The network that connects us all

KPN Integrated Annual Report 2013

Our mission

We believe in a society in which communication technology enriches life. It is our mission to provide safe, reliable and future-proof networks and services, enabling people, businesses and organizations to be connected anytime, anywhere, adding value to their lives.

A special day for the Netherlands and KPN

The day the Netherlands welcomed its new King Willem-Alexander was one of the stand-out events of 2013. For KPN, the day was a high-profile chance to showcase our services and commitment to excellence. Throughout this report, you will find examples of ways we contributed to the day's success. We are proud of the dedication by our employees, suppliers and partners to provide seamless communications and flawless connectivity on this special day.

14 million
phone calls

14 million
text messages

25
terabyte of data traffic

200
calls to 112 every 15 minutes

KPN Broadcast distributed the TV signal from and to camera teams

Contents

Enabling a connected future

CEO Eelco Blok looks back on an exciting and eventful year for KPN in which it achieved good operational results and saw customer satisfaction improve. KPN was also the first telecoms provider to roll out 4G in the Netherlands.

How do you look back on 2013?

“Both financially and operationally 2013 was an exciting and eventful year for KPN. The ICT and telecoms industry is in flux and we are facing major changes here in Europe. The industry is characterized by mergers, new alliances and extensive consolidation. On the other hand, we faced a year with a weak macro-economic climate, competitive markets and high investment levels that impacted our financial results.

Nevertheless, we achieved good results. We significantly strengthened our financial position. We have made investments over the past years in order to make our infrastructure and services the very best and we can now move into the next stage of our strengthen, simplify, growth strategy and scale down our capital spending. However, we will continue to invest more than EUR 1 billion per year, which is crucial if we want to retain our position as a leading telecommunications and ICT provider.

Looking at our market shares, we have seen positive developments, for example with Interactive Television in our Residential segment and in Belgium with BASE. More customers recommend KPN, especially iTV customers. Customers with the new combined fixed and mobile service KPN Compleet appreciate KPN with a higher NPS than other KPN customers. Furthermore, the appreciation of our service channels increased in 2013. We have a similar package for our business customers called KPN ÉÉN, which differentiates us in this segment. Also, 4G was absorbed very well among both consumer and business clients.

For our employees too, 2013 was a turbulent year. To deliver a good performance in a changing organization required a lot of flexibility and loyalty from them – qualities they have shown they possess in abundance. Furthermore, it is essential for our people to grow with our organization in an ever-changing world.

We have made progress in the area of sustainability. We reached many of our CSR targets, especially on saving energy in fixed and mobile networks in the Netherlands and Belgium. This is reflected in our excellent positions in national and international sustainability benchmarks, such as the Dow Jones Sustainability World Index. Our inclusion in this important benchmark in 2013, makes us one of the world’s top 10 most sustainable telecom companies. However, we can still improve on items such as collecting mobile phones, which appears to be a sensitive matter to our customers.

What were the three most significant developments of the year?

Firstly, the roll-out of 4G, which started in the Netherlands in February and in Belgium in October. The speed at which we made this next generation of high-speed mobile technology available to our customers puts us well ahead of our competitors in the Netherlands. In less than a year since its launch, our 4G network in the Netherlands already covered 76% of the Dutch population in December 2013. The first responses of customers are positive.

Strengthening our financial position through the rights issue was another important development. To this end, we executed a successful capital raise. Furthermore the intended sale of our German subsidiary E-Plus was an important development. Since the divesting is a complex and lengthy process, we expect it to be finalized in the course of 2014. With the proceeds, we can make the necessary investments to pursue our strategy and it will allow us to resume dividend payments to our shareholders over 2014.

The intended offer by América Móvil, which was announced in August and withdrawn in October, also put its mark on the year. The possibility of a takeover triggered responses from the public, politicians and our customers. It created a lot of positive sentiment around KPN and an awareness that we are much more than a communications service provider. We play a crucial role in all areas of society.

What about KPN’s sustainability policy?

A few years ago, we identified six themes, which are elaborated extensively in this report. They seamlessly fit with our ambitions and are now inherent to our operations.

‘We can now move into the next stage of our strengthen, simplify, growth strategy.’

We believe in the power of connection. Our networks, our employees and our expertise make an essential contribution to society. This was demonstrated last year during the inauguration of Dutch King Willem-Alexander. We are proud to have played a major role, from facilitating police communications and TV broadcasts to helping national railway company Nederlandse Spoorwegen coordinate the train journeys of thousands of spectators. That’s why the inauguration is a recurring theme throughout this report.

It is the combination of our communications technology and services that differentiates KPN and makes us an integral part of society. Therefore, I would also like to mention KlasseContact. This is an initiative organized by our charity KPN Mooiste Contact Fonds, which supports chronically ill children who are unable to attend school. With our communications technology, they can attend lessons as if they were sitting in the classroom and stay connected to their classmates from home or hospital.

Not all of our stakeholders are aware of our role in society and the performance on our six themes. Creating more awareness is a challenge that we want to take on in 2014. On top of that, further embedding our sustainability progress in quarterly business reviews based on well defined and targeted KPIs, as presented in the social and environmental reviews in this report, is a top priority for 2014.

Our challenge for the coming years is measuring, targeting and enlarging our real impact in society, especially focused on the chosen themes. By doing so, our ultimate goal is being recognized as a change enabler in a sustainable direction, bringing benefits to society, customers and shareholders.

This is KPN’s first integrated report. Why did you decide to merge your financial and sustainability reporting?

An integrated report provides the best overview of the company we are; a company closely linked to society. Our two previous financial and sustainability reports already shared identical pages. It therefore makes sense to publish one integrated report this year rather than two separate reports.

One of KPN’s six CSR themes is privacy and security. Why did this receive so much attention in 2013?

I welcome the public debate around privacy and security. Consumers and businesses are increasingly aware of cyber security. Customers expect us to guarantee their confidentiality and to keep their personal information safe. As the largest telecom and ICT service provider in the Netherlands, we realize we have a great responsibility in this area. This is why we have invested so much time, money and energy this year to secure and modernize our infrastructure and our services. The increasing dependence on ICT means this is an area that will continue to be closely scrutinized.

Is there an area where you think KPN could have done better in 2013?

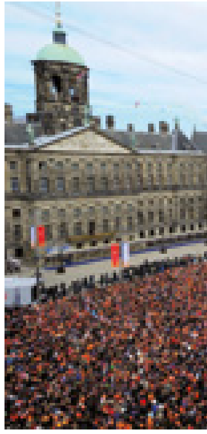
We have made great progress in strengthening our company but there is still work to do. Customer care and simplifying our business and processes are areas where we can improve. This is essential to be successful and will make KPN a more effective and efficient organization. We also need to further simplify our portfolio so our customers may choose from a clear range of services that excel in simplicity and transparency.

What is required to make 2014 a successful year for KPN?

By continuously implementing our strategy, we have created the conditions necessary to deliver on customer needs, enhance our operational performance and enjoy the ensuing financial results. Now we must build on these positive developments and continue to improve. Among other things, this means accelerating the simplification of our business and our portfolio. It is a phenomenal challenge that will ask a lot of our employees.

Looking at the longer term, what will telecom and ICT look like in five years?

Smartphones, tablets, the growth of mobile data and the surging popularity of social media have all led to far-reaching changes over the past few years. People are communicating in new ways and getting their information from many different sources. This trend will continue. Everything will be connected as more and more devices are fitted with SIM cards, providing them with access to communications networks, anytime, anywhere. Since the importance of digital communication in our society will grow, KPN wants to continue to contribute to these developments.”



Review of the year 2013

From the introduction of 4G in the Netherlands to our Christmas activity for the KPN Mooiste Contact Fonds. The twelve months of KPN in 2013 summarized on two pages.

173k

KPN Compleet subscribers

543k

4G subscribers

January

- KPN new main sponsor of the Rijksmuseum

February

- KPN announced EUR 4 billion equity capital raise
- América Móvil announced support for KPN's capital raise
- First in the Netherlands to introduce 4G
- BASE Company launched SNOW, its new brand for digital television, internet and fixed-line telephony

March

- KPN reached over 200 thousand cloud-subscribers
- ZorgVrijThuis launched together with Eurocom Group

April

- Joost Farwerck appointed to KPN's Board of Management
- E-Plus, founded in 1993, celebrated its 20th birthday
- KPN and XS4ALL won Customer Centric DNA Award
- KPN Compleet, KPN's quad play proposition, launched for consumers in the Netherlands
- BASE Company introduced a completely renewed mobile portfolio in Belgium
- Millions of people shared their experiences of the inauguration of King Willem-Alexander: 1.5 times more data used than on Queensday 2012

May

- KPN introduced KPN ÉÉN, a complete communication solution for the small and medium sized enterprises segment
- KPN, Vodafone and T-Mobile cooperated in regional roaming, to ensure network availability in case of network interference

June

- 4G roll-out in the Netherlands accelerated
- KNSB and KPN prolonged main sponsor contract until 2016
- Unions and KPN agreed on collective agreements and social plan

July

- The Dutch Data Protection Authority confirmed that KPN did not unlawfully viewed the contents of customer communications
- KPN announced the intended sale of E-Plus to Telefónica Deutschland
- Compensation for our customers after network outage mainly in France
- KPN introduced renewed mobile subscriptions with a 4G connection

August

- América Móvil announced intention to launch public offer
- Foundation Preference Shares B KPN exercised call option
- Announcement of improved terms for intended sale of E-Plus to Telefónica Deutschland

September

- Steven van Schilfgaarde appointed as interim CFO of KPN after the departure of CFO Eric Hageman
- KPN consolidated its position in Dow Jones Sustainability World Index
- KPN reached principle agreement with Dutch tax authority on tax book loss upon intended sale of E-Plus. This agreement was further formalized and finalized in December

October

- Extraordinary General Meeting of Shareholders approved the intended sale of E-Plus to Telefónica Deutschland
- Launch of 4G by BASE Company in Belgium
- América Móvil formally withdrew its intended public offer
- New interactive television service ‘Begin gemist’ introduced

November

- BASE Company acquired one of the 800MHz licenses auctioned by the BIPT, the telecom regulator in Belgium
- BASE Company has a leading mobile network position in Belgium: number one position in voice quality and a joint number one position in data quality[1]
- The Dutch Consumers’ union tested positively on KPN performing as promised on 4G
- KPN reached over 100 thousand KPN Compleet customers

December

- Following the 4G launch in the beginning of the year, KPN reached more than 500 thousand 4G subscribers and covered 76% of the Dutch population with 4G
- KPN built a new indoor mobile network (high density network coverage) for the Amsterdam ArenA, the largest Dutch stadium, in cooperation with T-Mobile and Vodafone
- About 500 KPN employees volunteered to do the catering at a Christmas dinner or lunch for elderly people via the KPN Mooiste Contact Fonds

1) Based on NetCheck (voice) and Commsquare (data) network test.

The world around us

In a world that is increasingly reliant on internet technology, KPN aims to anticipate to technological change and adapt to meet the new requirements of the digital age.

Globalization has accelerated rapidly in the 30 years since consumers and businesses first started using the internet. The world has become smaller and society is more international. As borders have blurred, new social and cultural relationships have developed. Time and distance are no more the barriers they once were. Sophisticated technology |and affordable equipment have made information accessible to everyone, everywhere, all the time. It has created an instant 24-hour connection between consumers and businesses.

We are all online, all the time. Digital communication has evolved to facilitate the need to be connected 24/7. Mobile communication is a necessity and smartphones and tablets are commonplace. Fixed and mobile networks are increasingly integrated and in future will form a single infrastructure. Internet and television are merging, requiring huge amounts of data to be sent through fixed and wireless connections.

Technology is changing the way we work. Cloud computing and video technology enable people to choose where, when and how they work. For example, in the healthcare sector, advances in technology are connecting healthcare professionals and patients in innovative ways that improve outcomes. Similarly in education, it broadens perspectives and opens up new learning opportunities. Technology can also create energy-efficient products and services, helping to reduce carbon emissions and contributing to a better environment.

The growing reliance on internet-based services and applications makes data security our core business. Consumers and businesses demand a safe and reliable digital environment. It is imperative that personal information is kept safe and confidentiality is not breached. At the same time, modern communication is ever faster and consumers want more and better service as well as unlimited access.

These developments require Information and Communication Technologies (ICT) and telecoms companies to think creatively, flexibly and innovatively. We need to anticipate on changes and trends quickly. For that, the *Digital Agenda for Europe,* in which the European Commission sketches the future of ICT and telecom, is both crucial and indispensable. The agenda defines the key enabling role that the use of ICT will have to play if Europe wants to succeed in its ambitions for 2020, for example access for all European citizens to fast fixed and mobile internet. The agenda states that this should reboot Europe's economy and help Europe's citizens and businesses to get the most out of digital technologies. The worldwide telecoms sector is consolidating further and the innovative impact of global players such as Apple and Google is creating a new playing field.

We are able to adapt to this changing world. We combine our assets – a strong and reliable fixed and mobile network and extensive technological expertise and experience – with modern, advanced services and products. We believe sustainability and technology strengthen each other; that economic growth can go hand in hand with saving energy and using the planet's resources efficiently, as long as ICT is integrated in the saving goals.

Society nowadays requires organizations to participate proactively in coping with major environmental and social challenges, which formerly used to be seen as public or governmental domain. Areas where we specifically can contribute to societal challenges are reflected by our six social themes.

We see more and more opportunities to differentiate ourselves through our communication technology. For example, in the healthcare sector, ICT services should not only enhance healthcare but also help to keep it accessible and affordable for all. KPN's innovative services may lead to less travel time for healthcare professionals, help improve the quality of care and enable people in need of care. Our ICT technology also helps chronically ill children to attend school lessons on their computer from home or from the hospital.

We realize that excellent service is crucial for being successful in modern communication technology. With our substantial investments in 'future-proof' networks such as 4G and glass fiber we are convinced that we play a meaningful role, and we value collaborating with national and international partners as both crucial and valuable. We believe in synergy created when business and other organizations benefit from each other's qualities. Building on innovations and anticipating on global trends and developments in our industry, KPN will continue to be successful in the Dutch and Belgian markets.

Dutch inauguration day

'TV broadcasts, social media, police communication. KPN facilitated it all. Its contribution to the success of the king's inauguration was invaluable.'

Hans Wijers, National Inauguration Committee Chairman

Organizing one of the biggest-ever Dutch events, the inauguration of the Dutch king in 2013, was always going to be a challenge. The National Inauguration Committee relied on thousands of volunteers, professionals and companies to help to make the handover of the Dutch crown a day for all to remember.

'KPN's contribution was crucial,' says committee chairman Hans Wijers. 'Thousands of people attended the inaugural festivities welcoming King Willem-Alexander to the Dutch throne. KPN connected event organizers, local authorities and police to ensure it all went without a hitch. Its infrastructure allowed the event to be broadcasted around the world and people could share their experiences on social media. Thanks to KPN's expertise, enthusiasm and professionalism, communication on the day was flawless.'

Stakeholder engagement

We are fully aware that KPN has an impact on different stakeholder groups in society, each with its own interests. We are in continuous dialogue with our stakeholders. We listen to their opinions and act upon their feedback and suggestions.

KPN is connected to its stakeholders. People constantly communicate experiences and opinions on social media, so we have to be on top of what they want and need. We are working with our internal and external stakeholders to create platforms that connect us anytime, anywhere, all the time. We also have to find ways to investigate their needs when they are offline and create an open dialogue with our stakeholders about their observations and suggestions. The expectations of our stakeholders with regard to our policies and activities are part of our annual materiality determination (see page 192-193). Their expectations help us to determine which topics we can and should address or act upon.

We are careful in how we deal with the interests of our stakeholders. We take our stakeholders' interests seriously by delivering clear and transparent reports on what we are doing. The results of our businesses, our contribution to society and organizational changes must show our commitment to our stakeholders – our customers, employees, investors, government, NGOs and others – while our products, services and activities should prove that we are working on the things they value most, and take into consideration all of their varying interests.

We defined seven stakeholders groups. Their expectations, the way we engage into dialogue, their main topics addressed in 2013 and our corresponding actions are elaborated on the next pages.

Our stakeholder groups:

Retail customers

What they expect
Our retail customers expect value for money and high-quality service. This includes clear propositions and processes, a quick and proper response to queries and good communication.

They want to have access to our products and services all the time, everywhere and from any device. Our customers expect faster data networks and wider coverage. Doing business with us should be effortless.

How we engage
We engage with our retail customers through customer panels, market research and 'Superpromotors' – loyal and enthusiastic supporters of KPN. We monitor what is said about KPN on social media, both positive and negative. We also use tools, such as the Net Promoter Score and Reptrak, to monitor our reputation quantitatively and qualitatively.

Main topics in 2013
- Delivering simpler products and services
- Preventing unexpectedly high bills when data usage exceeds agreed limits
- Showing more appreciation for our most loyal customers.
- Realizing better service online, in our stores, in our call centers and from our engineers.

Our response
- We are simplifying our propositions and have integrated our multi-play services into one comprehensive retail package (KPN Compleet)
- We do not charge for extra data use. Instead the speed of transmission slows once the agreed data limit is exceeded
- We continue to roll out flat fee propositions
- We improved several drivers of our customer service.

Business customers

What they expect
Business customers expect effortless ICT solutions that make a difference to the way they work. This means user solutions that allow their employees to work and collaborate at any time, from any place and on any device with high user experience. It also means business continuity, secure services and good quality of service. Our customers expect simplicity in managing their ICT services, good online tools and professional service and advice from technical experts. They expect us to guide them so they benefit from developments in ICT.

How we engage
We engage with our business customers through customer panels, market research, round table discussions, workshops connecting customers' strategies with KPN's and social media through our B2B platform KPN Inspire.

Main topics in 2013
- New ways of connectivity and collaboration
- Privacy and security
- ICT as a service.

Our response
- We integrated our propositions into one comprehensive package for business customers called KPN ÉÉN
- We are working on converged and integrated ICT solutions with one customer interface
- We develop vertical partnerships to create business solutions for our customers, for example with local government, healthcare institutions and educational organizations
- We have programs to improve our customer service.

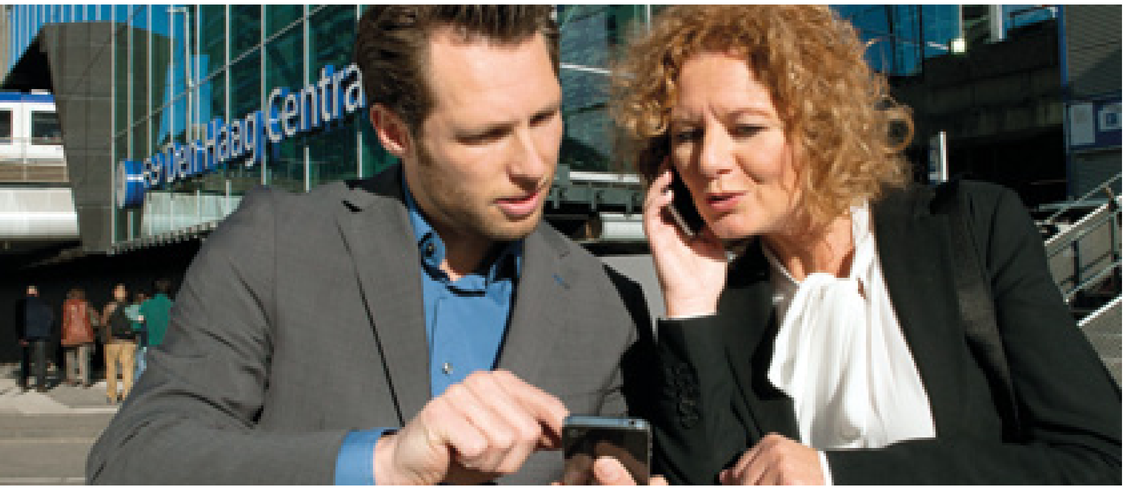
Employees

What they expect
Employees expect us to be clear about the strategic direction and focus of our businesses. They want clarity about their roles and responsibilities, goals, performance management and development. They appreciate attractive working conditions, for example flexibility about when and where they work. Employees also expect us to take their interests into consideration when we reorganize processes such as outsourcing and offshoring, and to involve and consult employee bodies such as the Works Council.

How we engage
We facilitate a continuous dialogue with our employees through initiatives such as management cafés, national strategy sessions, the annual employee survey, regular contact between senior management and the Works Council and our interactive intranet TeamKPN Online. This internal social media platform has initiated more communication and interaction between employees and their managers.

Main topics in 2013
- Growing uncertainty amongst employees about what the future could have held under América Móvil
- Obtaining clarity about how to contribute to strategic goals
- Execution of big reorganizations, including outsourcing and offshoring
- Sustainable employability, wellbeing, future-proof careers.

Our response
- We provided frequent communication about América Móvil to employees by the CEO in videos, blogs and messages on the intranet
- We implemented a new performance management system
- We recognized the strategic importance of employee engagement and turned it into action
- We evaluated outsourcing and offshoring to redefine our policy for the future
- We finalized the collective labor agreement on working conditions and benefits with trade unions, which includes a revised social plan and focus on sustainable employability.



Stakeholder engagement – continued

Our stakeholder groups:

Investor community

What they expect
The investor community – financial markets, our shareholders, and debt investors and research analysts – expects us to be extensive and transparent about what we disclose. We should be clear in our strategy, objectives and outlook, and transparent about executive remuneration. Their main interest is our commitment to creating value. They want timely and accurate updates and ample opportunity to seek clarification and ask questions.

How we engage
We hold key corporate events such as the annual general meeting of shareholders, investor roadshows and meetings with analysts and investors. We also provide relevant company information through regular publications such as our quarterly results.

The main topics in 2013
- Realizing better alignment of our financial position with our strategy
- The intended sale of E-Plus at an attractive valuation
- The reaction to the unsolicited public offer by América Móvil.

Our response
- We conducted a EUR 4.0 billion equity equivalent capital raise to strengthen our balance sheet
- We explained the initiative of the Foundation Preference Shares B KPN
- We expect to increase our financial flexibility with EUR 5.0 billion in cash from the proceeds of the sale of E-Plus and 20.5% in Telefónica Deutschland, offering attractive synergy and growth potential
- We held investor roadshows throughout the year to clarify KPN's strategy and accomplishments.

Community

What they expect
People expect us to be socially and environmentally responsible; to be a good corporate citizen. They want products and services that help to solve social and environmental issues. For example, as an internet provider we should act to limit the possible side effects of our service by helping to make the internet safer for children.

How we engage
We are active in working groups initiated by NGOs and participate in or liaise with organizations such as the World Wildlife Fund (WWF), European Telecommunications Network Operators' Association (ETNO), United Nations Global Compact Foundation, Dutch Association of Investors for Sustainable Development (VBDO) and the ICT Coalition. Furthermore, we have an annual dialogue with stakeholders to discuss our contribution to society and the desired next steps. We continually evaluate our CSR themes, policies and current business with the CSR Advisory Board.

The main topics in 2013
- The CSR Advisory Board suggested we intensify our cooperation with the WWF in the Netherlands to benefit from the synergies, and challenge our suppliers to co-produce and take initiatives to improve the chain
- The Advisory Board also advised us to use our expertise to help develop the Fairphone further, a Dutch initiative to produce a smartphone from conflict-free materials
- Our main CSR stakeholder event highlighted the need for more communication about CSR
- The VBDO was critical about our commercial goals around healthcare services and our lack of diversity at the top.

Our response
- We took steps to improve our policy in several areas based on our score in the Dow Jones Sustainability Index
- We lengthened our corporate campaign on CSR
- We set goals for joint efforts to improve sustainability in the supply chain.

Government and regulators

What they expect
Government and regulators expect us to comply with the rules and regulations and meet the requirements for licensing. Their goal is, amongst others, to create a level playing field and protect the interests of end users.

How we engage
We proactively engage with government and regulators. As the incumbent in the Netherlands, there are special obligations imposed on us. We engage in a continuous dialogue to explain our compliance efforts and results and enable competition.

The main topics in 2013
- Compliance with the Dutch Telecommunications Act under close supervision of the Dutch Authority for Consumers and Market (ACM)
- The European Commission initiative on Digital Single Market
- The ACM started a new ACM consumer market analysis
- Discuss potential interest of América Móvil and vital Dutch Infrastructure interests.

Our response
- We improved our compliance efforts through programs such as optimizing our business control system, external reviews, benchmarking, promoting the SpeakUp line, a whistleblowing procedure for employees, enhanced compliance training and top management meetings focused on and stimulating company culture
- We continuously work to meet compliance requirements through clear and practical legal advice, clear operational procedures, related controls mechanisms, and clear and safe ways to report potential misconduct. We interact closely with the ACM in relation to compliance, incidents and potentially different views on the interpretation of the law
- We are active on EU level as an individual company and via trade associations
- We have an internal project team for consumer market analysis and participate in industry groups
- We have ongoing discussions with political and governmental stakeholders.

Suppliers

What they expect
Our suppliers expect to agree on fair prices, conditions and to be paid on time.

How we engage
We have one central Corporate Procurement Organization (CPO) within KPN that is responsible for contracting deals with suppliers. We work as much as possible with preferred suppliers that add value to our supply chain by delivering against the best terms and conditions. This allows us to negotiate lower prices while maintaining the quality of our products and services. In addition, we make sure the principles of our suppliers' CSR policies are in line with our own. The CSR targets related to suppliers are part of the target sheet of the employees within the CPO organization. We are constantly in touch with our suppliers and invite them to our annual Supplier Day. Increasingly, we are partnering with them on environmental solutions.

The main topics in 2013
- Finding ways we can work together to reduce the cost level.

Our response
- At the Supplier Day we, amongst other things, challenged our suppliers to propose ways we can join forces to reduce the cost level while maintaining the level of quality and increasing the CSR profile.

Our business

We connect people and businesses, through our infrastructure, our skilled employees and our suppliers. As the challenger on the Belgian mobile market, we play a significant role in shaping the market place.

We aim to be the best service provider of fixed and mobile telephony, internet and television in the Netherlands. Anytime, anywhere: at home, at work and on the move. With our products, services and various brands for specific customer groups, we connect people, companies and organizations.

In a world in which fixed and mobile services are integrating and mobile data traffic is increasing, we want to be the leading provider of integrated access in the Netherlands. This requires a high-quality fixed and mobile infrastructure that is both reliable and stable. That is why we invest every year to renew, improve and maintain our fixed and mobile networks.

In 2013 alone, we invested EUR 1.2 billion in our networks and technology. Part of this was in 4G, making us the first provider of 4G services in the Netherlands and the second provider in Belgium.

Our customers

We serve consumers and businesses across the Netherlands with telecom and ICT services.

In Belgium we have a mobile brand for consumers and business customers.

We provide international wholesale voice and data services through our global subsidiary iBasis.

2.9m

Broadband customers in the Netherlands

12m

Mobile customers in the Netherlands and Belgium

Our networks

We deliver our services through our copper and fiber fixed-line networks and our mobile network, which we are upgrading to 4G to offer faster, higher capacity mobile services.

76%

4G indoor coverage across the Netherlands

€1.2bn

Invested in our networks in the Netherlands and Belgium in 2013

Our products

We connect through:

- Fixed-line voice telephony
- Broadband services
- IP TV services
- Mobile telephony (voice, internet and SMS)

For businesses we also offer data network services, consulting, data center storage and other network related ICT solutions (optionally cloud-based).

1.2m

'Triple-play' customers in the Netherlands

Our main brands

For more information, see our website www.kpn.com/corporate/aboutkpn/Company-profile/Brands

Our connection with society

As part of our strategy – to strengthen, simplify and grow – we have identified six themes where we believe we can make a difference and show leadership in advancing society.

We believe our networks and services can help improve the world around us. Our contribution to society not only serves our clients' needs but also improves their quality of life and living environment. This way we strengthen our position and contribute in solving social challenges.

