targets and performance criteria and ensuring that the targets would be in line with the basic principles and objectives of pay policy;
- Monitoring the internal and external auditing of the results and procedures to verify the mathematical accuracy of the short and long term incentive plans;
- Reviewing whether performance of the Committee is in line with the Committee's charter;
- Preparing the Remuneration and Organizational Development Report to be included in KPN's Annual Report;
- Selection of an independent external remuneration consultancy firm; and
- Reviewing the Company's efforts and achievements in the domain of talent management for senior management.

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. KPN's pay programs therefore emphasize variable pay and long-term value creation. KPN's plans are designed to achieve the following objectives:

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

Principles of KPN's pay policy

KPN's pay policy is guided by three broad principles:
1. Paying competitively: this is achieved through benchmarking against a Dutch and an 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 an 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 on the following page show the current composition of KPN's employment peer groups:

The Dutch employment peer group	
Aegon NV	Royal Dutch Shell Plc
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	Wolters Kluwer NV
Royal Ahold NV	

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 Telecom 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 KPN's pay-for-performance principle, base salary is targeted at the low end of the market-competitive range. Each year the Supervisory Board considers whether circumstances justify an adjustment in base salary within the market-competitive target range for individual members of the Board of Management.

Short-term incentives (STI)

General

At the beginning of each year, the Supervisory Board sets financial and 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 in 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 customer satisfaction, diversity, compliance, Net Promotor Score, Corporate Social Responsibility, market shares and strategic progress. 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 delivered competitive performance ahead of market expectations and has consistently achieved guidance given to the financial community.

For 2010, on average, the Revenues were below target, EBITDA was above target and Profit before Tax was above maximum. In determination of the 2010 incentive, the Supervisory Board, decided on payment of the incentive for the Members of the Board of Management, using its discretionary authority for the incentive for Mr Blok, taking into account excellent results achieved in respect of Mobile International.

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	On 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.

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.

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.

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.

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

Position	Top 8 vesting % existing share plan	Top 8 ranking companies for 2008 share plan (vests in 2011)
Position 1	200% of the shares vest	Portugal Telecom SA
Position 2	200% of the shares vest	Swisscom AG
Position 3	200% of the shares vest	TeliaSonera AB
Position 4	175% of the shares vest	Vodafone Group Plc
Position 5	150% of the shares vest	KPN NV
Position 6	125% of the shares vest	Belgacom SA
Position 7	100% of the shares vest	Telefonica SA
Position 8	No vesting takes place	Deutsche Telekom AG

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.

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

Actual pay-out levels

KPN's performance over the period 2008–2010 resulted in the 5th position in the TSR performance peer group with respect to the 2008 share award, which leads to a vesting percentage of 150% of the shares that will vest in April 2011. 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 2010 is one year, and any shares vested cannot be sold before July 2011. At the end of 2010, KPN held the 11th position with respect to the 2010 share grant, which does not lead to vesting of the shares in April 2011 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.

Special LTI

As presented in the 2009 AGM, the Supervisory Board agreed to an uplift of the LTI entitlements for 2009 and 2010 in order to reflect the extremely high ambitions of the 'Back to Growth' strategy. This will result in 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. The Committee reviewed the extent to which the stretched targets have been achieved and decided that, taking into account the vesting conditions, the Special LTI will not be rewarded to the CEO. For the other members of the Board of Management this decision will be made based on KPN's final ranking after the three-year performance period.

Change in composition and responsibilities of the Board of Management

KPN and Mr Miller agreed upon his resignation as director and CEO of Mobile International. KPN and Mr Miller agreed that his employment contract terminated on February 1, 2010.

A severance arrangement amounting to EUR 2.25 million was contractually agreed upon, consisting of two years' base salary (taking into account the contractually agreed gross-up) and additional items such as pension and healthcare contributions. Mr Miller's 2007 LTI and 2009 STI were paid pursuant to his contract of employment.

The departure of Mr Miller has led to a change in responsibilities within the KPN Board of Management. Mr Blok assumed responsibility for KPN's International operations and Mr Coopmans assumed responsibility for KPN's Dutch Telco activities. Mr Blok and Mr Coopmans received a revised remuneration within the framework of KPN's remuneration policy.

The Supervisory Board has announced its intention to appoint Mr Blok as the next Chairman of its Board of Management. The appointment will, as planned, come into effect as of KPN's AGM on April 6, 2011, on which date current CEO Mr Scheepbouwer will step down from his position.

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 cellphones and Company car provisions needed for the execution of their roles, are broadly in line with other companies of similar size and complexity, as well as with market 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.
- 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 Blok. In his current employment contract, a severance arrangement of one year base salary plus 100% short-term incentive was contractually agreed with Mr Blok. As part of the appointment of Mr Blok as Chairman of the Board of Management, the severance clause will be contractually adjusted to one year base salary.

Outlook for 2011

A review and discussion of the existing pay policy was assessed in 2010, taking into account KPN's risk profile, pay trends in the Netherlands and abroad as well as trends in Corporate Governance.

The adjustments to the pay policy will be proposed for adoption by the AGM on April 6, 2011, including but not limited to:

- Shift the weight of the short- and long-term incentives more towards the long-term incentives;
- Shift the LTI grant policy from a percentage where the participant is given an entitlement based on a percentage of fixed compensation, to a fixed number of performance shares;
- Adjustment of the STI payout methodology from a matrix approach (payout based on the achievement of a combination of financial targets) to a payout approach for each of the financial- and non-financial targets ;
- Introduction of a non-financial component for vesting of shares as part of the LTI plan;
- Introduction of share ownership guidelines; and
- Integration of the Dutch and European employment peer groups.

With the proposed changes, the Supervisory Board wishes to shift the emphasis of the incentives towards the longer term, to simplify the LTI grant policy and to add non-financial elements to the LTI.

Due to an increase in workload, complexity and level of responsibility, a market competitive adjustment to the fee structure for the Supervisory Board will be proposed for adoption by the AGM on April 6, 2011.

D. Details of actual pay-out for 2010

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

Name	Year	Salary & Social Security (EUR)	STI[3] (EUR)	LTI: Share awards[1] (EUR)	Pension costs[2] (EUR)	Total (EUR)
A.J. Scheepbouwer						
	2010	1,006,461	1,322,160	1,096,502	–	3,425,123
	2009	1,006,259	600,000	1,568,964	–	3,175,223
C.M.S. Smits-Nusteling						
	2010	481,465	370,090	444,559	51,544	1,347,658
	2009	71,702	39,667	41,209	8,595	161,173
E. Blok						
	2010	650,215	767,126	679,914	108,100	2,205,355
	2009	581,259	322,575	671,893	116,011	1,691,738
J.B.P. Coopmans						
	2010	592,298	420,098	617,155	62,124	1,691,675
	2009	532,927	289,667	630,998	73,957	1,527,549
Total current members	**2010**	**2,730,439**	**2,879,474**	**2,838,130**	**221,768**	**8,669,811**
	2009	**2,192,147**	**1,251,909**	**2,913,064**	**198,563**	**6,555,683**

1) The fair value of the 2010 grant was EUR 8.94 for Board members and EUR 6.06 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.

2) 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%. 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.

3) Actual bonus that relates to performance in the current year but paid out in the following financial year. On average, revenues were below target, EBITDA was above target and Profit before Tax was above maximum.

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

Name	Year	Salary & Social Security (EUR)	STI (EUR)	Exit Payment[1] (EUR)	LTI: Share Awards[2] (EUR)	Pension costs (EUR)	Total (EUR)
S.P. Miller[1]							
	2010	586,705	–	2,227,319	–	97,439	2,911,463
	2009	866,259	493,920	–	817,955	140,939	2,319,073
M.H.M. Smits							
	2010	–	–	–	–	–	–
	2009	581,259	–	575,000	–	70,204	1,226,463

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 2010, the amount payable to Mr Miller therefore includes compensation for loss of net income of EUR 654,500 (EUR 119,500 for base salary and EUR 535,000 for the exit payment). In 2009 this compensation for loss of net income was EUR 261,920 (EUR 160.000 for base salary, EUR 101,920 for the STI). Further, Mr Miller received reimbursements for tuition costs of children and for private international medical plan expenses. Mr Miller's pension entitlement was insured in Belgium based on a retirement age of 60 and a defined contribution scheme. In 2010, salary and social security is predominantly related to the notice period.

2) Excluding the payment of EUR 890,961 related to the 2007 share grant of Mr Smits and excluding the payment of EUR 588,856 related to the 2007 share grant of Mr Miller (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 2010, granted shares sold during 2010, and granted (un) conditional shares/share-based awards held by them as of December 31, 2010.

	Grant date	Current status	Number of shares granted as of January 1, 2010	Number of shares/share-based awards granted, vested or sold in 2010[1]	Number of shares/share-based awards as of December 31, 2010	Total Pre-tax fair value of shares on grant date[3] (EUR)	Pre-tax market value of shares on vesting date in 2010 (EUR)	/End of lock-up period in 2010
A.J. Scheepbouwer	04/15/2010	Conditional	–	180,941	180,941	1,096,502[2]		end of lock-up 7/1/2011
	04/09/2009	Conditional	215,517	107,759[6]	323,276	1,568,964	3,824,349[6]	end of lock-up 7/1/2011
	04/17/2008	Conditional	354,242	–	354,242	2,988,031		end of lock-up 7/1/2011
	04/19/2007	Unconditional	48,485	-48,485[6]	–	651,638	1,011,499[6]	n.a.
C.M.S. Smits-Nusteling	04/15/2010	Conditional	–	49,727	49,727	444.559[1]		end of lock-up 4/15/2015
	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]	Unconditional	8,810	-8,810[6]	–	118,406	183,802[6]	n.a.
	04/13/2006[5]	Conditional	2,376	–	2,376	28,241		end of lock-up 4/13/2011
E. Blok	04/15/2010	Conditional	–	76,053	76,053	679,914[1]		end of lock-up 4/15/2015
	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	Unconditional	47,422	-47,422[6]	–	637,352	989,326[6]	n.a.
	04/13/2006[5]	Conditional	30,745	–	30,745	365,154		end of lock-up 4/13/2011
J.B.P. Coopmans	04/15/2010	Conditional	–	69,033	69,033	617,155[1]		end of lock-up 4/15/2015
	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	Unconditional	23,648	-23,648[6]	–	317,829	493,346[6]	n.a.
	11/09/2006	Conditional	31,683	–	31,683	374,315		end of lock-up 09/01/2011
S.P. Miller[4]	04/09/2009	Conditional	96,685	-96,685	–	817,955		n.a.
	04/17/2008	Conditional	77,307	-77,307	–	1,105,490		n.a.
	04/19/2007	Unconditional	28,226	-28,226[6]	–	379,357	588,856[6]	n.a.
M.H.M. Smits[4]	04/09/2009	Conditional	–	–	–	–		n.a.
	04/17/2008	Conditional	–	–	–	–		n.a.
	04/19/2007	Unconditional	–	–	–	–		n.a.
	04/13/2006	Conditional	36,513	–	36,513	433,657		end of lock-up 4/13/2011

1) The shares granted to the Board members represent 17% of the total number of shares and share-based awards granted in 2010 to all employees. On the grant date (April 15, 2010) the KPN share price quoted EUR 11.46 (closing price) while the fair value of each granted share was EUR 8.94 for Members of the Board of Management.
2) The value of each granted share for the CEO (to whom slightly different arrangements apply) was EUR 6.06.
3) Value is calculated by multiplying number of share awards by the fair value.
4) Former member.
5) Not granted in capacity as Board Member.
6) The 2007, cash-settled, share-based award had a vesting percentage of 183%, the 2009 share award for the CEO had a vesting percentage of 150%.

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 2010, and unexercised options held by them as of December 31, 2010. Options issued carry an entitlement to one KPN share.

	Grant date	Vesting date	Expiration date	Number of options as of January 1, 2010	Number of options granted in 2010	Number of exercisable options	Options exercised during the year	Number of options as of December 31, 2010	Exercise price
A.J. Scheepbouwer	04/19/2007	04/19/2010	04/18/2012	165,410	–	165,410	–	165,410[2]	12.09
	04/13/2006	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[2]	–	6.73
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
J.B.P. Coopmans	/	/	/	–	–	–	–	–	–

1) Options not granted in capacity as Board Member.
2) The pre-tax market value of 2005 options at the end of holding period is EUR 1,556,959. The pre-tax market value of 2007 options at the end of vesting period is EUR 0.

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

Number of shares	December 31, 2010	December 31, 2009
A.J. Scheepbouwer	152,147	152,147
C.M.S. Smits-Nusteling	–	–
E. Blok	287	287
J.B.P. Coopmans	–	–
S.P. Miller[1]	–	–
M.H.M. Smits[1]	–	–
Total	**152,434**	**152,434**

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

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

E. Supervisory Board Pay 2010

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 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 KPN's other shareholders. No Supervisory Board member is granted stock options or shares as a form of pay. No member of the Supervisory Board held any stock options in the Company. As a policy, the Company does not provide loans to its Supervisory Board members.

The table below shows the pay-out to current and former Supervisory Board members in 2010 and fixed Committee fees on an annual basis.

Amounts in EUR	Fees 2010
Chairman Supervisory Board	80,000
Member Supervisory Board	55,000
Chairman Audit Committee	20,000
Member Audit Committee	10,000
Chairman Remuneration and Organizational Development Committee	10,000
Member Remuneration and Organizational Development Committee	5,000
Chairman Nominating and Corporate Governance Committee	10,000
Member Nominating and Corporate Governance Committee	5,000

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

Amounts in EUR	Membership fees 2010	Committee fees 2010	2010 Total	2009 Total
J.B.M. Streppel	72,920	16,417	89,337	75,000
A.H.J. Risseeuw	62,090	11,420	73,510	95,000
M.E. van Lier Lels	55,000	10,000	65,000	65,000
M. Bischoff	55,000	10,000	65,000	65,000
C.M. Hooymans	55,000	10,000	65,000	65,000
R.J. Routs	55,000	13,585	68,585	47,128
D.J. Haank	55,000	17,170	72,170	47,128

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

Amounts in EUR	Membership fees 2010	Committee fees 2010	2010 Total	2009 Total
D.I. Jager	15,584	3,000	18,584	70,000

Stock ownership Supervisory Board

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

Number of shares	December 31, 2010	December 31, 2009
J.B.M. Streppel	–	–
A.H.J. Risseeuw	47,370	47,370
M.E. van Lier Lels	–	–
M. Bischoff	–	–
C.M. Hooymans	–	–
R.J. Routs	–	–
D.J. Haank	8,117	8,117
Total	**55,487**	**55,487**

The shares of the former Supervisory Board members are provided below.

Number of shares	December 31, 2010	December 31, 2009
D.I. Jager	107,500[1]	107,500

1) Number of shares at April 13, 2010., i.e. the date of Mr. Jager's step down from the Supervisory Board .

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	2010	2009
Revenues [1]	13,324	13,451
Other income [2]	74	58
Total	**13,398**	**13,509**
Own work capitalized	-101	-98
Cost of materials	911	852
Work contracted out and other expenses	4,560	4,686
Employee benefits [3]	1,932	2,115
Depreciation, amortization and impairments [4]	2,226	2,342
Other operating expenses [5]	620	762
Total operating expenses	**10,148**	**10,659**
Operating profit	**3,250**	**2,850**
Finance income	19	34
Finance costs	-860	-796
Other financial results	-75	-46
Financial income and expenses [6]	**-916**	**-808**
Share of the profit of associates and joint ventures, net of tax [12]	-31	-6
Profit before income tax	**2,303**	**2,036**
Income taxes [7]	-508	139
Profit for the year	**1,795**	**2,175**
Profit (loss) attributable to non-controlling Interests [20]	2	-3
Profit attributable to equity holders [19]	1,793	2,178
Earnings per share after taxes attributable to equity holders for the year in EUR [8]		
– basic	1.15	1.33
– fully-diluted	1.15	1.33

[..] 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	2010	2009
Profit for the period	**1,795**	**2,175**
Other comprehensive income:		
Cash flow hedges:		
Gains or (losses) arising during the period [19]	30	-120
Income tax [19]	-8	30
	22	**-90**
Currency translation adjustments:		
Gains or (losses) arising during the period [19]	4	–
Income tax [19]	–	–
	4	**–**
Fair value adjustment available for sale financial assets:		
Gains or (losses) arising during the period [19]	-8	-1
Income tax [19]	–	–
	-8	**-1**
Other comprehensive income for the period, net of income tax	**18**	**-91**
Total comprehensive income for the year, net of income tax	**1,813**	**2,084**
Total comprehensive income attributable to:		
Equity holders	1,811	2,087
Non-controlling interests	2	-3

Consolidated Statement of Financial Position

Assets

Amounts in millions of EUR	Dec. 31, 2010	Dec. 31, 2009
NON-CURRENT ASSETS		
Goodwill	5,733	5,769
Licenses	2,818	2,853
Software	819	783
Other intangibles	385	427
Total intangible assets [10]	**9,755**	**9,832**
Land and buildings	875	920
Plant and equipment	5,619	5,627
Other tangible non-current assets	130	177
Assets under construction	890	799
Total property, plant and equipment [11]	**7,514**	**7,523**
Investments in associates and joint ventures [12]	284	267
Loans to associates and joint ventures [12]	33	–
Available-for-sale financial assets [16]	53	51
Derivative financial instruments [26]	17	8
Deferred income tax assets [7]	1,918	2,135
Trade and other receivables [13]	236	231
Total non-current assets	**19,810**	**20,047**
CURRENT ASSETS		
Inventories [14]	153	93
Trade and other receivables [15]	1,867	1,895
Income tax receivables [7]	27	9
Available-for-sale financial assets [16]	–	2
Cash and cash equivalents [17]	823	2,690
Total current assets	**2,870**	**4,689**
Non-current assets and disposal groups held for sale [18]	**57**	**115**
TOTAL ASSETS	**22,737**	**24,851**

[..] 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, 2010	Dec. 31, 2009
GROUP EQUITY		
Share capital	377	391
Share premium	8,184	8,799
Other reserves	-709	-370
Retained earnings	-4,352	-4,982
Equity attributable to equity holders [19]	**3,500**	**3,838**
Non-controlling interests [20]	–	3
Total Group equity	**3,500**	**3,841**
NON-CURRENT LIABILITIES		
Borrowings [21]	11,359	12,502
Derivative financial instruments [26]	250	511
Deferred income tax liabilities [7]	956	1,275
Provisions for retirement benefit obligations [22]	608	717
Provisions for other liabilities and charges [23]	404	414
Other payables and deferred income [24]	225	337
Total non-current liabilities	**13,802**	**15,756**
CURRENT LIABILITIES		
Trade and other payables [25]	3,982	3,990
Borrowings [21]	1,178	869
Derivative financial instruments [26]	1	51
Income tax payables [7]	152	100
Provisions for other liabilities and charges [23]	106	211
Total current liabilities	**5,419**	**5,221**
Liabilities directly associated with non-current assets and disposal groups classified as held for sale [18]	**16**	**33**
TOTAL EQUITY AND LIABILITIES	**22,737**	**24,851**

[..] 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	2010	2009
Profit before income tax	2,303	2,036
Adjustments for:		
– Net finance cost [6]	916	808
– Share-based compensation [3]	-17	33
– Share of the profit of associates and joint ventures [12]	31	6
– Depreciation, amortization and impairments [4]	2,226	2,342
– Other income	-66	-54
– Changes in provisions (excluding deferred taxes)	-336	-290
Changes in working capital relating to:		
– Inventories	-52	42
– Trade receivables	27	259
– Prepayments and accrued income	19	29
– Other current assets	-41	89
– Trade payables	246	-327
– Accruals and deferred income	-88	-209
– Current liabilities (excluding short-term financing)	-36	127
Dividends received [12]	1	3
Income taxes paid	-589	-506
Interest paid	-736	-612
Net Cash flow provided by operating activities	**3,808**	**3,776**
Acquisition of subsidiaries, associates and joint ventures (net of acquired cash)	-106	-180
Disposal of subsidiaries, associates and joint ventures	63	28
Investments in intangible assets (excluding software)	-337	-13
Investments in property, plant and equipment	-1,398	-1,354
Investments in software	-411	-413
Disposals of intangible assets (excluding software)	–	10
Disposals of property, plant and equipment	103	113
Disposals of software	1	–
Loans to associates and joint ventures	-65	-21
Other changes and disposals	1	1
Net Cash flow used in investing activities [27]	**-2,149**	**-1,829**
Share repurchases	-1,000	-898
Dividends paid	-1,152	-1,039
Shares purchased for option plans	–	-62
Proceeds from exercised options	13	22
Proceeds from borrowings [21]	991	3,172
Repayments of borrowings and settlement of derivatives [21]	-2,484	-1,249
Other changes	-2	-13
Net Cash flow used in financing activities [28]	**-3,634**	**-67**
Changes in cash and cash equivalents	**-1,975**	**1,880**
Net Cash and cash equivalents at the beginning of the year [17]	2,652	771
Exchange rate differences	5	1
Changes in cash and cash equivalents	-1,975	1,880
Net Cash and cash equivalents at the end of the year [17]	**682**	**2,652**
Cash classified as held for sale [18]	-17	–
Bank overdrafts	158	38
Cash and cash equivalents [17]	**823**	**2,690**

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

Consolidated Statement of Changes in Group Equity

Amounts in millions of EUR, except number of shares	Number of subscribed shares	Share capital	Share premium	Other reserves	Retained earnings	Equity attributable to owners of the parents	Non-controlling interests	Total Group equity
Balance as of January 1, 2009	**1,714,362,792**	**411**	**9,650**	**-228**	**-6,103**	**3,730**	**29**	**3,759**
Share based compensation [3, 19]	–	–	–	16	-13	3	–	3
Exercise of options [3, 19]	–	–	–	22	–	22	–	22
Shares repurchased	–	–	–	-960	–	-960	–	-960
Dividends paid	–	–	–	–	-1,039	-1,039	-3	-1,042
Shares cancelled [19]	-85,507,470	-20	-851	871	–	–	–	–
Purchased from non-controlling interests [20]	–	–	–	–	-5	-5	-20	-25
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**
Share based compensation [3]	–	–	–	–	3	3	–	3
Exercise of options [3, 19]	–	–	–	14	–	14	–	14
Shares repurchased	–	–	–	-1,000	–	-1,000	–	-1,000
Dividends paid	–	–	–	–	-1,152	-1,152	–	-1,152
Shares cancelled [19]	-56,245,438	-14	-615	629	–	–	–	–
Purchased from non-controlling interests [20]	–	–	–	–	-14	-14	-5	-19
Comprehensive income for the period	–	–	–	18	1,793	1,811	2	1,813
Balance as of December 31, 2010	**1,572,609,884**	**377**	**8,184**	**-709**	**-4,352**	**3,500**	**–**	**3,500**

[..] 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 2010 was EUR 8 million negative (2009: EUR 30 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.

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

The Financial Statements as of and for the year ended December 31, 2010, of Koninklijke KPN N.V. were approved for issue by both the Supervisory Board and the Board of Management on February 21, 2011.

The Financial Statements are subject to adoption by the Annual General Meeting of Shareholders on April 6, 2011.

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 2009

The following changes were made in the 2009 comparative figures:
- Following changes in 2010 to KPN's internal structure and reporting to the CEO, who is the chief operating decision maker, the segment reporting has been changed, including the comparative figures as at December 31, 2009. Refer to Note 34 for further details.
- The geographical information in the segment reporting has been adjusted to exclude financial instruments from the non-current assets in the regions in line with the requirements under IFRS 8 (previously included). Refer to Note 34 for further details.
- During 2010, inconsistencies were noted in the 2009 amount of costs of operating leases and rental contracts disclosed in Note 31, leading to an adjustment of the amount from EUR 560 million to EUR 463 million. The adjustment did not have an impact on KPN's income or financial position as at and for the year ended December 31, 2009.

Changes in accounting policies and disclosures

Accounting for business combinations

From January 1, 2010 the Group has applied IFRS 3 (revised) 'Business Combinations' in accounting for business combinations. The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

The change in accounting policy has been applied prospectively and has had no impact on KPN's financial position and income as at and for the year ended December 31, 2009.

Accounting for acquisitions of non-controlling interests

From January 1, 2010 the Group has applied IAS 27, 'Consolidated and Separate Financial Statements' in accounting for acquisitions of non-controlling interests. The effects of all transactions with non-controlling interests are recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. When control is lost, any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss.

The change in accounting policy has been applied prospectively and has had no impact on KPN's financial position and income as at and for the year ended December 31, 2009.

Other changes

During 2010 the following standards, interpretations and amendments became effective as from January 1, 2010, which did not have a material impact on KPN's 2010 financial statements, but could be of impact on KPN's financial position, results and/or disclosures in the coming years:

- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions': In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations': The amendment clarifies 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, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.
- IAS 36 (amendment), 'Impairment of assets': The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).
- 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.
- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement'. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. If the entity is unable to make this assessment, the hybrid instrument remains classified as at fair value through profit or loss in its entirety.
- IFRIC 16, 'Hedges of a net investment in a foreign operation' : This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group.
- IFRIC 17, 'Distribution of non-cash assets to owners' : This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

Consolidation

Subsidiaries

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

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

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

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

Associates and joint ventures

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

The Group's share of its associates' post-acquisition profits or losses is recognized in the Consolidated Statement of Income, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other 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 at the balance sheet date.

Subsidiaries

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

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

Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the period as well as the information disclosed. For KPN's critical accounting estimates and judgments, reference is made to the notes to these Consolidated Financial Statements. The accounting estimates and judgments that are deemed critical to KPN's financial statements relate to the determination of deferred tax assets for loss carry forwards and the provision for tax contingencies (see Note 7), the determination of fair value less costs to sell and value in use of cash-generating units for goodwill impairment testing (see Note 10), the depreciation rates for the copper and fiber network (included within property, plant and equipment) (see Note 11), the assumptions used to determine the 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 recognized in the Consolidated Statement of Income immediately.

Leases where the lessee has substantially assumed all the risks and rewards of ownership are classified as finance leases. KPN as lessee under 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 recognized in the Consolidated Statement of Income over the lease term.

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

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 (equity-settled). 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 capitalized and depreciated over the expected lifetime (see 'leases' above).

Operating profit

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

Taxation of profit or loss

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

Balance Sheet

Intangible assets

Goodwill

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

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

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

In case of disposal of a business which was part of a cash-generating unit, goodwill is allocated to that business and 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 reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset concerned may not be recoverable. An impairment loss is recognized for the amount by which the asset's book value exceeds its recoverable amount. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use. Impairments are reversed if and to the extent that the impairment no longer exists.

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

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

Research and development

Costs incurred on development projects are recognized as intangible assets when it is probable that KPN will achieve economic benefits in the future, considering 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 reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset concerned may not be recoverable. An impairment loss is recognized for the amount by which the asset's book value exceeds its recoverable amount. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use.

Other intangibles

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

Property, plant and equipment

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

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

Land	No depreciation
Buildings	14 to 33 years
Network equipment	3 to 7 years
Network infrastructure	12 to 20 years
Vehicles	10 years
Office equipment	4 to 10 years

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

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

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

Financial assets

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

KPN classifies its financial assets in the following four categories:
- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments (not applicable in 2009 and 2010); and
- Available-for-sale financial assets.

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

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

Available-for-sale financial assets

Available-for-sale financial assets are carried at fair value with unrealized gains and losses (except for impairment losses) recognized in 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 other financial results during the period in which they arise to the extent that the derivatives have no hedging designation or they are ineffective.

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

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.

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

Deferred income taxes

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

Inventories

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

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

Trade and other receivables

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

Cash and cash equivalents

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

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

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

Equity

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

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

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

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

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

Borrowings

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

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

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

Provisions for retirement benefit obligations

Pension obligations

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

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

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

Termination benefits

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

Other long-term employee obligations

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

Provisions for other liabilities and charges

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

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

Statement of Cash Flows

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

Recent accounting pronouncements

The International Accounting Standards Board (IASB) has issued a number of new standards and interpretations, and amendments to existing standards many of which will become effective for KPN as of January 1, 2011. These have not been applied in preparing these 2010 Consolidated Financial Statements. The new standards, interpretations and amendments may have an effect on the information to be disclosed in KPN's Consolidated Financial Statements of 2011:

- IFRS 9, 'Financial instruments' (issued in November 2009): This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and may affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU. It is expected that the new requirements will not have a material impact on KPN's financial statements.
- IAS 24 (revised), 'Related party disclosures', issued in November 2009: It supersedes IAS 24, 'Related party disclosures', issued in 2003. KPN will apply IAS 24 (revised) as from January 1, 2011. The revised standard clarifies and simplifies the definition of a related party. When the revised standard is applied, the group and the parent will need to disclose any transactions between its subsidiaries and its associates. The revised standard does not have an impact on the financial position or results of KPN, but only on the related party disclosures, if any.
- 'Classification of rights issues' (amendment to IAS 32), issued in October 2009: The amendment is applicable to KPN as from January 1, 2011. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The amendment will not have a material impact on KPN's financial statements.
- IFRIC 19, "Extinguishing financial liabilities with equity instruments", effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt or equity swap). The interpretation will not have material impact on KPN's financial statements.
- 'Prepayments of a minimum funding requirement' (amendments to IFRIC 14): The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. The amendments are effective as from January 1, 2011 and should be applied retrospectively to the earliest comparative period presented. These amendments are not expected to have a material impact on KPN's financial statements.

The IASB has issued Exposure Drafts on several topics in which significant changes on accounting and disclosures are proposed. If the current proposals lead to new or amended standards, the changes will have a substantial impact on KPN's financial statements in the coming years. KPN monitors the developments of the exposure drafts on the following topics: 'Revenue recognition', 'Leasing' and 'Post-employment benefits . Based on the current planning of the IASB these projects are expected to lead to new revised standards in 2011. The effective date of the revised standards is also under discussion.

Notes to the Consolidated Statement of Income

[1] Revenues

Amounts in millions of EUR	2010	2009
Rendering of services	12,801	12,914
Sale of goods	397	407
Royalties and other revenues	126	130
Total revenues	**13,324**	**13,451**

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	2010	2009
Gains on the sale of property, plant and equipment	48	57
Other gains	26	1
Total other income	**74**	**58**

Gains on the sale of property, plant and equipment included sale and lease back transactions. Other gains included gains from the sale of a part of the dark fiber business of KPN Eurorings for EUR 14 million.

[3] Employee benefits

Amounts in millions of EUR	2010	2009
Salaries and wages	1,611	1,763
Pension charges (incl. Social Plan 2001)	128	148
Social security contributions	193	204
Total employee benefits	**1,932**	**2,115**

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

Board of Management and Supervisory Board

The Remuneration and Organizational Development Report included in this Annual Report on pages 58 to 69 contains required information comprising 'D: Details of actual pay-out for 2010' and 'E: Supervisory Board Pay 2010', 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 28,000 in 2010 (EUR 118,000 in 2009) 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 (years after grant date)	Vesting period	Profits in escrow if exercised within 3 years[1]	Performance related[2]
2004	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
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.

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, 2010

Granted in:	Number outstanding December 31, 2010	Exercise price per option	Weighted average remaining contractual life (years)	Weighted average fair value at the date of grant
2004	560,018	6.45	1.3	3.16
2005	732,335	6.73 – 7.18	2.3	2.72
2006	215,278	9.29	0.3	1.20
2007	165,410	12.09	1.3	1.70
Total	**1,673,041**			

Summary of the changes in outstanding options

	2010		2009	
	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	**3,702,971**	**7.07**	**7,088,808**	**6.84**
Options granted	–	–	–	–
Options additional (TSR based)	–	–	–	–
Options exercised	-1,937,912	6.71	-3,349,988	6.59
Options expired	–	–	–	–
Options forfeited	-92,018	6.70	-35,849	6.53
Outstanding at the end of the year	**1,673,041**	**7.50**	**3,702,971**	**7.07**
– of which: exercisable	*1,673,041*	*7.50*	*3,702,971*	*7.07*

The actual number of options is adjusted, for the actual vesting percentages after the performance period. The average KPN stock price in 2010 was EUR 11.28. 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	3 years	2 years
2007	Board of Management, Senior Management	3 years	Cash	3 years	–
2008	CEO	Until July 2011	Equity	1 year	Until July 2011
	Board of Management (excl. CEO)	5 years	Equity	3 years	2 years
	Senior Management	3 years	Cash	3 years	–
2009	CEO	Until July 2011	Equity	1 year	Until July 2011
	Board of Management (excl. CEO)	5 years	Equity	3 years	2 years
	Senior Management	3 years	Cash	3 years	–
2010	CEO	Until July 2011	Equity	1 year	Until July 2011
	Board of Management (excl. CEO)	5 years	Equity	3 years	2 years
	Senior Management	3 years	Cash	3 years	–

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 group and the vesting schedule can be found under 'Long-term incentives' in the 'Remuneration and Organizational Development Report' section.

The total compensation expense associated with the PSP was EUR 12 million in 2010 (2009: EUR 30 million) and the related liability (for cash-settlement) at December 31, 2010, was EUR 39 million (2009: EUR 49 million). This liability is included under Other payables and deferred income. During 2010 KPN granted 2,165,104 shares and share-based awards under the PSP 2010 (2009: 2,706,806) to members of the Board of Management and Senior Management.

The following table presents the number of shares and share-based awards under the PSP for the year ended December 31, 2010. 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.

Number of shares and share based awards	Total at Dec 31, 2008	Granted/ additional vesting[4]	Exercised	Forfeited	Total at Dec 31, 2009	Granted/ additional vesting[2-4]	Exercised	Forfeited	Total at Dec 31, 2010[3]	– of which: Non-Vested
2006 Shares	784,489	1,020,845[4]	-772,232	-260,284	**772,818**	–	–	–	**772,818**	–
2007 Share-based awards	1,438,356	–	-49,794	-80,362	**1,308,200**	1,058,997[4]	-2,334,896	-32,301	**–**	–
2008 Share-based awards Senior Management	1,699,634	8,668	–	-105,627	**1,602,675**	10,597	–	-76,797	**1,536,475**	1,536,475
2008 Shares Board of Management	436,651	177,121[4]	–	-63,502	**550,270**	–	–	-77,307	**472,963**	118,721
2009 Share-based awards Senior Management	–	2,156,307[1]	–	-35,065	**2,121,242**	5,381	–	-148,624	**1,977,999**	1,977,999
2009 Shares Board of Management	–	471,079[1]	–	–	**471,079**	107,759[4]	–	-96,685	**482,153**	158,877
2010 Share-based awards Senior Management	–	–	–	–	**–**	1,789,350[1]	–	-56,086	**1,733,264**	1,733,264
2010 Shares Board of Management	–	–	–	–	**–**	375,754[1]	–	–	**375,754**	375,754

1) On the basis of 100% grant.