To provide direction for our CSR policy, our business propositions and strategic goals, we yearly perform a materiality assessment to define the priority of CSR topics for KPN. This assessment considers our competencies, risks and opportunities, our role in society and the possible impact we can have on society. It also considers the topics that stakeholders expect us to act upon. We ask them their views and their expectations of us with regard to making a difference. Our six CSR themes were developed as part of this process, as they reflect our most material topics and the positive impact we can have on society, both in our views and those of our stakeholders.

We define the priority of CSR topics based on GRI G4 guidelines, our impact and expectations of our stakeholders. We divide the results into three categories: high, medium and low priority topics. High priority topics are included in our six CSR themes and the themes 'employees', 'suppliers' and 'sponsoring'. These topics are included in this report. The medium and low priority topics are included in the annexes of this report, the GRI index or on our website. The 2013 materiality determination did not result in any changes to our CSR policy and reporting compared to previous years. Additional information on the materiality assessment, its results and the boundaries of material subjects can be found in the Annex 'Scope, reporting process and materiality determination' and in the GRI index.

Transparent and reliable service provider

We aim to be the best service provider. Our customers should be able to rely on the highest quality products and services to connect them all the time, everywhere and from any device, with 24/7 support a mouse click or phone call away. Therefore, we want to make sure that our products are easy to use and fairly priced, with crystal clear contracts. To make sure we are doing the right things on these subjects, we are in continuous dialogue with our customers.

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Best-in-class networks

Communication technology is vital in today's social and business communities. We depend on it in our private lives and for economic transactions. A strong and reliable ICT infrastructure drives the innovative power and attractiveness of the Netherlands as a business location. That is why we feel a responsibility and obligation to provide the country's best-in-class networks. We also made large investments in Belgium to bring the next generation of mobile networks to customers there.

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Energy-efficient

Fossil fuels are under increasing pressure because of environmental concerns. That is why the entire KPN Group is using green electricity from renewable sources, while simultaneously increasing our energy efficiency. Concerns about climate change and renewable energy also influence our strategic agenda. This approach makes us a credible partner in helping our clients save energy and costs by switching to energy-saving ICT solutions, such as the New Way of Living & Working.

See page 40-43

The New Way of Living & Working

Driven by the demand for a better work-life balance, technology is advancing to give people more control over when and where they work. People now have more choice because they can digitally connect to their workplace from anywhere. This New Way of Living & Working is also good for the economy. It potentially benefits the road infrastructure, for example, by helping to reduce traffic, and increases productivity, which is good for both employer and employee.

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Healthcare of the future

It is our strategic ambition to grow in specific, well-defined markets. One of these is the healthcare sector. The Dutch population is ageing and this will put increasing pressure on healthcare in the future, as will the prevalence of diseases of affluence. Technology can facilitate communication among healthcare providers, different medical disciplines and between caregivers and patients. This can improve the quality of care and lead to less travel time for healthcare professionals so they can spend more time helping people to get well. At the same time, this facilitates people in the way they lead their lives.

See page 50

Privacy & Security

Society relies on internet service providers to process data traffic securely and carefully. As the amount of data sent over the internet increases, so does our role in safeguarding privacy and security. The value that society attaches to safe and secure data transport offers opportunities for growth. We want our customers – government, businesses and individuals – to have confidence in our network and our ability to protect their privacy and security. However, discussions on the methods of the NSA put security and privacy under pressure. Digital criminal activity (cyber crime and hackers), as well as the explosive growth of social media, can lead to personal information becoming public. We have a duty to keep our networks safe and protect our customers' data and privacy. This drives our business performance.

See page 64-65

The value we create

We believe in a society where communications technology enriches life. It enhances day-to-day business and can make a real difference. This brings with it a serious responsibility: service has to be of top quality and security and privacy must be protected.

We formulate our business plans based on these beliefs. As a front-runner in bringing new technologies such as 4G and fiber into the homes and offices of our customers, and by stimulating others to build upon these technologies in areas such as healthcare, education, security, entertainment and business, we directly benefit the economy, the environment and society.

We invest in assets that benefit all our stakeholders and support our strategy to strengthen, simplify and grow. We strengthen our networks and propositions and market them in a simpler way. This lowers our costs and enables us to reach more customers with more products and services, leading to growth. It helps to make ICT affordable for all.

We will execute this strategy by making efficient use of the planet's resources. Our efforts in the past years have made us one of the most sustainable telecommunications companies worldwide. This is recognized by our inclusion in the Dow Jones Sustainability World Index. We remain committed to minimizing our own and our customers' ecological footprint, while at the same time increasing our positive social impact.

Our assets

Integrated network and product range

Skilled employees and distribution networks

Diverse customer base

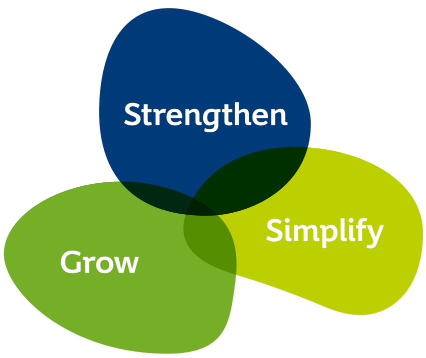
Key relationships

Core values

- Inspire confidence
- Simple solutions
- Personal attention

Enriching life through the power of communication

Our strategy



Strategic principles

- Create customer loyalty
- Invest in best-in-class networks and services
- Simplify the operating model
- Integrate fixed and mobile services
- Conduct business in a sustainable way

The value we create

Better business for our customers

- Delivering a full range of communication services to millions of customers
- Providing state of the art communication technology
- Being a reliable service provider

Better future for our employees and the community

- Secure network
- Making efficient use of the planet's resources and unlocking the potential of ICT for saving energy for our customers
- Providing real social benefit by developing innovative solutions
- Investing in people skills

Total shareholder returns for our investor community

- KPN recommences sustainable dividend payments with a dividend per share of EUR 0.07 in respect of 2014, subject to closing of the E-Plus sale.

Our strategy

Our main ambition is to be the connectivity provider of choice in all our markets. To achieve this we have a focused strategy based on three pillars: to strengthen, simplify and grow.

Strengthen consists of two main elements. First, strengthening our relationship with customers, through operational excellence and by rewarding loyalty. Second, strengthening our fixed and mobile networks and ICT platforms by implementing the best, most energy-efficient and information-secure technologies, since we believe our network gives us a competitive edge.

Simplify is crucial to strengthening our customer relationships and networks. We can only realize operational excellence if we have simple products and services, delivered with simple processes and standardized IT. And we can foster better customer relationships by simplifying how we interact with customers as we move towards an online- and customer-oriented company.

Grow directly follows from strengthen and simplify. We believe that operational excellence, simplified products and services, and using the best networks in a sustainable way, will result in more customers who use more of our services and remain with KPN longer. This is how we will grow.

Strengthen, simplify and grow are the foundations of our strategy. We invest in the strategic principles, set out on this page, to grow the value of our business.

Create customer loyalty

Provide customers with excellent service and with additional benefits when buying multiple products.

Target:

- Net Promoter Score to +1 in 2015
- ~8x more 4G customers in 2016 compared to 2013

Invest in best-in-class networks and services

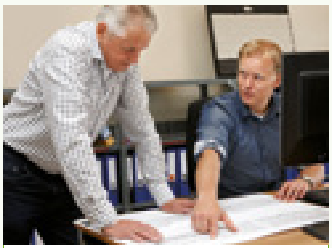
Front-runner in the roll-out of future-proof, best-in-class network technologies such as 4G and fiber to the home.

Target:

- Nationwide 4G coverage (indoor) in the Netherlands in Q1 2014
- Nationwide 4G coverage (outdoor) in Belgium end 2014

Target:

~55%
of Dutch households have access to bandwidths >200 Mbps in 2015

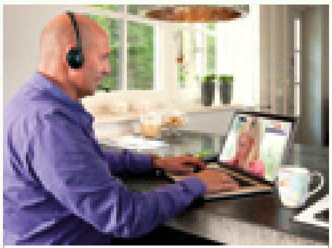


Simplify the operating model

Fewer products and services to enable a leaner operating model, higher customer satisfaction and a structurally lower cost base.

Target:

>€300m
Opex and capex reduction in 2016 compared to 2013



Integrate fixed and mobile services

Benefit from KPN's unique position of having both fixed and mobile network assets enabling innovative, excellent integrated services.

Target:

~1m
KPN Compleet customers in 2016

Target:

~500k
KPN ÉÉN seats in 2016

Conduct business in a sustainable way

Minimize our ecological footprint and optimize our contribution to society and stakeholder wellbeing.

Target:

Inclusion in Dow Jones Sustainability World Index in 2014

Target:

0 tonnes
net CO_2 emission before 2020

Strategic principles in detail

Strategy

Create customer loyalty

Bundled services
We want customers to choose more of our services, and we reward them for doing so. That is why we bundle our fixed and mobile services into an all-inclusive package that combines telephone, television, internet and mobile and offers our customers additional benefits. The more services customers choose from KPN, the more loyal they become.

Top-notch service
The more ways customers can connect and interact with KPN, the better. We use online channels such as our website, social media and customer service apps to communicate with customers and provide relevant information that is accessible and makes it easy for them to subscribe to our services.

Invest in best-in-class networks and services

First in connectivity
We continuously improve the speed and quality of our fixed and mobile services. After all, connectivity is at the core of our business and is why customers choose our products and services. By being first in connectivity, supported by our best-in-class networks, we will secure our long-term position.

Front-runner in technology
When it comes to new technologies such as 4G and fiber we lead the way. That we were first to implement 4G in the Netherlands is testimony to our commitment.

Simplify the operating model

Portfolio rationalization
We can lower our cost base by eliminating overlapping products and services. We will simplify our portfolio, customer processes, networks and IT, without affecting customers in terms of added value rendered.

Less complex operating model
Reducing our internal complexity will lower our costs, improve the time it takes to bring innovations to market and improve customer service.

Integrate fixed and mobile services

Anywhere, anytime
Customers want to be connected all the time, everywhere. KPN is perfectly positioned to fulfil this need for ‘anywhere, any time’ using its best-in-class mobile and fixed networks.

Seamless services
How customers access connectivity will become increasingly irrelevant. Seamless services make optimal use of all access available (WiFi, 4G, fixed broadband).

Conduct business in a sustainable way

Minimize environmental footprint and social concerns
We put continuous effort into making sure that the services we offer do not come at a cost to the environment. Or to our customers who need to feel secure while using our services without having to worry over information breaches and privacy. Nor to society as a whole who can count on us to make use of resources efficiently.

Maximize social benefits
We believe our services can enrich both life and business of our customers. We therefore invest in our infrastructure and the skill level of employees to facilitate changes in for example healthcare, working and living. As a result we aim to contribute to the solution for a number of key social and economic challenges our society faces, such as climate change, traffic congestions and increasing healthcare costs.

Objectives and ambitions

Performance indicators 2013

- Minimum broadband market share of >40%
- Minimum long-term total mobile NL market share >40%
- Long-term mobile market share goal of 25% in Belgium
- Increased Net Promoter Scores (NPS), we aim for an NPS of +1 in 2015
- Focus on multi-play to increase customer lifetime; triple-play 60% in 2016
- ~8x more 4G customers in 2016 compared to 2013
- Focus on online client processes

Net Promoter Score KPN the Netherlands

1) Restated compared to Annual report 2012.

- Realize nationwide 4G (indoor) coverage in the Netherlands by Q1 2014
- Aim for nationwide 4G (outdoor) coverage in Belgium end 2014
- ~55% of Dutch households have access to bandwidths >200Mbps in 2015
- Bonded vectoring live mid 2014

4G coverage in the Netherlands and Belgium in 2013

Outdoor coverage Belgium

36%

(2012: 0%)

Indoor coverage the Netherlands

76%

(2012: 0%)

- Simplified products and reduced product portfolio
- Simplified client processes with focus on online
- Standardized network and IT systems
- Simplifying the operating model will result in opex and capex savings by >300 million in 2016 and as a consequence ~1,500-2,000 fewer FTE's in 2016 compared to 2013

Since the program started at end of 2013, no historical data is available

- Provide market leading products to drive take-up of multi play
- Reduce churn
- Approximately 500 thousand KPN ÉÉN seats in 2016
- Approximately 1 million KPN Compleet customers in 2016

Number of KPN Compleet customers

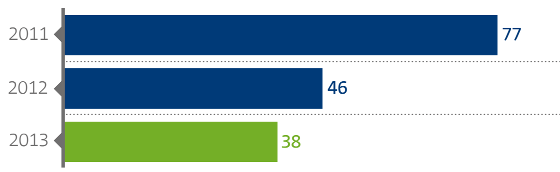
2013

173k

(2012: 0)

- Climate neutral (zero net CO_2 emissions) before 2020
- Better protect our customers' privacy and security
- Facilitate business and personal life with our services
- Attract skilled and engaged employees
- Enable the energy-saving potential of ICT
- Inclusion in Dow Jones Sustainability World Index in 2014

KPN's own net CO_2 emissions (Kton) (Scope 1+2)[1]



1) Based on continuing operations.


kpn
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kpn

Report by the Board of Management

Report by the Supervisory Board

Assurance report

Our organization and main achievements in 2013

Through our services, products and network we ensure that people and businesses are online anywhere and anytime, with whatever device they choose. That is where our strength lies.

KPN Group in 2013

The Netherlands

Consumer Residential
We provide a broad portfolio of services in and around the house, such as internet, (interactive) TV and fixed telephony. Our brands are KPN, Telfort and XS4ALL.

Consumer Mobile
With our mobile brands KPN, Hi, Telfort, Simyo and Ortel Mobile, we offer customized mobile services and products, ensuring that people can be contacted anytime, anywhere.

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

IT Solutions
We offer multinationals and other enterprises a broad range of services and products: consulting, workstation management, cloud services, data center capacity and other network-related ICT solutions.

NetCo
The beating heart of KPN where infrastructure and ICT coincide. This division, which is responsible for the fixed and mobile networks and wholesale customers, makes it technically possible for KPN to run its services and deliver its products. Furthermore, NetCo includes our fixed wholesale services.

International

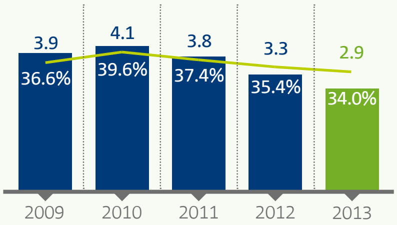
Germany
E-Plus is the successful challenger in the German mobile market with its brands E-Plus, BASE, Simyo, Ortel Mobile, yourfone, Blau and Ay Yildiz, as well as via wholesale customers.

Belgium
BASE Company is the successful challenger as the third largest mobile provider in Belgium. Its flagship is BASE. We also operate there with Simyo and Ortel Mobile. This year a new broadband and fixed-line proposition was launched under the brand name SNOW.

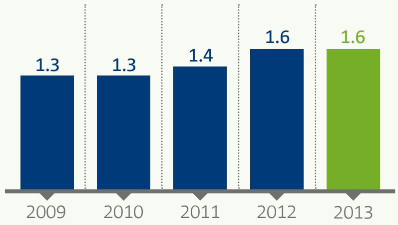
iBasis

iBasis
iBasis is a leading player in the international wholesale market for telephony services.

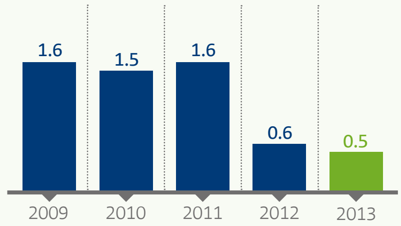
EBITDA[1] (in billions of EUR)
EBITDA margin[1]



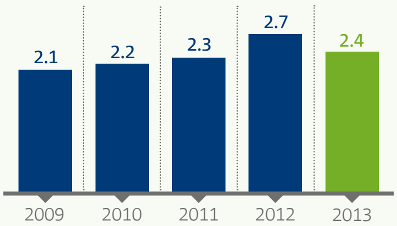
Capital expenditure[1]
(in billions of EUR)



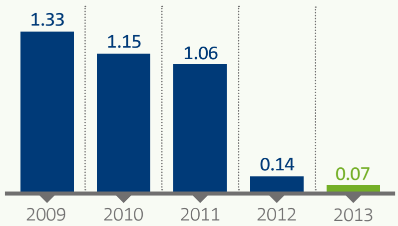
Free cash flow[1]
(in billions of EUR)



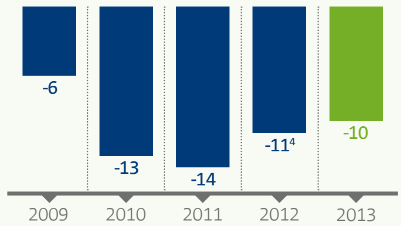
Net debt / EBITDA[2]



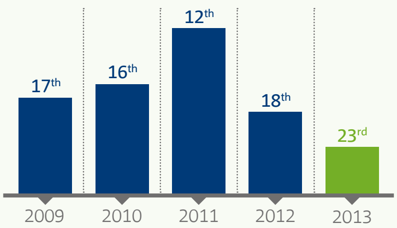
Earnings per share[3]
(in EUR)



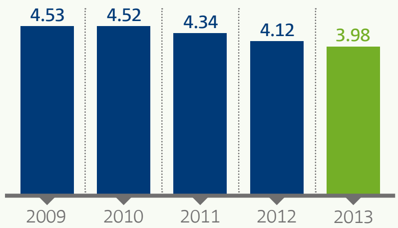
Customer loyalty
(Net Promoter Score in the Netherlands)



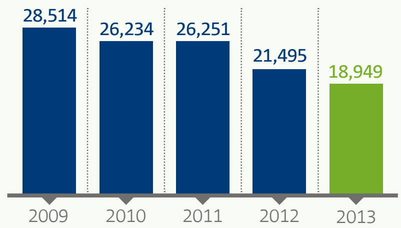
Reputation
(ranking among top-30 Dutch companies)



Energy consumption[1]
(in petajoules)



FTEs[1]
(as of December, 31)



1) Based on continuing operations.
2) Including discontinued operations.
3) 2012 and 2013 are restated for the rights issue and are based on continuing operations, 2009-2011 figures are not adjusted.
4) Restated compared to Annual Report 2012.

Financial performance and outlook

'We have significantly strengthened our capital structure during 2013, enabling us to invest in our business and execute our strategy.'

Jan-Maarten van Osch, Corporate Treasurer

All KPN Group figures presented are based on KPN's continuing operations and do not include the financial results of E-Plus, unless stated otherwise. E-Plus is classified as held for sale and discontinued operations. Comparative financial information has been restated in accordance with relevant IFRS standards.

Overview

Highlights
- Group financial results reflect competitive markets and high investment levels
- Strengthened financial position by EUR 4 billion equity equivalent capital raise
- Lower Group revenues and EBITDA in 2013 due to pressure in Consumer Mobile and Business markets, partly offset by good performance Consumer Residential
- EGM approved sale of E-Plus to Telefónica Deutschland

EBITDA
€2,883M
(2012: 3,346m)

Revenues
€8,472M
(2012: 9,458m)

2.4x
Net debt to EBITDA (incl. discontinued operations)
(2012: 2.7x)

€0.5BN
Free cash flow
(2012: 0.6bn)

Revenues and other income

Group revenues and other income from continuing operations were 10% or EUR 986 million lower compared with last year, negatively impacted by the net effect of acquisitions and disposals of subsidiaries (EUR 122 million), gains on tower sales in 2012 (EUR 96 million). The impact from regulation was EUR 94 million (1.0%). A continued competitive environment in the mobile markets and declining revenues from traditional fixed services impacting Business and NetCo were the primary reason for the revenue decline.

Revenues and other income (in millions of EUR)	2013	2012	Δ
KPN Group – continuing operations	**8,472**	**9,458**	**-10%**
KPN Group – continuing operations underlying[1]	**8,335**	**8,994**	**-7.3%**
Germany (incl. discontinued operations)	3,197	3,404	-6.1%
Belgium	728	804	-9.5%
Rest of World	–	247	-100%
Other (including eliminations)	41	-84	n.m.
Mobile International	**3,966**	**4,371**	**-9.3%**
Consumer Mobile	1,510	1,707	-12%
Consumer Residential	1,962	1,852	5.9%
Business	2,716	2,956	-8.1%
NetCo	2,343	2,621	-11%
Other (including eliminations)	-2,086	-2,133	-2.2%
Dutch Telco business	**6,445**	**7,003**	**-8.0%**
IT Solutions	621	862	-28%
Other (including eliminations)	-264	-333	21%
The Netherlands	**6,802**	**7,532**	**-9.7%**
iBasis	**969**	**1,035**	**-6.4%**
KPN Group – incl. discontinued operations	**11,568**	**12,708**	**-9.0%**
of which discontinued operations	3,096	3,250	-4.7%

1) For the definition of underlying and more details please refer to the appendix on page 186.

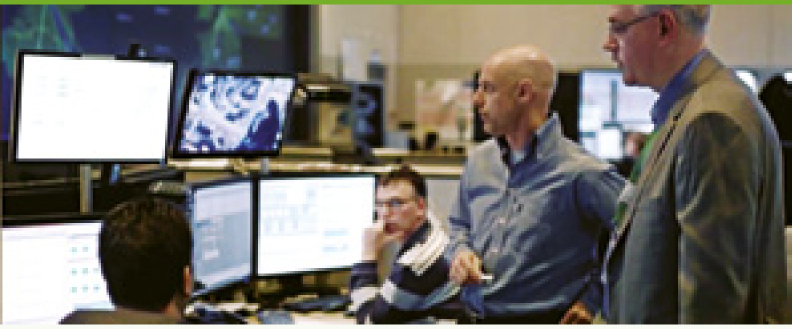
EBITDA

Group EBITDA from continuing operations decreased by 14% or EUR 463 million in 2013 compared with 2012. EBITDA was impacted by regulation for EUR 53 million and the impact of restructuring costs on EBITDA was EUR 122 million (2012: EUR 134 million). Furthermore, the net negative impact of incidentals on EBITDA amounted to EUR 135 million. The incidentals in 2013 included releases of asset retirement obligations related to mobile sites for EUR 11 million, adjustments of deferred revenue of EUR 20 million, and the net increase of incidental provisions for EUR 78 million. The incidentals in 2012 consisted mainly of the net proceeds of tower sales for EUR 96 million, the impact of disposals of subsidiaries for EUR 33 million and the net increase of provisions for EUR 27 million.

This resulted in an underlying EBITDA decline of 8.6%, which was mainly driven by lower revenues across the Group. In the Netherlands EBITDA was supported by FTE reductions, offset by the effect of the phasing out of handset lease.

In Germany (discontinued operations), the EBITDA decline was mainly due to higher commercial investments supporting growth in postpaid and data.

Dutch inauguration day



‘KPN was an essential partner to the city of Amsterdam during the inauguration, we greatly appreciate their efforts.’

Eberhard van der Laan, Mayor of Amsterdam

‘Keeping the technical connections going was one of the big challenges faced by the Amsterdam municipality and the security services during the inauguration, especially in the crowded city center. KPN proved to be an essential partner in helping us address this. Not only did KPN enhance the capacity of its communication masts, but we also greatly appreciate the hard work its employees put in on the day at the City Hall and the police headquarters.’

EBITDA (in millions of EUR)	2013	2012	Δ
KPN Group – continuing operations	**2,883**	**3,346**	**-14%**
KPN Group – continuing operations underlying[1]	**3,013**	**3,296**	**-8.6%**
Germany (incl. discontinued operations)	963	1,290	-25%
Belgium	192	272	-29%
Rest of World	–	-25	-100%
Other (including eliminations)	4	-1	n.m.
Mobile International	**1,159**	**1,536**	**-25%**
Consumer Mobile	410	510	-20%
Consumer Residential	375	367	2.2%
Business	676	747	-9.5%
Netco	1,297	1,461	-11%
Other (including eliminations)	-32	-19	-68%
Dutch Telco business	**2,726**	**3,066**	**-11%**
IT Solutions	30	69	-57%
Other (including eliminations)	-1	–	n.m.
The Netherlands	**2,755**	**3,135**	**-12%**
iBasis	**29**	**30**	**-3.3%**
KPN Group – incl. discontinued operations	**3,842**	**4,638**	**-17%**
of which discontinued operations	959	1,292	-26%

1) For the definition of underlying and more details please refer to the appendix on page 186.

Operating results

Group operating profit (EBIT) decreased in 2013 by EUR 360 million due to EUR 463 million lower EBITDA and EUR 103 million lower net depreciation, amortization and impairment charges.

Net finance costs

Net finance costs over 2013 decreased by EUR 100 million to EUR 757 million, mainly as a result of fair value movements on swaps and a lower increase of the Reggefiber option liability. Net finance costs include the net result of the sale of available-for-sale financial assets (11% stake in Compucom) for the amount of EUR 21 million, realized in May 2013, offset by several one-off items.

Income taxes

KPN benefits from an agreement with the Dutch tax authorities with regard to the application of innovation tax facilities. Innovation tax facilities are facilities under Dutch corporate income tax law whereby profits attributable to innovation are taxed at an effective rate of 5%. Due to the application of the innovation tax facilities, KPN’s effective tax rate in the Netherlands is reduced from the statutory tax rate of 25% to approximately 20%. The effective tax rate for KPN’s continuing operations for 2013 is -11.5% (2012: 38.6%), mainly due to releases of a risk provision and the valuation of losses in 2013 and the non-deductible goodwill impairment of KPN Corporate Market in Q4 2012. The decrease in effective tax rate is a consequence of one-off effects and a change of the mix of profits and losses in the various countries. The effective tax rate for KPN’s continuing operations is expected to be approximately 20%[2] in the 2014-2015 period.

For further information on the tax impact of the sale of E-Plus, refer to paragraph ‘Disposal group held for sale’ on page 28.

Net profit

Net profit from continuing operations decreased in 2013 by EUR 21 million (-6.7%), as lower operating profit was partly offset by lower net finance expenses and lower income tax expenses.

Operating profit (in millions of EUR)	2013	2012	Δ
Operating profit from continuing operations	**1,026**	**1,386**	**-26%**
Net finance costs	-757	-857	12%
Share of the profit of associates and joint ventures	-7	-11	36%
Profit before income tax from continuing operations	**262**	**518**	**-49%**
Income taxes	31	-204	n.m.
Profit for the period from continuing operations	**293**	**314**	**-6.7%**
Profit / (loss) for the period from discontinued operations	-508	451	n.m.
Profit / (loss) for the period incl. discontinued operations	**-215**	**765**	**n.m.**

2) Excluding effects of, among others, impairments, revaluations and/or Reggefiber options.

Cash flow, free cash flow

Cash flow from operating activities from continuing operations for the year 2013 was EUR 166 million higher and came to EUR 1,926 million. EUR 463 million lower EBITDA was offset by EUR 263 million positive changes in working capital, EUR 64 million positive effect from changes in provisions and EUR 57 million less taxes paid. Capex was EUR 41 million higher and the tax recapture was EUR 159 million lower compared with last year, resulting in free cash flow of EUR 489 million for the year 2013.

Cash and cash equivalents

At December 31, 2013, cash and cash equivalents amounted to EUR 3,946 million, compared with EUR 1,286 million at December 31, 2012. The increase in cash and cash equivalents mainly relates to the successfully concluded capital raise consisting of EUR 2 billion hybrid bonds and a EUR 3 billion rights issue, partly offset by the payment of the obtained frequency licenses in the Dutch spectrum auction amounting to EUR 1,352 million. Part of the proceeds were used to repay drawings under the credit facility and to finance bond redemptions in March and September 2013. The remaining proceeds of the capital raise have been used to strengthen KPN's capital structure and to continue to invest in KPN's operations.

Net cash and cash equivalents, including EUR 326 million bank overdrafts related to cash pooling arrangements, amounted to EUR 3,620 million at December 31, 2013, as shown in the cash flow statement. Cash and cash equivalents consist of highly liquid instruments, mainly deposits, interest-bearing bank accounts and money market funds. KPN's cash balances have been invested with a wide range of strong counterparties.