2) At grant date the fair value is calculated using a Monte Carlo Simulation model. At April 15, 2010 , the fair value was EUR 8.94 for the 2010 share based award, EUR 8.94 for the 2010 share grant for Members of the Board of Management and EUR 6.06 for the 2010 share grant for the CEO (to whom slightly different arrangements apply).

3) At December 31, 2010, 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, 2010). At December 31, 2010 , the fair value was EUR 16.38 for the 2008 share based award, EUR 5.71 for the 2009 share based award and EUR 7.14 for the 2010 share based award.

4) At the end of 2009, KPN held the 2nd position with respect to the 2007 share grant, which led to a vesting percentage of 183% of the shares that vested in April 2010. At the end of 2009, KPN held the 5th position with respect to the 2009 share grant, which led to a vesting percentage of 150% of the shares of the CEO that vested in April 2010. 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.

5) In the 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 Remuneration and Organizational Development Report for further explanation on the uplift to the LTI entitlement.

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

	2010 PSP	2009 PSP
Risk-free interest rate based on euro governments bonds for remaining time to maturity of 2.7 years (CEO 2010 grant remaining time to maturity of 0.7 year)	1.8% (CEO 1.1%)	2.1% (CEO 1.6%)
Expected dividend for KPN (based on one year's historical daily data preceding the date of award)	6.3%	5.7%
Expected volatility (2010 grant based on 2.7-years' daily historical daily data, CEO 2010 grant 0.7 year daily historical daily data)	27.6% (CEO 16.4%)	27.3%
Share price at date of award (closing at grant date)	11.46	9.55

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 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 was executed in 2009. No outstanding options remained as at December 31, 2010.

[4] Depreciation, amortization and impairments

Amounts in millions of EUR	2010	2009
Impairment of goodwill	2	30
Amortization of other intangible assets [10]	788	747
Impairment of other intangible assets [10]	24	15
Total amortization and impairments of goodwill and other intangible assets	**814**	**792**
Depreciation of property, plant and equipment [11]	1,400	1,518
Impairments and retirements of property, plant and equipment [11]	9	32
Total depreciation and impairments of property, plant and equipment	**1,409**	**1,550**
Impairment of assets held for sale [18]	**3**	**–**
Total	**2,226**	**2,342**

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

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

In 2009, the goodwill impairment charge of EUR 30 million included 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. Furthermore, a goodwill impairment of EUR 5 million was 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.

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

Amounts in millions of EUR	2010	2009
By classification:		
Land and buildings	93	110
Plant and equipment	1,235	1,322
Other tangible fixed assets	78	110
Assets under construction	3	8
Total	**1,409**	**1,550**

Impairments and retirements of property, plant and equipment relate predominantly to retirements of assets. As of January 1, 2010, the remaining estimated useful life of mobile towers was prospectively changed from 14 to 20 years, resulting in a reduction of the depreciation of plant and equipment in 2010 of EUR 80 million.

[5] Other operating expenses

In 2010 Other operating expenses comprised releases from provisions for other liabilities and charges and doubtful receivables in the amount of EUR 49 million. In 2009, other operating expenses comprised a net addition to the restructuring provision amounting to EUR 56 million of which EUR 48 million related to redundancy personnel costs and EUR 8 million related to contract obligations. In 2009, the amount of redundancy personnel costs related 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. For more details, reference is made to Note 23.

Costs of research and development are included in Other operating expenses and amounted to EUR 82 million in 2010 (2009: EUR 32 million). No development costs were capitalized during 2010 and 2009, 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	2010	2009
Financial statements audit fees	9.9	9.4
Other assurance fees	1.3	3.1
Tax fees	0.9	0.9
All other fees	0.2	–
Total	**12.3**	**13.4**

The total fees of PricewaterhouseCoopers Accountants N.V. , the Netherlands, charged to the Company and its consolidated group entities amounted to EUR 9.8 million in 2010 (2009: EUR 10.3 million).

The financial statements audit fees include the aggregate fees billed in each of 2010 and 2009 for professional services endered 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 2010 financial statements audit fee includes EUR 1.9 million related to the prior year's audit (2009: EUR 1.1 million).

The other assurance fees include the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of KPN's financial statements and are not reported under audit services. This includes revenue and IT related assurance services. In 2010, the other assurance fees also included an amount of EUR 0.2 million (2009: EUR 1.2 million)related to regulatory assurance services.

The tax category includes tax advisory and compliance services.

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

[6] Financial income and expenses

Amounts in millions of EUR	2010	2009
Finance income	**19**	**34**
Interest on borrowings	-827	-754
Interest on provisions	-11	-15
Other	-22	-27
Finance costs	**-860**	**-796**
Amortizable part of hedge reserve [19]	-11	-17
Ineffective portion of cash flow hedges	–	-1
Ineffective portion of fair value hedges	-17	–
Exchange rate differences	2	5
Other	-49	-33
Other financial results	**-75**	**-46**
Total	**-916**	**-808**

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

In 2010, interest on borrowings included a non-cash amount of EUR 30 million (2009: EUR 30 million) relating to previously capitalized debt issue costs and similar costs which are amortized over the duration of the respective bonds. Interest on borrowings in 2010 included EUR 97 million of costs regarding the tender on outstanding Eurobonds. These costs included a tender premium of EUR 90 million and EUR 7 million of additional amortization. Interest on borrowings in 2009 included EUR 27 million of costs regarding the tender of the USD bond, refer to Note 21.

In line with the Reggefiber call/put arrangements to acquire 100% of the shares over time, KPN has recorded EUR 46 million in other financial results (2009: EUR 44 million). Refer to Note 12 and Note 29 for further information on the call/put arrangements.

In 2010 and 2009, 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 tax loss related to E-Plus against its Dutch taxable result. This loss had to be recaptured in later years by adding EBITDA of E-Plus to the taxable income of KPN Mobile. For the tax payments on this recapture a deferred tax liability has been recognized. This deferred tax liability is reduced by the taxes paid over EBITDA of E-Plus which were EUR 345 million in 2010 (2009: EUR 341 million). As per December 31, 2010, the deferred tax liability for the recapture amounted to EUR 851 million. Full recapture is expected to be realized in the course of 2013.

Koninklijke KPN tax unity

As of January 1, 2008, most of the Dutch entities of Getronics are included in the Koninklijke KPN tax unity. As at December 31, 2010, the Dutch entities of Getronics reported tax loss carry forwards of approximately EUR 327 million (2009: EUR 329 million). These losses can be offset against future taxable profits allocated to the Getronics activities. A deferred tax asset of EUR 82 million has been recognized for these tax loss carry forwards at December 31, 2010 (2009: EUR 84 million). 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, 2010, 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.

Furthermore, KPN is investigating whether or not benefits can be obtained from tax incentives in the Netherlands as well as abroad, which may have an impact on the tax position of prior years.

E-Plus

In Germany, the income tax consists of trade tax (‘Gewerbesteuer’) and corporate tax (‘Körperschaftssteuer’). E-Plus has considerable loss carry forwards for both trade tax and corporate tax. For tax purposes, certain impairments of goodwill and licenses were not recognized and are amortized over the remaining useful lives (deductible temporary differences). In Germany, taxable income in a certain year, exceeding EUR 1 million, can only be offset for 60% against tax loss carry forwards. Trade tax and corporate tax is payable over the remaining 40% of taxable income. Information about the available tax loss carry forwards is given on page 97.

At December 31, 2010, a deferred tax asset (DTA) of EUR 1,701 million was recognized of which EUR 822 million was for estimated future tax savings due to available tax loss carry forwards and EUR 879 million for estimated future tax savings due to the realization of temporary differences. As of December 31, 2009, KPN applies a new methodology for the valuation of available tax loss carry forwards and deductible temporary differences. Under this new methodology less weight is assigned to the expiration of the UMTS license in estimating probable future taxable income. Mainly due to the application of the new methodology, the DTA at December 31, 2009 increased by EUR 705 million to EUR 1,721 million.

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	2010	2009
Current tax	-276	-291
Changes in deferred taxes	-232	430
Income tax benefit/(charge)	**-508**	**139**

The tax benefit in 2009 includes a EUR 705 million gain due to the implementation of a new methodology for the valuation 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	2010	2009
Profit before income tax[1]	**2,334**	**2,042**
Taxes at Dutch statutory tax rates[2]	-595	-521
Tax rate differences of foreign operations[3]	-53	-37
Non-taxable income and non-deductible expenses[4]	-31	-4
Change in Dutch statutory tax rate[5]	18	–
(De)recognition of deferred tax positions[6]:		
– related to prior years	193	757
– related to the current year	-17	-42
Other	-23	-14
Income tax benefit/(charge)	**-508**	**139**
Effective tax rate	**21.8%**	**-6.8%**

1) Excluding the share in profits of associates and joint ventures.
2) Taxes at Dutch statutory tax rates are calculated on the basis of profit before income tax (excluding the share of profits of associates and joint ventures) and the applicable Dutch corporate income tax rate of 25.5% in 2010 and 2009.
3) Tax rate differences of foreign operations reflect the impact of different tax rates in the fiscal jurisdictions in which KPN operates. In 2010 and 2009, the corporate tax rates amounted to 15.8% in Germany, 34% in Belgium and 40% in the United States. The German trade tax rate was 15.6%.
4) Non-taxable income and non-deductible expenses represent adjustments for income not subject to taxation.
5) Relates to deferred taxes in the Netherlands. The Dutch statutory tax rate is decreased from 25.5% to 25.0% as of January 1, 2011.
6) (De)recognition of deferred tax positions reflects the effects of valuation or non-valuation of tax loss carry forwards and deductible temporary differences. The amount related to prior years is mainly attributable to E-Plus (see page 94 for information about the methodology used for the valuation of the loss carry forwards and deductible temporary differences at E-Plus).

Deferred tax assets and liabilities

Amounts in millions of EUR	Dec. 31, 2010	Dec. 31, 2009
Deferred tax assets	**1,918**	**2,135**
– of which: to be recovered after 12 months	1,820	2,074
– of which: to be recovered within 12 months	98	61
Deferred tax liabilities	**956**	**1,275**
– of which: to be realized after 12 months	561	894
– of which: to be realized within 12 months	395	381
Deferred tax assets and liabilities	**962**	**860**

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

			Deductible temporary differences				
Amounts in millions of EUR	Tax loss carry forwards	Goodwill	Other intangibles[4]	Pension provisions	Other[2]	Offset against deferred tax liabilities	Total
Balance as of January 1, 2009	**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	**1,101**	**378**	**465**	**117**	**423**	**-349**	**2,135**
Exchange differences	–	–	–	1	-1	–	–
Income statement benefit/(charge)	-38	-169	14	-10	91	–	-112
Change in tax rates	-2	–	–	-2	-6	–	-10
Tax charged to equity	–	–	–	–	-8	–	-8
Reclassification	–	–	–	–	–	-87	-87
Balance as of December 31, 2010[1]	**1,061**	**209**	**479**	**106**	**499**	**-436**	**1,918**

1) At December 31, 2010 , deferred tax assets of EUR 1,918 million and EUR 913 million were not recognized for loss carry forwards and deductible temporary differences respectively.

2) Other deductible temporary differences at December 31, 2010 includes property, plant and equipment of EUR 273 million (2009: EUR 234 million), revenue recognition of EUR 32 million (2009: EUR 41 million), software of EUR 41 million (2009: EUR 18 million), a tax benefit regarding a legal restructuring of EUR 19 million (2009: EUR 74 million) and deferral of expenses for fiscal purposes of EUR 61 million (2009: EUR 20 million).

3) Includes a EUR 705 million increase in the deferred tax asset at E-Plus as a result of the implementation of a new methodology for the valuation of deferred tax assets at E-Plus at December 31, 2009.

4) mainly relates to UMTS licenses in Germany.

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

Deferred tax liabilities

		Taxable temporary differences			
Amounts in millions of EUR	Deferred liability due to losses German permanent establishment	Accelerated depreciation[1]	Other[2]	Offset against deferred tax assets	Total
Balance as of January 1, 2009	**1,554**	**–**	**266**	**-196**	**1,624**
Income statement charge	–	56	46	–	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**	**56**	**355**	**-349**	**1,275**
Income statement charge	–	150	-13	–	137
Tax payable due to E-Plus loss recapture	-345	–	–	–	-345
Change in tax rate	-17	-4	-6	–	-27
Changes in consolidation	–	–	5	–	5
Reclassification	–	11	-13	-87	-89
Balance as of December 31, 2010	**851**	**213**	**328**	**-436**	**956**

1) Relates to Property, plant and equipment in the Netherlands

2)Other taxable temporary differences at December 31, 2010, includes intangible fixed assets of EUR 155 million (2009: EUR 172 million), property plant and equipment of EUR 51 million (2009: EUR 57 million) and provisions for early retirement and pension benefits of EUR 64 million (2009: EUR 65 million).

Tax loss carry forwards

Amounts in millions of EUR	December 31, 2010 Tax loss carry forwards	December 31, 2010 Recognized deferred tax assets	December 31, 2009 Tax loss carry forwards	December 31, 2009 Recognized deferred tax assets
Koninklijke KPN – corporate tax[1]	480	97	555	104
KPN Group Belgium – corporate tax	328	111	275	93
E-Plus – trade tax[2]	2,273	186	4,643	361
E-Plus – corporate tax[2]	14,331	636	16,876	503
Getronics[3]	195	1	196	1
Other	226	30	318	39
Total	**17,833**	**1,061**	**22,863**	**1,101**

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. This amount 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 exceeding EUR 1 million in a certain year can only be offset for 60% against tax loss carry forwards. Trade tax and corporate tax have to be paid over the remaining 40% of taxable income. The available loss carry forwards were revised following a re-assessment in 2010 of tax positions of prior years for which tax returns have been filed but not yet agreed upon by the German tax authorities.
3) The amount of tax loss carry forwards mainly relates to the operations in the United Kingdom and Germany.

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

The expiration of the available tax loss carry forwards and recognized tax assets at December 31, 2010 is as follows:

Amounts in millions of EUR	Tax loss carry forwards	Maximum deferred tax asset	Recognized deferred tax asset
2011	60	15	5
2012	105	26	26
2013	37	10	2
2014	106	41	25
2015	17	4	2
Later	356	91	64
Total limited	**681**	**187**	**124**
Unlimited[1]	**17,152**	**2,792**	**937**
Total	**17,833**	**2,979**	**1,061**

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

The expiration of the available tax loss carry forwards and recognized tax assets at December 31, 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.

[8] Earnings per share

The following table shows the calculation of the basic and fully-diluted earnings per share attributable to equity holders based on the profit attributable to equity holders, the average number of subscribed ordinary shares and the calculated weighted average number of subscribed ordinary shares/weighted average number of subscribed ordinary shares taking into account the dilution effects:

	2010	2009
Profit (loss) for the year in millions of EUR	**1,795**	**2,175**
Profit (loss) attributable to non controlling Interests [20]	2	-3
Profit attributable to equity holders [19]	1,793	2,178
Weighted average number of subscribed ordinary shares outstanding	**1,561,730,185**	**1,638,558,191**
Dilution effects:		
– options and non-vested shares	3,331,295	4,620,194
Weighted average number of subscribed ordinary shares outstanding including dilution effects	**1,565,061,481**	**1,643,178,385**
Earnings per share after taxes attributable to equity holders for the year in EUR		
– basic	1.15	1.33
– fully-diluted	1.15	1.33

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 2010, being EUR 11.28) 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 6, 2011, a 2010 dividend of EUR 0.80 per share, will be proposed. During 2010 KPN paid an interim dividend of EUR 0.27 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, 2011.

Notes to the Consolidated Statement of Financial Position

[10] Intangible fixed assets

Amounts in millions of EUR	December 31, 2010	December 31, 2009
Goodwill	5,733	5,769
Licenses	2,818	2,853
Software	819	783
Other intangibles	385	427
Total intangible assets	**9,755**	**9,832**

Statement of changes in goodwill

Amounts in millions of EUR	2010	2009
Cost	6,050	5,926
Accumulated impairments	-281	-267
Balance as of January 1	**5,769**	**5,659**
Investments	18	72
Impairment	-2	-17
Subsequent purchase price allocation adjustments	–	-4
Disposals	-3	–
Exchange rate differences	2	-1
Other	-40	64
Transferred to held for sale	-11	-4
Total changes	**-36**	**110**
Accumulated acquisition cost	**6,022**	**6,050**
Accumulated impairments	-289	-281
Balance as of December 31	**5,733**	**5,769**

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, 2010	Dec. 31, 2009
Germany[3]	4,147	4,138
Belgium	70	70
Rest of World	67	73
Consumer	394	394
Business[1]	230	248
Getronics[1]	543	561
Wholesale & Operations[2]	178	173
iBasis[2]	82	82
Other activities[3]	22	30
Balance as of December 31	**5,733**	**5,769**

1) In 2010, a part of the Business Segment was sold to Getronics. The goodwill allocated to this part of the Business Segment has been transferred to the Getronics Segment. 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) As from 2010, iBasis is presented as a separate Segment (previously included in the Wholesale & Operations Segment). The comparative 2009 figures are adjusted to reflect the new structure. iBasis was treated as a separate cash-generating unit for impairment testing of goodwill in both years.

3) In 2010, the Multiconnect business of SNT Germany (part of the Other activities Segment) was sold to E-Plus. Consequently, the goodwill allocated to this business has been transferred to the Germany Segment.

In 2010, the investments mainly related to the acquisition of Atlantic Telecom Holding for which EUR 15 million goodwill has been recorded on a provisional basis. Refer to Note 30 for further information on business combinations.

Other movements in 2010 concern revisions of the deferred purchase considerations related to acquisitions from prior to January 1, 2010.

In 2009, the investments related 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.

In 2009, Other included 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, refer to 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 and Getronics in 2010 and 2009. 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 is based on the fair value less cost to sell. 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 fair value is calculated as the present value of the future cash flows expected to be derived from the group of cash-generating units. The discount rate used is the weighted average cost of capital commensurate with the cash-generating unit's inherent risk. The margin between the recoverable amount and the carrying amount further decreased in 2010, leaving a margin of approximately EUR 50 million. An increase in discount rate by 1%-point (ceteris paribus) would lead to an impairment of Getronics goodwill, as well as a decrease in growth rate by 2%-point (ceteris paribus).

In the beginning of 2009 a decline of the price of iBasis' shares on NASDAQ led to an impairment of EUR 10 million, based on KPN's share in iBasis.

The impairment tests in 2010 and 2009 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, expected EBITDA margins, 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 1.5% (2009: 0% – 2.0%). The pre-tax rates used for discounting the projected cash flows were between 6.7% and 14.5% for all cash generating units (2009: 8% – 13.9%).

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 2010, 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		
		By 0%-point	By 1%-point	By 2%-point
Increase in discount rate	By 0%-point	–	–	<100
	By 1%-point	<100	100	400
	By 2%-point	900	1,150	1,400

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, 2009	**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**
Investments	290	439	-28	8	2	23	734
Changes in consolidation	–	–	–	19	–	–	19
Exchange rate differences	–	1	–	2	1	1	5
Reclassification	2	10	–	2	–	-1	13
Amortization	-327	-362	–	-68	-9	-22	-788
Impairment	–	-2	-22	–	–	–	-24
Total changes	**-35**	**86**	**-50**	**-37**	**-6**	**1**	**-41**
Cost	9,363	1,925	121	451	113	171	12,144
Accumulated amortization/ impairments	-6,545	-1,227	–	-232	-30	-88	-8,122
Balance as of December 31, 2010	**2,818**	**698**	**121**	**219**	**83**	**83**	**4,022**

Licenses

Amounts in millions of EUR	**Dec. 31, 2010**	Dec. 31, 2009
Germany	2,296	2,232
Wholesale & Operations	404	481
Belgium	116	138
Other	2	2
Balance as of	**2,818**	**2,853**

KPN started rendering UMTS services in the Netherlands and Germany in 2004 and hence started to amortize these licenses. The terms of the licenses are used as the basis for the amortization period. In Germany the 3G-license expires in 2020, in the Netherlands in 2016 and in Belgium in 2021. KPN has started amortizing the UMTS license of Belgium at the end of 2009. In 2010, KPN acquired licenses for additional spectrum in Germany for an amount of EUR 284 million, which expire in 2025.

As at December 31, 2010, KPN held licenses for the use of spectrum in the 2.6 GHz band in the Netherlands and Germany with a total value of EUR 54 million, which were acquired in 2010 and are not available for use yet. Consequently, amortization of these licenses has not yet started.

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.

As at the end of 2010, the book value of Computer software and Software development comprises internally generated software for EUR 178 million (2009: EUR 202 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, 2009	**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
Reclassifications	–	–	–	-4	-4
Transfer to held for sale (net)	-14	-78	-1	-1	-94
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**
Investments	78	1,221	44	104	1,447
Disposals	-19	-3	-2	–	-24
Depreciation	-90	-1,231	-78	-1	-1,400
Impairments and retirements	-3	-4	–	-2	-9
Exchange rate differences	1	2	1	–	4
Reclassifications	1	9	-11	-12	-13
Transfer to held for sale (net)	-13	-2	-1	2	-14
Total changes	**-45**	**-8**	**-47**	**91**	**-9**
Cost	2,096	15,500	360	903	18,859
Accumulated depreciation/ impairments	-1,221	-9,881	-230	-13	-11,345
Balance as of December 31, 2010	**875**	**5,619**	**130**	**890**	**7,514**

Property, plant and equipment primarily concerns assets located in the Netherlands (2010: approximately 63%; 2009: approximately 64%) and Germany (2010: approximately 31%; 2009: approximately 30%). Assets under construction mainly relate to the construction of mobile networks.

The book value of property, plant and equipment of which KPN as the lessee is the beneficial owner under financial lease programs amounted EUR 261 million (2009: EUR 248 million). The book value of property, plant and equipment of which KPN is the lessor under operating lease programs amounted to EUR 107 million (2009: EUR 82 million). The future minimum lease payments receivable related to KPN as the lessor of assets of which KPN is the legal owner and not the beneficial owner is EUR 32 million (2009: EUR 71 million) in total of which EUR 22 million (2009: EUR 48 million) matures within one year and the remainder EUR 10 million (2009: EUR 23 million) matures within one to five years.

Sensitivity analysis

At the end of 2010 the book value for Copper and Fiber cables is EUR 2,226 million, which is included in plant and equipment. The current depreciation rates for these investments are based on estimates and judgment about the useful lives of these assets. For Copper cables KPN estimates that the current useful life ends in year 2022, if the useful life was set at 20 years, the depreciation charge for 2011 would be EUR 54 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 2011 would be EUR 16 million lower.

[12] Investments in associates and joint ventures

Amounts in millions of EUR	2010	2009
Balance as of January 1	**267**	**135**
Additions	49	140
Disposals	–	1
Income from associates and joint ventures	-31	-6
Dividend received	-1	-3
Total changes	**17**	**132**
Balance as of December 31	**284**	**267**

Reggefiber

KPN has a minority stake of 41% in Reggefiber Group B.V. ('Reggefiber'), a strategic partnership with Reggeborgh for the rollout of the Fiber-to-the-Home network. Reggeborgh owns 59% of Reggefiber. KPN has the possibility to increase its share in Reggefiber through call/put arrangements at a later stage, if Reggefiber reaches specific milestones.

The book value of KPN's 41% share in Reggefiber as at December 31, 2010 amounted to EUR 255 million (2009: EUR 237 million), including EUR 94 million of goodwill. The movement of the book value of the investment in Reggefiber is presented in the table below:

Amounts in millions of EUR	
Cash contribution	174
Contribution in assets	16
Call/put arrangements valuation in the purchase price allocation	58
Total initial investment by KPN for 41%	**248**
Share in the 2009 results	-11
Balance as of December 31, 2009	**237**
Capital contribution	44
Share in the 2010 results	-26
Balance as of December 31, 2010	**255**

In addition to the 41% share in Reggefiber, KPN provided shareholder loans to Reggefiber . These shareholder loans are recorded under loans to associates and joint ventures for EUR 33 million (2009: nil) and under current trade and other receivables for EUR 11 million (2009: EUR 21 million). The shareholder loans bear interest of 6.75% and have a final maturity date of July 1, 2014. Reggeborgh provided similar shareholder loans to Reggefiber on a pro-rata basis for its share in the partnership.

The call/put arrangements are valued at fair value and recorded as a derivative financial instrument of EUR 148 million (2009: EUR 102 million), which is recorded as a liability. The change in value of the call/put arrangements during the year of EUR 46 million (2009: EUR 44 million) is recorded in the consolidated statement of income as a loss under other financial results. Refer to note 29 for further details on the call/put arrangements.

At the end of 2010, Reggefiber had capital commitments (100%) for EUR 204 million (2011: EUR 184 million and 2012: EUR 20 million). The total capital commitments as at December 31, 2009 amounted to EUR 175 million. For rental and operational lease contracts Reggefiber had commitments for EUR 30 million as at December 31, 2010 (less than 1 year: EUR 4 million, 1 – 5 years EUR 12 million, more than 5 years: EUR 14 million). At the end of 2009, Reggefiber's commitments under rental and operational lease contracts were EUR 15 million. Furthermore at the end of 2009, Reggefiber had a contingent liability (100%) of EUR 22 million regarding the acquisition of a company, which acquisition was closed in January 2010.

Other

As of December 31, 2010, investments in associates and joint ventures also include NTT Data Getronics (30%) for an amount of EUR 17 million (2009: EUR 16 million).

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

Amounts in millions of EUR	Reggefiber	Other	Dec. 31, 2010	Dec. 31, 2009
Current assets	26	28	54	38
Non-current assets[1]	367	9	376	271
Current liabilities	45	19	64	55
Non-current liabilities	151	3	154	60
Total revenues	20	53	73	54
Total operating expenses	13	52	65	47
Profit or loss after taxes	-26	-5	-31	-6

1) Including EUR 36 million goodwill at Reggefiber.

The difference in value between the assets and liabilities of the table above and the investment value is recorded as goodwill by KPN.

[13] Trade and other receivables (non-current)

Amounts in millions of EUR	2010	2009
Opening balance January 1	**231**	**210**
Current portion of non-current receivables	8	14
Gross	**239**	**224**
Additions	32	49
Redemptions	-25	-33
Impairment	-4	-1
Total gross at December 31	**242**	**239**
Current portion of non-current receivables	-6	-8
Balance as of December 31	**236**	**231**

The balance as of December 31 includes the following:

Amounts in millions of EUR	2010	2009
Accrued income and prepayments	87	104
Receivables from financial leases	2	2
Pension assets [22]	130	119
Other loans	17	6
Total	**236**	**231**

[..] 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 (2009: EUR 4 million), which fully matures within five years. The short-term portion of the financial leases amounting to EUR 2 million (2009: EUR 2 million) is classified as current trade and other receivables.

In 2010, an amount of EUR 130 million (2009: EUR 119 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, 2010	Dec. 31, 2009
Resources, parts, tools and measuring instruments	108	94
Finished goods	85	50
Total inventories, gross	**193**	**144**
Provision for obsolescence	-40	-51
Total inventories, net	**153**	**93**

The fair value of the inventories does not materially differ from the amount as recorded as of December 31, 2010. During the year 2010 a net amount of EUR 0.2 million (2009: EUR 2 million) was added to the provision for obsolete stock through 'cost of materials' in the Consolidated Statement of Income.

The transition expenses relating to fixed-price contracts involving managed ICT services are included under finished goods and amount to EUR 22 million at the end of 2010 (2009: EUR 7 million).

[15] Trade and other receivables

Amounts in millions of EUR	Dec. 31, 2010	Dec. 31, 2009
Trade receivables	1,153	1,197
Social security and other taxes	36	11
Other receivables	77	78
Accrued income	481	493
Prepayments	120	116
Balance as of	**1,867**	**1,895**

Amounts in millions of EUR	Dec. 31, 2010	Dec. 31, 2009
Trade receivables – gross	1,301	1,323
Provision for doubtful trade receivables	-148	-126
Balance as of	**1,153**	**1,197**

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, amounting to EUR 11 million as at December 31, 2010 (2009: EUR 21 million), included in other receivables (see also Note 12).

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

Amounts in millions of EUR	2010	2009
Balance as of January 1	**126**	**144**
Addition through income statement	53	30
Usage	-42	-44
Other movements	11	–
Transfer to held for sale	–	-4
Balance as of December 31	**148**	**126**

The maximum exposure to credit risk on trade receivables is limited to their gross amount. The concentration of KPN's trade receivables over the different segments as at December 31 can be summarized as follows:

	December 31, 2010		December 31, 2009	
Amounts in millions of EUR	**Gross**	**Provision**	Gross	Provision
Consumer Segment	89	17	104	23
Business Segment	157	9	143	10
Getronics Segment	288	6	326	7
Wholesale & Operations Segment	95	38	103	14
iBasis Segment	169	4	147	3
Germany Segment	354	51	369	50
Belgium Segment	102	20	92	16
Other	47	3	39	3
Balance as of December 31	**1,301**	**148**	**1,323**	**126**

For a discussion of KPN's policies to reduce credit risk on trade receivables as well as concentration of the credit risk, reference is made to Note 29 'Capital and Financial Risk Management'. Postpaid mobile services are considered to have the highest credit risks within the business of KPN (Germany, Belgium, part of Business and Consumer Segment). Overall, concentrations of credit risk with respect to trade receivables are limited due to the Group's large and unrelated customer base. The provision for doubtful trade receivables is predominantly collectively determined based on ageing and is reviewed periodically. The concentration of credit risk in the integrated, outsourced and managed ICT solutions businesses is somewhat larger. The gross amount due from trade receivables in these businesses at December 31, 2010, was EUR 288 million (2009: EUR 326 million) for which a provision of EUR 6 million (2009: EUR 7 million) was recorded. The provision for doubtful receivables in these businesses has been determined on an individual basis.

The ageing of the gross trade receivables at the reporting date was as follows:

	December 31, 2010		December 31, 2009	
Amounts in millions of EUR	**Gross**	**Provision**	Gross	Provision
Amounts undue	741	2	768	6
Past due 0–30 days	199	11	196	4
Past due 31–60 days	55	6	72	11
Past due 61–90 days	39	4	42	4
Past due 91–180 days	98	16	76	14
Past due 181–270 days	28	8	30	9
Past due 271–360 days	23	10	24	14
More than one year	118	91	115	64
Total	**1,301**	**148**	**1,323**	**126**

[16] Available-for-sale financial assets

Amounts in millions of EUR	2010	2009
Balance as of January 1	**53**	**54**
– of which: current	2	2
Additions	9	–
Exchange rate differences	2	-1
Impairment	-3	–
Fair value adjustment recorded in comprehensive income	-8	–
Balance as of December 31	**53**	**53**
– of which: current	–	2

In 2010, KPN acquired a 6% equity share amounting to EUR 7 million in Jasper Wireless, a privately held company that provides a global Machine-to-Machine platform.

In addition, KPN holds an equity stake of approximately 11% in Tecnocom, a listed Spanish ICT services company, and a stake of approximately 10% in CompuCom, a privately held IT outsourcing company in North America total amounting to EUR 45 million. The equity stake in CompuCom consists of ordinary shares and preferred shares. KPN cannot sell its shares in CompuCom without the consent of other investors.

[17] Cash and cash equivalents

Amounts in millions of EUR	Dec. 31, 2010	Dec. 31, 2009
Cash	788	1,045
Short-term bank deposits	35	1,645
Total cash and cash equivalents	**823**	**2,690**

Cash and cash equivalents as at December 31, 2010, is for more than 93% (2009: 96%) denominated in the functional currency of the related entities. On December 31, 2010, KPN's total outstanding bank guarantees amounted to EUR 77 million (2009: EUR 99 million), which were issued in the ordinary course of business. The effective interest rate on the outstanding bank deposits as at December 31, 2010 ranges from 1.15% to 1.17%.

Due to German capital maintenance rules, KPN is required to keep certain funds available at E-Plus. All other cash and cash equivalents are at free disposal to KPN within three months.

Net cash and cash equivalents

As of December 31, 2010, KPN's cash and cash equivalents position amounted to EUR 682 million (including EUR 17 million of cash classified as held for sale and EUR 158 million of bank overdrafts) as presented in the Cash Flow Statement:

Amounts in millions of EUR	Dec. 31, 2010	Dec. 31, 2009
Cash and cash equivalents	823	2,690
Cash classified as held for sale [18]	17	–
Bank overdraft	-158	-38
Net cash and cash equivalents	**682**	**2,652**

[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, 2009	**119**	**36**
Additions	121	48
Impairments	-13	–
Disposal	-94	-51
Other	-18	–
Balance as of December 31, 2009	**115**	**33**
Additions	54	18
Impairments	-3	–
Disposal	-109	-35
Balance as of December 31, 2010	**57**	**16**

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	2010	2009
Intangible assets (including goodwill)	15	11
Property, plant and equipment	21	92
Current assets	21	12
Total assets held for sale	**57**	**115**
Provisions	–	5
Current liabilities	16	28
Total liabilities held for sale	**16**	**33**

In September 2010, KPN agreed to enter into a sale and operating leaseback transaction regarding a number of mobile towers in two tranches. The first tranche with a book value of EUR 14 million has been completed in September 2010. The mobile towers with a book value of EUR 14 million that are part of the second tranche were classified as held for sale as at December 31, 2010.

In December 2010, KPN classified a part of the business of Getronics with a net book value EUR 21 million as held for sale, including EUR 17 million of cash and cash equivalents. The disposal group remained held for sale as at December 31, 2010.

KPN, Wholesale & Operations Segment, is selling part of its real estate portfolio which becomes redundant after migration to the new All-IP infrastructure. At the end of 2010 properties with a book value of EUR 6 million (2009: EUR 19 million) were classified as held for sale.

At the end of 2009, KPN entered into an agreement with Mobistar for the sale of its fixed Belgian B2B and Carrier business, including its fixed fiber network. Consequently KPN classified this business as held for sale with a book value of EUR 63 million as at December 31, 2009. This business was sold in March 2010.

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 movements included 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 during the year can be specified as follows:

Amounts in millions of EUR	2010	2009
Intangible assets (including goodwill)	5	8
Property, plant and equipment	83	9
Current assets	21	77
Total disposed assets	**109**	**94**
Provisions	4	–
Current liabilities	31	51
Total disposed liabilities	**35**	**51**

In 2010, the disposals relate to the B2B and Carrier business in Belgium, mobile towers and real estate portfolio.

In 2009, the disposals relate to Getronics's businesses Business Solutions for local government and healthcare and Document Services, real estate portfolio and SNT the Netherlands and Belgium (call center companies).