For further details on the cash and cash equivalents, reference is made to Note 17 of the Consolidated Financial Statements.

Capex

Capex for continuing operations was EUR 1,616 million in 2013, EUR 41 million higher compared with 2012. Continued investments in the existing 2G and 3G networks and the roll-out of the 4G network in the Netherlands and Belgium were the main drivers for the continued high capex.

Cash flow (in millions of EUR)	2013	2012	Δ
Operating profit from continuing operations	**1,026**	**1,386**	**-26%**
Depreciation and amortization	1,857	1,960	-5.3%
Interest paid/received	-654	-644	1.6%
Tax paid/received	-253	-469	-46%
Change in provision	-191	-255	-25%
Change in working capital	162	-101	n.m.
Other movements	-21	-117	-82%
Cash flow from operating activities from continuing operations	**1,926**	**1,760**	**9.4%**
Capital expenditures from continuing operations	**1,616**	**1,575**	**2.6%**
Proceeds from real estate	3	117	-97%
Tax recapture E-plus	176	335	-47%
Free cash flow from continuing operations	**489**	**637**	**-23%**

Pension position

As at December 31, 2013, the average coverage ratio of the KPN pension funds in the Netherlands was 109% (2012: 104%). The average coverage ratio rose due to an increase in the value of the investments of the pension funds as well as higher interest rates which led to a decrease in the pension funds' obligations. No recovery payments are expected in the first half of 2014 based on the coverage ratios at the end of Q3 and Q4 2013. In 2013, an amount of EUR 55 million related to pension recovery payments was made.

For more information about KPN's pension plans, reference is made to Note 22 of the Consolidated Financial Statements.

Disposal group held for sale

On July 23, 2013, KPN announced to have entered into a transaction to sell and transfer 100% of its interest in E-Plus to Telefónica Deutschland. On October 2, 2013, the shareholders of KPN approved the transaction. The transaction remains mainly subject to Telefónica Deutschland EGM approval and regulatory approval.

E-Plus is classified as 'disposal group held for sale' as of July 23, 2013, some small operations in Germany are not included in the disposal group held for sale and remain reported in continuing operations. The classification as 'disposal group held for sale', caused an impairment of EUR 555 million due to the fair value of the disposal group being lower than its carrying value. This impairment was recorded as 'profit for the year from discontinued operations'. Furthermore, an impairment of deferred tax assets for tax losses carry forward of EUR 747 million was recorded as 'profit for the year from discontinued operations', resulting from changes in expectations of future taxable income in the German legal entities remaining within KPN Group. In addition, following an agreement with the Dutch tax authorities on the tax consequences of the tax book loss which is expected to be recognized upon completion of the sale of E-Plus to Telefónica Deutschland, KPN recognized a deferred tax asset of EUR 932 million which is also included in 'profit for the year from discontinued operations'.

All assets and liabilities of E-Plus have been presented separately on KPN's statement of financial position as of July 23, 2013 as 'non-current assets and disposal groups classified as held for sale' and 'liabilities directly associated with non-current assets and disposal group held for sale'. Given the significance of E-Plus to KPN Group, E-Plus is classified as 'discontinued operation'. Reference is made to Note 18 in the Consolidated Financial Statements for further information.

Borrowings, bond issues

On March 14, 2013, KPN issued a EUR 1.1 billion hybrid bond with a 6.125% coupon and a GBP 400 million hybrid bond with a 6.875% coupon (swapped to EUR 460 million and a 6.78% coupon for a period of seven years). On 28 March, 2013, KPN issued a USD 600 million hybrid bond with a 7% coupon (swapped to EUR 465 million and a 6.34% coupon for a period of ten years).

The EUR 1.1 billion hybrid bond is a subordinated bond with a perpetual maturity, while the GBP 400 million and USD 600 million hybrid bonds are subordinated bonds with 60-year maturities. The EUR, GBP and USD hybrid bonds can, at KPN's discretion, first be redeemed in September 2018, March 2020 and March 2023 respectively. KPN may, at its discretion and subject to certain conditions, elect to defer payments of interest on these hybrid bonds. The hybrid bonds are listed on NYSE Euronext Amsterdam. The ratings for the hybrid bonds are BB by S&P, Ba1 by Moody's and BB by Fitch Ratings. The rating agencies recognize 50% of the hybrid bonds as equity. The hybrid bonds are for 50% treated as equity and 50% as debt in KPN's gross and net debt definitions. The EUR hybrid bond is classified as equity on the balance sheet, while the GBP and USD hybrid bonds are classified as liabilities in the Consolidated Statement of Financial Position.

On March 18, 2013, KPN redeemed the 4.5% coupon Eurobond 2006-2013 with an outstanding amount of EUR 540 million. On September 16, 2013, KPN redeemed the 6.25% coupon Eurobond 2008-2013 with an outstanding amount of EUR 545 million. Both bonds were redeemed in accordance with the regular redemption schedule.

In June 2013, KPN used an extension option for its EUR 2 billion revolving credit facility. All 14 relationship banks agreed to a one year extension, which extends the maturity of the revolving credit facility to July 2018. The credit facility is undrawn at the end of 2013.

At the end of 2013, the average maturity on the overall bond portfolio was 6.6 years. The average interest rate on the overall bond portfolio, including hybrid bonds, was 5.2% as at the end of 2013. Excluding the hybrid bonds, the average interest rate on the senior bond portfolio was 5.0% as at the end of 2013.

For further details, reference is made to Note 22 of the Consolidated Financial Statements.

Equity position

At December 31, 2013, total equity amounted to EUR 5,303 million.

On April 25, 2013, KPN set the terms of its EUR 3 billion rights issue, which was announced on 20 February, 2013, and approved by the Annual General Meeting on April 10, 2013. KPN announced a 2 for 1 rights issue of 2,838,732,182 new ordinary shares with a nominal value of EUR 0.24 (Offer Shares) at an issue price of EUR 1.06 through the granting of transferable subscription entitlements to holders of ordinary shares in KPN's issued and outstanding share capital pro rata to their shareholdings. The issue price represented a discount of 35.1% to the theoretical ex-rights price (TERP), based on the closing price of EUR 2.78 per ordinary share on April 24, 2013.

At the end of the subscription period, the take-up amounted to 97.4% of the Offer Shares. The remaining Offer Shares were placed at institutional investors through a rump placement. Payment, delivery and start of trading of the Offer Shares occurred on May 17, 2013. The net proceeds from the rights issue amounted to EUR 2,957 million. Upon closing the number of KPN ordinary shares outstanding totaled 4,270,254,664.

On May 17, 2013, KPN successfully concluded its EUR 5 billion capital raise, consisting of EUR 2 billion hybrid bonds, which are recognized for 50% as equity and a EUR 3 billion rights issue.

On August 9, 2013, América Móvil announced an unsolicited intended public offer for all outstanding ordinary shares of KPN.

On August 29, 2013, the Foundation Preference Shares B KPN exercized its call option and obtained 4,258,098,272 newly issued preference shares B. These shares reflect an interest in KPN's outstanding shares of 50% minus 1 share. In compliance with the current statutory arrangement, 25% of the nominal value of these shares (EUR 255 million) has been paid to KPN in cash. The Foundation holds the preference shares B only temporarily, as the EGM of 10 January 2014 approved the cancellation of the outstanding preference shares B. Therefore, the paid up value is classified as current liability (EUR 255 million) and dividends due are recorded as financial expenses.

Reference is made to Note 29 of the Consolidated Financial Statements for further information.

Financial outlook

KPN expects that the improved operational performance driven by investments in networks, products and customers will lead to financial performance stabilizing towards the end of 2014. The year 2014 will be a year where KPN expects to see some important changes; closing of the sale of E-Plus and the consolidation of Reggefiber. The new KPN Group profile will emerge in 2015.

The following outlook metrics are based on the continuing operations of KPN:

2014
- Financial performance stabilizing towards the end of 2014
- Capex less than EUR 1.4 billion[1]

2015
- Capex less than EUR 1.5 billion, including Reggefiber[1]
- Free cash flow (excl. TEFD dividend)[2] growth expected in 2015

Limited tax cash out in the Netherlands is expected in the coming years due to the recognized tax loss on the sale of E-Plus. In addition, interest payments are expected to trend down due to a reduction of gross debt in the coming years. Furthermore, KPN will potentially benefit from additional excess cash by receiving dividends on the 20.5% stake in Telefónica Deutschland.

KPN recommences sustainable dividend payments with a dividend per share of EUR 0.07 in respect of 2014, subject to closing of the E-Plus sale. The dividend pay-out structure will consist of 1/3 interim dividend in August 2014 and 2/3 final dividend in April 2015. Dividend per share is expected to grow in respect of 2015.

KPN remains committed to an investment grade credit profile and expects to utilize excess cash for operational and financial flexibility, (small) in-country M&A and/or shareholder remuneration.

1) Assuming Reggefiber consolidation per December 31, 2014.
2) Free cash flow outlook defined as cash flow from operating activities, plus proceeds from real estate, minus capex and excluding Telefónica Deutschland dividend.

Share performance

'KPN assigns great importance to transparent and regular communication with its shareholders, bondholders and other capital providers.'

Hans Söhngen, Head of Investor Relations

Overview

Highlights
- Recommence dividend payment in respect of 2014 (EUR 0.07), subject to closing E-Plus sale
- Intended sale of E-Plus at attractive valuation

Earnings per share

EUR 0.07

(2012: EUR 0.14)[1]

1) Adjusted following rights issue

Presentations for, and meetings with, investors and analysts are held on a regular basis, including those in connection with the publication of KPN's quarterly results. On the same day as the publication of the quarterly results KPN organizes a presentation that is broadcast 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 Board of Management is supported by the Investor Relations department, which is at the investors' and analysts' disposal on a daily basis.

Listings and indices

Since June 13, 1994, KPN's ordinary shares have been listed on Euronext Amsterdam (ticker: KPN). KPN has a Level I ADR program which allows investors to trade KPN ADRs in the United States on the Over-The-Counter market (ticker symbol: KKPNY).

KPN shares are included among others in the following leading Indices: AEX, EURO STOXX Telecommunications Index, STOXX Europe 600 Telecommunications Index and MSCI Euro.

KPN shareholding[1]

Estimated geographic breakdown (based on institutional holdings)	
Mexico	25 – 30%
United States	15 – 20%
United Kingdom	10 – 15%
The Netherlands	0 – 5%
Canada	0 – 5%
Rest of Europe	10 – 15%
Rest of World	0 – 5%
Other[2]	15 – 20%

Source: Thomson Shareholder ID Q4 2013
1) Excluding preference shares B
2) Retail, broker/trading and other

Share ownership

América Móvil published on February 12, 2014 that they owned 27.1% of KPN's ordinary shares (excluding the preference shares B) at December 31, 2013. Taking into account the preference shares B held by the Foundation Preference Shares B KPN at December 31, 2013, this represents a share of 13.6% in KPN's total share capital. To KPN's knowledge, no other shareholder owned 3% or more of KPN's outstanding shares at December 31, 2013.

Capital raise

KPN successfully concluded its capital raise through settlement of the EUR 3 billion rights issue on May 17, 2013, and a EUR 2 billion issuance of hybrid capital instruments in March, which are recognized as 50% equity.

As a consequence of the EUR 3 billion, 2 for 1 rights issue, an aggregate of 2,838,732,182 new ordinary shares were issued at an issue price of EUR 1.06 for each ordinary share. The issue price represented a 35.1% discount to the theoretical ex-rights price, based on the closing price of KPN's ordinary shares on NYSE Euronext in Amsterdam at April 24, 2013. Upon closing of the rights issue, KPN had 4,270,254,664 ordinary shares outstanding.

Foundation Preference Shares B KPN

On August 9, 2013, América Móvil formally notified KPN of its intention to make an offer to acquire all outstanding ordinary shares of KPN at a price of EUR 2.40 per KPN share. Subsequently, KPN´s Board of Management and Supervisory Board (the 'KPN Boards') have carefully considered América Móvil's unsolicited intended offer consistent with their fiduciary duties and their commitment to the continuity of KPN and the interests of all stakeholders, including all KPN shareholders, and explored all strategic options open to KPN. The KPN Boards have had numerous discussions with América Móvil on all aspects of the unsolicited intended offer including financial and non-financial items.

On August 29, 2013, the Foundation Preference Shares B KPN (the 'Foundation') announced that it exercised the option granted by KPN to acquire preference shares B in KPN in order to safeguard the interests of KPN and its stakeholders, including shareholders, employees, customers, trade unions and Dutch society more generally. As a consequence thereof 4,258,098,272 preference shares B were outstanding with the Foundation Preference Shares B KPN. These preference shares B carry the right to exercise 4,258,098,272 votes in each (Extraordinary) General Meeting of Shareholders of KPN, as long as the preference shares B are outstanding.

The Foundation said that it came to its decision in order to safeguard the interests of KPN and its stakeholders, as América Móvil announced its intention to make a public offer for all KPN shares on August 9, 2013, without prior consultation of KPN. The Foundation emphasized that it would be holding the preference shares B only temporarily and from time to time it would be considering its position.

The KPN Boards announced on October 16, 2013, that discussions with América Móvil regarding its announced intention to make a public offer had not led to an agreement which could be recommended by the KPN Boards to its shareholders. Furthermore, América Móvil had formally withdrawn its intended offer.

On November 10, 2013, the Board of the Foundation Preference Shares B KPN requested the Board of Management to convene an Extraordinary General Meeting of Shareholders to redeem the 4,258,098,272 preference shares B. The Board of the Foundation was of the opinion that there was, subsequent to the withdrawal of the unsolicited intended offer by América Móvil, no reason to defer a decision to effect the redemption of the preference shares B. KPN's Extraordinary General Meeting of Shareholders granted the requested approvals to cancel all outstanding preference shares B on January 10, 2014. The Supervisory Board and Board of Management acknowledge that the right granted to the Foundation to acquire preference shares B is unconditional and continuous, and that the Foundation is therefore entitled to acquire preference shares B in the future.

Shareholder remuneration

In 2013, KPN has increased its financial and strategic flexibility by means of a EUR 4 billion equity equivalent capital raise including a EUR 3 billion rights issue. As the rights issue led to a significantly higher number of shares outstanding, KPN decided to pay no dividend for the financial years 2013. However, also in 2013, KPN reached an agreement with Telefónica Deutschland to sell 100% of its interest in E-Plus at an attractive valuation of EUR 8.55 billion.

KPN remains committed to an investment grade credit profile and expects to utilize excess cash for operational and financial flexibility, (small) in-country M&A and/or shareholder remuneration.

Dividends

KPN recommences sustainable dividend payments with a dividend per share of EUR 0.07 in respect of 2014, subject to closing of the E-Plus sale. The dividend pay-out structure will consist of 1/3 interim dividend in August 2014 and 2/3 final dividend in April 2015. Dividend per share is expected to grow in respect of 2015.

Articles of Association

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. Dividend may also be paid 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.

Obligations to disclose holdings

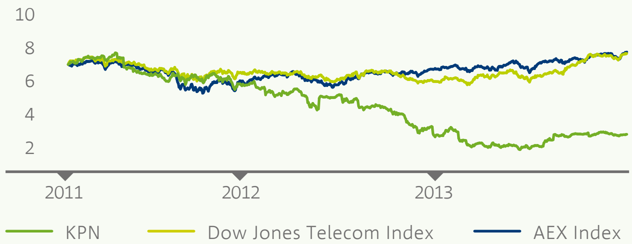
Pursuant to the Dutch Financial Supervision Act ('Wet op het financieel toezicht' or 'Wft'), legal entities as well as natural persons must immediately notify the Dutch Authority for the Financial Markets (AFM) when a shareholding equals or exceeds 3% of the issued capital. The AFM must be notified again 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: 3%, 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 is an offense, and may result in civil penalties, including suspension of voting rights and administrative penalties.

Financial calendar 2014

January 10, 2014: Extraordinary General Meeting of Shareholders
February 4, 2014: Publication of full year 2013 results
April 9, 2014: Annual General Meeting of Shareholders
April 25, 2014: Publication first quarter 2014 results
July 29, 2014: Publication half year results 2014
October 28, 2014: Publication third quarter 2014 results

Note that these dates may be subject to change.

Share price 2011-2013
(EUR)



Source: Bloomberg, prices rebased to KPN share price of EUR 6.71 on January 3, 2011

Innovation and investments

'We started the roll-out of the high-speed 4G network, one of our biggest infrastructure innovations, as one of the first telecom providers worldwide. We even started to prepare the roll-out before we bought the frequencies. This way we let our customers be the first to benefit from the advantages of 4G.'

Erik Hoving, Group Chief Technology Officer

Overview

Highlights
- Roll-out of 4G network and continued investments in the modernization of 2G and 3G networks
- New hardware insurance service and B-Phone service developed and launched by BASE Company
- KPN was part of a pilot project initiating mobile payments in the city of Leiden in the Netherlands
- 24% of Dutch households have FttH available

Innovation in action

As 'integrated access provider', we continuously invest and innovate in order to enable customers to access services and data anywhere, any time, on the best possible fixed and mobile networks. These networks are increasingly integrated and provide our customers all-in-one packages. Next to that, we develop new applications that can be used on top of our networks, in cooperation with various partners. For instance, in 2013 we were part of a pilot project to initiate mobile payments in the city of Leiden, working with several banks, a credit card company and about 100 retailers. We co-developed an app that allows consumers to pay for their purchases using their mobile phones.

KPN is also well positioned in the market for machine-to-machine (M2M) solutions and the Internet of Things. Via our partnership with technology provider Jasper Wireless, we can offer our (international) customers powerful cloud-based solutions for managing their connected devices.

Infrastructure and network innovation

Mobile network

In the Netherlands, KPN aims to operate a best-in-class network that provides a superior customer experience. In 2013, EUR 206 million was invested in the new 4G network and in capacity upgrades of 2G and 3G in the Netherlands.

We rolled out our biggest infrastructure innovation, the high-speed 4G network. As the first provider of 4G in the Netherlands, this puts us well ahead of our competitors. The 4G indoor coverage as of December 31, 2013 was 76% of the Dutch population. 4G offers more bandwidth and thus higher data transfer rates, up to ten times faster than the 3G network, and extended indoor coverage. That puts us in a position in which we can distinguish ourselves as a provider of integrated services in the Netherlands, because 4G enables us to bring the performance of mobile and fixed-line internet closer together. We want to have nationwide 4G coverage by the end of Q1 2014.

To be able to handle mobile data growth, we also continued the modernization of our 2G and 3G networks, started in 2012. We renewed the equipment and antennas. By modernizing and increasing the number of mobile phone masts by the end of 2013, about 96% of the Dutch population had 3G coverage.

A stable IT infrastructure also means as few disruptions as possible. We modified the architecture of our network and we increased capacity on our hubs in Amsterdam and Rotterdam. Besides an (international) capacity expansion, the architecture of our network now includes more international backup routes, which will help decrease disruptions.

In Belgium, we are also upgrading our network and implementing 4G. We expect to have the nationwide outdoor 4G coverage by the end of 2014.

Fixed network

Our fixed infrastructure is of vital importance for our continued business operations and financial performance. Our All-IP networks – FttH and VDSL – enable more efficient, effective and scalable telecom infrastructure usage, providing greater bandwidth and higher speeds.

We are the only operator of fixed copper infrastructure covering the entire population in the Netherlands and continue to make investments to upgrade our copper-based network. In 2013, our total investments in copper upgrades were about EUR 70 million. New technologies, such as the combination of pair bonding and vectoring, significantly increase the available broadband internet bandwidth (up to more than 120Mbps) on copper networks for subscribers. Our deployment of FttH in the Netherlands is being executed through our joint venture, Reggefiber. We believe FttH is a superior infrastructure. In particular, FttH allows greater upload and download speeds as compared with cable or traditional copper DSL. As of end of 2013, 24% of the Dutch households, approximately 1.6 million, have FttH available.

Data centers

In July 2013, one of the most energy-consuming sites in Amsterdam was fully converted to district cooling. All own mechanical cooling units were switched off. This results in a yearly energy consumption reduction of 2.1 GWh. The new energy-efficient data center cooling with a rotary heat exchanger was implemented in our data center in Haarlem in 2013.

Besides these improvements in cooling, we investigated the possibilities of reusing heat. Residual heat is generally low temperature warm air, with very limited possibilities for reuse. Currently, we are testing IT equipment and water cooling systems which would enable us to generate higher quality residual heat for potential use as office or residential heating. Although this would probably result in higher energy consumption in the data center itself, it could save energy in the value chain. We intend to start a proof of concept in 2014.

Products and services innovation

KPN Compleet and KPN ÉÉN

A major innovation in our products and services offering was the introduction in the Netherlands of KPN Compleet, an all-inclusive package combining television, internet, fixed line and mobile services in one simple product for consumers. Similarly, KPN ÉÉN offers the Dutch business market an integrated solution including fixed, mobile, internet communication and ICT services.

Healthcare of the future

We introduced several innovations in our healthcare portfolio. With our secure email services, classified emails are placed on our eCare network server. Emails can then be securely collected by external users. With our existing service Tréés, a mobile alarm device with GPS, we carried out a pilot with a new target group, Alzheimer's patients, together with KPN Mooiste Contact Fonds and Alzheimer Nederland. We are developing a mobile proposition for HealthMedia, so it can be accessed on mobile devices, in addition to the existing fixed bedside terminals. This proposition is expected to be finalized in 2014.

The New Way of Living & Working

We test and implement innovations on the New Way of Living & Working within KPN, to make sure we provide our customers with good products and services. In 2013, the BYOD (Bring Your Own Device) technology was enabled within the KPN Group and a corresponding policy is in development. Furthermore, we realized the possibility of connecting three different products and services (conference card, Lync and video conferencing), thereby enabling different communication interfaces within one meeting.

Privacy & Security

We believe it is important to provide a safe internet environment for children. For several years, we have been providing the MyBee browser for children to our customers. We are now extending this browser to other mobile platforms. An iOS version for iPad and iPhone is expected to be launched early in 2014. Later an Android version will become available.

The identity landscape is evolving and we have invested in research and development of new identity schemes. Together with public and private parties we take steps in new developments. KPN is an accredited provider for this type of services, such as 'PKI Overheid', BAPI and SBR certificates and 'eHerkenning'. 'eHerkenning' is a service that enables safe usage of electronic identities and reliable authentication for governments, businesses and citizens. We are part of the 'Stelselraad' of 'eHerkenning', which is responsible for the strategic management of 'eHerkenning'. In 2013, this service has grown significantly to more than 100 thousand transactions and has been improved with new functionalities. In 2014, 'eHerkenning' will migrate towards a Dutch eID infrastructure that will enable several eID services. To strengthen our position and develop next generation services with eID, we invest in research programs with universities. In 2013, KPN started a research project on privacy enhancement and human centric security technologies with the University of Twente. The output of these studies will result in new insights, approaches and technologies that will be used for further product development efforts in the upcoming years.

Belgium

The fixed market was challenged by introducing SNOW, a simple and transparent triple play offer, combining fixed internet, fixed telephony and digital television for an attractive price.

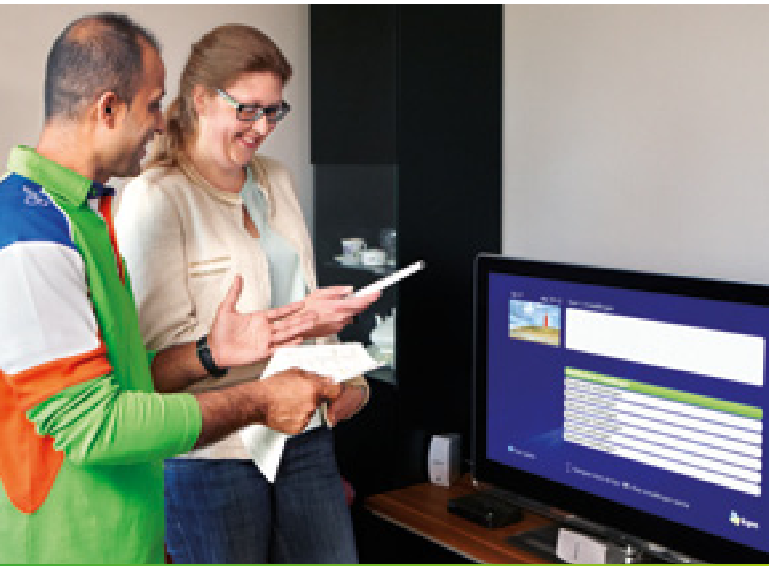
BASE Company launched a completely renewed mobile product portfolio introducing unlimited calling and texting, and providing superior data volumes up to 5GB. In October 2013, we launched our 4G network – being the second operator in Belgium. By the end of the year, 36% of the outdoor population was covered by 4G.

In cooperation with external partners, BASE Company also developed and launched a hardware insurance service for mobile phones starting at EUR 2.95 per month and a service that enables customers to buy a smartphone and pay for this phone in monthly terms without any additional cost and no interest (B-Phone).

Patent application and intellectual property rights

We take steps to protect our intellectual property rights and generate value from these rights where appropriate. To protect these rights, we currently use a combination of patents, trade and service marks, copyrights, database protection, confidentiality agreements with employees and third parties and protective contractual provisions. Our current portfolio of registered intellectual property rights consists of registered trademarks relating to our core brands and approximately 370 patent families. Of these, about 50 patent families are declared essential for the commercial exploitation of communication technology and services. We continue to invest in the growth of our intellectual property portfolio, among others, through our targeted long-term R&D program. This R&D program runs in close cooperation with TNO-ICT and universities and accounts for about 43% of our research spending with TNO. A number of suppliers have entered into license agreements with us related to these and other patents.

Third parties may claim that KPN and its suppliers infringe their intellectual property rights, which could affect our business. If this happens, it may have an effect on our ability to use certain products. Furthermore, any claims of infringement will require handling and follow-up, could cause damage to our reputation and the value of our brands, substantial defense costs and distract our suppliers, management and employees from our business.



Social performance and reputation

'Reputation is a shared responsibility for top management. First and foremost built on what we do for our customers and society, secondly on open and clear communication.'

Hans Koeleman, Director Corporate Communications and CSR

This chapter contains only information about continuing operations, with the exception of the supplier section where Germany is included. Other social performances of discontinued operations can be found in the segment chapter on Germany.

Overview

Net Promoter Score (NPS)
-10
(2012: -11[1])

Reputation
23rd
(2012: 18th position)

18,949
Number of FTEs
(2012: 21,495)

39%
On-site audits suppliers
(2012: 26%)

Social strategy

Our social strategy builds upon our ambition to become the best service provider in the Netherlands. We identified four pillars as highly material to our organization, all having the ability to enhance our performance and business.

The first is the satisfaction level of our customers, who expect flawless service and are relying on the highest quality ICT products and services to connect them all the time, everywhere and from any device. We analyze both customer loyalty and our reputation. Our employees are valuable to our organization and represent the second pillar of our social strategy. Their efforts and enthusiasm determine whether we can achieve our ambition. Thirdly, we believe that the way in which we engage and cooperate with partners and suppliers and create a sustainable supply chain can enhance our business and bring about the necessary technological and sustainable innovations and new products. Lastly, by sponsoring initiatives connecting people, our key strength, we believe we can enhance the goodwill and reputation of our brand.

Our targets, results and ambitions with regard to these four pillars and our overall ambition to be the best service provider are elaborated in this section.

Customer loyalty

Our efforts to become the best service provider in the Netherlands are focused on providing our customers with products and services of excellent quality, and, by doing so, increasing customer loyalty. We continuously measure our performance in our customer base, using the Net Promoter Score (NPS) method.

Results 2013

Based on the positive developments of the NPS for several of our services, we believe we are doing the right things to achieve our goals on customer loyalty. We improved our overall NPS for Consumer Residential. The NPS for Consumer Mobile and Business remained relatively stable. Our average NPS for KPN in the Netherlands increased slightly to -10 (2012: -11[1]). The NPS is affected by different circumstances and developments. For instance, research indicates that the publicity around the bidding offer of América Móvil on KPN had a negative influence on brand NPS. Research also shows that a low score on brand level influences the NPS on contact and event level in a negative way. To us, this is another reason to continue improving the quality of products and services we provide to our customers.

New propositions

In 2013, KPN introduced 4G services as well as combined fixed and mobile services in both the consumer (KPN Compleet) and business segments (KPN ÉÉN). Based on the first indications from the consumer segments, we expect these new combined mobile/fixed propositions to have a positive impact on our NPS.

Improvements in quality and service

In 2013, we further organized our activities around continuous improvement based on customer feedback. For example, a large part of our call centers started or enhanced the use of 'Closed Loop Feedback' (CLF) as a daily way of working. With CLF, we survey our customers immediately after their contact with KPN. In this way, we receive direct feedback and are able to act instantly when the customer is not satisfied. This approach paid off, as the NPS for most call centers where we introduced the CLF approach showed an increase during the year.

After expanding the number of shops in 2012, we further optimized our customer service in shops. We improved processes, tooling and training of our workforce. We provided our employees with extra tools such as easy entrance to all customer data including logs of earlier

1) The NPS measurement method for the Business segment was adjusted in 2013, also affecting the overall NPS. The 2012 NPS have also been adjusted.

KPN XL stores

In 2011, KPN launched a new retail formula called KPN XL for both our business and consumer customers. At a KPN XL Store, 'every customer leaves with a solution'. To achieve this, multiple experts are working under the same roof: sales consultants, service experts and repair experts.

contacts. We opened seven more KPN XL Stores, providing our customers around the country with this full-service formula. Improvements in the KPN XL store formula in 2013 were highly appreciated by our customers, resulting in a rise of the NPS from +13 (December 2012) to +33 (December 2013). We also started the 'Attente Winkel' pilot in which employees of regular KPN shops are given instant access to top-level service experts in the KPN XL stores, so customers can be helped with complex questions in regular shops, without having to visit a KPN XL Store. Our NPS in regular shops increased by nine points in 2013, from +10 (December 2012) to +19 (December 2013).

Our online service was also enhanced and improved in 2013. Many of our customer interactions take place online; for the business market for example, about half of all interactions in 2013 were online. During 2013, we started to improve the kpn.com environment for customers including improvements regarding the online forum and self service customer portal.

As mentioned above, the activities to improve our service when in contact with our customers led to higher customer satisfaction at several customer interfaces (such as call centers and stores). However, this is not the case for all service experiences. The reasons that some 'event' level experiences (such as billing or delivery) stay behind are divers, for example price/value perception of customers, processes that are not yet optimized and not well-managed customer expectations. For various customer interfaces and 'events', efforts are in progress to improve our NPS.

For more information on customer experience, please refer to the segment chapters Consumer Residential, Consumer Mobile, Business, NetCo, IT Solutions and Belgium.

Ambition

In order to achieve our best service provider ambition, full attention on improving the NPS remains crucial. We will continue on our path of improving our level of service and customer processes on the basis of customer feedback, day in, day out. We will also further optimize the online customer experience. Focus on our customer processes should result in higher customer appreciation in NPS 'events' such as delivery and fault handling. At the KPN brand level, we will continue providing our customers with high-quality products and services, communicating transparently and showing our customers every day how KPN products and services can simplify their lives. Our target for the overall NPS is +1 for 2015.

Reputation

We use RepTrak to monitor our reputation. RepTrak, run by the Reputation Institute, publishes an annual ranking of the top 30 large Dutch companies including KPN based on a survey carried out among members of the public in the Netherlands. In 2011, the Remuneration Committee included reputation as a target in the Long Term Incentive (LTI) plan for the executives of KPN. As of 2013, we have reformulated our objective, aiming at improving our absolute RepTrak score, as expressed in the Pulse score instead of the ranking relative to other companies previously used.

Results 2013

We did not meet the goal that we set for 2013. In 2012, we performed a thorough research with the Reputation Institute in order to gain insight into how KPN can improve its performance on the three core attributes in the future. Main conclusion was that the reputation benefits best by improving the quality of our products and service, the clarity of our communication and the way we do business with our customers. The Remuneration Committee decided in 2013 to change the LTI target for reputation from 2014 onwards from the former absolute RepTrak score (the Pulse) into a score based on the moving average of the three attributes that influence our reputation most significantly.

Improvements customer experience and reputation

Based on our research, we intensified our efforts to improve the customer experience with our products and services and customer loyalty. Examples of this are service calls, the Are you happy-campaign, KPN Familievoordeel and KPN Compleet. KPN keeps on adding new features and services for existing customers, such as Spotify.

We also improved the simplicity of our propositions and the clarity of our communication, for example by introducing KPN ÉÉN and by informing customers online about their data usage by the MijnKPN app.

In order to be a more transparent service provider towards all stakeholders, we aligned internal and external communication by connecting our internal social media platform with the corporate website. We shared internal news and videos about 4G and other business topics via kpn.com. A dilemma we are facing in connecting internal and external platforms is that not all internal information can be shared externally, for example for reasons of competition, confidentiality or legal prohibitions.

Because our role within society is important, we intensified our programs around CSR and corporate sponsorships. For example, we became one of the main sponsors of the newly opened Rijksmuseum as of 2013. External stakeholders such as our CSR Advisory Board suggested to communicate our CSR programs more explicitly to the outside world. Therefore, we organized events around all our CSR themes for external stakeholders in the Rijksmuseum and Pulchri Studio in The Hague and also an overall external stakeholder dialogue about our CSR strategy. We launched a new corporate campaign in 2012 that was well received and continued in 2013. As part of this campaign and, ahead of the Winter Olympics in Sochi, we communicated nationwide how we support and contribute to Dutch skating.

Ambition

We can still improve on integrating sustainability and sponsorship more into our marketing campaigns for our brands. That is a challenge that we have to take on in 2014. In 2014, we set our target on reputation on the average performance of the three attributes that influence our reputation most significantly.

Employees

Our employees are inextricably linked to our ambition to be the best service provider. It is only with their effort, enthusiasm and loyalty that we can achieve our strategic goals. That is why our human resources department is committed to creating the necessary conditions to strengthen performance and enable our employees to develop their talent and professional skills.

Results 2013

We consider it important for our workforce to be a reflection of society. We have met our overall target of 24% female employees within KPN the Netherlands. Nevertheless, we did not meet our targets on female participation in middle (17%) and top management (21%). In 2013, women made up 16.5% of middle management and 18.7% of top management. About 29% of employees in the Netherlands participated in our interactive vitality coaching program 'i change', exceeding our 25% target.

Our internal target for the New Way of Living & Working was that 90% of our employees feel that they can actually participate in the New Way of Living & Working, with the condition that the measurement would be adjusted to exclude employees who, by the virtue of their work, cannot work according to the New Way of Living & Working. These employees were not yet excluded in 2013. We therefore are not able to draw conclusions on reaching our target. The percentage of employees that feels that they can participate in the New Way of Living & Working, including these employees, remained relatively stable compared to 2012, at 74%.

Dutch inauguration day

'The immense speed and capacity of 4G connections were a huge help.'

Ed Dusschoten, Escalation Manager KPN Service Quality Center

When newly-inaugurated King Willem-Alexander kissed his mother Princess Beatrix on the balcony of the Royal Palace in Amsterdam on April 30, Ed Dusschoten watched as the indicators for KPN's mobile networks shot up. 'Thousands of people were simultaneously using their smart phones to send messages and pictures of the kiss.'

To accommodate the spike in wireless traffic this caused from Amsterdam's Dam Square, Ed temporarily adjusted the mobile network to a maximum of mobile-capacity. He monitored the wireless activity throughout the day, increasing or decreasing signaling capacity at specific locations across the city to ensure it remained at the same level everywhere so no communication was lost. 'What helped immensely was the speed and capacity of the 4G network.'

Reorganization

In 2013, we continued to adapt our company to changing market conditions in the Netherlands to become more competitive. Part of these measures include reducing our workforce by 4,000 – 5,000 FTE by 2014, compared with April 1, 2011. In 2013, the number of full-time equivalents (FTE) in the Netherlands came down by 2,750 FTE, bringing the total FTE reductions over a three-year period to 4,650. We realize a reorganization requires resilience, adaptability and much effort from our employees. Following talks with the unions, we revised our social plan to include more initiatives to help employees improve their skills and competences ('work-to-work' initiatives) and enhance their chances of finding another job within or outside KPN. The tools we introduced in previous years in our social plan were optimized in order to support our goal to promote sustainable employability. An outplacement coaching program which ran from July 2012 to June 2013 ended for 396 employees and resulted in 208 of them finding new jobs externally, 20 redeployments within KPN and 25 people starting their own company. We will take a next step towards a lean operating model with a large simplification program that aims for a simplified product portfolio, simplified client processes and simplified networks and IT. This program will result in quality improvements but also in 1,500 to 2,000 fewer FTEs in the Netherlands by 2016.

Increased focus

In 2013, we continued to focus on three areas – leadership development, change management and performance management – and added a fourth, employee engagement.

Leadership development

We identified nine key leadership competencies that we believe our senior managers must have to successfully lead KPN. We implemented tools, policies and coaching programs to improve and maintain these competencies. These include leadership programs by leading business schools such as the International Institute for Management Development (IMD) and Ashridge, which are designed to get the best out of higher leadership across the KPN Group.

We expect our leaders to promote diversity, both related to gender and ethnicity. In 2013, we organized a workshop and a mentoring program for a selected group of female managers to help them achieve their goals and strengthen their skills and competencies. We also ran a mentor program for students from ethnic minorities, training them in skills such as job interviews.

Change management

KPN seeks to build a simple and efficient organization with a sharp focus on its core business activities. Our HR department supports management in bringing about the required organizational changes. In 2013, we continued the 'Way of Working' (WoW) initiative, an improvement program that supports managers to become more purpose-focused and more customer-focused and to help employees to perform to the best of their ability. This Way of Working also supports the implementation of the New Way of Living & Working, since this concept calls for WoW leadership.

Performance management

In 2013, we improved performance management to ensure employees have a better understanding of their contribution to KPN's strategy. Performance management encourages employees to take responsibility for the value they bring to the company and the development of their professional skills, and is a continuous dialogue between managers and employees.

We further developed the KPN Academy to offer comprehensive training programs that help our employees develop key professional skills necessary to achieve KPN's strategic objectives. Strategic programs included: integrating the KPN Way of Working (WoW) into KPN Academy management programs; implementing a new learning management system; developing and rolling out the Sales Excellence Program; the Young Talent program; and several e-learning programs.

Employee Engagement

Our annual engagement survey led to an action plan to address three topics: explaining the strategy for the Netherlands so it is understood by all levels of the organization; ensuring our processes, systems and the way we work are clear and simple; and the positive impact of working at KPN on employees' wellbeing and performance.

We invest in employees' wellbeing and vitality by stimulating a healthy lifestyle through programs such as 'i change'. 'i change' is an interactive coaching program that supports employees in changing their behavior in health-related areas. It is offered to all employees. We believe healthy employees contribute more and can cope better with changes and new developments. 4,636 employees in the Netherlands (29%) used this online wellness tool in 2013, up from 3,292 in 2012. An evaluation survey among 253 'i change' users indicated improvements in health-related areas such as nutrition, weight, exercise, sleep, smoking, alcohol, mood and stress. Employees said they feel more motivated and are able to adopt a healthier lifestyle thanks to the program. 'i change' also measures absenteeism by the percentage of employees absent due to health problems for at least one hour in the week prior to the review. This number fell from 7.5% in October 2012 to 7.1% in June 2013. In addition, employees can use the employability budget to have a health check.

The New Way of Living & Working

In 2013, we followed up on the findings of the 2012 internal research on the New Way of Living & Working in order to encourage further development of the concept within our own organization. 24% of the surveyed employees felt that they could not work according to the New Way of Living & Working for various reasons. 37% of the employees indicated to be dissatisfied with the quality of the physical working environment. Following this, we addressed two main issues, enhancing the availability of WiFi in the office buildings, and we started refurbishing the meeting rooms to meet the current needs of our employees. We took technology one step further: we made it possible for employees to integrate communication with Lync, videoconference and mobile phone and to work with the device of their choice (Bring Your Own Device, BYOD).

Furthermore, the results showed that employees did not always have enough knowledge of the solutions offered. Therefore in 2013, we organized training sessions on the use of Lync, an interactive communication tool with which employees can easily contact each other by means of chat, document sharing and videoconference. We also organized multiple initiatives during ´The Week of the New Way of Living & Working´, such as a market place with various suppliers to further explain the possibilities offered by different technologies that employees work with daily. In addition to informative workshops on technical usage and understanding, this week focused on enhancing collaboration (Het Nieuwe Samenwerken) and vitality.

The need to emphasize personal responsibility was another important finding of the 2012 research. This finding also supports the fact that employees highly value social contacts and collaboration. The need for personal responsibility, communication and collaboration is tackled by the implementation of the Way of Working (WoW) program within our organization. Clearly communicating team targets and enabling collaboration in such a way that, despite physical distance, social interaction is facilitated remain fundamental. To address employees' own responsibility, we included durable employability in the collective labor agreement (CLA).

The findings that we have collected in the internal research will help us assess the needs of our employees in terms of being able to work according to the New Way of Living & Working and in terms of optimally working together. This means that we need to keep on looking beyond the content of work and also focus on psychological and social aspects such as vitality (improving the work-life balance, enhancing time-management, reducing work stress) and collaboration.

Challenges

Making our company future-proof requires a new way of working and managing, optimizing and simplifying our business operations, improving efficiency and reducing our costs. This means reducing the number of employees as well as being more accountable to the employees that stay. One of the challenges is keeping our people connected, meaning engaged and motivated to perform in a collaborative way, now and in the future. We also have to act quickly to meet new consumer demands in a rapidly changing market in which the technology is continually advancing. This is challenging for everyone in our organization.

Belgium

Making employees part of the execution of our mobile-centric strategy is an important focus for our HR department. Central to making this happen is to attract the right talents for the company to enable all employees to grow in personal and professional terms. BASE Company wants people to feel good within the organization.

We invest in talent development by creating coaching and development tracks needed for all employees. We develop a target setting process based on roles and responsibilities making everybody aware of how to contribute to company results and empower them. Meanwhile, we strengthen our leadership and coaching capabilities in order to support this process.

We conducted a study on new ways of working aimed at developing a fun and exciting work environment where everyone feels good and at home. The goal is to develop a future-proof and flexible work environment linked to our company objectives.

BASE Company puts effort into the health and wellbeing of the employees by offering varied and healthy food in the restaurant and by stimulating sports, such as a yearly invitation to all employees to climb the Mont Ventoux by bike. In 2013, 51 employees joined this trip.

Ambition

The Netherlands

In 2014, we will continue to focus on the above-mentioned areas and we formulated targets to support this. For our top management, we want 70% of the total vacancies fulfilled internally and 30% externally. This will enable our organization to build on current practices, but also infuse our organization with new ideas and leadership competencies.

We continue to pursue our goals for women in our workforce and management, as we see good opportunities to attract female talent or promote women to management level. In 2014, we want 22% of our top management, 18% of our middle management and 25% of our total workforce to be women.

We also aim for a higher employee engagement. We want the overall employee engagement in 2014 to be higher than 63%, the result of our employee engagement research in 2013. This means that our employees have more confidence in the decisions of the Board of Management, feel prouder to be working for KPN and are happier to do a bit extra to contribute to KPN's success than the year before. With regard to wellbeing, we aim for higher scores than last year's average of 56%. This means that we want more than 56% of all KPN employees to indicate that they experience job satisfaction, attention to life-phase related characteristics, vitality and sustainable employability.

We set a goal to reduce absence due to illness to 3.9% and made it a key performance indicator for management. We will analyze where improvements can be made and create action plans for each business division. Where the existing set of interventions happens to be insufficient, we will aim to create tailor-made solutions to specific absenteeism questions with management and HR involved.

For the internal development of the New Way of Living & Working, we have three ambitions. Our first ambition is to have our facility department adapt its services on office workers to the New Way of Living & Working. We plan to do this by starting to make locations fit for the New Way of Living & Working, for example by making them accessible for all employees, making meeting locations better equipped, optimizing parking and commercially exploiting vacant locations. Our second ambition is to implement and use our New Way of Living & Working products and services ourselves. In 2014, we want to realize growth in the internal use of the New Way of Living & Working services and plan to take actions such as explaining workplace services to users from a New Way of Living & Working viewpoint, stimulating the use of Lync and making Wi-Fi available in most locations. Our third ambition is that on the long term all employees of KPN can work according to the New Way of Living & Working. In 2014, we want to maximize the participation. To stimulate this new way of working, we plan to take several actions during 2014, e.g. performing our annual internal research, and investigate an opt-in policy and a mobility budget in the collective labor agreement. We also have the ambition to include the HR advisors in coaching of managers, and improve the connection of the New Way of Living & Working with Way of Working and sustainable employability. For 2014, we maintain the target of 90% of employees that feel they can work according to the New Way of Living & Working. The measurement will be adjusted to exclude employees who, by the virtue of their work, cannot work according to the New Way of Living & Working.

Belgium

BASE Company will continue the program for talent development in 2014. Furthermore, we will continue our efforts to maintain and increase the vitality of our workforce. As of 2014, a yearly check-up is offered to employees over 45 years.

Suppliers[1]

Building a sustainable supply chain

We believe a sustainable supply chain, in which we engage with partners and suppliers that pay attention to sustainability, will enhance our business. We want our suppliers to provide products and services that are as environmentally friendly as possible. It can also help to reduce our own as well as our suppliers' carbon footprint, and save costs.

To create a sustainable supply chain, it is important that we enter into dialogue with our suppliers. These discussions help them to meet our Supplier Code of Conduct and help us develop ideas to make our supply chain more efficient and sustainable. In our endeavor to build sustainable supply chains, we focus on high-risk and medium-risk suppliers. We are making progress on our journey of sustainability. It requires a mutual effort to implement sustainable solutions.

Results 2013

Our sustainability supply chain targets were met in 2013. 96% of high-risk and medium-risk suppliers, representing 48% of our total supplier spend, have signed our Supplier Code of Conduct. 83% of our high-risk suppliers participated in a self-auditing system (e.g. E-TASC, Electronics-Tool for Assessing Supply Chains) or were audited on site. Of the high-risk suppliers – those supplying large volumes of products assembled in risk countries – 39% were audited on site. We initiated five projects to make our supply chain more sustainable and save costs ('sustainable solutions').

Our Supplier Code of Conduct is integral to both our standard supplier contracts and general conditions of purchase. We regard the Supplier Code of Conduct as a first step in our mutual journey towards building sustainable supply chains. If a supplier hesitates to sign our Supplier Code of Conduct, we enter into discussions. If their own code of conduct is based on the same principles as the one of KPN, which is based on the United Nations Universal Declaration of Human Rights and the core treaties of the International Labour Organization, we consider the suppliers code as compliant. We do not renew contracts with suppliers that refuse to sign and do not have their own equivalent code, since our Supplier Code of Conduct is a standard part of our purchasing contracts. In 2013, there were no such cases.

High-risk suppliers are audited once every three years. Most audits are conducted by the Joint Audit Cooperation (JAC), a collective of nine telecom operators jointly monitoring sustainability across their supply chains. We audit suppliers that are not audited by JAC ourselves. Audit protocols are based on international standards such as ISO 14001, SA8000 and OHSAS 18001.

39% of our 46 high-risk suppliers, more than we planned, were audited on site in 2013. As a JAC member, we provided staff for several of the JAC audits. These audits are helping to raise supplier standards. For example, one of these audits found that a supplier failed to meet our standards on working hours and safety. We raised the issue with the supplier, who made the necessary improvements.

We are actively involved in various other JAC projects, for example to aim to ensure that the employees of suppliers are paid a fair wage. We also attend the yearly JAC steering group meeting and we participated in a round table in Berlin.

52% of the high-risk suppliers completed a self-assessment on how they deal with social and environmental aspects. If a supplier is audited on site, the self-assessment is not required. We also have a 'Sustainability Tool' that compares suppliers' products during the tender process.

We conducted a survey among suppliers to gauge their perception of our way of working. It included questions about our approach to sustainability. The majority of suppliers were positive about our commitment to sustainability and how we seek to build a sustainable supply chain.

Sustainable solutions

In 2013, we organized workshops for our procurement staff in the Netherlands and Germany to raise awareness about sustainability and train them in effectively raising sustainability issues with suppliers, as well as jointly developing ideas to make our supply chain more sustainable in cooperation with suppliers or clients. Most of the procurement staff attended the workshops.

The CSR workshops inspired our buyers to integrate CSR practices in their procurement projects. We initiated five projects to make our supply chain more sustainable and save costs ('sustainable solutions'). These include among others: the installation of LED lightning, use of more environmentally friendly copier machines, a more sustainable delivery model of handsets and other products to the customer. We also used an 'e-auction' to buy office supplies and required suppliers to meet sustainability criteria in order to be able to participate in the auction.

Despite delays in the introduction, we continued our commitment to adding the Fairphone – a smart phone designed and produced with minimal harm to people and planet – to our mobile phone assortment as soon as it becomes available. For more information, see the segment chapter Consumer Mobile.

Supplier Day

In December 2013, we organized a Supplier Day, which was attended by about 80 major suppliers and our CEO. We discussed suppliers' issues, including building a sustainable supply chain. The attendants told us that we addressed the right topics, such as simplification, CSR and Procurement Strategy, and that the Supplier Day is an excellent first initiative. A point of improvement for next year could be to interact more with the audience.

1) Discontinued operations in Germany are included in the supplier results as it is not possible to differentiate between suppliers serving E-Plus only, suppliers of E-Plus and KPN Group and suppliers that only supply to KPN Group.

KPN Classmate

With this program, we can give sick children a 'virtual seat' in the classroom, via a webcam at home or in the hospital plus a special 'KPN Classmate' connection at school.

Conflict minerals
We closely monitor initiatives to ban the use of so-called conflict minerals in mobile phones and other telecommunications products. We attended a seminar organized by the Dutch Ministry of Economic Affairs on how to deal with scarce raw materials responsibly. For more information, see the segment chapter Consumer Mobile.

Ambition
We will continue to build a sustainable supply chain and keep talking to our suppliers in 2014. Our targets remain the same as in 2013.

See http://corporate.kpn.com/procurement.htm for more information on KPN's supply chain and supplier policy.

Sponsoring: connecting people

Our vision: our strength lies in connecting people
The guiding principles of our sponsorship policy are, as in our core activities, connecting people, reaching a wide audience and enhancing the goodwill towards the KPN brand. We focus on three main areas: offering smart ICT solutions enabling people to stay in contact (via the KPN Mooiste Contact Fonds), and sport and culture sponsorship. We also make a connection between employees and society; KPN employees are able and encouraged to volunteer in projects run by the KPN Mooiste Contact Fonds.

KPN Mooiste Contact Fonds
The KPN Mooiste Contact Fonds provides projects with long-term support, as well as support for starting initiatives. Our ambition is to combine people and our technological resources to the best advantage.

In 2012, we decided to intensify our activities for KlasseContact. KlasseContact gives chronically ill children a virtual place in the classroom and enables them to remain in contact with their classmates by using an ICT device called 'KPN Classmate', which is placed in the classroom. In 2013, we enabled 192 children ill at home to communicate with their class via a laptop equipped with a special webcam. During the summer, we revised and updated all active ICT sets. Besides that, we decided to cease ordering any outdated equipment as new high-quality equipment became available. As a result, we were not able to reach our target to provide 500 children with a KPN Classmate. We still expect, with new equipment and an excellent organization, to reach our target of 1,250 KPN Classmates in 2015. We try to involve as many (former) employees and partners as possible in the KPN Mooiste Contact Fonds. In 2013, employees and partners volunteered 1,480 times for several of the foundation's projects.

Sports sponsorship
Ice skating, a typically Dutch sport that suits us well, is the second pillar of our sponsorship policy. Since 2010, KPN has been lead sponsor of the Royal Dutch Skating Association (KNSB). The goal of our sponsorship and the associated activities is to gain the loyalty, goodwill and preference of the Dutch skating public for our brand.

We use our sponsorship to enable more customers to get in contact with ice skating. During the skating season 2012-2013, our Business segment made about 16,500 tickets for skating events available via campaigns, mailings, acquisition or as goodwill gestures.

We aim to make ice skating accessible for different target groups, with a focus on children. During the 2012-2013 skating season, we facilitated the KPN Junior Skate Club, with events such as IJSTIJD! (skating lessons in neighborhoods, the KPN NK ('national championships') and skating lessons at schools). Youngsters between the ages of six and thirteen experienced their first skating lessons, including clinics by former world champions Barbara de Loor and Annemarie Thomas. During the season, over 50 thousand children participated in the KPN Junior Speedskate Club.

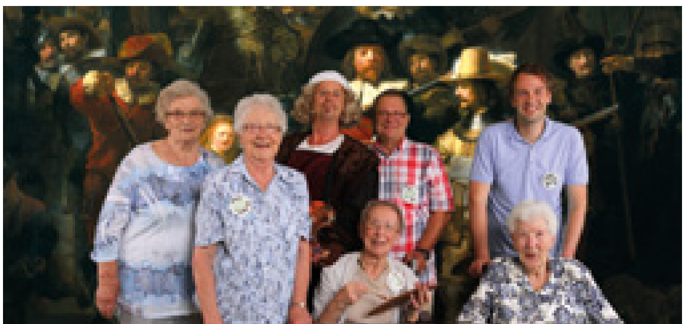
In line with the '1% Fair Share' concept, we donated 1% of our skating sponsorship budget to disability sport. Together with the Fonds Gehandicaptensport, we organized the KPN Skating Friends Day for more than 1,400 disabled people.

Skating enthusiasts can find information about their sport at the portal www.schaatsen.nl or www.kpn.com/schaatsen

Cultural sponsorship – Rijksmuseum
In 2013, KPN became lead sponsor of the newly renovated Rijksmuseum in Amsterdam. We are proud to be able to make a contribution to this national treasure. The Rijksmuseum, like KPN, has a long and rich history in the Netherlands and in a way belongs to all of us. The museum offers us relationship marketing potential for our business partners, customers and employees. In 2013, we organized a number of events in the Rijksmuseum for our top business partners and our SME clients.

Belgium
BASE Company supported many different types of initiatives. We were the main partner of Standard de Liège and Flanders Classics cycling events, and invested in other cycling, football and basketball teams and events. With our BASE Check brand and its Spotify offer, we also partnered with several music festivals.

Ambition
Our goal in 2014 is to provide 550 chronically ill children with a 'KPN Classmate' and increase this to 1,250 in 2015. Regarding ice skating, around 80 thousand KPN customers are expected to visit the ice skating rink 'De Coolste Baan van Nederland' in the Olympic Stadium Amsterdam during the Winter Olympics in Sochi.



Sponsorship Rijksmuseum

The Rijksmuseum belongs a little bit to all of us. As lead sponsor, KPN is honored to be able to make a structural contribution to this national art treasure.

Environmental performance

'KPN is reducing the absolute energy consumption in operations despite rapidly growing data communication. Also, our services help our customers reduce their energy consumption. By doing so, we aim to realize a net positive climate impact.'

Marga Blom, Manager Energy Management

This chapter contains only information about continuing operations. The environmental performance of discontinued operations can be found in the segment chapter on Germany.

Overview

Reduction energy consumption compared with 2010

12.0%

(2012: 8.8%)

Recycled mobile phones

86,400

(2012: ~60,500)

94%

CO_2 emissions reduction compared with 2005

(2012: 93%)

100%

Green electricity

(2012: 100%)

Environmental strategy

Our focus on energy efficiency and combating climate change are of strategic value to KPN, since worldwide increase in energy consumption will result in fossil fuel scarcity and increased global concern for climate change impact. Our strategy reduces our vulnerability in this field, which is specifically important since data communication volumes will continue to increase significantly.