[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, 2010, amount to EUR 2,796 million (2009: EUR 3,063 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, 2010, a total of 1,572,609,884 ordinary shares were outstanding and fully paid-in. Dutch laws prohibit KPN to cast a vote on shares KPN holds. The ordinary shares and Class B preferred shares carry the right to cast one vote each. For a description of the preferred shares, please see 'The Foundation Preference Shares B KPN' hereafter. The ordinary shares are registered or payable to bearer. Shareholders may request the Company to convert their registered shares to bearer shares but not vice versa.

Share premium

The additional paid-in capital is exempt from Dutch tax up to an amount of EUR 7,917 million (2009: EUR 8,382 million).

Other reserves

Below is a detailed overview of the movements in the number of treasury shares and other reserves:

Amounts in millions of EUR, unless indicated otherwise	Number of treasury shares	Treasury shares reserve	Hedge reserve	Fair value reserve available for sale financial assets	Currency translation reserve	Total other reserves
Balance as of January 1, 2009	**24,637,838**	**-238**	**-11**	**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
Addition (net)	–	–	-103	-1	–	-104
Transfer to Statement of Income [6]	–	–	13	–	–	13
Balance as of December 31, 2009	**27,007,505**	**-289**	**-101**	**–**	**20**	**-370**
Sold (exercise options/shares) [3]	-2,261,188	14	–	–	–	14
Purchased	89,892,260	-1,000	–	–	–	-1,000
Cancelled	-56,245,438	629	–	–	–	629
Addition (net)	–	–	14	-8	–	6
Transfer to Statement of Income [6]	–	–	8	–	–	8
Exchange differences	–	–	–	–	4	4
Balance as of December 31, 2010	**58,393,139**	**-646**	**-79**	**-8**	**24**	**-709**
– of which: to be cancelled	44,358,475					
Total treasury shares	**14,034,664**					

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

Hedge reserve

Amounts in millions of EUR	Dec. 31, 2010	Dec. 31, 2009
Effective portion cash flow hedges	-30	-69
Amortizable part [6]	-74	-65
Hedge reserve	**-104**	**-134**
Tax effect	25	33
Hedge reserve, net of tax	**-79**	**-101**

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 2010, 89,892,260 shares were purchased under the share repurchase program, of which 56,245,438 were cancelled including 10,711,653 that were purchased in 2009 for the EUR 1 billion share repurchase program. The remaining 44,358,475 shares that were repurchased under the 2010 the EUR 1 billion share repurchase program will be cancelled in the first quarter of 2011.

In 2009, 5,900,000 ordinary shares were repurchased related to KPN's cash-settled performance share plans. No additional shares were repurchased with regard to these plans in 2010. 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 for equity-settled plans through the purchase of shares in the market. All rights with respect to repurchased treasury shares are suspended until those shares are delivered.

Foundation Preference Shares B KPN

As of December 31, 2010, KPN has option arrangements regarding the issuance of preference shares B to the Foundation Preference Shares B KPN ('the Foundation').

KPN has a put option to place with the Foundation a number of its Class B preference shares, which have the same voting rights as ordinary shares, not exceeding the total issued share capital before such issue, or, subject to prior approval by the General Meeting of Shareholders, such larger number as the parties may agree. In addition, the Foundation has a call option, which is not limited in time, to acquire a number of Class B preference shares from KPN not exceeding the total issued amount of ordinary shares, minus one share and minus any shares already issued to the Foundation. Since October 12, 2006, the authority of the Board of Management to issue Class B preference shares under the put option expired. This expiration does not affect the obligation to issue Class B preference shares upon exercise of the call option by the Foundation. Upon exercise of the call option, 25% of the nominal value of EUR 0.24 per Class B preference share needs to be paid by the Foundation. KPN's Board of Management can decide to request the Foundation to pay the remainder. Such decision is subject to the approval of the Supervisory Board.

KPN is of the opinion that neither the put option nor the call option represent a significant value as meant in IAS 1, paragraph 31 due to the fact that the put option can no longer be exercised by KPN and the fact that the likelihood that the call option will be exercised is very remote. In the remote event that the call option will be exercised, the preference shares B will be cancelled relatively shortly after issuance. The options are therefore not accounted for in the annual accounts nor is any additional information as meant in IAS 32 and 39 added.

[20] Non-controlling interests

In 2010, KPN acquired the shares held by minority shareholders of Yes Telecom and Station to Station for a total amount of EUR 19 million. As at December 31, 2010, EUR 0.3 of million non-controlling interests remained in relation to KPN's 51% subsidiary Israpunt.

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.

[21] Borrowings

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

	December 31, 2010		December 31, 2009	
Amounts in millions of EUR	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Eurobonds EUR	9,754	10,469	10,080	10,898
Eurobonds GBP	1,575	1,680	1,525	1,562
Global Bonds USD	878	987	1,555	1,709
Financial lease obligations	171	171	159	159
Bank overdraft	158	158	38	38
Credit facility	–	–	–	–
Other loans	1	1	14	14
Total borrowings	**12,537**	**13,466**	**13,371**	**14,380**
– of which: current	*1,178*	*1,199*	*869*	*909*
– of which: non-current	*11,359*	*12,267*	*12,502*	*13,471*

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, 2010, was 5.5% (2009: 5.7%) and the weighted average effective interest yield of these borrowings before swap was 5.7% (2009: 5.9%). The weighted average interest yield on borrowings outstanding after swap was 5.2% (2009: 5.4%).

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

Bonds
On October 1, 2010, KPN redeemed USD 1,162 million of the Global bond with a nominal amount outstanding of EUR 861 million, in accordance with the regular redemption schedule.

In September 2010, KPN conducted a tender and new issue transaction, in which KPN repurchased EUR 1,340 million of its 2011, 2012 and 2013 Eurobonds. The tender was financed on September 21, 2010 with a new EUR 1,000 million ten-year Eurobond with a coupon of 3.75%, and the remainder was financed with excess cash.

On September 30, 2009, KPN issued a EUR 700 million Eurobond with a fifteen-year maturity and a coupon of 5.625%.

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 July 21, 2009, KPN redeemed EUR 700 million of the Eurobond 2004 – 2009, in accordance with the regular redemption schedule.

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.

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%.

All new bonds in 2010 and 2009 have been issued under KPN's Global Medium Term Note program and have been listed on Euronext Amsterdam.

Financial lease obligations and other loans
As of December 31, 2010, the financial lease obligations amounted to EUR 171 million, refer to Note 29 for more information.

Credit rating
KPN maintains credit ratings from Standard & Poors and Moody's. Per December 31, 2010 the ratings were BBB+ and Baa2 respectively, both with a stable outlook.

[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, 2010	Dec. 31, 2009
Pension provisions	560	626
Provision for Social Plan 2001	48	91
Total	**608**	**717**

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.

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The following table gives an overview of KPN's main defined benefit plans based on size and risk profile as at December 31, 2010:

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 part 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 local funding rules and differs from the defined pension obligation as calculated under IFRS, among others due to different discount rates. At December 31, 2010 the actual coverage ratios of the KPN plans, on average, were 105%. The Dutch funds are required to recover to this 105% coverage ratio by additional contributions and reduction of indexation (short-term recovery plan). Next to that, the Dutch funds are required to recover to a coverage ratio of approximately 115% over a 15-year period either by additional contributions or a decrease in indexation (long-term recovery plan). For KPN PF and KPN OPF the additional contribution in the short term recovery plan is limited to EUR 390 million (indexed) within this recovery period.
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 KPN'. 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). For this scheme, contributions are made both by Getronics and employees. The annual accrual of the individual savings account is based on a defined contribution scheme. Furthermore Getronics has made additional funding guarantees for the years 2010 through 2013.	
KPN early retirement	This comprises a number of transitional early retirement plans for retirement before the age of 65. These plans are closed to new entrants.	These plans are unfunded. The benefits are paid directly 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 and frozen for new benefit accrual.	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 funding. As at December 31, 2010 the defined benefit plan was in deficit and additional employer contributions have been agreed upon for a recovery period.
Getronics US	Getronics US was divested in 2008. The closed and frozen defined benefit plans remained with KPN.	These plans are closed and merged into one plan.	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, 2010 the defined benefit plan was in deficit and additional employer contributions have been concluded for the aforementioned recovery period.

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

Amounts in millions of EUR	2010	2009
Defined benefit obligation – balance as of January 1	**6,534**	**5,851**
Service costs	90	91
Interest costs	329	301
Benefits paid	-229	-225
Employees' contribution	22	26
Other employers' contributions	–	–
Past-service costs	–	–
Transferred to held for sale	-19	–
Actuarial (gains)/losses	600	489
Business combinations	–	-5
Exchange rate differences	21	9
Curtailment/settlement/transfer	–	-3
Defined benefit obligation – balance as of December 31	**7,348**	**6,534**
– of which: funded plans	*7,178*	*6,306*
– of which: unfunded plans	*170*	*228*
Fair value of plan assets – balance as of January 1	**6,076**	**5,234**
Actual return on plan assets	571	759
Employer's contribution	195	275
Employees' contribution	22	26
Curtailment/settlement/transfer	–	–
Transferred to held for sale	-17	–
Benefits paid	-229	-225
Business combinations	–	–
Exchange rate differences	14	7
Fair value of plan assets – balance as of December 31	**6,632**	**6,076**
Benefit obligation in excess of plan assets	**716**	**458**
Unrecognized past service cost	-4	-4
Unrecognized gains/(losses)	-282	53
Pension provisions (net)	**430**	**507**
– of which: funded plans	*295*	*325*
– of which: unfunded plans	*135*	*182*
– of which: classified as non-current liabilities [22]	*560*	*626*
– of which: classified as non-current assets [13]	*130*	*119*

Break down of non-current liabilities

Amounts in millions of EUR	2010	2009
KPN Main plan PF	261	305
KPN early retirement	107	154
Getronics NL SVG Main Plan	49	29
Getronics UK	49	53
Getronics US	37	29
Other	57	56
Total	**560**	**626**

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

Break down of non-current assets

Amounts in millions of EUR	2010	2009
KPN OPF	96	87
Other	34	32
Total	**130**	**119**

The total pension costs recognized for the years 2010 and 2009 were as follows:

Amounts in millions of EUR	2010	2009
Service costs	-90	-91
Interest costs	-329	-301
Expected return on assets	335	298
Other costs	-5	-5
Recognized actuarial losses/gains	-24	-28
Past service costs	-1	-1
Curtailments/settlements	–	3
Total defined benefit plans	**-114**	**-125**
Defined contribution plans	**-17**	**-19**
Total pension costs	**-131**	**-144**

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, 2010		Dec. 31, 2009
As a %	Main plan PF	Other	Main plan PF	Other
Discount rate	4.7	4.6	5.1	5.0
Expected salary increases	2.0	1.8	2.0	1.8
Expected return on assets	4.8	5.2	5.5	5.6
Expected benefit increases	1.7	1.3	1.8	1.6

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 asset categories is derived from historic returns. The mortality assumptions in the Netherlands are based on the most recent GBM/GBV (2010 – 2060) post-retirement prospective mortality table. For the other countries the most recent generally accepted mortality tables are applied.

Sensitivity analysis

In 2011, the expected net pension costs for KPN as a whole will amount to approximately EUR 139 million for defined benefit and defined contribution plans.

The table below shows the approximate impact on 2011 service costs if mentioned key assumption would change by one percentage point:

	Increase	Decrease
Amounts in millions of EUR	by1%	by1%
Discount rate	-21	32

The table below shows the approximate impact on the defined benefit obligation as at December 31, 2010, if mentioned key assumptions would change by one percentage point:

	Increase	Decrease
Amounts in millions of EUR	by1%	by1%
Discount rate	-1,036	1,379
Expected price inflation	1,099	-835

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 2011	Actual as per December 2010	Actual as per December 2009
Equities	41%	39%	41%
Fixed income	40%	37%	45%
Real estate	13%	12%	10%
Other	6%	12%	4%
Total	**100%**	**100%**	**100%**

KPN's weighted average actual investment portfolio in other plans and countries at December 31, 2010, and 2009 is as follows:

	As per December 2010	As per December 2009
Equities	39%	36%
Fixed income	43%	47%
Real estate	6%	5%
Other	12%	12%
Total	**100%**	**100%**

Expected contributions and benefits

In 2010, the total employer contributions and all benefit payments for unfunded plans amounted to EUR 212 million, consisting of EUR 113 million for defined benefit premiums, EUR 11 million for additional payments relating to the minimum required coverage ratio, EUR 17 million defined contribution premiums and EUR 71 million benefit payments for unfunded plans. For 2011, the contributions are expected to increase by approximately EUR 35 million (mainly for additional payments relating to the minimum required coverage ratio).

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	2010	2009	2008	2007	2006
DBO	7,348	6,534	5,851	6,697	5,461
Plan assets	6,632	6,076	5,234	6,205	4,783
Deficit	-716	-458	-617	-492	-678
Experience adjustments arising on liabilities	29	-75	210	-32	-1
Experience adjustments arising on plan assets	241	466	-1,306	-230	32

Provision for Social Plan 2001

Amounts in millions of EUR	2010	2009
Balance as of January 1	**91**	**136**
Withdrawals	-40	-49
Interest	1	4
Recognized actuarial losses/gains	-4	–
Balance as of December 31	**48**	**91**

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.

[23] Provisions for other liabilities and charges

Amounts in millions of EUR	Dec. 31, 2010	Dec. 31, 2009
Restructuring provision	60	194
Asset retirement obligations	340	304
Other provisions	110	127
Balance	**510**	**625**
– of which: non-current	*404*	*414*
– of which: current	*106*	*211*

Restructuring provision

The restructuring provision consists of the following components:

Amounts in millions of EUR	2010	2009
Personnel (redundancy obligations)	54	169
Contractual obligations	6	25
Restructuring provision	60	194

Of the restructuring provision, approximately EUR 57 million has a term of less than one year (2009: EUR 167 million), EUR 2 million a term of between one and five years (2009: EUR 24 million) and less than EUR 1 million a term of more than five years (2009: EUR 3 million).

The movements in the restructuring provision are as follows:

Amounts in millions of EUR	Personnel	Contractual obligations	Total
Balance as of January 1, 2009	**218**	**20**	**238**
– of which: current portion	*120*	*11*	*131*
Additions/releases	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*
Additions/releases	3	-4	-1
Usage	-118	-15	-133
Balance as of December 31, 2010	**54**	**6**	**60**
– of which: current portion	*53*	*4*	*57*

Personnel (redundancy obligations)

During 2010 and 2009, 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 implemented in 2009 amounted to EUR 56 million of which EUR 44 million relates to Getronics.

Asset retirement obligations

Amounts in millions of EUR	2010	2009
Balance as of January 1	**304**	**223**
Changes in assumptions	30	74
Additions	–	1
Interest	13	10
Usage	-5	-7
Release	-3	-2
Transferred to held for sale	–	-2
Other movements	1	7
Balance as of December 31	**340**	**304**
– of which: current	*2*	*5*

The asset retirement obligations at December 31, 2010, amounted to EUR 340 million (2009: EUR 304 million), of which EUR 26 million (2009: EUR 28 million) has a term of less than five years. The main assumptions of calculation for the asset retirement obligations relate to the estimated costs of removal, discount rate and estimated period of removal which vary per type of asset. The changes in assumptions for 2010 and 2009 mainly relate to a change in discount rate. The discount rate for 2010 is 2.9% (2009: 3.6%).

As defined in the Telecommunications Act the obligation for landlords to tolerate cables which are part of a public electronic communications network terminates as soon as those cables have been idle for a continuous period of 10 years. In that situation, a public electronic communications network supplier is required to remove cables on request of a landlord. As 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, 2010.

Other provisions

The movements in other provisions are as follows:

Amounts in millions of EUR	2010	2009
Balance as of January 1	**127**	**152**
Additions/releases	-22	2
Interest	-1	5
Usage	-17	-29
Transferred to held for sale	1	-3
Other movements	22	–
Balance as of December 31	**110**	**127**
– of which: current	*47*	*39*

Other provisions relates to various risks and commitments, claims and litigations and onerous contracts. Of the other provisions, approximately EUR 47 million had a term of less than one year (2009: EUR 39 million), EUR 12 million a term of between one and five years (2009: EUR 22 million) and EUR 51 million a term of more than five years (2009: EUR 65 million).

In 2010, net releases of EUR 22 million relate to the release of various provisions for onerous contracts and other employee benefits provisions.

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

Amounts in millions of EUR	Dec. 31, 2010	Dec. 31, 2009
Non-interest bearing accruals	68	121
Deferred income	102	130
Phantom stock liability	11	22
Other payables	44	64
Balance as of	**225**	**337**

Deferred income concerns amounts received in advance for revenues that will be recognized in the future.

Non-interest bearing accruals as at December 31, 2010, include an amount of EUR 46 million (2009: EUR 120 million) relating to deferred purchase considerations. In addition, an amount of EUR 12 million (2009: EUR 26 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, of which two installments are remaining.

[25] Trade and other payables (current)

Amounts in millions of EUR	Dec. 31, 2010	Dec. 31, 2009
Trade payables	1,340	1,104
Deferred income	757	833
Accrued interest	360	396
Social security and other taxes payable	287	304
Other payables and accrued expenses	1,238	1,353
Balance as of	**3,982**	**3,990**

[26] Derivative financial instruments

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

Amounts in millions of EUR	Dec. 31, 2010	Dec. 31, 2009
Assets	**17**	**8**
Non-current	17	8
Current	–	–
Liabilities	**-251**	**-562**
Non-current	-250	-511
Current	-1	-51
Total derivative financial instruments	**-234**	**-554**
– of which: interest-bearing liabilities	*-85*	*-452*
– of which: forward exchange contracts	*-1*	*–*
– of which: call/put arrangements Reggefiber Group B.V. (net)	*-148*	*-102*

In 2010, no gains or losses from ineffectiveness of the cash flow hedges were recognized in the Consolidated Statement of Income (2009: EUR 1 million loss). The ineffective portion of the fair value hedges during 2010 recognized in the Consolidated Statement of Income amounted to a loss of EUR 17 million (2009: nil).

In 2010, the call/put arrangements regarding Reggefiber Group B.V. are included in Derivative financial instruments for a liability of EUR 148 million (2009: EUR 102 million net liability), refer to Note 12 for more information.

Bonds denominated in foreign currency

All bonds denominated in foreign currencies are hedged with cross-currency swaps. The swaps are used to mitigate the exposure on currency risk and/or interest risk. For all these hedge relations, KPN meets the criteria of, and also applies, hedge accounting.

KPN determines the effectiveness of the hedges at inception and on a quarterly basis. KPN uses the dollar offset method for its cash flow hedges and a regression method for its fair value hedges.

An overview of the cross-currency swaps at December 31, 2010 and December 31, 2009 is presented below (in millions unless stated otherwise):

Nominal	Currency	Maturity date	Pay	Receive	Hedge accounting	Fair value in Euro[1]
2010						
275	GBP	March 18, 2016	Fixed	Fixed	Cash Flow	2
250	GBP	May 29, 2019	Fixed	Fixed	Cash Flow	15
850	GBP	September 17, 2029	Fixed	Fixed	Cash Flow	-40
1,000	USD	October 1, 2030	Floating	Fixed	Fair Value	-62
					Total	**-85**
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**

1) Negative amounts are liabilities.

For the GBP 275 million bond, maturing in March 2016 with annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in GBP to EUR 328 million. KPN also hedged the interest rate exposure by swapping the interest rates from GBP fixed to Euro fixed on annual basis (approximately 4.89% per annum).

For the GBP 250 million bond, maturing in May 2019 with annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in GBP to EUR 290 million. KPN also hedged the interest rate exposure by swapping the interest rate from GBP fixed to Euro fixed on annual basis (approximately 5.12% per annum).

For the GBP 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 2.76% margin).

Some of these hedges contain clauses that may result in future early Euro settlement obligations with the swap counterparty for part of the outstanding notional.

Foreign exchange contracts

The fair value of foreign exchange exposure hedge contracts is determined using market forward exchange rates at the balance sheet date.

Amounts in millions of EUR	Contract volume 2010	Fair value 2010	Contract volume 2009	Fair value 2009
Term shorter than 1 year	42	-1	49	–
Term longer than 1 year	2	–	–	–
Total	**44**	**-1**	**49**	**–**

For further details on derivative financial instruments, reference is made to Note 29 'Capital and Financial Risk Management – Exposure to Foreign Currency Risk'.

Notes to the Consolidated Statements of Cash Flows

[27] Net Cash flow used in investing activities

In 2010, the amount of acquisitions of subsidiaries, associates and joint ventures in the Consolidated Statement of Cash Flows mainly consisted of the acquisition of the shares held by non controlling interests in Yes Telecom and Station to Station for EUR 19 million (see also Note 20), earn out payments for EUR 41 million and the acquisition of the shares of new subsidiaries for EUR 24 million net of acquired cash (see also Note 30).

In 2009, the amount of acquisitions of subsidiaries, associates and joint ventures in the Consolidated Statement of Cash Flows included EUR 74 million cash contribution to Reggefiber, refer to Note 12. Furthermore this included the acquisition of the minority interest regarding iBasis for EUR 65 million.

In 2010, disposals of subsidiaries, associates and joint-ventures mainly relate to the proceeds from the sale of the B2B and Carrier Business in Belgium for EUR 63 million and the sale of a part of the business of Getronics to VeriSign.

In 2009, disposals of subsidiaries, associates and joint-ventures mainly related to the proceeds from the sale of the Getronics units Business Solutions (EUR 41 million) and Document Services (EUR 1 million). These proceeds are net of selling expenses related to previous disposals.

Investments in intangible assets (excluding software) comprised EUR 284 million of expenses for the acquisition of licenses for additional spectrum in Germany

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 in 2010 and 2009 mainly related to these types of disposals, as well as the sale of mobile towers.

Loans to associates and joint ventures in 2010 and 2009 concerned shareholder loans provided to Reggefiber (see also Note 12).

[28] Net Cash flow used in financing activities

On October 1, 2010, KPN redeemed USD 1,162 million of the Global bond with a nominal amount outstanding of EUR 861 million, in accordance with the regular redemption schedule.

In September 2010, KPN conducted a tender and new issue transaction, in which KPN repurchased EUR 1,340 million of its 2011, 2012 and 2013 Eurobonds. The tender was financed on September 21, 2010 with a new EUR 1,000 million ten-year Eurobond with a coupon of 3.75%, and the remainder was financed with excess cash.

On September 30, 2009, KPN issued a EUR 700 million Eurobond with a fifteen-year maturity and a coupon of 5.625%.

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 July 21, 2009, KPN redeemed EUR 700 million of the Eurobond 2004 – 2009, in accordance with the regular redemption schedule.

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.

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%.

Other notes to the Consolidated Financial Statements

[29] Capital and Financial Risk Management

Capital management

Financing policy
KPN seeks to ensure that the ratio of net debt to operating result plus depreciation, amortization and impairments (Net debt to EBITDA) remains within the range of 2.0 to 2.5. Furthermore, KPN intends to maintain an investment grade credit profile with a minimum credit rating of Baa2 and BBB with Moody's and Standard & Poor's respectively. This financing policy allows KPN to accommodate attractive shareholder returns, while maintaining flexibility to grow and invest in its business.

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

Amounts in billions of EUR	2010	2009
Total borrowings (including derivatives, see breakdown below)	12.62	13.82
Cash and cash equivalents	0.82	2.69
Net Debt	**11.80**	**11.13**
EBITDA	5.48	5.19
Net Debt / EBITDA	**2.2x**	**2.1x**

Breakdown of total borrowings	2010	2009
Bonds	12.20	13.16
Financial lease obligations	0.17	0.16
Bank overdraft	0.16	0.04
Derivatives (excluding call/put arrangements Reggefiber)	0.09	0.45
Other	–	0.01
Total borrowings	**12.62**	**13.82**

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
KPN intends to pay out 40–50% of annual free cash flow as dividend. Free cash flow is defined as net cash flow provided by operating activities plus real estate proceeds minus capital expenditure and excluding tax recapture payments 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 does not intend to hold unutilized surplus cash balances, other than to manage its liquidity risks and working capital needs. KPN intends to return surplus cash to shareholders either through share repurchases or additional special dividends.

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

Financial risk management

KPN is exposed to a variety of financial risks. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on KPN's financial position and performance. KPN uses derivative financial instruments to hedge certain risk exposures.

The financial risks are managed by KPN's Treasury department under policies approved by the Board of Management. These policies are established to identify and analyze financial risks faced by KPN, to set appropriate risk limits and controls, and to monitor adherence to those limits. Treasury manages these risks in close co-operation with the Group companies, business operations and other corporate departments. In 2010, the Treasury policies have been reviewed and aligned with the overall Treasury risk framework. The Treasury risk framework and updated policies have been approved by the Board of Management, including the following key policies:

- Credit risk and counterparty risk
- Liquidity risk
- Market risk (currency risk and interest rate risk)

In addition, KPN's Treasury department provides cash management and funding services to the Group companies and business operations.

This note presents information about the Group's exposure to each of the above-mentioned risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these Consolidated Financial Statements.

The table below summarizes the Group's financial assets and liabilities:

	December 31, 2010		December 31, 2009	
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]	17	17	8	8
Loans and receivables:				
Non-current receivables from financial leases [13]	2	2	2	2
Loans to associates and joint ventures [12]	33	33	21	21
Trade receivable [15]	1,153	1,153	1,197	1,197
Other receivables [15]	77	77	78	78
Cash and cash equivalents [17]	823	823	2,690	2,690
Subtotal	2,105	2,105	3,996	3,996
Available for sale financial assets [16]	53	53	53	53
Total	**2,158**	**2,158**	**4,049**	**4,049**
Financial liabilities				
Fair value through profit and loss:				
Derivatives – non-current [26]	250	250	511	511
Derivatives – current [26]	1	1	51	51
Subtotal	251	251	562	562
Financial liabilities measured at amortized costs:				
Borrowings [21]	12,537	13,466	13,371	14,380
Non-current payable [24]	12	12	26	26
Trade payables [25]	1,340	1,340	1,104	1,104
Other payables and accrued expenses and interest [25]	1,598	1,598	1,749	1,749
Subtotal	15,485	16,416	16,250	17,259
Total	**15,736**	**16,667**	**16,812**	**17,821**

[..] 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, 2010.

Amounts in million of EUR	Level 1	Level 2	Level 3	Total Balance
Assets				
Financial assets at Fair value through profit and loss:				
Derivatives (cross currency interest rate swap)	–	17	–	17
Other derivatives [12]	–	–	–	–
Available-for-sale financial assets:				
Listed securities	19	–	–	19
Unlisted securities	–	–	34	34
Total assets	**19**	**17**	**34**	**70**
Liabilities				
Financial liabilities at Fair value through profit and loss:				
Derivatives (cross currency interest rate swap)	–	103	–	103
Other derivatives [12]	–	–	148	148
Total liabilities	**–**	**103**	**148**	**251**

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

The following table presents the group's assets and liabilities that were 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.

The instrument is included in level 2 if the financial instrument is not traded in an active market and if the fair value is determined by using valuation techniques based on maximum use of observable market data for all significant inputs. For the derivatives used for hedging purposes, KPN uses the estimated fair value of financial instruments determined by using available market information and appropriate valuation methods. The estimated fair value approximates the value at which the instruments could be exchanged in an arms length transaction between knowledgeable, willing parties, other than in a forced liquidation or sale. For derivatives used for hedging, the fair value of derivatives is estimated by using discounted cash flow models taking into account spot rates on the balance sheet date and Euro and foreign currency swap curves. KPN has its derivative instruments outstanding with financial institutions that had a minimum credit rating of Aa3 with Moody's at December 31, 2010.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3 and their fair value is estimated using models and other valuation methods. To the extent possible, the assumptions and inputs used take into account market pricing information and expectations. However, such information is by its nature subject to uncertainty. Changes arising as new information becomes available could impact income or other comprehensive income.

The valuation of available for sale unlisted securities is based upon a discounted cash flow model.

Other derivatives relate to the call/put arrangements of Reggefiber Group B.V. These options are valued using a binominal tree approach and depend on the business performance of Reggefiber under various scenarios with different probabilities (combination of penetration, price structure and approval of NMa), changes in the discount rate and the conditions of the call/put arrangement itself. Based on current business performance and management's best estimate of the likelihood of possible scenarios and expected business performance, the value of the call/put arrangements was EUR 148 million as at December 31, 2010 (2009: 102 million). The change in value during the year of EUR 46 million is recorded in the consolidated statement of income as a loss under Financial results. In case of a 5%-point lower expected penetration rate, ceteris paribus, the value of the call/put arrangement would have been approximately EUR 70 million higher. For more information on the call/put arrangements of Reggefiber Group B.V. reference is made to Note 12.

The following table presents the net changes in 'other derivatives' in level 3:

Amounts in million of EUR	2010	2009
Balance as of January 1	**102**	**–**
Purchase price allocation Reggefiber	–	58
Losses recognized in profit or loss [12]	46	44
Gains and losses recognized in equity	–	–
Balance as of December 31	**148**	**102**

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

For other financial assets and liabilities the following methods and assumptions were used to determine its fair value:

- Borrowings: based on the listed price of the bonds
- Cash, cash equivalents, accounts receivable and payable: As the maturity of these financial instruments is short, the carrying value approximates the fair value.

Credit and counterparty risk

KPN's financial assets are subject to credit risk and counterparty risk. Credit risk arises from the possibility of asset impairment occurring when counterparties are unable to meet their obligations in transactions involving financial instruments.

Pursuant to the policy of managing credit risk related to financial counterparties, KPN sets limits for the maximum exposure per counterparty and investment periods, which are primarily based on minimum credit ratings. Following this policy, KPN spreads its cash and cash equivalents balances and derivatives over several counterparties. Separate limits are set for some strong counterparties without credit ratings and limited credit risk such as the Dutch State. Furthermore, KPN only invests in liquid securities and (short-term) deposits.

During 2010, KPN monitored counterparty risk on a regular basis, based on the counterparty's credit ratings. In addition, Credit Default Swap (CDS) levels of the counterparties were monitored in relation to the fair value of the derivatives. It is KPN's policy to invest excess cash balances with counterparties with a minimum credit rating of A1 at Moody's. Cash balances used for working capital purposes can also reside at (local) banks with lower credit ratings. A substantial part of the cash balances at year end were invested at institutions with a credit rating of A1 at Moody's or stronger. In addition, KPN invested its cash balances in instruments with high liquidity.

Credit risk on trade receivables is controlled based on restrictive policies for client acceptance. Credit management is focused on mobile services as the credit risk is considered to be the highest within this part of KPN's business. Before accepting certain new clients in this segment, KPN requests credit watchers to provide credit management reports. In addition, KPN keeps track of the payment performance of customers. In case customers fail to meet set criteria, payment issues have to be solved before a new transaction with this customer will be entered into.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large and unrelated customer base. The Board of Management believes there is no additional credit risk provision required in excess of the allowance for doubtful receivables (see Note 15). Receivables relating to integrated, outsourced and managed ICT solutions are monitored on an individual basis. Reference is made to 'Significant Accounting Policies – trade and other receivables'.

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. As per December 31, 2010, KPN has parent guarantees (based on BW 2: Article 403 statements) and bank guarantees outstanding to third parties for its Dutch wholly-owned subsidiaries.

Maximum exposure to credit risk

As KPN does not provide financial guarantees other than to wholly-owned subsidiaries, the carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at reporting date amounts to the total of the financial assets including cash (EUR 2,158 million at December 31, 2010, and EUR 4,049 million at December 31, 2009).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations associated with financial instruments as they fall due. The Group's approach to managing liquidity is to ensure sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group. This means that KPN secures its bond redemptions well ahead. KPN has a EUR 1.5 billion syndicated Facility, maturing in 2013 with more than 10 banks, all of which had a rating of A3 with Moody's or higher as at December 31, 2010. This facility was fully undrawn at 31 December and for most of the year.

The table below provides a maturity analysis of the financial liabilities based on the remaining contractual maturities as of December 31, 2010.

	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 and other payables and accrued expenses	Total
2011	986	664	43	–	-155	125	–	2,578	4,241
2012	957	620	30	1	-155	124	14	–	1,591
2013	1,085	572	20	–	-155	124	–	–	1,646
2014	1,400	514	17	–	-155	124	–	–	1,900
2015	1,000	436	16	–	-155	124	–	–	1,421
2016 and subsequent years	6,721	2,745	99	–	-4,169	3,897	–	–	9,293
Contractual cashflows	**12,149**	**5,551**	**225**	**1**	**-4,944**	**4,518**	**14**	**2,578**	**20,092**

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 171 million at December 31, 2010 (2009: EUR 159 million). The financial lease obligations primarily include lease obligations for buildings leased back by KPN (see also Note 11). In some of these lease arrangements for buildings, an option is included to extend the lease term.

The table below provides a maturity analysis of the financial liabilities based on the remaining contractual maturities as of December 31, 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 and other payables and accrued expenses	Total
2010	807	751	23	41	-1,010	1,043	–	2,457	4,112
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 cash flows	**13,199**	**5,943**	**159**	**53**	**-5,720**	**5,688**	**27**	**2,457**	**21,806**

Some of the derivatives outstanding contain clauses that may result in future early Euro settlement obligations with the swap counterparty for part of the outstanding notional. This could lead to additional cash inflows or outflows before maturity.

With regard to other purchase commitments, capital commitments reference is made to note 31 'Commitments, contingencies and legal commitments'.

Available financing sources 2010

Due to German capital maintenance rules, KPN is required to keep certain funds available at E-Plus. As of December 31, 2010, KPN's net cash and cash equivalents position amounted to EUR 682 million (including EUR 17 million of cash classified as held for sale and EUR 158 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, 2010, and 2009, there were no amounts drawn under this facility.

Overdraft facilities
During 2010, 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, 2010, and 2009, there were no amounts drawn under any of the overdraft facilities, except for bank overdrafts under cash pool agreements.

Global Medium Term Note Program
KPN updated its GMTN program in April 2010. 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, 2010, 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, 2010, contain a change of control clause by means of which KPN may be required to redeem such outstanding bonds early, in the event that (i) certain changes of control occur and (ii) within the change of control period a rating downgrade to sub investment grade occurs in respect of that change of control. The change of control period ends 90 days after the change of control event occurs.

In addition, many of KPN's capital resources contain a covenant prohibiting KPN from entering into any amalgamation, demerger, merger, corporate restructuring or reorganization, unless prior written consent has been given by a majority of the lenders or bondholders or the resulting company assumes all of the rights and obligations with respect to the loans or bonds.

Market risk

KPN is exposed to various kinds of market risks in the ordinary course of business. These risks include:
- Foreign currency exchange rate risks
- Interest rate risks
- Other market price risk.