Besides mitigating risks, our strategy focuses on showing and enabling the potential of ICT products and services to contribute to a reduction in the global carbon footprint. According to the Smarter2020 report (published by GeSi in 2012), ICT is responsible for 2% of global greenhouse gas (GHG) emissions, but can contribute to 16.5% GHG reduction in other sectors by 2020.

As a result, climate change and energy efficiency are very important issues for KPN, the ICT sector and our customers. Our focus in our environmental strategy is threefold:

1. Reducing our own environmental impact
2. Reducing our upstream and downstream impact
3. Enabling the energy saving potential of ICT

We aim to contribute to climate change mitigation by implementing our environmental strategy in which energy reduction in the sector and our products are central pillars, enabling both the sector and our customers to reduce energy consumption. We believe that enabling reduction in other sectors is only credible when we aim for energy reduction in our own operations. KPN is a large consumer of electricity, using about 0.8% of the Dutch electricity consumption. Therefore, we started reducing our own consumption first, gaining knowledge and experience that we can use to help our customers save energy and cost as well.

By reducing our impact in the value chain and enabling the energy saving potential of ICT, we contribute to the goals of our customers. We are convinced that our environmental strategy and performance contribute to our competitive advantage, as energy efficiency improvements lower costs, contribute to our business and enable our customers to reduce their energy consumption and associated costs.

Reducing our own environmental impact

We are well on track to achieve our ambition to be climate neutral. Our energy efficiency program and renewable energy sourcing resulted in a reduction of our CO_2 footprint (scope 1 and 2) by 94% compared with 2005. In 2014, we aim to reduce our CO_2 emissions by 96% compared to 2005. Our target is to be climate neutral before 2020.

In our operations, we aimed to stabilize our energy consumption for the KPN Group. We not only compensated the growth in consumption caused by extending our networks, but even reduced the total energy consumption by 0.14 PJ in 2013. The total reduction compared with 2010 was 12.0%, better than our target of 8.6%.

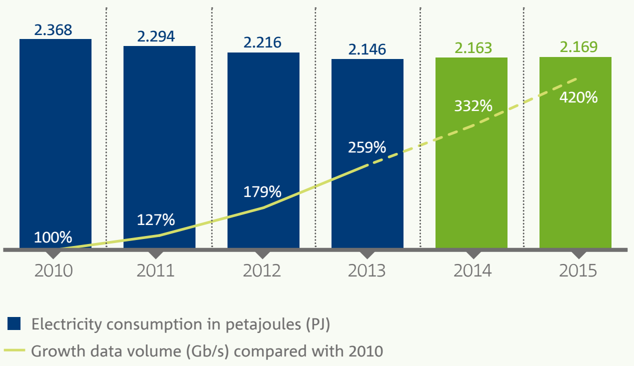
To manage our energy efficiency program, we defined KPIs for all our operational segments. To increase comparability and provide an overview of our progress, we calculated and visualized ratios on our energy consumption (PJ) versus business volumes in 2013.

Energy consumption and net CO_2 emissions 2013	Petajoules (PJ)	Kton CO_2 Scope 1	Kton CO_2 Scope 2
KPN the Netherlands	3.7	35.1	0
Belgium and iBasis	0.3	2.8	0
KPN Group	4.0	37.9	0

Fixed and mobile networks

Our long-term target is to realize 20% absolute electricity reduction in our Dutch network in 2020 compared with 2005. Despite the roll-out of 4G and the extension of our networks, we are still on track to realize this target. This year, we almost reached our 2005 electricity consumption. In 2013, our energy saving measures resulted in 47.4 GWh of savings, which strongly exceeds our target of 27.5 GWh +/- 2.5 GWh. This not only compensated for growth, but resulted in an absolute reduction of 3.2% compared with 2012.

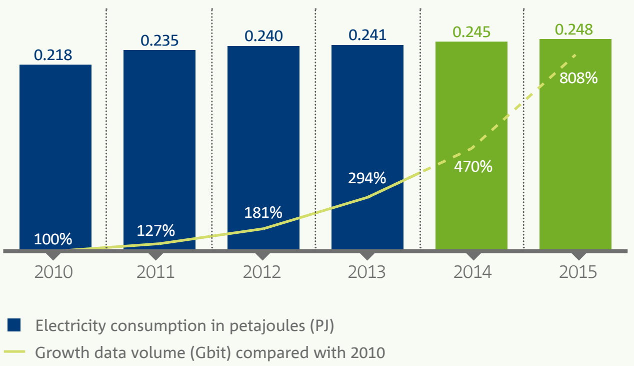
Networks in the Netherlands[1]



1) The energy efficiency (in GWh per Gb/s) of the Network in the Netherlands improved with 65% compared with 2010.

Belgium improved its energy efficiency by 18% and is on track to realize the 2020 ambition of an 20% energy efficiency improvement compared with 2009. More information and results on energy reduction in our network can be found in the segments chapters NetCo and Belgium.

Network in Belgium[1]

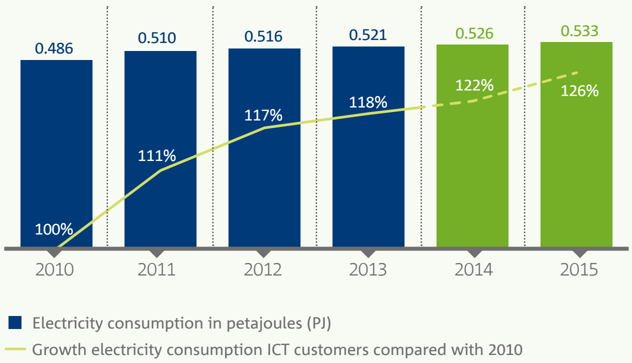


1) The energy efficiency (in GWh per Tb) of the network in Belgium improved with 98% compared with 2010.

Data centers

The electricity consumption of equipment we use for customer services has increased by 18% since 2010. However, as a result of the implementation of our energy efficiency program, the increase of our total electricity consumption was limited to 7% in the same period. The energy efficiency of data centers is expressed by comparing total electricity consumption with electricity consumption of equipment used for customer services. The international standard for this calculation is PUE (power usage effectiveness). In 2013, our PUE improvement compared with 2005 is 30.9%. In 2013, we improved our electricity efficiency with 0.5% compared to 2012. So, although we improved, the goal for 2013 (31.8%) was not fully realized. More information on energy efficiency in data centers can be found in the segment chapter IT Solutions.

Data centers in the Netherlands[1]



1) The energy efficiency (PUE) of the datacenters in the Netherlands improved with 30.9% compared with 2005.

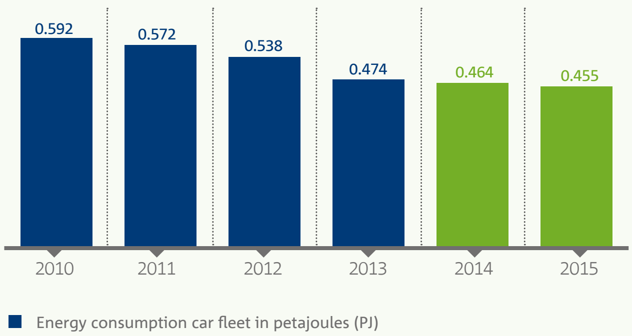
Offices

In our Dutch offices, we achieved a 36% reduction of energy consumption since 2010, which mainly has been effected by the implementation of the New Way of Living & Working and outsourcing.

Car fleet

In our car fleet in the Netherlands, the fuel consumption reduction was above our target of 9%. We reduced fuel consumption by 21%, which is on track for our ambition to reduce 35% in 2016 compared with 2010. The reduction is mainly the result of having fewer and more fuel-efficient cars.

Car fleet in the Netherlands

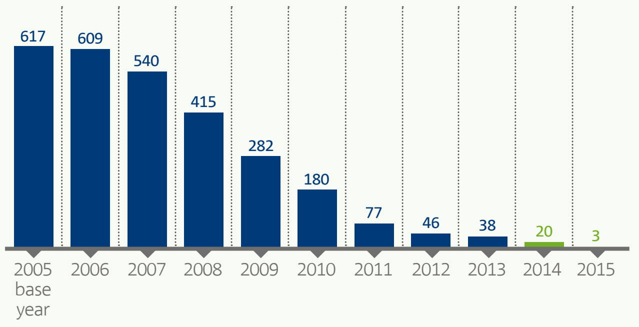


Green energy and CO_2 compensation

We carefully select our energy supply sources in order to meet our ambition to become climate neutral. In the Netherlands and Belgium we use 100% green electricity. The electricity used in the Netherlands is 100% locally generated, mostly from Dutch wind (e.g. 23% of Prinses Amalia wind park) and partly from biomass.

Our gas consumption in the Netherlands is 100% green, of which 2% is biogas. 98% relates to natural gas which is offset with gold standard certificates. Despite the continued scarcity of biogas in the Netherlands, we will double the percentage of biogas to 4% in 2014. In 2014, we will compensate about 50% of our car fuel emissions in the Netherlands with gold standard certificates, and before 2020 we will compensate all remaining CO_2 emissions in scope 1 and 2. Not taking our green energy strategy into account, our scope 1 and 2 emissions would total 384 Kton in 2013 (gross emissions).

KPN Group own net CO_2 emissions (in Kton)
(Scope 1+2)



Reducing upstream and downstream emissions

We managed to reduce our own CO_2 footprint by 94% compared with 2005. We also feel responsible for the total CO_2 footprint of our products and services during the production phase at our suppliers (upstream) and during the use phase including recycling and disposal (downstream). In order to quantify the opportunities to reduce these upstream and downstream CO_2 emissions, we started to calculate these emissions for our operations in the Netherlands. The calculations are based on the Greenhouse Gas Protocol (GHG) scope 3 standard (Corporate Value Chain Accounting and Reporting Standard).

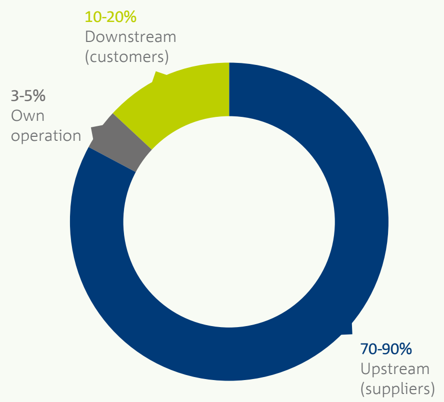
Our upstream emissions are calculated based on procurement data combined with emission factors obtained from the Environmentally Extended Input Output data (EEIO), published by DEFRA. The calculation shows that the most important part of the emissions is supplier related and caused by the production of ICT equipment for our networks and customers. In our procurement process, we do require our suppliers to improve the energy efficiency of ICT equipment. By doing so, we also aim to reduce the energy consumption in the use phase and reduce our downstream impact.

We calculated our downstream emissions based on data of sold products and services. Ecofys supported KPN with qualitatively identifying the most relevant scope 3 emission categories and with developing a methodology for a first calculation of our scope 3 emissions based on the currently available data. Based on this advice, KPN developed a calculation model of which the first results are represented in the figure below. Although we realize that the calculation is impacted by several assumptions and estimations, it provides a good first overview of our total carbon impact in all 15 GHG Protocol scope 3 categories. The results of the calculation of the upstream and downstream emissions give an indication of our impact in the value chain and provide information on which hotspots to focus on in reducing our impact where possible. In 2014, we intend to improve the calculation of our upstream and downstream footprint and define targets for 2015 on upstream and downstream emission reduction.

The results show that our own net scope 1 and 2 emissions constitute only a small proportion of the total estimated emissions, including scope 3 emissions. Without our green energy strategy our own emissions would account for about a quarter of the total estimated emissions.

More information on energy-efficient equipment and the energy reduction accomplished in 2013 can be found in the segment chapter Consumer Residential.

Upstream and downstream emissions



Enabling energy saving potential of ICT

Besides reducing our upstream and downstream CO_2 emissions, we identified the potential of our ICT products and services to reduce the actual energy consumption and thereby the CO_2 footprint of our customers. For example, the implementation of the New Way of Living & Working and its associated products, such as videoconferencing, have the potential to reduce travel kilometers and avoid CO_2 emissions caused by fuel consumption, enabling our customers to reduce their environmental impact. Our target is to save as much energy for our customers as we use ourselves in 2020.

In 2011, we introduced an online tool (www.kpnbespaarmeter.nl) that enables customers to calculate the potential CO_2, time and cost reductions by using KPN's products and services (e.g. the New Way of Living & Working and data center services). These positive effects are especially profound for products supporting the New Way of Living & Working.

In 2013, we started calculating the saved CO_2 emissions from the use of eight selected products and services by our customers. Products and services within our New Way of Living & Working proposition (teleworking and conferencing services), together with our data center solutions, enable the majority of our positive climate impact. Emission reductions are realized by fewer kilometers traveled because of our telecommuting and conferencing solutions as well as by using our energy-efficient data centers. For our calculation, we used publicly available data, internationally recognized studies, methodologies and information about methodologies from other telcos such as BT. The calculation model is developed by Ecofys using the KPN data as the basic activity data. Our preliminary result shows that saved CO_2 emissions by these eight services in 2013 are roughly twice our own carbon footprint (scope 1 and 2) in the Netherlands. In 2014, we aim to improve the calculations for products and services currently in scope and extend the savings calculation to more products and services.

More information on our energy saving ICT products and services can be found in the segment chapters.

External recognition

WWF Climate Saver

KPN is the only telecom operator with a WWF Climate Saver partnership. WWF challenges our environmental performance, but also supports us in emphasizing the effects of energy efficiency through the use of ICT and the New Way of Living & Working. In 2013, KPN presented EUR 100 thousand to WWF as result of the paperless invoicing program. We intend to extend this program to a bigger part of business market invoicing in 2014. In August 2013, WWF reported that KPN is the only Dutch Business Partner ahead of schedule with all climate goals in its 2012 Climate Saver Report.

Lean & Green Awards

The products and services conference card, videoconferencing and the cloud solution 'KPN Werkplek Online' have been awarded the Lean & Green Solutions Award by Connekt.

Benchmark results

In 2013, we were benchmarked on our climate and energy strategy, disclosure and performance by CDP (former Carbon Disclosure Project), which is a worldwide ranking for listed companies. We improved our score in the CDP benchmark from 94 to 95 points (out of 100) compared with last year and consolidated our A ranking on performance. This means that our score equals the number 2 score in the CDP global 500 world listing.

Ambition

We achieved almost all targets set for internal energy efficiency resulting in reduction of CO_2 emissions and energy consumption and we restated our long-term goal to climate neutral before 2020. We will continue our internal energy efficiency program, and to stay on track, we redefined segment goals for 2014. The internal energy efficiency goals for our main operational segment are publicly disclosed on corporate.kpn.com/csrtargets and part of the remuneration targets. Energy reduction programs for segments are part of the targets of the responsible managers. For our customers we focus on energy reduction in the chain and abatement options.

Consumer Mobile

'Of the many things we did for our clients in 2013, I am especially proud of how quickly we rolled out our 4G network, the improvement in our customer services and the success of our KPN Compleet package.'

Jaap Postma, Executive Vice President Consumer Mobile

Overview

Highlights

- Market share declined in competitive environment
- Targeting value segment with KPN and Hi brands through 4G and quad-play
- Telfort and Simyo targeting volume growth in value for money segment
- Overall NPS mobile brands -6

Revenue

€1,510M

(2012: 1,707m)

EBITDA

€410M

(2012: 510m)

323k

4G subscribers

(2012: 0)

44%

Total Dutch mobile market share

(2012: 45%)

Our strategy in action

We believe that having the best products available for our customers will be a major driver for growth in the Dutch mobile market. Within Consumer Mobile, we want to achieve this by leveraging 4G and quad-play (combining fixed and mobile services), optimizing our multi-brand portfolio and reducing costs and complexity.

Multi-brand approach to target all consumer segments

The brand positioning has been reinforced by differentiating our services per brand to cover all segments of the consumer market. In the premium market segment, we provide our customers with value-added services such as 4G, unlimited voice and SMS and unique offers including family discounts and a free Spotify subscription. In the value for money segment, our brands provide no-frills services based on our best-in-class network.

Leverage impressive 4G head start

We were the first to launch 4G in the Netherlands. In February 2013, less than three months after obtaining the spectrum, we already offered 4G to our customers in Amsterdam and the northern part of the Randstad, swiftly followed by The Hague, Rotterdam and Utrecht. We combined the introduction of 4G with new data-centric propositions. Through the KPN and Hi brands, we offer our customers 4G services that are transparent and charge no extra costs for data usage outside the bundle. Through our Simyo and Telfort brand, we will offer 4G as an extra option.

High-quality customer service

Following positive experiences with Consumer Residential contact centers, we started changing our in-house helpdesk organization for the mobile segment by handing call center agents more responsibilities and better tools to provide customers with 'first time right' answers to their questions. We also expanded the dynamic sourcing concept in our call centers for Consumer Mobile. Working with both an in-house call center and external partners allows us to benchmark and continuously improve our services.

Products and services

As market leader in the dynamic mobile arena, we continued to optimize our multi-brand approach. The increasing dominance of smartphones and tablets leads to an explosive growth in mobile data traffic. High-quality brand KPN and youth brand Hi launched propositions with 4G and data bundles varying from 500 to 6,000 MB. Value-added services such as Spotify contribute to the service level we offer our customers in the premium and youth segments. In the value for money segment, Telfort offers a modular portfolio, including mid-range smartphones. Online brand Simyo is successful with its 'do it yourself' SIM-only propositions.

Our Mobile Wholesale activities offer flexible customized platforms to ensure that partners can successfully introduce their own mobile propositions in the market. Around 2.3 million (2012: 2.4 million) end-users are connected to the KPN network via our mobile wholesale partners.

Financial and operational review

Underlying revenues and other income went down by 10% in 2013 driven by lower service revenues due to a continued competitive market and lower hardware sales. Underlying EBITDA decreased by 17% in 2013, mainly due to the phasing out of handset lease for the KPN (July 1, 2013) and Hi (September 2, 2013) brands and additional subscriber acquisition costs to increase 4G subscriptions and reduce churn.

In 2013, the retail postpaid net adds were 10 thousand positive. Retail postpaid ARPU remained under pressure and decreased to EUR 31 (2012: EUR 34), due to a competitive market with an increasing share of SIM-only subscriptions. Committed postpaid retail ARPU improved to approximately 72%, up 7 percentage-points year on year, supported by unlimited voice and SMS bundles.

4G subscriptions in Consumer Mobile showed a good uptake with 323 thousand subscriptions by the end of 2013. 4G is available on all bundles within the KPN and Hi propositions as of December 2, 2013.

Key financials (in millions of EUR, unless indicated otherwise)	**2013**	2012	Δ
Service revenue	1,405	1,555	-9.6%
Revenue and other income	1,510	1,707	-12%
Underlying revenue and other income	1,503	1,677	-10%
EBITDA	410	510	-20%
Underlying EBITDA	410	495	-17%
Underlying EBITDA margin	27.3%	29.5%	

Operational performance indicators	**2013**	2012	Δ
Total Dutch mobile market share[1] (in %)	44%	45%	
Wireless customers (in thousands)	7,351	7,579	-3.0%
Net adds postpaid (in thousands)	14	66	
Net adds prepaid (in thousands)	-242	-150	
ARPU retail postpaid (in EUR)	31	34	-8.8%
Committed ARPU (in %)	~72%	~65%	
Number of 4G customers (in thousands)	323	–	

1) Based on service revenues.

Social and environmental review

Net Promoter Score

We consolidated the NPS of our mobile brands in the consumer market (KPN, Hi, Telfort and Simyo) in 2013, after a firm raise in 2012. Altogether, the NPS of these brands remained stable at -6 (2012: -6, 2011: -18). This means we did not reach our target for 2013 of -4. The scores on drivers 'value for money', 'first time right' and 'keeping promises' increased but the score on driver 'stability network for voice and text messaging' decreased slightly. We aim to keep making improvements and set an NPS target of -3 for 2014. In addition, for 2014 we have set a new goal of 99.35% mobile network availability.

Recycling and fair production of our products

Recycling mobile phones

Mobile phones contain scarce minerals, often originating from unstable regions and conflict areas. We intend to recycle and reuse as many phones and parts as possible. With the introduction of handset lease in 2012, we expected the return rate of mobile phones would increase and the lifetime of phones would be prolonged. This has proven to be true with a result of 74 thousand returned handsets. In addition to handset lease, we used the 'KPN-retourbus' to emphasize the importance of returning unused mobile phones. However, as a result of the decision to cease handset lease for KPN and Hi during 2013, the outcome for the year was lower than predicted. In 2014, we want to emphasize that we care for the recycling of our customer products, therefore we restated our target to collect and recycle 10% of sold mobile phones for KPN Group in 2014. We will also set a target on the collection and recycling of fixed modems.

Fairphone

The production of mobile phones is not yet always according to 'fair' standards, which is especially the case for the origin of the raw materials (conflict minerals), working conditions in the production facilities and the reuse and recyclability of components. The company Fairphone developed a fair phone concept aiming to improve both social and environmental aspects in the value chain. The first 25 thousand phones are being produced and, by being the first operator worldwide to sign a purchase order for this phone, we proactively supported this initiative. In 2014, we will include the Fairphone in our portfolio.

Eco-rating

To better inform our customers about the environmental and social impact of mobile phones, we want to use a credible eco-rating, based on international standards. To realize this standard, we are working in a global consortium with other telecoms operators and main suppliers to define the criteria for an international ranking. This led to an ITU (International Telecomunication Union) recommendation, that will be published mid-2014. Based on this recommendation we expect to make the first ranking in 2014.

Privacy & Security

We provide for our mobile customers the free application 'ToestelVeilig', which helps protect personal and confidential data on a smartphone. A stolen or lost device can be traced via a special website (www.toestelveilig.kpn.com). The app also enables a device to be locked and personal data to be erased remotely.

Social and environmental performance indicators	**2013**	2012
Net Promoter Score (NPS)	-6	-6
Recycled and reused cell phones	74,000	~50,000
Implementation of eco-rating for cell phones	Eco-rating not yet available. Introduction as soon as it is available	Promise to take part in international eco-rating

Consumer Residential

'Our customers have indicated that service at our customer contact center is improved and staff are friendlier.'

Femke Kothuis, Vice President Customer Contact Center

Overview

Highlights

- Broadband market share stable at 41%, supported by increased TV market share of 25%
- Overall NPS residential brands increased to -5
- Triple-play penetration increased to 44%
- 173 thousand KPN Compleet customers since start in January 2013

Revenue

€1,962M

(2012: 1,852m)

EBITDA

€375M

(2012: 367m)

44%

Triple-play penetration of broadband customers

(2012: 36%)

2.19

Number of products per customer (RGU)

(2012: 2.07)

Our strategy in action

We believe that having the best products available for our customers will be a major driver towards multi-play in the integrated market. At Consumer Residential, we have a full focus on maintaining our market leading IPTV proposition and increasing the number of triple-play customers within our base.

Focus on multi-play to increase customer lifetime and to reduce churn

We offer differentiated propositions in a multi-brand approach to serve diverse customers groups. By continuously improving our IPTV proposition, we are successful in expanding our triple-play base (voice, internet, TV), since IPTV is an important driver for triple-play growth. As a result triple-play packages and RGU's increased significantly in 2013.

With KPN Compleet, introduced in January 2013, we are the first Dutch provider to offer our customers a proposition that combines fixed and mobile service. Customers who combine fixed internet, voice and IPTV with a mobile subscription benefit from free services, such as 45 extra IPTV channels; twice as much data, SMS and minutes within their mobile subscription; and free unlimited calls within the family. After the launch in January, we expanded to 173 thousand customers subscribed by the end of 2013. KPN Compleet customers recommend our brand with an NPS of +17, which is higher than the recommendation by customers that use several KPN products without having KPN Compleet.

Maintaining leading fixed network position

We execute a hybrid access strategy. In 2013, our strategy of upgrading our copper network to compete more successfully bore fruit with a stable broadband market share and growing broadband base. We combine the upgrade of our copper network with investments in FttH. Going forward, we will balance our investments between copper and fiber.

High-quality customer service

For several years, we have gradually changed the way our call centers work. By handing individual helpdesk agents both the responsibility and the tooling to help our customers with a wider range of service issues, we empower them to provide customers with a solution at the first contact. Our helpdesk is free of charge and open 24/7, which contributed to a higher NPS. We managed to raise the overall NPS for helpdesk contacts from -20 in 2012 to +0 in 2013.

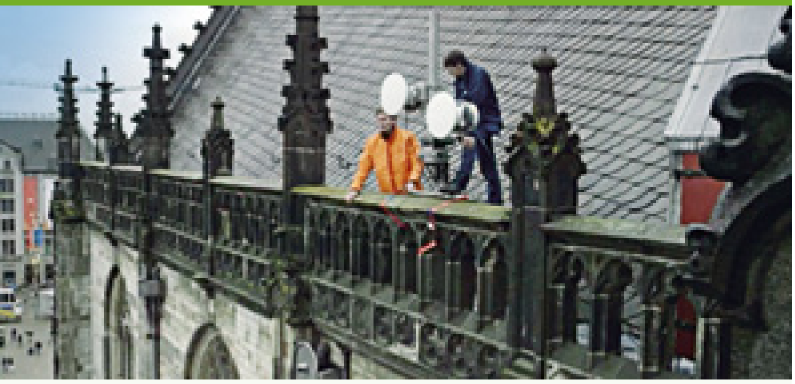
In the engineers' organization, we made changes to improve efficiency and customer experience. We have started with the optimization of our dynamic sourcing concept (working with both an in-house engineers' organization and external partners), which allows us to benchmark and continuously improve our services. Visits by our engineers are highly appreciated by our customers, at an average NPS of +44 over 2013.

Furthermore, a big effort has been made to improve the quality of the way in which we communicate with our customers. For example, we simplified our basic communication items, such as letters, emails and invoices.

Products and services

We offer fixed-line telephony, broadband internet and TV on a stand-alone basis or triple-play packages. Continuous improvements in our IPTV proposition have taken place, including series recording, a 'start over' function (Begin Gemist), a faster and more user-friendly user interface and enhanced offering of series and movies on video on demand. Due to our upgraded copper network and our fiber network, we are able to provide more customers with higher download and upload speeds.

Dutch inauguration day



‘We had reserve equipment ready for use at strategic locations, just in case.’

Peter van Delft, KPN Task Force Manager

The appearance of the newly-inaugurated King and Queen on the balcony of the Royal Palace in Amsterdam on April 30 delighted audiences around the world. Peter van Delft ensured that, no matter what happened, no-one would miss a minute of the inauguration.

‘We strategically positioned containers with reserve communications equipment throughout the city, in case an overload of phone calls and data transmissions, or technical problems, caused the system to falter,’ he says. There were also dinghies on standby to transport spare parts on Amsterdam’s canals if necessary, rather than through the crowded streets. Luckily, there was no need for the contingency measures. ‘The audience enjoyed the ceremony and could share pictures and messages without any problems.’

We service our customers in the residential area with three brands. KPN is our quality brand, providing our customers with included value-added services such as Spotify. XS4ALL is the high-end brand for the top of the market. With Telfort, we are successful in serving the value for money segment. These three brands allow us to service all segments in the broadband market.

Financial and operational review

Underlying revenues and other income increased by 2.1% in 2013 due to continued growth in triple-play revenues driven by Fiber-to-the-Home and IPTV, and the implementation of price increases from July 1, 2013, partly offset by a continued decline of traditional voice services. Underlying EBITDA decreased by 3.0% as a result of increased distribution and marketing costs and a shift from high margin business to lower margin business. The decline was partly offset by higher revenues and improved profitability following FTE reductions and customer service quality programs.