KPN has established policies that deal with the use of derivative financial instruments in order to reduce foreign currency exposure and to manage the interest rate profile. KPN's centralized Treasury department matches and manages intercompany and external foreign currency exposures reported by the various business operations and Group companies. Hedges are applied on a full coverage basis, when economically feasible.

In line with these policies, derivative financial instruments are used solely for the purpose of hedging underlying exposures to foreign currency exchange rate risk and interest rate risk. KPN does not enter into derivative financial instruments for speculative purposes. Contracts related to derivative financial instruments are entered into for periods consistent with the underlying exposures (when economically feasible) and do not constitute positions independent of these exposures. None of these financial instruments are used for trading purposes or taken as speculative positions.

KPN's policy is to apply hedge accounting for derivative financial instruments related to interest-bearing debt and foreign exchange risk for bonds that are not denominated in Euro. Management has set up a policy to apply hedge accounting only when certain criteria are met regarding formal designation and documentation of the hedge relationship, the risk management objective, the strategy for undertaking the hedge and the effectiveness of the hedge. As a consequence, KPN tests effectiveness of the hedge relationship at inception and every quarter. Reference is made to Note 26.

Foreign currency exchange rate risks
The group's primary activities are denominated in euros. Accordingly, the euro is the company's functional currency, which is also the group's presentation currency. Items included in the financial information of individual entities in the group are measured using the individual entity's functional currency, which is the currency of the primary economic environment in which the entity operates.

Currency exchange risk is the risk that the future cash flows will fluctuate because of changes in foreign exchange rates.

The risk mainly results from settlement of international telecommunications traffic, purchase of goods and equipment and primarily exists of pound sterling and US dollar exposure. Foreign currency exchange rate risks related to bonds that are not denominated in Euro are hedged into Euro in line with KPN's hedging policies.

As a result of currency fluctuations, the value of subsidiaries operating outside the eurozone markets could fluctuate and affect KPN's balance sheet and equity positions from year to year. These translation exposures are not hedged.

Group companies and business operations are obliged to hedge their firm commitments and highly predictable anticipated transactions in non-functional currencies with a counter value above EUR 100,000 by forward contracts transacted with KPN's Treasury department. Accordingly, Treasury matches and manages the intercompany and external exposures using forward exchange contracts. KPN does not apply hedge accounting for these hedge instruments. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

As of December 31, 2010, more than 93% of cash and cash equivalents was denominated in the functional currency of the related entities. At December 31, 2010, more than 96% of the net amount of trade receivables and trade payables was outstanding in the functional currency of the related entities.

Reference is made to Note 6 for the recognized exchange rate differences in the Consolidated Statement of Income.

Interest rate risk and interest rate profile

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. Borrowings, derivatives, cash and cash equivalents are subject to interest rate risk. As KPN has a mix of financial instruments bearing a floating or a fixed interest rate, KPN is subject to risk from movements in interest rates. An unfavorable interest rate movement would result in additional financial expenses.

With regard to interest rate risk exposure, KPN evaluates periodically the desired mix of fixed and floating interest rate liabilities. As of December 31, 2010, approximately 93% of KPN's interest-bearing gross debt after swap was at fixed interest rates (2009: 93%). With a view to existing and forecasted debt structure, KPN's Treasury department can enter into additional future derivative instruments to adjust the mix of fixed and floating interest rate liabilities. For all these hedges, KPN will apply hedge accounting.

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 115 million at December 31, 2010 (2009: EUR 162 million) (see Note 31 'Commitments, Contingencies and legal proceedings' section purchase commitments').

Sensitivity analysis

As of December 31, 2010, KPN carried out a sensitivity analysis with regard to interest rate risk on interest-bearing assets and liabilities. With all other variables held constant, each adverse change of 100 basis points in 6 month Euribor would hypothetically on balance not result in higher interest costs per annum (2009: none) because of the outstanding cash and cash equivalents which also carry a floating interest.

As of December 31, 2010 and 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, KPN calculated the hypothetical impact of changes in interest rates based on various scenarios. This would hypothetically result in a higher or lower value of the balance of the hedge reserve, which is included in equity attributable to equity holders. In a similar way, KPN calculated the hypothetical impact of changes in the EUR/USD rate and the EUR/GBP rate, holding all other variables held constant. The results of the analyses are shown in the table below, indicating the hypothetical impact on the balance of the hedge reserve as at December 31:

Amounts in million of EUR	Change	2010	2009
Changes in EUR, GBP and USD interest rates	+2%-point	-18	-42
	+1%-point	-9	-22
	-1%-point	12	29
	-2%-point	21	60
Changes in EUR/USD currency rate and EUR/GBP currency rate	+20%	70	68
	+10%	38	37
	-10%	-47	-43
	-20%	-105	-97

Prospective effectiveness testing indicates that all cash flow hedges are expected to be 100% effective. As a consequence, the expected impact on the income statement is immaterial.

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 2010

On December 20, 2010, KPN acquired 100% of the shares of Atlantic Telecom Holding. The purchase price allocation for this acquisition was provisional as at December 31, 2010, and resulted in EUR 15 million goodwill. The acquisition did not have a significant impact on the financial position, income and cash flows of KPN. No other business combinations occurred in 2010.

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.

[31] Commitments, contingencies and legal proceedings

Commitments

Amounts in millions of EUR					Amounts due by period
	Less than 1 year	1 – 5 years	More than 5 years	**Total Dec. 31, 2010**	**Total Dec. 31, 2009**
Capital commitments	420	31	4	455	485
Rental and operational lease contracts	422	840	558	1,820	2,078
Guarantees	61	124	44	229	210
Purchase commitments	1,253	542	6	1,801	1,099
Other	12	2	–	14	12
Total commitments	**2,168**	**1,539**	**612**	**4,319**	**3,884**

KPN only discloses committed obligations in its off-balance sheet obligations, in line with IFRS. Voluntary prolongations and cancellable periods are not included under rental and operational lease contracts.

Rental and operational lease contracts

For buildings, the majority of contracts include rental fees that are subject to a yearly indexation. Some contracts give KPN an option to buy the property when the landlord wants to sell that property.

For site rentals and 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 227 million (2009: EUR 225 million), which relate to subleases of buildings and site sharing arrangements.

The total costs of operating leases and rental contracts totaled EUR 426 million in 2010 (2009: EUR 463 million) and is included in ‘cost of work contracted out and other expenses’ and ‘other operating expenses’ in the Consolidated Statement of Income. These operating lease and rental commitments mainly relate to property, plant and equipment.

Guarantees

These commitments mainly consist of financial obligations of Group companies under certain contracts guaranteed by KPN.

As a customer of Reggefiber, KPN has agreed to guarantee ODF fees for homes connected in 14 projects up to a certain minimum penetration level in a project. The ODF fees paid accrue interest for a period of five years. The ODF fees paid and the accrued interest will be settled with Reggefiber when the minimum penetration level is reached against the ODF fees incurred above that minimum level. KPN and Reggeborgh jointly have a similar agreement with Reggefiber regarding 8 other projects. However, an additional condition regarding the repayment compared to the other 14 projects is that repayment is only due when free cash flow is available. The guarantee under the KPN and the KPN/Reggeborgh contracts terminate upon reaching specified penetration targets, but ultimately after 20 years. At the end of 2010 the prepaid fees and accrued interest amounted to EUR 11 million.

Purchase commitments

The increase in purchase commitments mainly relate to mobile handsets.

Contingencies

Contingent assets

In 2003, KPN Group Belgium (BASE) launched a damages claim against Belgacom Mobile (Proximus), claiming that the latter had abused its dominant position by applying very low onnet rates. In 2004, Mobistar launched a similar claim. In 2007, the Commercial Court determined Belgacom Mobile's dominant position on the retail market until the end of 2004, and ordered an expertise. In a first preliminary report of October 2, 2009, the court experts 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. In a second preliminary report of December 9, 2010, the court experts increased these damage amounts to EUR 1329 million for KPN Group Belgium (BASE) and to EUR 510 million for Mobistar. The experts must submit their final report by April 15, 2011.

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, 2010.

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 restate the reasons for the decision.

KPN Qwest

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 its rejoinder on July 28, 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. The Enterprise Chamber granted the request and ordered an enquiry over the period from January 1, 2002, until May 23, 2002. The Enterprise Chamber appointed three Investigators on December 5, 2008. In June 2010 the VEB on the one hand and Qwest, KPN, former CEO of KPNQwest and former members of the Supervisory Board of KPNQwest on the other hand reached a Settlement. The VEB, on behalf of (former) shareholders KPNQwest, is entitled to compensation to a total amount of EUR 19 million and the enquiry into the policy-making and the affairs of KPNQwest shall be terminated. The bankruptcy trustees KPNQwest claimed continuation of the enquiry which claim on July 5, 2010 was accepted by the Enterprise Chamber. However, on December 17, 2010 the Supreme Court ruled that the Settlement could be completed and that the enquiry should be terminated.

On September 28, 2010 the bankruptcy trustees KPNQwest filed complaint against Qwest, Koninklijke KPN N.V., former CEO of KPNQwest and nearly all former members of the Supervisory Board of KPNQwest. Trustees hold all defendants liable for damages caused by the bankruptcy of KPNQwest. On January 19, 2011 the District Court Haarlem gave us a term till March 2, 2011 to deliver our statement of defence. We do not expect a ruling of the Court within the coming two years.

[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 January 7, 2011, Capital Research and Management Company notified the AFM that they held 4.90% in KPN's ordinary share capital (following a notification on April 20, 2010, confirming a 9.98% shareholding). To KPN's knowledge, no other shareholder owned 5% or more of KPN's outstanding shares as at December 31, 2010.

KPN did not enter into material agreements with Capital Research and Management Company. The company is an investment company, 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 its shareholder.

Transactions with joint ventures and associated companies

Associated, non-consolidated companies and joint ventures of KPN sell goods and provide services to consolidated KPN companies. In addition, consolidated KPN companies sell goods or provide services to these associated companies and joint-ventures (see Note 12 and 16).

The total value of sales transactions by KPN in 2010 with joint ventures and associated companies amounted to approximately EUR 37 million (2009: EUR 58 million) and the total value of purchase transactions amounted to approximately EUR 41 million (2009: 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' on pages 58 to 69 of this annual report.

The Company has not been, and is not now, a party to any material transactions, or proposed transactions, in which members of the Supervisory Board or Board of Management or close members of their families had a direct or indirect material interest in 2010.

The total value of sales transactions by KPN in 2010 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 76 million (2009: EUR 62 million) and the total value of purchase transactions amounted to approximately EUR 63 million (2009: EUR 67 million), all in the ordinary course of business.

[33] Subsequent events

On January 26, 2011, KPN announced its EUR 1 billion share repurchase program for 2011. This share repurchase program has started on February 21, 2011 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.

As of January 2010, KPN adopted a new internal structure and changed the internal reporting accordingly. The following organizational changes were made as from January 2010:

- iBasis is reported as a separate segment in accordance with IFRS 8 (previously part of Wholesale & Operations);
- Book gains on real estate are no longer part of Wholesale & Operations, but are presented in the Segment Other in The Netherlands; and
- Some other minor migrations.

These changes resulted in a new Segment reporting as from 2010. The comparative figures of 2009 have been adjusted accordingly.

The Netherlands

The Netherlands consists of the following:

- Consumer Segment;
- Business Segment;
- Getronics Segment;
- Wholesale & Operations Segment
- iBasis Group; 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.
3. The basis for inter-segment pricing within the Netherlands, other than mentioned in category 1) and 2) above can be described as follows:
4. For identical products which are also sold to external parties, KPN uses wholesale prices;
5. For non-regulated retail products which do not fall within the scope of category 3, KPN uses cost-based prices; and
6. For regulated retail products which do not fall within the scope of category 3, KPN uses external purchase costs and an additional charge which is equal to a pre-determined percentage of the difference between the gross external retail revenues and external purchase costs; this method is also referred to as 'retail-minus'.

Mobile International

Mobile International comprises:

- Germany Segment, including E-Plus and blau Mobilfunk;
- Belgium Segment, including KPN Group Belgium; and
- Rest of World Segment, including KPN France, KPN Spain and Ortel Mobile.

Other activities Segment

Other activities comprise the results of KPN's Corporate Center (support) and the call center activities of SNT Germany. Due to the fact that KPN neither allocates interest expenses to all segments nor accounts for taxes in the segments, the disclosure is limited to operating profit for the year.

The Netherlands

Amounts in millions of EUR, unless otherwise stated	Consumer Segment		Business Segment		Wholesale & Operations Segment		iBasis Segment		Getronics Segment		Other (including eliminations)		Total The Netherlands	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Statement of Income														
External revenues[1]	3,775	3,890	2,189	2,219	627	656	719	558	1,796	1,948	–	1	9,106	9,272
Other income	1	1	15	–	39	17	–	–	6	–	8	38	69	56
Inter-division revenues	164	204	220	272	2,133	2,206	193	161	164	149	-2,716	-2,875	158	117
Total revenues	**3,940**	**4,095**	**2,424**	**2,491**	**2,799**	**2,879**	**912**	**719**	**1,966**	**2,097**	**-2,708**	**-2,836**	**9,333**	**9,445**
Total operating expenses excluding depreciation, amortization and impairments	-2,819	-3,065	-1,605	-1,697	-1,080	-1,137	-880	-697	-1,808	-2,035	2,747	2,873	-5,445	-5,758
EBITDA[2]	**1,121**	**1,030**	**819**	**794**	**1,719**	**1,742**	**32**	**22**	**158**	**62**	**39**	**37**	**3,888**	**3,687**
Depreciation, amortization and impairments	-255	-288	-98	-81	-858	-892	-25	-37	-151	-152	-40	-42	-1,427	-1,492
Operating profit	**866**	**742**	**721**	**713**	**861**	**850**	**7**	**-15**	**7**	**-90**	**-1**	**-5**	**2,461**	**2,195**
Total assets	3,152	3,203	2,710	2,956	9,178	9,444	534	429	2,904	2,765	-1,005	-1,006	17,473	17,791
Total liabilities	2,955	2,989	2,718	2,963	9,178	9,494	447	311	1,930	1,889	-1,003	-845	16,225	16,801
Other														
Investments in intangible assets	138	111	80	68	80	150	–	11	41	29	34	30	373	399
Investments in property, plant and equipment	170	113	29	45	550	618	12	5	79	94	1	20	841	895
Investments in associates and joint ventures	–	1	–	–	255	238	–	–	21	20	–	-1	276	258
Results associates and joint ventures	-1	–	–	–	-26	-11	–	–	2	2	–	–	-25	-9
Employees end of period (FTEs)	3,903	4,128	2,434	2,933	3,672	4,104	365	355	11,930	12,960	592	606	22,896	25,086
Employees average (FTEs)	4,016	4,243	2,684	2,912	3,888	4,264	360	364	12,445	13,936	599	639	23,991	26,358

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 2010	Germany 2009	Belgium 2010	Belgium 2009	Rest of World (incl. eliminations) 2010	Rest of World (incl. eliminations) 2009	Total Mobile International 2010	Total Mobile International 2009
Statement of Income								
External revenues[1]	3,151	3,098	725	744	261	195	4,137	4,037
Other income	5	1	–	–	1	–	6	1
Inter-division revenues	85	82	60	58	-103	-100	42	40
Total revenues	3,241	3,181	785	802	159	95	4,185	4,078
Total operating expenses excluding depreciation, amortization and impairments	-1,867	-1,848	-514	-543	-178	-134	-2,559	-2,525
EBITDA[2]	**1,374**	**1,333**	**271**	**259**	**-19**	**-39**	**1,626**	**1,553**
Depreciation, amortization and impairments	-661	-688	-122	-135	-8	-13	-791	-836
Operating profit	**713**	**645**	**149**	**124**	**-27**	**-52**	**835**	**717**
Statement of Financial Position								
Total assets	10,462	10,343	1,969	1,876	162	143	12,593	12,362
Total liabilities	27,419	29,180	348	330	135	145	27,902	29,655
Other								
Investments in intangible assets	356	61	13	31	7	1	376	93
Investments in property, plant and equipment	475	465	112	75	16	2	603	542
Investments in associates and joint ventures	1	1	1	–	–	–	2	1
Employees end of period (FTEs)	2,577	2,846	773	902	251	206	3,601	3,954
Employees average (FTEs)	2,712	2,907	838	909	229	172	3,779	3,988

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 2010	Other activities Segment 2009	Total segments 2010	Total segments 2009	Eliminations 2010	Eliminations 2009	Consolidated 2010	Consolidated 2009
Statement of Income								
External revenues[1]	81	142	13,324	13,451	–	–	13,324	13,451
Other income	-1	1	74	58	–	–	74	58
Inter-division revenues	1	–	201	157	-201	-157	–	–
Total revenues	**81**	**143**	**13,599**	**13,666**	**-201**	**-157**	**13,398**	**13,509**
Total operating expenses excluding depreciation, amortization and impairments	-119	-191	-8,123	-8,474	201	157	-7,922	-8,317
EBITDA[2]	**-38**	**-48**	**5,476**	**5,192**	**–**	**–**	**5,476**	**5,192**
Depreciation, amortization and impairments	-8	-14	-2,226	-2,342	–	–	-2,226	-2,342
Operating profit	**-46**	**-62**	**3,250**	**2,850**	**–**	**–**	**3,250**	**2,850**
Balance sheet								
Total assets	25,818	27,346	55,884	57,499	-33,147	-32,648	22,737	24,851
Total liabilities	23,210	24,978	67,337	71,434	-48,100	-50,424	19,237	21,010
Other								
Investments in intangible assets	3	4	752	496	–	–	752	496
Investments in property, plant and equipment	3	5	1,447	1,442	–	–	1,447	1,442
Investments in associates and joint ventures	6	8	284	267	–	–	284	267
Result associates and joint ventures	-6	3	-31	-6	–	–	-31	-6
Employees end of period (FTEs)	4,102	4,108	30,599	33,148	–	–	30,599	33,148
Employees average (FTEs)	4,105	4,579	31,874	34,925	–	–	31,874	34,925

1) External revenues mainly consist of rendering of services.

2) Earnings before interest, tax and depreciation, amortization and impairments.

Geographical information

KPN's divisions mainly operate in five geographical areas. The Netherlands is the home country, also being the main operating territory. The Americas consist of the United States, including Canada and all other countries of the American continent.

Amounts in millions of EUR	Financial year	Total non-current assets[1]	Total intangible assets	Total property, plant and equipment	Revenues and other income
Regions					
The Netherlands	2010	8,395	2,666	4,691	7,969
	2009	8,703	2,784	4,831	8,357
Germany	2010	8,147	6,605	2,326	3,298
	2009	7,957	6,516	2,224	3,239
Belgium	2010	665	253	459	844
	2009	660	281	427	864
United Kingdom	2010	138	7	8	123
	2009	103	10	9	142
The Americas	2010	188	120	18	719
	2009	186	129	16	558
Other	2010	73	104	12	445
	2009	64	112	17	349
Consolidated	**2010**	**17,606**	**9,755**	**7,514**	**13,398**
	2009	**17,673**	**9,832**	**7,523**	**13,509**

1) Excluding deferred tax assets, pensions and financial instruments.

Corporate Income Statement

Amounts in millions of EUR	2010	2009
Income from Group companies after taxes	2,295	2,812
Other income and expense after taxes	-502	-634
Profit attributable to equity holders	**1,793**	**2,178**

Corporate Balance Sheet

Before appropriation of profit

Assets

Amounts in millions of EUR	Dec. 31, 2010	Dec. 31, 2009
NON-CURRENT ASSETS		
Financial fixed assets		
Investments in Group companies	22,044	19,746
Loans to Group companies	5,588	5,370
Other financial fixed assets	142	133
Total non-current assets [A]	**27,774**	**25,249**
CURRENT ASSETS		
Accounts receivable from Group companies	1,224	1,532
Other receivables and accrued income [B]	25	39
Cash and cash equivalents	60	1,926
Total current assets	**1,309**	**3,497**
TOTAL	**29,083**	**28,746**

[..] Bracketed letters refer to the notes to the Corporate Balance Sheet.

Liabilities

Amounts in millions of EUR	Dec. 31, 2010	Dec. 31, 2009
Subscribed capital stock	377	391
Additional paid-in capital	8,184	8,799
Treasury shares reserve	-646	-289
Hedge reserve	-79	-101
Fair value reserve available for sale financial assets	-8	–
Legal reserves	327	384
Retained earnings	-6,448	-7,524
Profit current year	1,793	2,178
Total equity attributable to equity holders [C]	**3,500**	**3,838**
NON-CURRENT LIABILITIES		
Loans [D]	11,987	13,071
Derivative financial instruments	102	400
Provisions for retirement benefit obligations	416	551
Other provisions	29	33
Other long-term liabilities	6	24
Total non-current liabilities	**12,540**	**14,079**
CURRENT LIABILITIES		
Accounts payable to Group companies	11,387	9,348
Other current liabilities [E]	1,260	1,045
Accruals and deferred income	396	436
Total current liabilities	**13,043**	**10,829**
TOTAL	**29,083**	**28,746**

[..] Bracketed letters refer to the notes to the Corporate Balance Sheet.

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 Balance Sheet

Non-current assets

[A] Financial fixed assets

Amounts in millions of EUR	Group companies	Loans to Group companies	Other financial fixed assets	Total
Balance as of January 1, 2009	**15,442**	**6,077**	**259**	**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**	**-126**	**3,471**
Balance as of December 31, 2009	**19,746**	**5,370**	**133**	**25,249**
Exchange rate differences	5	–	–	5
Received dividends	–	–	–	–
Income from Group companies after taxes	2,295	–	–	2,295
Capital contributions	3	–	–	3
New loans	–	2,759	–	2,759
Withdrawals/redemptions	–	-2,541	-1	-2,542
Change in deferred taxes	–	–	-16	-16
Change in derivative financial instruments	–	–	17	17
Other	-5	–	9	4
Total changes	**2,298**	**218**	**9**	**2,525**
Balance as of December 31, 2010	**22,044**	**5,588**	**142**	**27,774**

The loans to Group companies have with maturity dates between 2011 and 2015 and a mixture of floating, fixed and profit-depending interest rates.

Other financial fixed assets include a deferred tax asset of EUR 28 million as at December 31, 2010 (2009: EUR 44 million), as well as derivative financial instruments of EUR 17 million (2009: nil) as at that date.

Current assets

[B] Other receivables

Amounts in millions of EUR	Dec. 31, 2010	Dec. 31, 2009
Accrued income	21	24
Income tax receivable	–	14
Other receivables	4	1
Balance as of	**25**	**39**

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

Legal reserves (net of tax) are presented below:

Amounts in millions of EUR	Revaluation reserve property, plant and equipment	Cumulative translation adjustments	Capitalized software development costs	Fair value reserve	Other non-distributable reserves	Total
Balance as of January 1, 2009	**222**	**20**	**156**	**1**	**48**	**447**
Addition/(release) retained earnings	-56	–	-6	-1	–	-63
Balance as of December 31, 2009	**166**	**20**	**150**	**–**	**48**	**384**
Exchange rate differences	–	4	–	–	–	4
Addition/(release) retained earnings	-44	–	-17	–	–	-61
Balance as of December 31, 2010	**122**	**24**	**133**	**–**	**48**	**327**

The legal reserves presented above and the subscribed capital stock are non-distributable. By their nature, losses relating to available-for-sale financial assets and cash flow hedges, reduce equity attributable to equity holders, and thereby distributable amounts as they form part of the legal reserves protected under Dutch Law. The total distributable reserves at December 31, 2010, amounted to EUR 2,796 million (2009: EUR 3,063 million).

Retained earnings

Movements in retained earnings were as follows:

Amounts in millions of EUR	
Balance as of January 1, 2009	**-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**
Prior year profit	2,178
Dividend	-1,152
Release/(addition) legal reserves	61
Other	-11
Balance as of December 31, 2010	**-6,448**

Retained earnings can be reconciled with the Consolidated Statement of Financial Position as follows:

Amounts in millions of EUR	Dec. 31, 2010	Dec. 31, 2009
Retained earnings as per Consolidated Statement of Financial Position	**-4,352**	**-4,982**
Revaluation reserve	-122	-166
Capitalized software development costs	-133	-150
Other non-distributable reserves	-48	-48
Current year profit	-1,793	-2,178
Retained earnings as per Corporate Statement of Financial Position	**-6,448**	**-7,524**

Non-current liabilities

[D] Loans

Loans include bonds outstanding for EUR 11,223 million (2009: EUR 12,353 million) as well as loans from Group companies for EUR 764 million (2009: EUR 718 million).

Loans from Group companies have maturity dates between 2011 and 2016 and bear fixed interest rates.

For more information on the bonds outstanding, refer to Note 21 of the Concolidated Financial Statements.

Current liabilities

[E] Other current liabilities

Amounts in millions of EUR	Dec. 31, 2010	Dec. 31, 2009
Current portion of loans	981	806
Income tax payable	4	10
Social security and other taxes payable	124	142
Bank overdrafts	144	36
Derivative financial instruments	1	51
Other	6	–
Balance as of	**1,260**	**1,045**

[F] Commitments and contingencies

Amounts in millions of EUR	Dec. 31, 2010	Dec. 31, 2009
Commitments by virtue of guarantees	223	201

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 21, 2011

Supervisory Board	Board of Management
J.B.M. Streppel	A.J. Scheepbouwer
A.H.J. Risseeuw	C.M.S. Smits-Nusteling
M.E. van Lier Lels	E. Blok
M. Bischoff	J.B.P. Coopmans
C.M. Hooymans	
R.J. Routs	
D.J. Haank	

Independent Auditor's Report

To the General Meeting of Shareholders of Koninklijke KPN N.V.

Report on the financial statements

We have audited the accompanying financial statements 2010 of Koninklijke KPN N.V., The Hague as set out on pages 72 to 137. The financial statements include the consolidated financial statements and the corporate financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at December 31, 2010, the consolidated statements of income, comprehensive income, changes in group equity and 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 information. The corporate financial statements comprise the corporate balance sheet as at December 31, 2010, the corporate income statement for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

Board of Management's responsibility

The Board of Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Board of Management's report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Koninklijke KPN N.V. as at December 31, 2010, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the corporate financial statements

In our opinion, the corporate financial statements give a true and fair view of the financial position of Koninklijke KPN N.V. as at December 31, 2010, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Board of Management's report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the Board of Management's report, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

The Hague, February 21, 2011

PricewaterhouseCoopers Accountants N.V.

Originally signed by M. de Ridder RA

Proposed appropriation of result

On outstanding Class B preferred shares, a dividend is paid out equal to the average of the 12-month Euribor increased by 1%. If the 12-month Euribor is no longer determined, the dividend on preference shares will be calculated based on the yield on State loans (article 35 sub 1, Articles of Association). No Class B preferred shares were outstanding in 2010. 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 21, 2011, the Board of Management, with approval of the Supervisory Board, has appropriated an amount of EUR 579 million out of the profit to the Other reserves. The remaining part of the profit over 2010, amounting to EUR 1,214 million, is available for distribution as dividend. In August 2010 an interim dividend of EUR 0.27 was paid to all holders of ordinary shares, amounting to a total of EUR 419 million. The remaining part of EUR 795 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 2010 at EUR 0.80 per ordinary share. After deduction of the interim dividend of EUR 0.27 per ordinary share, the final dividend will be EUR 0.53 per ordinary share. Subject to the provisions of Article 37 of the Articles of Association, the 2010 final dividend will become payable as of April 18, 2011, which is 8 working days after the date of the AGM. The payout ratio of this dividend amounts to 68% of the profit for 2010.

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, 2010.

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 Gesch GmbH	Germany	100.0
– E-Plus Mobilfunk GmbH & Co.KG	Germany	22.5
KPN Mobile N.V.:	The Netherlands	100.0
– KPN Mobile International B.V.	The Netherlands	100.0
– KPN Group Belgium N.V.	Belgium	100.0
– E-Plus Mobilfunk GmbH & Co.KG	Germany	77.5
– Ortel Mobile Holding B.V.	The Netherlands	100.0
– 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 VOF	The Netherlands	100.0
– Pharma Partners B.V.	The Netherlands	100.0
– Call-2 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.

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.

ARPU (Average Revenue Per User)
ARPU is the sum of connection fees, monthly fixed subscription revenues, traffic revenues and gross service provider revenues less related discounts during a one-month period, divided by the average number of customers during that month. Gross service provider revenues represent revenues generated by third-party providers. We account for the net part as gross service provider revenues. Gross service provider revenue is mainly generated by E-Plus.

ATM (Asynchronous Transfer Mode)
ATM is a transfer mode in which the information is organized into cells. It is asynchronous in the sense that the recurrence of cells containing information from an individual user is not necessarily periodic.

Backbone
Part of network infrastructure used for transmission of data.

BiPT (Belgisch instituut voor Postdiensten en Telecommunicatie)
The Belgian Institute for Postal Services and Telecommunications is active as the telecommunications regulator in Belgium.

Broadband
Broadband refers to telecommunication that provides multiple channels of data over a single communications medium, typically using some form of frequency or wave division multiplexing.

Bundesnetzagentur (BNetzA, former RegTP)
The Federal Network Agency is active as the telecommunications regulator in Germany.

Carrier Select
Method to opt for a different operator by entering an access code.

Churn
The number of mobile customers no longer connected to a mobile operator's network divided by the operator's customer base.

CityRing
Fiber optic access network for data and Internet traffic in and across several Dutch cities.

Cloud services
Cloud services are standardized IT capability (services, software or infrastructure) delivered via internet technologies in a pay-per-use, self-service way.

Content
The information presented on Internet sites, including its structure.

Customer base
The customer figures of mobile network operators of KPN consist of the number of registered SIM cards – excluding dual cards but including data-only PC connections and machine-based SIM cards – at the end of each reporting period. The customer base also comprises inactive prepaid users, who have had neither incoming nor outgoing traffic during a three-month period, but have not yet met the disconnection criteria (generally 12 months of inactivity).

DSL (Digital Subscriber Line)
DSL is a technology for bringing high-bandwidth information to homes and small businesses over ordinary copper PSTN lines. The widely used term xDSL refers to different variations of DSL, such as ADSL, HDSL, VDSL and SDSL.

Dutch Telco business
Dutch Telco business is defined as the Netherlands excluding Getronics, iBasis and book gains on real estate disposals.

DVB-T (Digital Video Broadcasting – Terrestrial)
DVB-T constitutes a transparent transmission channel, via which all types of digital signal can be broadcast. In addition to digitalized video and audio data, multimedia and computer data can be broadcast as well.

EDGE (Enhanced Data rates for GSM Evolution)
Enhanced data rates for GSM evolution. EDGE is a behind-the-scenes technology, pushing GPRS download speeds to above 100 kbps.

E-VPN (Ethernet Virtual Private Network)
Connects two or more offices using IP-VPN.

EuroRing
Fiber optic network for data and Internet traffic, running through several European cities.

Fiber-to-the-Home (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.

HDTV
High definition, which is the new format in television, requiring higher bandwidths.

HSDPA (High-Speed Downlink Packet Access) / HSPA+ (Evolved High-Speed Packet Access)
HSDPA and HSPA+ are mobile telephony protocols that, as an evolution of UMTS, are designed to increase the available data rate by a factor 5 or more.

ICT
Information and Communication Technology.

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.

iTV
iTV ("Interactieve TV") is KPN's IPTV offering in the Netherlands.

LAN (Local Area Network)
A LAN is a network designed to move data between stations within a campus.

LTE (Long Term Evolution)
LTE refers to a new mobile telephony technology that succeeds 3G.

Market share
Market share is the percentage or proportion of the total available market that is being serviced by KPN. These figures are based on externally available market data, which may not be completely accurate.

MDF (Main Distribution Frame)
Allows other telecommunications companies to access the local network, enabling them to connect with their customers through our main distribution frame.

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.

MVNE (Mobile Virtual Network Enabler)
A company that provides infrastructure and services to MVNOs.

MVNO (Mobile Virtual Network Operator)
A mobile operator that does not have its own spectrum, nor its own network infrastructure. Instead, MVNOs have business arrangements with traditional mobile operators to buy minutes of use to sell to their own customers.

Net line loss
Net line loss figures are defined as the difference from one period to the other period in PSTN/ISDN lines plus consumer VoIP plus ADSL only and plus Fiber.

NMa (Nederlandse Mededingingsautoriteit)
The Dutch Anti-trust Authority is the Dutch authority responsible for monitoring compliance with anti-trust rules.

OPTA (Onafhankelijke Post en Telecommunicatie Autoriteit)
The Independent Post and Telecommunications Authority operates as the telecommunications regulator in the Netherlands.

PDA (Personal Digital Assistant)
Mobile device, also known as palmtop computer.

PSTN (Public Switched Telephone Network)
Traditional telephone system that runs through copper cables (voice up to 64 Kbps, data up to 56 Kbps).

Roaming
Transfer of mobile traffic from one network to another, mostly referring to the exchange of mobile international traffic.

SAC/SRC
Subscriber acquisition/retention costs is the amount that is spend to acquire or retain subscribers.

Service revenues
Service revenues are defined as the aggregate of connection fees, monthly subscription fees and traffic fees. The term service revenues refers to wireless service revenues.

SIM card (Subscriber Identity Module card)
A chip card inserted into a mobile phone, which contains information such as telephone numbers and memory for storing a directory.

SMS (Short Message Service)
SMS is a service for sending messages of up to 160 characters to mobile phones that use GSM communications.

SoHo/SME
SoHo refers to Small Office/Home Office companies. SME refers to Small and Medium Enterprises.

Triple Play
Term used for households that are connected for their telephone, internet and television needs.

UMTS (Universal Mobile Telecommunications System)
One of the major third generation mobile communications systems being developed. UMTS is suited to deliver voice, text, music and animated images. Data can be sent via UMTS at approximately 6 times the speed of ISDN.

VDSL (Very-high-bitrate Digital Subscriber Line)
A new DSL technology providing faster data transmission over a single flat untwisted or twisted pair of copper wires. These fast speeds mean that VDSL is capable of supporting high bandwidth applications such as HDTV, as well as telephony services (Voice over IP) and general internet access, over a single connection. VDSL-CO refers to VDSL from the Central Office.

VPN (Virtual Private Network)
A virtual network constructed from logic connections that are separated from other users.

VoIP (Voice over IP)
Voice traffic is transported over an IP-based data network. It enables new ways of communicating, such as combinations of telephony, messaging and videoconferencing.

WLR (Wholesale Line Rental)
This system enables telecommunications providers to invoice customers for line rental and phone charges on the same bill, as opposed to having to pay for calls and line rental separately. With WLR, one can rationalize his organization's invoicing with one bill for line rental and call charges.

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