Despite competition and the implementation of price increases, KPN’s broadband customer base continued to grow in 2013. Our IPTV proposition supported continued good IPTV net adds in 2013, leading to a total TV market share of 25%. ARPU per customer increased by 5.0% to EUR 42 in 2013 (2012: EUR 40). RGU increased to 2.19 (2012: 2.07). Triple-play packages continued to increase to 1.2 million and resulted in a 44% triple-play penetration, eight percentage points higher compared to last year. Fiber-to-the-Home activations increased by 116 thousand in 2013 leading to 484 thousand homes activated.

Our quad-play proposition ‘KPN Compleet’ reached a customer base of 173 thousand. The boost in the number of quad-play customers was supported by the introduction of quad-play for customers of the Hi brand in Q4 2013.

Key financials (in millions of EUR, unless indicated otherwise)	**2013**	2012	Δ
Revenue and other income	1,962	1,852	5.9%
Underlying revenue and other income	1,890	1,852	2.1%
EBITDA	375	367	2.2%
Underlying EBITDA	382	394	-3.0%
Underlying EBITDA margin	20.2%	21.3%	

Operational performance indicators	**2013**	2012	Δ
Market share broadband[1] (in %)	41%	41%	
Market share TV[1] (in %)	25%	23%	
ARPU blended (in EUR)	42	40	5.0%
RGU	2.19	2.07	5.8%
Number of triple-play packages (in thousands)	1,216	979	24%
Number of FttH activated (in thousands)	484	368	32%

1) Based on subscriber numbers at year-end.

Social and environmental review

Net Promoter Score
The NPS of our brands for residential services for the consumer market increased five points to -5 in 2013, which means we achieved our target for 2013. Customers of KPN rated our services higher than in 2012, mostly driven by higher scores on ‘I feel appreciated as a customer’, ‘KPN provides value for money’ and ‘first time right solutions when contacting KPN’. Our brand XS4ALL still holds the highest NPS in the market (+31, 2012: +17). We aim to increase the NPS for residential services to -1 in 2014.

Energy efficient
We continuously seek to combine higher quality for our customers with diminishing our ecological footprint. At our stores, our customers can return obsolete devices such as mobile phones, tablets, set top boxes, modems and routers. In 2013, we optimized our recycling policies, so customers can return equipment at our shops, to visiting engineers and by ordering a pick-up service. Outdated equipment is replaced by energy-efficient set-top boxes and modems. In 2014, we will define a target on the collection and recycling of fixed modems. In 2013, we cut 3.16 GWh from the electricity consumption of our internet modems by providing more energy-efficient equipment. This is comparable to the average annual electricity consumption of 900 Dutch households and corresponds with an estimated reduction of 1.28 kton CO_2.

Privacy & Security
For our internet customers, we provide the service ‘PC Veilig’. With ‘PC Veilig’, we offer customers a complete security package that gives the computer optimal protection against viruses, spyware, pop-ups, spam and other internet hazards.

Social and environmental performance indicators	**2013**	2012
Net Promoter Score (NPS)	-5	-10
Electricity saved for customers	3.16 GWh	N/a

Business

'Within the competitive business market, we differentiate with our healthcare services. The use of more ICT is one of the solutions to keep healthcare affordable and accessible.'

Monique Philippens, Managing Director Healthcare

Overview

Highlights

- Stable market positions maintained in difficult market environment and competitive market
- Bundled services through KPN ÉÉN (integrated fixed, mobile and ICT services)
- NPS remained relatively stable
- Further development of portfolio for healthcare consumers

Revenue

€2,716M

(2012: 2,956m)

EBITDA

€676M

(2012: 747m)

220K

4G customers

(2012: 0k)

994K

Access lines

(2012: 1,137k)

Our strategy in action

Our objective is to continue to be a leading provider of business-to-business services in the Netherlands and maintain stable market positions. A strong customer focus combined with a full range of market leading and innovative services will support our business.

Integrated fixed, mobile and ICT services: KPN ÉÉN

With the successful introduction of KPN ÉÉN, we are able to offer customers simplified, integrated solutions comprising bundled fixed voice, fixed internet and mobile services. One of the key drivers behind the proposition is customer demand for simplicity: one price, one contract, one integrated invoice, one helpdesk and one contact person. Further steps taken in 2013 to simplify and improve our portfolio were flat-fee offers and the successful launch of 4G services.

Tailored approach focused on customer needs

Our tailored approach is focused on customer needs in three segments: large corporates, the small and medium sized enterprises (SME) segment and the Small offices / Home offices (SoHo) segment. We serve these segments with our three brands. Our main brand, KPN, is used in all three segments and has a market leading position. The challenger brands focus on the SME (Telfort, Yes Telecom) segments and SoHo (Telfort) segment. Telfort and Yes Telecom continued to show strong growth in number of subscribers as well as revenues and EBITDA in 2013.

In a number of specific sectors, we provide a sector solution with a customized approach across the whole service chain, a vertical approach. We believe that our focus on dedicated sector solutions will help to support our business. The main sectors we target with a vertical approach are healthcare, critical communications, education and local government.

Innovative new services to provide a new source of revenues

We focus on innovative services providing a new source of revenues to offset declining traditional revenues, such as our cloud service Software Online, which offers among others Office 365 and Back-up Online.

High-quality customer service

As in the consumer market, we changed the way our helpdesks for SMEs are organized. Employees received additional mandates and tools to take ownership of customer cases and provide immediate assistance. This led to an increase in our service level and customer satisfaction. Furthermore, we started the SMEs Solution Team: a multidisciplinary team that is capable of handling more complex cases.

We also introduced a new service concept 'Q', providing immediate and live help by technical experts. For independent ICT advisors, ServicePro was introduced: exclusive telephone access to top experts, enabling ICT consultants to answer technical questions and solve problems quickly and effectively for their customers.

Conduct business in a sustainable way

The Netherlands is facing an increasingly expensive healthcare system, due to the ageing of our society and the increase of lifestyle diseases. We believe that, with smart ICT, we can help enable the healthcare sector to collaborate better and more efficiently – which results in more time for direct care. We enable elderly people to stay at home longer, looking after themselves for a longer period of time, with the help of user-friendly ICT. By doing so, we can contribute to the participation society and help solve societal challenges we are facing in the Netherlands.

The New Way of Living & Working was developed to cater to societal needs. It is a part and a consequence of political, social, economic and technological developments in society that influence Dutch businesses. We are convinced that the New Way of Living & Working enables sustainability and higher labor productivity. Using the experience that we have gained over the last five years in implementing the New Way of Living & Working within our own organization (see the section Social performance and reputation), we help other organizations to facilitate this way of working. We want to be a pioneer in facilitating the New Way of Living & Working, because our experience and our products and services can contribute to more efficient and cost-effective working and to reduce the number of kilometers driven, energy consumption and CO_2 emissions. Furthermore, it can enhance the flexibility of workspaces and working hours and thereby foster labor participation, vitality (in creating a healthy work-life balance) and employee satisfaction.

Products and services

Our customers want to communicate anytime and anywhere, but are increasingly indifferent towards the underlying technical solution, be it voice, data (IP), fixed or mobile. Therefore, we offer a wide range of solutions to provide customers with seamless, continued communication through combined voice-data and fixed-mobile solutions, along with more access-based, flat-fee price plans to provide cost assurance. IP technology provides the ideal future-proof foundation for new ways of communication, such as mobile banking, videoconferencing, e-learning and electronic payments, enabling a new way of working. We utilize different brands such as KPN, Telfort and Yes Telecom to serve customers in all market segments.

Voice and broadband services

In voice and broadband internet services, we provide a wide range of fixed-mobile communication solutions. Our traditional business is heavily driven by customer demand for mobile email solutions and broadband internet access, in particular by smartphones, tablets, laptops, desktops and mobile internet cards. We continue to simplify our portfolio by introducing integrated solutions, benefiting from the use of our high-speed 4G mobile network and increasing our focus on operational excellence. Furthermore, outsourcing of operational activities resulted in partnerships with Koning & Hartman, enabling KPN to focus on core activities.

Data network services

We offer network communication services ranging from traditional data services to Virtual Private Network Services such as IP-VPN and E-VPN. These services are provided both nationally and internationally and are supplied via fiber or high-speed copper connections. By integrating IT Solutions with KPN's Business segment organization as from January 1, 2014, we aim to further improve our ICT services, such as Unified Communications, secure managed devices, private cloud and service aggregation services.

KPN ÉÉN

Apart from voice and broadband services and data network services, we offer an integrated solution to business customers including fixed, mobile, internet communication and ICT services. The price of KPN ÉÉN is based on a flat-fee per employee and takes into account different employee profiles.

Financial and operational review

Underlying revenues and other income declined by 7.7% in 2013, due to the decline in traditional services, price pressure and continued difficult macro-economic conditions resulting in reduced order intake. Underlying EBITDA decreased by 13% in 2013, due to price pressure and a decline in high margin traditional revenues partly offset by lower personnel costs and good performance of challenger brands Telfort and Yes Telecom. The underlying EBITDA margin in 2013 was 24.9% (2012: 26.4%). Market positions remained stable in a difficult macro-economic environment and a competitive market.

Wireless service revenues remained under pressure and ARPU decreased to EUR 47 in 2013 compared with EUR 50 in 2012 due to declined traditional services. Wireless customer base increased to 1.7 million. Furthermore, in the Business segment, the 4G customer base increased significantly to 220 thousand at the end of 2013. Traditional wireline services showed a continued decline in both access lines and traffic volumes.

Key financials (in millions of EUR, unless indicated otherwise)	**2013**	2012	Δ
Mobile service revenue	957	996	-3.9%
Revenue and other income	2,716	2,956	-8.1%
Underlying revenue and other income	2,659	2,881	-7.7%
EBITDA	676	747	-9.5%
Underlying EBITDA	662	761	-13%
Underlying EBITDA margin	24.9%	26.4%	

Operational performance indicators (in millions, unless indicated otherwise)	**2013**	2012	Δ
Access lines	994	1,137	-13%
Business DSL	193	183	5.5%
Connections VPN	77	75	2.7%
Wireless customers (excl. M2M)	1,674	1,656	1.1%
Number of 4G customers	220	–	
ARPU wireless blended	47	50	-6.0%

Dutch inauguration day

‘It was reassuring to know KPN was on standby for us on this extremely busy day.’

Hessel Dikkers, CIO of NS

The day of the inauguration was one of the busiest ever for Dutch railway company NS. Thousands of people converged on Amsterdam to see their new king, Willem-Alexander. NS adapted its train schedule specially for the event and counted on KPN’s infrastructure to keep passengers and staff informed.

‘Failure of our passenger information systems would have been disastrous,’ says Hessel Dikkers, CIO of NS. ‘KPN provided extra staff to monitor our IT systems throughout the day and keep everything running smoothly. It was reassuring to know we had KPN’s excellent professionals on standby.’

Social and environmental review

Net Promoter Score

The NPS of our brands for the business market was -18 in December 2013 and thus remained relatively stable (2012: -17).[1] Although we implemented improvement activities in our customer services, we did not reach our target for 2013 (-10). We plan to continue these improvement activities in 2014, and adjusted our NPS target for the business market to -12 in 2014.

Healthcare of the future

In 2013, we further developed our portfolio of personal alarm services Tréés and CareFree at Home (ZorgVrijThuis) for healthcare consumers. We also broadened our HealthMedia portfolio with the introduction of a mobile service. Streamlining the Cardiac Rhythm service enabled us to ensure the best service for the future, while also making it even more user-friendly for both patient and physician. These portfolio developments contributed to us outperforming our target for reaching health consumers with healthcare comfort services: we reached about 40 thousand healthcare consumers, well above the target of 27 thousand. One of the drivers behind this success is the growing demand for smarter and more reliable eHealth solutions. We ensured that our service and processes are fully optimized, for example in terms of the availability of devices and in the way feedback on the results is structured. We want to increase the number of connected healthcare consumers to 42 thousand in 2014, and to 48 thousand in 2015.

We continued to develop the HealthCloud, which runs over our secured and safe eCare and HealthConnect networks. Among the additional value-added services we developed and made available are our secure email services and the Digital HealthArchive. We have already connected general practitioners, pharmacies and hospitals and look to tap into new markets within care and cure to support continued growth. In 2013, 4,319 health locations were connected by our eHealth and HealthConnect services, unfortunately slightly less than our target of 4,500 locations. Health institutions are undergoing a trend towards clustering and rationalizing, resulting in a slight drop in the total number of connections. Moreover, market conditions are becoming increasingly competitive. We still want to increase the number of healthcare locations connected, but because of the above-mentioned conditions, we adjusted our target for 2014 to 4,500 (was 5,000) and for 2015 to 5,000 (was 6,000). We aim to reach these targets by adding care institutions to the HealthCloud.

As targeted, we connected the ninth hospital to our HealthMedia service, including the digital patient file system. We acquired two major deals with health institutions that provide care for the physically disabled, where the complete ICT provision will be overhauled, managed and serviced by KPN.

The New Way of Living & Working

To support the sales of typical the New Way of Living & Working products and services, we focused on the promotion of the KPN Bespaarmeter (www.kpnbespaarmeter.nl). This tool enables organizations to calculate CO_2 emission reductions and savings to costs and time realized by the use of our New Way of Living & Working products and services.

Based on the implementation of the ‘Way of Working’ within KPN (see section Employees), KPN Consulting developed the proposition ‘Smart Working’ which helps customers to change behavior according to the New Way of Living & Working principle and focuses on the need for target setting and communication alignment. Three typical New Way of Living & Working products (conference cards, talk and vision videoconferencing and the cloud solution ‘KPN werkplek online’) have been awarded the status Lean & Green products by Connekt. This award recognizes the positive impact in the reduction of CO_2 emissions and costs.

In line with the implementation of Bring Your Own Device (BYOD) in our own organization (see section Employees), we took the opportunity to investigate the potential to commercially offer a BYOD security label for our products and services. It transpired that other parties already cover this section of the market, making further research superfluous.

We held stakeholder dialogues to gather more specialized information that could add to our expertise on the New Way of Living & Working. Not only did we organize a round table session ourselves, we also were approached by a number of organizations to share our best practices. We discussed trends in working patterns and conditions with the largest employment agency in the Netherlands and hold regular peer reviews with other large companies. Under the heading of the Dutch Ministry of Transport’s ‘Beter benutten’ (Better usage) initiative, we engaged small and medium sized enterprises (SMEs) in a dialogue about a learning platform on the topic.

In 2013, we aimed for 20% growth in the use of services that make the New Way of Living & Working possible. We achieved 5% growth and thus did not achieve our target. The main reason for this is because our

1) The NPS measurement method for the Business segment was adjusted in 2013. The 2012 NPS score has also been adjusted according to this new method.

current portfolio has not been adjusted with new products and services supporting the New Way of Living & Working. As a result, it no longer provides a good reflection on the growth in this portfolio. The 2014 target for growth in the use of products and services that enable the New Way of Living & Working will be determined in 2014, as we are redefining which products and services to include. Our ambition for the future is to use the New Way of Living & Working on the one hand as a stepping stone into different customer contacts (e.g. with other DMUs) and on the other hand to support sales. In order to achieve further growth, we will organize customer events on the theme, further develop the KPN Bespaarmeter and integrate the use of this tool in our sales process. In addition, we aim for more New Way of Living & Working products and services to be granted the Lean & Green award by Connekt. We also want society to see us as a leader on the New Way of Living & Working. We therefore continue to participate in and contribute to relevant events and to communicate externally about best practices.

Energy-efficient products and services

We use our experience in reducing our own carbon footprint to help our customers achieve both energy and cost savings. We do so by offering them not only products and services that support the New Way of Living & Working, but also our cloud services and M2M solutions. These products enable customers to improve process efficiency while reducing costs, time and greenhouse gas emissions at the same time.

We are convinced a green economy can only be realized by cross-sector cooperation. Together with the energy sector (both network operators and energy producers), we are working on defining and implementing ICT solutions that can make electricity networks and houses more efficient (smart grids and smart homes solutions).

Privacy & Security

Privacy and security have become important issues for society due to the rise of social media and cyber attacks. We want to ensure that our business customers have safe and reliable use of our services and datacenters. We have several programs in place that increase insight in underlying assets with matching controls regarding system hardening and identity & access to ensure improved privacy and security. Our ISO 27001 certificate for information security management demonstrates the effectiveness of security controls, processes and procedures. Furthermore, the business continuity of our services is periodically tested and plans are adjusted if necessary. During 2013, we worked towards getting an ISO 22301 certificate for business continuity management, which will be obtained in January 2014.

Social and environmental performance indicators	**2013**	2012
Net Promoter Score (NPS)	-18	-17[1]
Number of healthcare locations connected	4,319	4,038
Number of healthcare consumers supplied with personal comfort services	~40,000	~21,000
Growth in the Netherlands of the use of services that make The New Way of Living & Working possible	5% in comparison with 2012	17% in comparison with 2011

1) The NPS measurement method for the Business segment was adjusted in 2013. The 2012 NPS score has also been adjusted according to this new method.

IT Solutions

'We offer our customers secure cloud solutions from our Dutch based data centers, compliant with Dutch law and regulations and monitored real-time and certified by an independent auditing firm.'

Alexander van der Hooft, Managing Director IT Solutions

Overview

Highlights
- Integration of IT Solutions with Business
- Increase in recommendation score
- Energy-efficiency of data centers improved 30.9% compared to 2005

Revenue	EBITDA
€621M	€30M
(2012: 862m)[1]	(2012: 69m)[1]

1) Including Getronics International until April 1, 2012.

Our strategy in action

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

Integrate IT Solutions in Business

Building on the successful integration of parts of Corporate Market in a new B2B organization in 2013, we take the next step in further improving our ICT services by means of the integrating of IT Solutions with KPN's Business segment from January 1, 2014. We will be able to deliver a combined Telco and IT portfolio, while providing data security in the Netherlands.

Our cloud strategy: service aggregation

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

Cloud services: increased importance of privacy and security

Privacy and security are becoming increasingly important themes for our business customers. Also the need for transparency is increasing. We want to ensure that our business customers have safe and reliable use of our networks and data centers.

To support our customers in complying with law and regulations, we developed the CloudNL platform. With CloudNL, we guarantee local data storage in the Netherlands, being managed in the Netherlands. Together with professional partners, KPN has planned to assure compliance by means of external audits on a quarterly base, starting Q1 2014. With CloudNL Office, we assure a safe working space inside CloudNL.

Within IT Solutions the department KPN Trusted Services specializes in Managed Security, Identity Management and Business Continuity services. In line with the strengthen, simplify and grow strategy, KPN Trusted Services rationalized its portfolio resulting in a focused portfolio that addresses the evolving security, compliance and business needs of medium and large enterprise and (semi) governmental organizations. We further optimized our quality of service by changing the organizational structure and investing in the optimization of our processes and technology that power our services and strengthen our market position. We included Security Operations Center (SOC) services in our managed security services portfolio in 2013.

Conduct business in a sustainable way

The use of ICT can enable our customers to save time, energy and costs. We aim to help customers realize a reduction in energy usage by offering them our products and services. A large number of business customers make use of storage capacity in our data centers. It is our aim to implement sustainable solutions and increase the energy efficiency of our data centers.

Enable a leaner operating model combined with higher customer satisfaction

We work with partners globally, such as the Getronics Workspace Alliance, to secure integrated end-to-end services for our customers, combining local presence with global reach. Partners such as Mindtree and TechMahindra create cost reduction and result in higher effectiveness for clients. Our partnerships are a strategic element and can enhance customer experience, innovation and service continuity.

Products and services

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

Workspace management

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

Data centers

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

Consulting services

Our consulting services include (private) cloud, workspace innovation, business communications, business applications, project and program management, services aimed at facilitating organizational development and change, and security and compliance. Brands used are Call2 and KPN Consulting.

Financial and operational review

Underlying revenues and other income decreased by 9.5% in 2013, as a result of continued price pressure due to overcapacity in the market and postponement of (large) IT investments by clients. Underlying EBITDA increased by 3.1% in 2013, mainly as a result of lower personnel costs due to the FTE reduction program, partly offset by lower revenues and lower margins in new and renewed contracts. Consequently, the underlying EBITDA margin increased to 10.8% (2012: 9.5%).

Key financials (in millions of EUR, unless indicated otherwise)	**2013**	2012	Δ
Revenue and other income	621	862	-28%
Underlying revenue and other income	621	686	-9.5%
EBITDA	30	69	-57%
Underlying EBITDA	67	65	3.1%
Underlying EBITDA margin	10.8%	9.5%	

Social and environmental review

Recommendation score

In the corporate clients segment, the recommendation score increased to 7.1 in 2013 (2012: 6.7). The NPS program which was started in 2010 is clearly showing results. The overall improvement is the sum of customer-specific and general improvement programs. In 2013, the approach of making an improvement plan for corporate customers after each NPS measurement, and evaluate this with the customer after several months, was expanded by another 50 corporate clients.

Energy efficient

Energy efficiency of data centers is expressed by comparing total electricity consumption with electricity consumption of equipment used for customer services. The international standard for this calculation is PUE (power usage effectiveness). For our data centers, the electricity consumption of ICT solutions for our customers has increased 18% since 2010. However, as a result of the implementation of our energy efficiency program, the total electricity consumption of all the data centers was only 7% more than in 2010. The increase in electricity efficiency is achieved by optimizing installations, consolidation of small data center locations and increasing the capacity utilization degree.

In 2013, our PUE improvement compared with 2005 was 30.9%. In 2013, we improved our electricity efficiency with 0.5% compared with 2012. So although we improved, the goal for 2013 (31.8%) is not fully realized. The most important reason was implementing a new data center and a double cooling effort during the implementation of more efficient free cooling options. In 2014, we intend to achieve a PUE improvement of 32.3% compared with 2005.

Our long term ambition is to improve our PUE by 38% in 2020 compared with 2005. This will be achieved by focusing on further optimization and implementation of technical concepts, such as free air cooling, lowering energy losses in the technical environment and innovative improvements such as reusing residual heat.

Privacy & Security

For our Security Operations Center (SOC) services, we welcomed our first five customers in our managed security services portfolio. We thus reached our target for 2013.

Social and environmental performance indicators	**2013**	2012
Recommendation score	7.1	6.7
Data centers: more energy efficient than in 2005	30.9%	30.4%
Number of customers that take services from KPN's Security Operations Center	5	N/a

NetCo

'Modernization of KPN's network, such as the rapid roll-out of 4G and VDSL vectoring, provides a structural improvement of quality and also creates new opportunities to keep our consumer and business customers always and everywhere connected.'

Jacob Groote, Vice President Mobile Operations

Overview

Highlights
- Front-runner in Europe with vectoring
- Accelerated 4G roll-out and expect to reach nationwide coverage by the end of Q1 2014
- Total absolute energy reduction, despite extending networks and roll-out 4G

Revenue
€2,343M
(2012: 2,621m)

EBITDA
€1,297M
(2012: 1,461m)

1,635k
Fiber-to-the-Home passed
(2012: 1,246k)

76%
4G indoor coverage
(2012: 0%)

Our strategy in action

Our strategy is based on a strong customer focus by providing the highest quality services, based on a full product range. Key to providing the best products and services are our networks. We invested heavily in our fixed and mobile networks, as well as in simplifying our processes and our organization, to improve the quality of service.

Invest in best-in-class networks

In 2013, we have again invested heavily in our network infrastructure. We are continuously working to maintain and improve the quality and speed of our fixed and mobile networks.

In fixed-line services, we continued with upgrading our copper network. We have been upgrading from ADSL to VDSL, implemented pair bonding and now started vectoring as well. A combination of new technologies, pair bonding and vectoring, enables significantly increased broadband internet bandwidth on our copper network. With vectoring, KPN is front-runner in Europe and pair bonding is a unique feature for KPN to benefit from. We continued the roll-out of our fiber network through our Reggefiber Group B.V. joint venture. Fiber-to-the-Home offers subscribers superior upload and download speeds and better quality. Therefore, we believe in fiber as the superior infrastructure. At the end of 2013, we reached 24% of the households in the Netherlands with our fiber network.

In mobile, we upgraded our existing 2G and 3G mobile networks and we were the first operator in the Netherlands to launch 4G services. In 2013, we scaled up our 4G roll-out and reached a 76% indoor coverage by the end of the year and expect to reach nationwide coverage by the end of the first quarter of 2014. By accelerating the 4G mobile network roll-out, we have confirmed our role as the leading provider in the Netherlands. As part of our 4G strategy, we use a combination of 800MHz, 1800MHz and 2600MHz spectrum to ensure high-quality 4G services to consumers and business customers throughout the Netherlands.

Strategic partnerships

In 2013, we continued to focus on network improvement and cost reductions through strategic partnerships, efficiency and improved sourcing. At the end of 2012, we entered into several strategic partnerships and (out)sourced a number of our activities. In 2013, we operationally executed these (out)sourcing initiatives together with negotiating and rationalizing our existing contracts with suppliers.

Conduct business in a sustainable way

Invest in best-in-class networks also implies investing in the resilience of our technical buildings and networks, which means improving security and business continuity of our networks in order to minimize the risk of disruptions by building resilience into structures and processes.

It also implies an energy-efficient network infrastructure. Our networks contribute to 69% of our total electricity consumption. Especially in the light of the strongly increasing data communication volumes, which increases our electricity use and costs, we acknowledge the need to address this issue. It is our aim to reduce our absolute electricity consumption and improve the energy efficiency of our networks. The electricity used for our networks is 100% green, generated locally from wind and biomass. By doing so, our Dutch networks operate climate neutral.

Dutch inauguration day

‘Working day and night, we built a new communications network especially for the emergency services to use during the inauguration.’

Pim Niessen, Technical Supervisor KPN Critical Communications

‘A few months before the inauguration of King Willem-Alexander it became clear that the large number of police and emergency services personnel deployed in Amsterdam on April 30 would need extra capacity for their critical communications,’ says Pim Niessen, Technical Supervisor KPN Critical Communications.

Elaborating on the KPN build C2000 public safety communications network, the Critical Communications team designed a new network especially for the event. ‘We worked day and night to get the C3000 system up and running, including two control rooms in Amsterdam and activating 1,600 radios. To identify the last possible hiccups, we tested it with the other radio networks and around 150 emergency services personnel. Everything ran smoothly on the day, thanks to the excellent teamwork of everyone involved.’

Customer experience

Our customer experience is influenced by several factors. The performance of our networks is only part of what determines the customer experience. Communication about our services has a greater impact. Proactive communication about disruptions and scheduled maintenance is very important.

NetCo regularly receives feedback from customers on our services (Closed Loop Feedback process). The feedback from customers is tested against our customer promises to work on continuous improvement of our services. Customer account managers and NetCo look for solutions together.

Products and services

NetCo is responsible for the operation and maintenance of fixed and mobile networks in the Netherlands. Furthermore, NetCo includes our fixed wholesale services.

Network and IT services

We offer a full range of fixed and mobile services and we aim to deliver the best connectivity to our customers, independent of location and device, in an intuitive and customer-friendly way. By further migrating to fiber and upgrading our copper network, we aim to become the best integrated access network and IT provider.

Wholesale services

We provide wholesale services that include access to our copper and fiber networks such as wholesale line rental, wholesale broadband access and wholesale fiber and value-added services. Wholesale customers can purchase access to passive network infrastructure alone or together with our active operator services, which allow telecom operators and service providers to offer their own services to end customers. We also provide wholesale customers with cloud computing and other services.

Infrastructure

Copper network

We operate a high-quality copper network and have continued to invest in new technologies, such as pairbonding and vectoring, the removal of ‘noise’ between copper wires, significantly increasing the available broadband internet bandwidth (up to more than 120Mbps).

Fiber network

Through our fiber network, we can offer unlimited data transport to customers with high bandwidth requirements and options for expansion such as data networks, and multi-room iTV as well as iTV Online with functionalities on laptop, smartphone and tablet. The roll-out of the Fiber-to-the-Home (FttH) network is carried out through our joint venture Reggefiber Group B.V., which operates on the basis of an open-access model. At the end of 2013, 24% of Dutch households, approximately 1.6 million, had FttH available.

Wireless network

In the Netherlands, we operate a 4G LTE, 3G UMTS/HSPA and a 2G GSM network system. In 2013, continued improvements have been implemented to maintain the best-in-class networks in terms of quality and coverage. We continued our network modernization and accelerated the 4G roll-out. 4G improves the customer experience by providing significantly higher speeds, up to ten times faster than the 3G network. Mobile data continued to grow, up 50% over 2013. However, some elements of the modernization process have a (temporary) negative effect, such as the transfer of the network from old to new equipment and the alignment of the 2G, 3G and 4G network.

Dutch inauguration day

'With KPN's 4G network we can provide better quality footage faster, so our viewers are always up-to-date with the latest news.'

Toon Toetenel, Chief New Media AT5

Local Amsterdam TV station AT5 had 14 mobile teams covering the inauguration of King Willem-Alexander on April 30. All relied on KPN's 4G network to broadcast events simultaneously from various locations and in high quality.

'With 4G we can cover everything that happens in the city – from concerts to traffic accidents to sports events – at lower cost and in higher broadcasting quality,' says Toon Toetenel, Chief New Media AT5. 'On the day of the inauguration, we needed access to more bandwidth than ever. With 4G our reporters could send their footage from the crowded canals and city squares to our studio whenever they wanted. 4G made the difference. It has phenomenally improved our internet broadcasts.'

Financial and operational review

Underlying revenues and other income declined by 7.0% in 2013, mainly driven by FTA regulation impacting wholesale traffic revenues. Underlying EBITDA decreased by 6.9% in 2013 as a result of a decline in high margin traditional services and higher FttH access costs partly offset by lower personnel costs. The underlying EBITDA margin increased to 55.4% in 2013 (2012: 55.3%).

FttH roll-out continued and 389 thousand homes passed were added in 2013, resulting in a total of 1.6 million homes passed at the end 2013, which is 24% of Dutch broadband households.

Key financials (in millions of EUR, unless indicated otherwise)	**2013**	2012	Δ
Revenue and other income	2,343	2,621	-11%
Underlying revenue and other income	2,342	2,519	-7.0%
EBITDA	1,297	1,461	-11%
Underlying EBITDA	1,297	1,393	-6.9%
Underlying EBITDA margin	55.4%	55.3%	

Operational performance indicators	**2013**	2012	Δ
% households >40 Mbps	~70%	~70%	
Number of FttH homes passed (in thousands)	1,635	1,246	31%
Indoor population coverage 3G (in %)	95%	95%	
Indoor population coverage 4G (in %)	76%	0%	

Social and environmental review

Best-in-class networks

We want to offer our customers the best ICT infrastructure. In continuous research, we investigate to what extent they have a preference for our ICT infrastructure compared with the networks of our competitors. In addition to measuring technical parameters such as dropped calls and number of disruptions, we started measuring the perception of the best ICT infrastructure in the eyes of Dutch people in 2012. It is our ambition that in 2015 60% of the Dutch people consider KPN's ICT infrastructure as the best. Due to the complexity of the measurement, we only surveyed consumers in 2012.

In 2012, 51% of Dutch consumers considered that we had the best fixed network (fixed line, broadcast, internet and back-up service) and 51% that we had the best mobile network[1] (mobile telephone, SMS and mobile internet). In 2013, these percentages were 46% for our fixed network and 52% for our mobile network.[1] The decrease regarding our fixed network is mainly due to disappointing customer experiences with Digitenne and low bandwidth of ADSL. Initiatives that will be implemented to improve these results include having customers switch from Digitenne to iTV and the further roll-out of VDSL (with a significant higher bandwidth than ADSL). Moreover, KPN will continue to roll out the improved 2G network (as drop-out calls are the biggest dissatisfier), UMTS 900 (3G with better indoor coverage) and the new 4G network.

In 2013, we expanded our measurement to the business market for our fixed networks, mobile networks and IT services (cloud services, data centers). Results show that 64% of the business market considers KPN to have the best fixed networks, and 58% thinks this about our mobile networks.[1] This means we have achieved our 2015 target (60%) for our fixed networks and we have almost reached it for our mobile networks. The results of this first survey do not yet allow us to draw conclusions about the appreciation of our IT services in the business market. For 2014, we add a target on the nationwide drop call rate in order to provide more insight in our networks performances. We aim for a nationwide drop call rate of an average maximum of 0.6%.

In 2013, we had a major incident within our mobile network. Thousands of customers of KPN, Telfort, Hi and Simyo mainly in France were not able to make a mobile connection during several days at the end of July. As the incident occurred during the peak of the summer holidays, the impact was high. After resolving the issue, a national 'sorry' campaign was started and customers were given the opportunity to claim possible damages. We received over 4,500 claims.

Energy-efficient network

For our networks in the Netherlands, we set the target to realize a 20% absolute electricity reduction in 2020 compared with 2005. Despite the roll-out of 4G and extending our networks because of strongly increasing data communication volumes, we still are on track to realize this target. This year we nearly approached our 2005 electricity consumption.

In 2013, our energy saving measures resulted in 47.4 GWh of savings, which is almost twice our target of 27.5 +/- 2.5 GWh. These savings not only compensated for the growth in our networks, but resulted in an absolute electricity reduction of 3.2% compared with 2012. The reduction in our networks and technical buildings was mainly the result of the implementation of our rationalization program, which ensures the upgrade of the networks to enable faster fixed and mobile internet, and the simultaneous installation of energy-efficient equipment. Measures within the program include phasing out networks, implementing the rectifier program and GSM swap. The rectifier innovation project is responsible for a calculated annual reduction of 8.2 GWh and increases the efficiency of equipment from 90% to 96%.

1) A substantial number of respondents has no opinion about who has the best network. We have not included this group of respondents in the scores.

Privacy & Security

In 2013, we continued our efforts to improve security and business continuity. In order to minimize the risk of disruption to our critical operations buildings, we established new policies to ensure robustness and security, and started an improvement program for these buildings. We also developed business continuity architecture guidelines, aiming to increase the resilience of our critical services and networks. For many of these services and networks, we increased resilience, for example by removing 'single points of failure' from our networks. With these efforts we aim to ensure that we can recover from disruptions to our critical services.

A lot of effort is spent on increasing awareness of security and business continuity. We worked on a communications campaign, called 'Be Aware!' and organized many information sessions for management and internal and external employees throughout the year. We improved our privacy robustness by better protecting our critical systems against hacking and loss of customer data. The KPN Security Operation Center (SOC) monitors the security of our high-risk systems 24 hours a day, seven days a week.

Social and environmental performance indicators	**2013**	2012
Percentage of the Netherlands that agrees that KPN has the best ICT infrastructure	Consumers: 46% best fixed network 52% best mobile network Business:[1] 64% best fixed network 58% best mobile network	Consumers: 51% best fixed network 51% best mobile network Business: N/a
Percentage of the Netherlands that has availability of 4G	46% in the summer; 76% end 2013	0%
Electricity savings in fixed and mobile networks in the Netherlands	Measures that save 47.4 GWh	Measures that save 32.6 GWh

1) The results of this first survey do not yet allow us to draw conclusions about our IT services in the business market.

Challenge

Investing in the networks in order to provide the best coverage possible does not always receive unanimous consent from all stakeholders involved. One of the example cases we encountered in 2013, happened at the small Dutch island of Terschelling, where a second communications mast was needed to improve mobile coverage. There were complaints that emergency services numbers could not always be reached, putting people's safety at risk. The existing mast was not able to cope with the high demand during the busy summer holiday season and the island's popular Oerol cultural festival. However, local residents objected. They were worried about radiation and the matter went to court. The Dutch Supreme Court ruled in favor of public safety, after which we installed the mast. Cases like this happened several times over the last years and we expect this issue to return again every now and then in the future.

Germany (including discontinued operations)

'Despite headwinds for the industry, we made good progress in 2013 and achieved important strategic milestones. The results of our successful growth and network upgrade initiative put us in a good position for the combination with Telefónica Deutschland. Going forward, we will be the challenger in Germany on eye level with the market leaders.'

Thorsten Dirks, CEO E-Plus

Overview

Highlights

- Intended sale of E-Plus to Telefónica Deutschland
- Strong improvement network speed
- Significant net adds of new customers with a focus on postpaid
- High growth in mobile data revenues
- Improvement of 14.9% in energy efficiency compared with 2009

Revenue

€3,197M

(2012: 3,404m)

EBITDA

€963M

(2012: 1,290m)

936k

Net adds postpaid

(2012: 164k)

~15%

Market share

(2012: 15.8%)

Our strategy in action

Unlock German mobile synergies

In July 2013 we announced that KPN had entered into a transaction to sell and transfer 100% of its interest in E-Plus to Telefónica Deutschland. The transaction remains mainly subject to Telefónica Deutschland EGM approval and regulatory approval. Following the transfer of E-Plus to Telefónica Deutschland, KPN will receive EUR 5.0 billion cash proceeds and obtains a 20.5% stake in the combined entity. The combination will have annual revenues of more than EUR 8 billion and total estimated synergies amount to EUR 5.0-5.5 billion. Additionally, the merged company will have an enhanced competitive position with a high-quality network with ample capacity to address increasing demands for high-quality (data) services and an extensive distribution network.

Until completion of the transaction, we will remain fully focused on executing our operational strategy. E-Plus will continue to strengthen its position as a data-centric challenger, focused on data and postpaid, supported by its improved network.

Data-centric challenger

In 2013, E-Plus successfully pursued a comprehensive growth and network upgrade initiative. We invested substantially in customer acquisition, adding more than 1.5 million new customers throughout the year. The focus on postpaid customers paid off with the addition of 936 thousand new contracts. E-Plus also confirmed its strong position in the prepaid segment with a net addition of 610 thousand customers. Moreover, we achieved our strategic objective to significantly grow our mobile data business. We expanded distribution through our own and partner shops, online distribution and exclusive wholesale channels. Further support was given to our Yourfone, Blau and Simyo propositions, addressing customer demand for increased mobile data usage. We also introduced further competitive offerings by Alditalk.

Mobile broadband network

The strong improvements to E-Plus' data network quality have been confirmed by leading network tests in Germany (CHIP, ComputerBild), resulting in a number three network position in the German mobile market. In terms of HSPA+ data speeds and network reliability E-Plus is now on par with the number two.

We invested approximately EUR 500 million in our network in 2013, ramping up the roll-out of our HSPA+ network infrastructure. At the end of the year, we confirmed our challenger strategy by launching a new initiative which provides every customer with the maximum network speed of up to 42 Mbps at no extra cost for at least 7 months.

Improve customer service

Multiple initiatives were started or continued in 2013 to improve the customer experience at E-Plus. We started network improvements, revamped the BASE tariff portfolio and introduced value added services such as My MTV Music and BASE Cloud. In 2013, the Digital Transformation project was introduced which focuses on improving the self-service features of the brand via their online platforms.

Products and services

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

We offer various tariff brands with our multi-brand strategy: the E-Plus brand with various bundle packages, Base offering flat-fee packages, Simyo as web-only mobile operator and Ay Yildiz with a tailor-made offering for the ethnic segment. We also provide wholesale solutions to partners acting as branded resellers, including Alditalk, WAZ, MTV, NABU and MVNOs like Versatel, NetCologne and Ecotel. In 2013, we expanded our portfolio further on data propositions to adapt to our customers' needs for more mobile data oriented packages, either with or without the smartphone of their choice. We also expanded our offering with the launch of a hardware-only web shop www.smartkauf.de.

Financial and operational review

On July 23, 2013, KPN announced the sale of E-Plus to Telefónica Deutschland. For further information on this transaction please see Note 18 of the Consolidated Financial Statements. E-Plus continues to be included in KPN's segment reporting until the sale is completed.

Underlying revenues and other income in Germany increased by 0.8% in 2013, due to strong postpaid performance, partly offset by the negative impact of declining SMS and voice usage in the prepaid segment. Handset sales continued to increase, supporting the uptake of data propositions. Underlying EBITDA decreased by 21%, due to increased growth related investments. These investments in customer acquisition, marketing costs and handsets support growth in postpaid net adds and data revenues. The underlying EBITDA margin was 28.3% in 2013 (2012: 36.0%).

The focus on postpaid and data resulted in continued strong postpaid net adds of 936 thousand in 2013, while prepaid net adds amounted to 610 thousand. ARPU blended decreased in 2013 to EUR 10 compared to EUR 11 in 2012. E-Plus' market share in Q4 2013 is estimated to be approximately 16% in a competitive environment.

Key financials (in millions of EUR, unless indicated otherwise)	**2013**	2012	Δ
Service revenue	2,989	3,149	-5.1%
Revenue and other income	3,197	3,404	-6.1%
Underlying revenue and other income	3,168	3,143	0.8%
EBITDA	963	1,290	-25%
Underlying EBITDA	897	1,131	-21%
Underlying EBITDA margin	28.3%	36.0%	

Operational performance indicators	**2013**	2012	Δ
Market share[1] (in %)	~15%	15.8%	
Wireless customers (in thousands)	24,946	23,400	6.6%
Net adds postpaid (in thousands)	936	164	
Net adds prepaid (in thousands)	610	519	
ARPU blended (in EUR)	10	11	-9.1%

1) Based on service revenues.

Social and environmental review

Net Promoter Score

The blended NPS for BASE/E-Plus in December 2013 was -30, which was slightly below market average. The main reasons for this score were negative side-effects of the network upgrades and a different price perception due to increased competition.

Energy efficient

Our overall energy efficiency received a further boost from the use of more energy efficient equipment in our network roll-out activities during the year. We are on track to achieve our 2020 ambition to realize 20% energy efficiency improvement compared with 2009. In 2013, we achieved an 14.9% improvement in energy efficiency compared with 2009, mainly as a result of the continued modernization of our network. This is better than our target. Although the data communication volumes have tripled since 2010, our energy consumption was only 6.4% higher.

We improved the percentage of green electricity from 76% to 92%, above our target of 85%. In 2014, all our electricity will originate from renewable sources. Our energy efficiency program and energy sourcing resulted in a reduction of our CO_2 footprint by 11 Kton in 2013 (our target was 9 Kton).

In 2013, we started operating a second energy self-sufficient station. With subsidies from the city Hamburg, 46 traditional air conditioning systems are being exchanged for fans.

We finalized a test with a hydrogen car in 2013. Our employees drove 6,465 kilometers, comparable with the distance from Dusseldorf to Dubai. Conclusions are that all-day driving with a hydrogen car can contribute to energy and CO_2 savings and might provide a better alternative than electrical cars.

Other CSR themes

E-Plus has reached almost 25 million customers, which brings along great responsibility. Responsibility provides opportunities. For example, the responsibility to invest in more efficient technology makes us more viable in the long term and solid organization practices mitigate risks. Our main initiatives are to become climate neutral, to contribute to the connection of people and to be an attractive employer.

We perform an employee opinion survey called 'Stimmungsbarometer' four times a year. In Q4, the percentage of satisfied and very satisfied employees increased by 5% to 55%. Almost all measured themes improved slightly. The communication by our management was highly scored by 64% of the employees. Although the scores for 'dialogue culture' decreased, the overall score for this theme is still on a good level. Our efforts also have been externally recognized: for the last seven years, E-Plus has been rated amongst the top employers (Top-Arbeitgeber) in Germany.

One of the main focus areas of our HR policy is talent management, in combination with leadership development. E-Plus runs diverse high potential programs, offers expert and manager career tracks and has a talent review process in place. E-Plus introduced a new training catalogue with more online e-learnings, which are more flexible for participants.

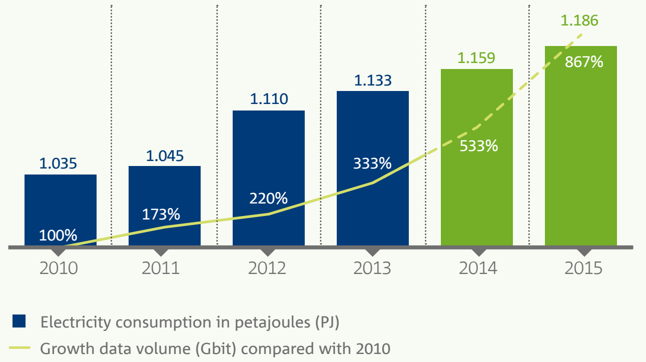
Our rate of absence due to illness showed a significant increase during 2013, mainly as a result of a flu epidemic. In 2013, E-Plus introduced an individual risk assessment survey and PME, an individual consultancy service. Both focus on the risks of psychological stress and quantitative workload. At the end of 2013, 99 employees took part in the PME.

Our responsibility for the (digital) connection of groups in society who have difficulties in making or maintaining contacts is shaped by our support for projects such as the 'Weltkindertagsfest' and 'senior citizen tabs'. In 2013, we supported the annual 'Weltkindertagsfest' with the theme 'equal chances for children'. The day of festivities was attended by around 100 thousand children and adults. We hosted activities aimed at bridging the digital divide between children and their grandparents. We continued our engagement in the senior citizens tab project which promotes digital literacy amongst the elderly and provided 17 locations with tablet computers and tutorials geared towards the elderly.

Social and environmental performance indicators	**2013**	2012
Net Promoter Score (NPS)	-30	N/a
Mobile network: more energy efficient than in 2009	14.9%	12.8%
Percentage green electricity	92%	76%
Recycled and reused cell phones	34,600	17,000[1]

1) Restated due to availability of new figures.

Network in Germany



Belgium

'Launching 4G as second Belgian operator and already covering 36% of the Belgian population at the end of 2013, confirms our ambition in leading not only in price and service but also in quality.'

Christian Vyncke, Head of Development Access

Overview

Highlights

- Completely renewed mobile portfolio driving postpaid sales and data uptake
- Launched 4G as the second operator in the Belgian market
- Strong progress on network quality
- Launch of fixed line triple-play offering, called SNOW, in Q1
- Improvement of 18% in energy efficiency compared with 2009

Revenue
€728M
(2012: 804m)

EBITDA
€192M
(2012: 272m)

>20%
Market share
(2012: ~20%)

127K
Postpaid net adds
(2012: 17k)

Our strategy in action

Mobile-centric challenger

We differentiate ourselves from other operators by being mobile-centric, providing simple and transparent products to our customers. We are committed to delivering the best customer experience, the best mobile products and the best prices. Through our multi-brand strategy, our Belgian market model enables an advanced customer segmentation approach based on multiple partnerships. To further strengthen the mobile experience of our customers, we continuously focus on new services such as handset financing and insurance services or streaming services.

As of August 1, 2013, our company name changed from KPN Group Belgium to BASE Company. By reintroducing BASE into our company name, we want to enforce our mobile-centric strategy. However, we are more than just BASE. BASE Company stands for partnerships supporting our multi-brand strategy.

Improve customer experience

Key for our company is to continuously improve the experience of our customers. Our ambition is to have more than just satisfied customers – we want to know how customers experience our products and services. That enables us to evaluate how well we serve our customers and allows us to steer our operations. Therefore, we use the Customer Experience index (CX index). The CX index is measured four times per year and takes into account general satisfaction as well as certain strategic customer priorities and is based on four questions to our customers. In 2013, we undertook several initiatives to improve customer satisfaction. Some examples are a user-friendly introduction menu for our helpdesk and the launch of YouTube instruction videos.

In 2014, we will continue and finalize the initiatives started in 2013 and move to a more large-scale CX implementation. This includes optimization of customer journey, defining instructions from our service promise and monitoring them, implementing Lean in our operations to optimally respond to customer demand and lower costs, and continue our company-wide customer focus program.

Low cost organization

We are able to achieve this combination of a high-quality network and attractive offerings by running an efficient and low cost operating model. We are focused on maintaining this competitive advantage.

Invest in best-in-class network

Over the last years, BASE Company performed significant investments in the further development of its mobile network, focusing on improving coverage even further, optimizing quality and increasing data speeds.

The significant investments in the network infrastructure resulted in a number one position in voice quality and a joint number one position in data.[1] In October, we launched our 4G network – being the second operator in Belgium. By the end of the year, 36% of the outdoor population was covered by 4G and we plan to have nationwide outdoor coverage by the end of 2014. In November, we acquired the 800MHz license, allowing us to further increase 4G network coverage and performance. The license which we acquired for EUR 120 million is valid for 20 years.

1) Based on NetCheck (voice) and Commsquare (data) network test.

Products and services

Our multi-brand strategy offers a full portfolio of mobile services (voice, SMS, data), fixed line services and content services, such as Spotify.

BASE is our mainstream retail brand offering both prepaid and postpaid products. BASE business delivers products for the SoHo and SME market. In April 2013, BASE introduced a complete new portfolio, including both prepaid and postpaid and offering unlimited calling and texting from EUR 39 per month, including 2GB of mobile internet. At the same time, BASE business also launched a complete new SoHo & SME portfolio, offering unlimited calling and texting at EUR 30 per month, including 1.5GB of mobile internet. The high-tier tariff plans offer up to 5GB mobile internet and unlimited calling and texting from Belgian to European destinations. As a result, BASE postpaid sales rose sharply to record levels, besides high customer migrations from old to new tariff plans. Churn further decreased, indicating that customer volatility is stabilizing to normal levels. However, we observed a continued trend of customers migrating from prepaid to postpaid.

Next to Mobile, we challenged the fixed market in Belgium with the introduction of SNOW in February. SNOW offers a fixed triple-play service combining digital television, fixed internet and fixed telephony for EUR 39 per month. SNOW 3-pack is an attractive low-priced and qualitative offer on the Belgian market. SNOW combines high VDSL and TV quality with an original à la carte approach whereby the customer only pays for what he really wants, as opposed to the 'all-in at high price' approach from competition. In September, BASE business introduced a similar fixed-line offering, Pro Net & Tel, combining fixed telephony and fixed internet for the B2B segment at EUR 35 per month, in combination with a B2B mobile subscription even at EUR 30 per month.

Financial and operational review

Underlying revenues and other income decreased by 4.1% in 2013, due to continued price pressure caused by a competitive mobile market. Underlying EBITDA declined by 23% in 2013 due to lower revenues and price pressure resulting in an underlying EBITDA margin of 25.5% (2012: 32.0%).

The new mobile propositions introduced in Q2 2013 continue to deliver strong operational results (mainly on postpaid), despite a continued competitive environment. This resulted in 127 thousand postpaid net adds. Prepaid net adds of -162 thousand in 2013 were less negative compared with 2012. Blended ARPU increased to EUR 16 (2012: EUR 15) mainly due to increased prepaid ARPU, partly offset by the impact of regulation.

Key financials (in millions of EUR, unless indicated otherwise)	**2013**	2012	Δ
Service revenue	639	716	-11%
Revenue and other income	728	804	-9.5%
Underlying revenue and other income	728	759	-4.1%
EBITDA	192	272	-29%
Underlying EBITDA	186	243	-23%
Underlying EBITDA margin	25.5%	32.0%	

Operational performance indicators	**2013**	2012	Δ
Market share[1] (in%)	>20%	~20%	
Wireless customers (in thousands)	3,389	3,424	-1.0%
Net adds postpaid (in thousands)	127	17	
Net adds prepaid (in thousands)	-162	-724	
ARPU (in EUR)	16	15	6.7%

1) Based on service revenues.

Social and environmental review

Customer service

Our target for the CX index to measure customer experience for 2013 was 80. In December 2013, our CX score reached 76. With this score we improved significantly in all measured elements compared to March and outperformed all of our competitors overall and in the prepaid and postpaid market. We believe that some of our main improvements have not yet been picked up in the score.

Energy efficient

Our overall energy efficiency received a further boost from the use of more energy-efficient equipment in our network roll-out activities during the year. We are on track to achieve our 2020 ambition to realize 20% energy efficiency improvement compared with 2009. In 2013, we achieved an 18% improvement in energy efficiency compared with 2009. This is better than our target. Our energy consumption was only 5.4% higher compared with 2010, although we had to extend our networks because the data communication tripled in the same period.

Social and environmental performance indicators	**2013**	2012
CX index score	76	N/a
Mobile network: more energy efficient than in 2009	18%	12%
Percentage green electricity	100%	100%
Recycled and reused cell phones	12,400	10,500

iBasis

'iBasis is enabling mobile operators deliver a consistent LTE experience to their subscribers wherever they are. Through our LTE roaming solution and market-leading footprint, we are helping to fulfill the promise of next generation networks for consumers.'

Chris Lennartz, Director Product Management

Overview

Highlights
- Focus on balancing revenues while maintaining healthy profit levels
- Launched LTE roaming solution

Revenue

€969M

(2012: 1,035m)

EBITDA

€29M

(2012: 30m)

24.9BN

Number of minutes

(2012: 26.2bn)

€3.9CT

Average revenue per minute

(2012: 4.0 EUR cents)

Our strategy in action

Our strategy is to enable carrier and mobile operator customers to deliver high-quality international voice and data services to their end users and introduce innovative products faster, with global reach and reliability. We leverage our global IP infrastructure and expertise, sophisticated back-office systems, and substantial scale to achieve sustainable leadership in international wholesale voice services and be a successful challenger in the Mobile Value Added Services market. In 2013, we continued to establish iBasis as a significant provider of LTE Roaming and Signaling solutions and to develop our innovative value-added services offerings for mobile network operators. For 2014 and beyond, we will remain focused on innovating and developing new services to establish new, profitable revenue streams.

Products and services

We offer a voice product portfolio consisting of Certified Voice, Premium Voice and HD Voice. These products offer a progression of code coverage, pricing and features formulated to meet the varied requirements of fixed carriers, mobile operators and consumer voice over broadband carriers. In addition to our voice services, we offer a comprehensive portfolio of value-added mobile data services and solutions, including our LTE Signaling eXchange, global signaling, mobile messaging and roaming. Our services aim to enhance mobile operators' average revenue per user and customer loyalty.

Financial and operational review

Revenues and other income decreased by 6.4% year on year, due to lower traffic volume, continued price pressure and an unfavorable currency effect (1.3%). The EBITDA margin remained relatively stable at 3.0% as the effect of lower revenues was partially offset by focus on costs.

Key financials (in millions of EUR, unless indicated otherwise)	**2013**	2012	Δ
Revenues and other income	969	1,035	-6.4%
EBITDA	29	30	-3.3%
EBITDA margin	3.0%	2.9%	

Operational performance indicators	**2013**	2012	Δ
Minutes International (in billions)	24.9	26.2	-5.0%
Average revenue per minute (EUR cents)	3.9	4.0	-2.5%

Social and environmental overview

Energy efficient

Our electricity consumption of 5.4 GWh is 0.6% of the total electricity consumption of KPN Group. Our electricity consumption is 100% green, by sourcing additional green electricity in the Netherlands.

Dutch inauguration day

‘The speed of 4G completely changes the way photographers work. It’s mindboggling how quickly we can send pictures to news apps, newspapers and websites.’

Johan Groeneveld, Deputy Editor-in-chief of ANP

National news agency ANP coordinated and facilitated all photographs taken during King Willem-Alexander’s inauguration on April 30. ‘More than 50 photographers needed a fast and secure wireless connection to file their pictures to editorial desks around the world,’ says Johan Groeneveld, Deputy Editor-in-chief of ANP.

‘We chose to use KPN’s 4G technology because it allows pictures to be filed from any location at high speed. Photos of the new king were uploaded by newspapers and websites worldwide just seconds after being taken. I’m convinced 4G will dramatically change photographers’ jobs. They will all want to work with a 4G device.’

Privacy & Security

'KPN believes in delivering secure products and services for everyone so that we can ensure the confidentiality, availability, and integrity of all of our customers' communications. Our specialist teams keep vigilant watch over our network to enable rapid response.'

Jaya Baloo, Chief Information Security Officer

Enhancing digital security and privacy

The internet is fully integrated into our daily lives and offers many opportunities. It helps people connect and generates economic growth. Yet, it also has a more negative side: unsafe use or, even worse, internet abuse. As a leading internet provider, KPN feels it has a responsibility to improve online security and to enhance its customers' digital skills in order for them to use internet safely and reliably. This is why we continually improve our systems and ensure 24/7 availability of our helpdesks to help our customers resolve their privacy and security problems. We also help protect the Netherlands against cybercrime.

Culture and organization

Privacy and security are an integral part of our business. To embed privacy and security even better in our organization, we continued our program to increase employee awareness of privacy and security and to stimulate and monitor the required behavior according to our internal policies. Our managers have a leading role in this program: they have to inspire employees with their commitment and by acting as a role model. The awareness program is a continuous journey and is therefore named 'The Security & Privacy Journey'. In 2013, we organized a company-wide awareness week with several workshops and presentations as part of the Dutch initiative 'Alert Online'. A new e-learning program was launched in the first quarter of 2013 including specific privacy and security sections to train KPN personnel in the Netherlands.

Security

Security is a matter of both technology and of the way people deal with this technology. First and foremost, every individual is responsible for taking security-enhancing measures such as installing virus scanners and choosing a safe password. However, the security challenges we face are simply too big for individuals and individual companies to cope with alone. We therefore cooperate with businesses, government and knowledge partners, both in the Netherlands and internationally. KPN works with champions in the security domain, which also strengthens our own role in this area. We help our customers with cyber security in the best possible way. To ensure privacy and security of our services throughout our supply chain, we also translate privacy and security requirements to our suppliers.

In 2012, KPN introduced the Chief Information Security Office (CISO), whose tasks include responsibility for the security of our IT and our TI architecture. In 2013, the CISO was further enhanced, focusing on three main pillars: Prevent, Detect & Verify and Respond. We also revised and updated the KPN Security Policy framework.

The CISO REDteam was introduced in 2013 and is KPN's ethical hacking team. This team is involved in security tests of KPN applications and services to ensure that our customers' data is safe from unauthorized access, modification and loss. The CISO REDteam demonstrated its competence by participating in the Global Cyberlympics competition and becoming European Champions for 2013. The team furthermore contributed to and took part in security community events such as the international technology and security conference Observe. Hack. Make. (OHM) to share knowledge and create awareness. In addition to the CISO REDTeam, KPN is willing to cooperate with anybody who identifies a potential security leak, provided they use their expertise responsibly and respect KPN's Responsible Disclosure code.

A proactive attitude is crucial in being able to detect and defend against the rapid nature of evolving and persistent threats. The KPN-CERT (Computer Emergency Response Team) comprises technical experts who follow an industry standard incident response methodology which has been designed and tested to respond to attacks. The KPN-CERT continued to mature in 2013 and has continually displayed its system and network forensics as well as incident handling capabilities. The KPN-CERT closely aligns with other CERTs worldwide, receiving and sharing knowledge and information on attacks and incidents. This allows us to respond to increasingly sophisticated and targeted attacks against KPN customer data and ensure the preservation of commercial advantage and customer confidence. By participating in this community, KPN-CERT does not only gain information that strengthens KPNs security but also provides information to others working on a more secure internet worldwide.

Security Operations Center (SOC)

In addition to the CISO, KPN runs the KPN Security Operations Center (SOC) that monitors the security of the KPN services. The KPN SOC monitors the KPN systems and networks 24/7. The SOC looks for vulnerabilities that are subsequently strengthened and searches for people looking to abuse KPN services or trying to steal confidential information. In doing so, they contribute to the reliability and safety of KPN services.

Physical security

Information security and 'traditional' forms of security cannot be seen apart. Therefore, the security policy also includes policies on the security of our buildings, assets and personnel security. In 2013, we focused on further improving our physical access controls and pre-employment screening of personnel and hired staff. In the ISO 27001-certification programs for information security management, KPN's physical security showed positive testing results.

Security incidents

All employees can and must report security and compliance incidents and suspected fraud to the KPN Helpdesk Security, Integrity and Compliance. The number of incidents reported has increased by 20% in 2013 to 13,613, mainly caused by incidents related to external telecom fraud (originated outside our organization) and the new reporting obligations on potential data breaches. Incident reports are investigated and if required new security measures are implemented in order to prevent recurrence of these incidents. Internal integrity and security incidents are investigated and breaches of policies and internal fraud lead to disciplinary actions. The number of disciplinary investigations increased in comparison to 2012 and was 594 (2012: 397). However, a share of this increase was caused by a change in the registration system.

A new law on data breach reporting was introduced in 2012; the amount of potential data breaches reported in 2013 remained relatively stable compared with 2012. The majority of the reported incidents appeared not to have led to an actual data leakage. Potential data breaches are assessed instantly to determine whether the reported incident is an actual data leakage. If it is an actual leakage, we take measures and authorities and other people involved are informed about the leakage.

Telecom fraud and abuse

Like all operators, we face the inherent risk of fraudulent use of our products and services. The pace of developments in the portfolio together with convergence of services creates new opportunities for fraudsters, while existing types of fraud are not diminishing. A small team of professionals within KPN Security works diligently to mitigate this risk.

Privacy

It goes without saying that we respect our customers' privacy and protect their personal and business data. We process the data of our customers according to our privacy statement. We could also use this information to improve our service to customers, for example to advise them on the best contract for their needs, but we will only do so if the customer agrees. We abide by all relevant privacy laws. In case of violations, we immediately take necessary actions.

Learning from incidents and Deep Packet Inspection (DPI)

In June 2013, the Dutch Data Protection Authority (CBP) announced its conclusions on its nearly two-year ongoing investigation on the usage of Deep Packet Inspection (DPI) by telecommunications operators in the Netherlands. The four largest telecommunications operators (including KPN) were subject to this investigation. Although certain violations of privacy law had been announced, the CBP concluded that KPN was the only operator that had ended all violations during the investigation. The violations of KPN concerned the anonymization process after data gathering and the storage of source data for network purposes. The CBP also concluded that KPN did not violate the Communication Secret, nor the customers' privacy by its use of DPI for network management purposes. Based on the findings of CBP, we created and implemented a set of Golden Rules for data processing throughout the company and implemented a new standard for anonymization of personal data.

Value of data

We continue to improve operational processes to facilitate customer choice in processing/using personal data. While being fully aware of the privacy (demands) of our customers we also recognize that the data in our networks can provide valuable information for our customers, for society or for commerce. There is a balance to be found and KPN attempts to play a key role in this debate: how to reach the benefits of this 'big data' without jeopardizing the privacy of our customers?

Internet safety

KPN wants all its customers to enjoy and contribute to the benefits of the internet in our digitized world, in a safe and informed way. To support this, KPN has developed initiatives for, participated in and made contributions to a broad spectrum of actions.

Together with 30 leading industry players, KPN joined Vice President of the European Commission Neelie Kroes in her invitation to collectively enhance internet safety for kids. This collective approach has been demonstrated on an EU and national level. In the Netherlands, for example, the reporting mechanism 'Meldknop' (www.meldknop.nl) was introduced and made available for young people seeking direct support for problems on the Internet, like cyber bullying. KPN supported in cooperation with knowledge partner 'Mijn Kind Online' awareness and training on how to explore the opportunities of the internet. Our free, downloadable child-friendly web browser 'MyBee' supports parents in letting their children access the internet in a safe and age appropriate way. Parental supervision when using our products and services is part of our design of services, for instance in our interactive TV offerings. KPN supports the hotline 'Meldpunt Kinderporno' which aims to prevent and stop child sexual abuse. The 'Notice and Take Down' code of conduct adopted by KPN (and many others) is an essential instrument in the ambition to prevent access to hosted material that is manifestly unlawful.

Besides the support given to our customers to defend themselves against malware entering their systems, via products 'PCveilig' and 'Toestelveilig' for PC's and mobile devices, it is essential to share information indicating a possible contamination with customers as soon as possible. The Abuse Team of KPN takes decisive action to assist its customers if information on contamination becomes available. Together with colleague operators and top level domain registrars, we launched the initiative for an abuse information exchange, which contributes to the intelligence gathering process, obtaining the latest information about cyber threats for our customers.

Perception

We invest in the safety and security of our network. We also want customers to feel that their data is in safe hands with KPN. In an external independent research performed in 2013, 69% of the respondents felt that their data is safe with KPN.[1] We thus did not reach our target of 70%. In 2014 we maintain our current KPI and we aim to achieve a "yes" from 70% of respondents.

To create awareness and share knowledge, the Chief Information Security Officer and the Privacy Officer held various external presentations throughout 2013, on topics such as data breach notification acts, dos and don'ts on the usage of personal data, fighting cybercrime and protecting KPN's network.

For more information on Privacy & Security business initiatives and achievements, see the segment chapters of this report.

Ambition

In 2014, we will give a broader insight in our achievements on security by setting targets on helping customers who were unintentionally infected by malware. For 2014, we aim to successfully handle 98% of abuse reports by KPN customers within 8 hours. In order to find out how people feel their data is in safe hands with KPN, we will start measuring how many of our customers choose opt-in for sharing personal data on traffic and roaming with KPN. For 2014, we aim to have 250 thousand customers choosing this option.

1) Measured as 'top 3 companies where my data are safest' from a list of 12 key telecoms/internet providers in the Netherlands.

Risk Management and Compliance

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

Risk appetite

KPN has set itself clear strategic objectives as explained in the strategy section of this report. Pursuing any business objective inevitably leads to taking risks. Risks can jeopardize those objectives in various ways. Each type of risk encountered, is being dealt with in a manner and with the intensity that matches the nature and size of the risk in relation to the risk appetite of the KPN Board of Management. The risk appetite is the total residual impact of risks that KPN is willing to accept in the pursuit of its (strategic) objectives. The risk appetite per strategic objective or risk area is determined annually by the Board of Management. These risk areas comprise themes such as financial, strategic, compliance and (information) security themes.

Effective risk management is a key success factor for realizing the strategic objectives. Risk areas with a low risk appetite and thus a low acceptable residual risk require strong risk management. Risk areas with a high risk appetite need less risk management effort.

Principal risks

The table on page 70 and further shows the principal strategic, operational, financial, financial reporting, regulatory and compliance risks KPN is facing and the mitigating factors and initiatives taken to manage these risks. Please note that this is not intended to be an exhaustive analysis of all risks affecting KPN and 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, financial reporting regulatory and compliance objectives. It provides reasonable but not absolute assurance against material misstatement or loss. To manage risks in general, KPN has combined elements of KPN's existing internal Risk Management and Control System into an overall control framework, which satisfies the relevant criteria as set forth by the Committee of Sponsoring Organizations of the Treadway Commission (based on the Integrated Internal Control Framework). Some key components are described below. The Internal Risk Management and Control system is managed by Group Compliance & Risk Management; the Group Compliance and Risk Officer directly reports to the CEO of KPN.

Integrity, culture and awareness

KPN has continued to improve its integrity, culture and awareness program. Issues like integrity and awareness are presented and discussed in team meetings, workshops and specific trainings. KPN strives for a business culture where compliance and integrity is embedded in the DNA of the employees. Four major initiatives are 'tone at the top', code of conduct, whistleblower procedure and the Business Control Framework.

Tone at the top

The attitude and behavior of KPN top management serves as an example for all KPN employees. In 2013, various 'meaningful conversations' dinners were held, in which themes like company culture, integrity, compliance, security and common values were discussed extensively among top management. At the end of 2013, a combined workshop was held, in which they agreed on the desired example behavior (so called 'keystone habits'). KPN's top management is now in the process of making the shift towards the agreed example behavior.

Risk Management and Control System at KPN

Board of Management oversight

Strategic risk Assessment

Market developments
Intensified competition

Mergers and Acquisitions
Macro-economic conditions
Reputation risks

Investments in licenses
Disruptive technologies
Other strategic risks

Operational and Financial risk Management

Reliable financial reporting

Compliance risks

Security and
Continuity risks

Operational risks
Financial risks
Other risks

Integrity, culture and awareness

Code of Conduct

KPN is conscious of its social and ethical responsibilities and wishes to ensure that work practices across the Company are compliant with the law and regulations and consistent with social and ethical norms. For this purpose, KPN has a Code of Conduct, which sets out the key values: personal, trust and simplicity. KPN can be held accountable for its performance by all of its stakeholders (customers, shareholders, employees, business associates, competitors, environmental organizations, international business relations and the community in the broadest sense). The Code of Conduct is available on the KPN website (www.kpn.com). KPN continuously updates its Code of Conduct and the underlying compliance policies, based on new and changed laws and regulation and communicates these via classroom trainings and e-learnings. In 2013 a new e-learning named 'Get the Code' was launched. Over 15 thousand employees have successfully completed this e-learning. Passing the 'Get the Code' exam is a annual requirement for most employees in the Netherlands.

Whistleblower

The Speak-Up line (formerly known as the whistleblower procedure) empowers all employees and external parties to (anonymously) report misconduct of KPN employees. The Speak-Up line was personally promoted by the CEO of KPN, specifically asking people to speak up if they observe (suspected) misconduct. Also, we simplified and improved the procedure to speak up. The number of reported issues increased in 2013 compared to previous years to 28 (2011: 5 and 2012: 3). We believe that the improved procedure and attention for the changes in 2013 have contributed to the increase in reports and we will remain to actively promote this topic.

Business Control Framework

The Business Control Framework (BCF) contains all corporate policies and guidelines that are mandatory for KPN segments and entities. 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.

Strategic Risk assessments

Business planning and review cycles

In order to fulfill KPN's strategy, the Board of Management and the management of the various segments discuss and define targets and objectives. These targets and objectives are detailed in a strategic business plan that covers a three-year period. This is the basis for operational plans per segment. During monthly reviews, management of each segment discusses segment performance with the Board of Management. Progress over time and performance compared to the business plan are also discussed. The business risk management approach of KPN is integrated in the Planning and Control cycle. This implies that every quarter, segments perform a 'most likely' forecast four to six quarters ahead on their main financials and key performance indicators (the 'Rolling Forecast'). Combined with the Rolling Forecast, segments identify the main risks and opportunities, so a bandwidth around expected performance can be determined. These risks and opportunities are discussed during the business reviews with the Board of Management.

Operational and Financial Risk Management

Operational and Financial Risk management comprises a wide range of risks, such as Compliance risks, Reliable Financial Reporting risks, Security and Continuity risks, Corporate Social Responsibility risks, financial risks, tax risks and other risks.

Reliable Financial Reporting and Compliance (GRIP)

KPN has an integrated risk management approach and control framework called 'GRIP' (Governance and compliance, Risk management, Internal control and Processes). GRIP comprises two main streams: 'Internal control over financial reporting' and 'Compliance Risk Assessment Framework.' The controls within GRIP are tested and assessed for effectiveness by dedicated staff year-round. The CFO of KPN reviews compliance of the segments with the requirements of the GRIP framework and discusses emerging issues and their timely resolution. KPN is continuously improving the effectiveness and efficiency of the internal control frameworks. In 2013 KPN further enhanced the GRIP approach with more focus on 'understanding the business' and more focus on key risks.

The stream 'Internal control over financial reporting' ensures with a reasonable level of assurance that material misstatements in KPN's annual accounts are timely prevented or detected. Each quarter, Risk Management and Internal Audit assess the overall effectiveness of the GRIP framework before publication of the quarterly figures. The internal evaluation conclusions were in line with the observations discussed in the Board Report of the external auditors as part of their audit of the 2013 Financial Statements.

The stream 'Compliance Risk Assessment framework' (CRA) comprises an integrated framework which oversees risks related to compliance with the Dutch Telecommunications Act, competition laws and privacy regulations. For these risks, relevant processes and controls have been implemented and are continuously monitored. This means that the compliance controls are tested and assessed for effectiveness by dedicated staff all year round. Each quarter, KPN assesses the overall effectiveness of the CRA framework. Also each quarter, a compliance report with a broader scope is drafted, monitoring the timeliness of implementation of new laws and regulations as well as the quality of incident reporting and compliance training. These reports are reviewed by Internal Audit and discussed with the Board of Management, segment management and the ACM (Autoriteit Consument & Markt). During 2013, ACM maintained increased supervision which was established in December 2011.

An external review was conducted to assess the effectiveness of KPN's compliance organization. The overall outcome was positive and the report stated that no control measures were found to be fully ineffective and that the 'three lines of defense' model is established in the KPN organization. The results, consisting of both positive findings and points of attention were shared with the ACM and the Board of Management.

Each quarter, management of the segments provides the Board of Management with an assurance letter (Document of Representation) regarding the reliability of their financial reporting and compliance with Telecommunication laws and internal policies.

Security and Continuity Risks

In 2013, the security and continuity organization was strengthened through the implementation of necessary structure and capabilities by the Chief Information Security Office (CISO). Key CISO achievements in 2013 are the creation of the KPN Security Policy, embedding a structured security testing program through the Portal Authority, proving KPN's excellence in security 'hacking' by achieving third place at the Global Cyberlympics competition and the publication of the CERT Annual Report.

In 2014, the CISO will begin execution of the KPN Security Policy (KSP) implementation plan. This plan defines a dual track approach which is made up of a 'security by design' and a 'security in operations' stream. The KSP will be implemented in a phased approach by conducting activities that have achievable objectives which are part of KPN's overall security strategy. The CISO ethical hacking team, the REDteam will expand its security test capabilities by setting up a malware analysis and hardware hacking lab, whilst the KPN CERT team will expand its offering by adding forensic services to its capabilities.

The CISO Office is working on the project 'KPN Schoon' to improve the level of IT security of KPN. The program aims to prevent 'opportunistic hackers' from successfully hacking KPN. 'KPN Schoon' has already scanned 90% of the KPN NL network for IP security risks. In the fourth quarter of 2013, the project team started solving the main IP security risks. Currently 30% of the identified risks have been mitigated. By implementing measures such as patching, hardening, segmenting and switching off systems, KPN in the Netherlands achieves a better security level on the outside facing part of the KPN network and the internal systems and connections are better protected against cyber security incidents. The scope is all systems in the Netherlands for which KPN has operational management responsibility, including those that KPN manages for its customers. Starting in the first quarter 2014, systems of all KPN participations and subsidiaries in the Netherlands will be taken into account as well. A full inventory of all systems of the relevant subsidiaries will be completed in the second quarter of 2014. Scanning and mitigation is executed in cooperation with these subsidiaries.

Corporate Social Responsibility (CSR)

Our focus on coping with major societal challenges is not free of obligations. If we would fail to address these concerns, KPN could face serious risks. We consider energy scarcity, attracting and retention of talented employees and protecting privacy and security to be the most important CSR-related risks for KPN today. By implementing our energy strategy, we reduce our dependency on fossil fuel and reduce our vulnerability to increasing energy prices as a result of scarcity. With our ongoing efforts in employee engagement, KPN tries to reduce the risk of loss of commitment of employees. Finally, while society rapidly becomes dependent on a vital ICT infrastructure, security threats increase simultaneously. We mitigate this risk by an extensive privacy and security program in order to safeguard customers' confidential information.

Financial Risk Management

Important financial risks are managed by the Corporate Treasury department. Starting points are the identified financial risks related to finance agreements, currency positions and insurance and their volatility, which is supported by scenario analyses. Clear boundaries are set by various policies related to currency risks, interest rate risks, counterparty risks and liquidity risks as approved by the Board of Management. Adherence to those boundaries is frequently monitored both prospectively and retrospectively.

For more information regarding Financial Risk Management at KPN, reference is made to Note 29 of the Consolidated Financial Statements.

Tax risks

Tax risks are monitored by the Corporate Fiscal Affairs department. Dutch tax risks are managed and governed based on a covenant 'Horizontaal Toezicht' between KPN and the Dutch Tax Authorities with mutual responsibilities. KPN is committed to address tax issues at an early phase and comply with relevant tax laws. The Tax Authorities are committed to give rapid clarification on tax issues identified by KPN.

Results

Main results of KPN Risk Management were that we are well on the way to a high integrity corporate culture, we have clearly identified strategic risks and continuously monitor them. We have no material errors in the financial reporting nor material breaches with regard to compliance risks related to Telecom Law and privacy regulations. Other operational risks are properly monitored by business management or Corporate Center departments.

Penalties

In 2013, KPN was subject to 11 penalty-cases. These penalties amounted to approximately EUR 46 million. Out of this EUR 46 million, EUR 29.7 million relates to a fine by ACM relating to an alleged breach of the Telecommunications Law in relation to a public tender by the Dutch government in 2010. KPN has appealed this decision, as it believes the fine is disproportionate. EUR 8.5 million refers to a penalty-case that dates back to 2010 and was already reported in our 2010 report. In 2013, this penalty became irrevocable.[1] All penalties were for breaches of the law relating to telecommunication. Furthermore, KPN was involved in nine court cases in connection either with its designation as a party with significant market power on a particular market, or with the obligations imposed as a consequence and compliance therewith.

In 2013 the Dutch Advertising Code Committee gave a ruling (partially on appeal) on 12 advertising statements by KPN. In five cases the Committee ruled that the statement in question was wholly or partially in breach of the Dutch Advertising Code.

In the fourth quarter of 2013 ACM finished its investigation into suspected cartel activities between the three mobile operators (KPN, Vodafone, T-Mobile) in the mobile telecommunications market. ACM has concluded that there was no indication of any price-fixing agreements in this market. Nevertheless, the three operators have made a commitment to ACM that they will refrain from making public statements about future market behavior. In the first quarter of 2014 KPN will incorporate this commitment into its compliance program, which includes, amongst others, specific training with regard to this matter.

Internal Audit function

Internal Audit (KPN Audit) provides assurance to both the Board of Management and the Audit Committee concerning the 'In Control' status of KPN's segments and processes. The Chief Auditor reports to the 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. 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.

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 2012, in 2013 the Committee consisted of the directors of Corporate Control, Corporate Treasury, Internal Audit, Corporate Legal, Corporate Communication, Investor Relations, Corporate Fiscal Affairs, the Secretary to the Board of Management and the finance directors of the segments and the Divisions. The Committee met periodically in 2013 and reviewed disclosure controls and procedures and proposed public disclosures.

1) Due to a change in definitions, this penalty is included in both our 2010 and 2013 report.

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 and 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 2013 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.

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 2013 give a true and fair view of the assets, liabilities, financial position and profit or loss of KPN and its consolidated companies; and*
- *The Annual Report gives a true and fair view of the position as at December 31, 2013, the development during 2013 of KPN and its Group companies included in the annual financial statements, together with a description of principal risks KPN faces.*

The Hague, February 26, 2014

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

T. Dirks
Member of the Board of Management
and Chief Executive Officer E-Plus

J.F.E. Farwerck
Member of the Board of Management

Risks and countermeasures KPN Group

Category	Risk	Countermeasure
Intensified competition (mainly Consumer market)	• KPN could face an increased competition in consumer and lower end of business market, caused by new market entrants in (mobile) markets or by market consolidations in fixed market; competition based on price, increase of investment in customer acquisition and retention costs by competition, subscription options, coverage and service quality could lead to lower profitability and lower market shares.	• Maintain balance between profitability and incentives to customers • Innovative products and services to meet changing customer needs • Fast roll out of 4G • Superior network quality and improving NPS • Offer bundled services (triple-play, quad-play) • Invest in quality of service and execution power • Multi-brand strategy • Investments to upgrade KPN network speed to make copper more competitive • Further improve marketing and sales effectiveness • Integration of Business Market and Corporate Market • Strengthen distribution power with business partners, online and shops • Further enhance regionalization strategy and mobile data penetration in Belgium.
Adverse macro-economic conditions (mainly Business market)	• Continued gloomy macro-economic conditions: If economic climate would continue to decline, this could lead to lower revenue growth and lower profitability affecting our businesses both in the Netherlands and abroad and may lead to an impairment of assets. For business market the addition of new portfolio might not lead to revenue growth within the expected time frame.	• Innovation, develop new propositions • Swift response to new market developments and trends • Cost-cutting initiatives • Simplification program, this will lead to improved time-to-market, better quality of service and a simplified and agile organization. Additionally, this will also lead to a structurally lower level of operational costs.
Financing KPN and volatile financial markets	• The pressure on KPN's self-imposed financial framework may increase, in case of higher net debt levels and/or lower profitability. In that case, KPN would probably not be able to maintain its current credit ratings, which could negatively impact pricing and availability of financing resources.	• KPN has significantly strengthened its capital structure during 2013 through the issuance of equity and hybrid bonds • Maintaining a strong liquidity position and prefunding maturing bond redemptions • Commitment to investment grade credit levels • Monitoring and forecasting of metrics used by rating agencies • Anticipating future changes in methodologies used by rating agencies • Maintaining discipline in allocating capital to investment opportunities • Sale of E-Plus.
	• Uncertainty in financial markets, which could negatively impact pricing and availability of KPN's funding sources.	• Maintaining a strong liquidity position • Smooth redemption profile and upcoming bond redemptions financed well ahead • Diversification in funding sources, e.g. tapping different currencies, credit facilities • Active monitoring of counterparties, including measures to reduce counterparty risk • Sale of E-Plus.
	• KPN holds substantial cash balances, which could further increase following the sale of E-Plus. This could lead to high counterparty risks.	• Manage counterparty risks by spreading excess cash among sufficient number of strong counterparties.

Category	Risk	Countermeasure
Reputation risk due to operational and quality related incidents	• KPN's technical infrastructure and IT may be vulnerable to damage or service interruptions, operational issues and quality related incidents. These incidents may include network failure (e.g. hacking, failure of power supply, low coverage, cyber attacks that disrupt (parts of) the internet or insufficient customer services. Such incidents would have a negative impact on KPN's reputation and customer satisfaction and KPN's results.	• Monitor performance of networks (e.g. performance, traffic growth and utilization rate) and IT • Benchmark network quality and maintain investment level in network • Strengthen the IT infrastructure and continue implementation of new security policy • Back-up and recovery plans in case of emergencies • For business continuity in the Netherlands: internally continuity and disaster recovery programs including governance and training. • Regional roaming in which a part of the mobile voice traffic can be transferred to other operators in case of calamities and 'Commissie Vitaal' are examples of external programs • Continued acceleration of network roll-out in Belgium.
	• Simplification and quality: KPN may accomplish insufficient progress in realizing necessary quality improvements (NPS, First Time Right) and time to markets of new products and services is too long, which could lead to lower customer satisfaction/ NPS and lower motivation of employees.	• Execution of quality improvement programs like 'First Time Right' and 'Quality Circle' • Focus on drivers to improve Net Promoter Score (NPS) • Centralization of innovation and direct innovations and simplification on Executive level.
Sale of E-Plus	• The closing of the sale of E-Plus is conditional upon satisfaction or waiver of certain conditions. If the transaction will not be closed and finalized, this may lead to impairment risks on the assets and goodwill of E-Plus. Also, if the transaction will be terminated, KPN may need to participate in future frequency auctions in Germany (2013/2014); KPN may potentially not be able to acquire or to renew the required frequency blocks or may have to pay too high a price for the acquired spectrum. • As part of the consideration for the sale of E-Plus, KPN will receive a 20.5% stake in Telefónica Deutschland. This 20.5% stake will be recorded in KPN's books at fair value based on the listed share price of Telefónica Deutschland at completion of the sale. The fair value of this stake at completion of the sale could be lower than KPN management's estimated fair value at December 31, 2013 in which case an additional impairment of the E-Plus disposal group would have to be recognized. The amount of any additional impairment depends on the listed share price of Telefónica Deutschland at deal close. Reference is made to Note 18 in the Consolidated Financial Statements for further details.	• KPN will monitor the investigations of the relevant competition authorities of the European Commission and/or Germany • Board of Management will closely monitor progress and status of the sale and will closely support and cooperate with Telefónica S.A.
Acquisition of majority share in Reggefiber	• The acquisition of the majority of the shares in Reggefiber might not be approved by the regulator.	• If the acquisition would not be possible, KPN would continue the current joint fiber model with Reggefiber.

Category	Risk	Countermeasure
Inability to compete effectively in Belgium	• KPN is pursuing a challenger strategy in the Belgian mobile telecommunications market, and competes with large, established players. KPN's competitors in Belgium are larger established network operators that benefit from considerable financing, marketing and personnel advantages, broad brand-name recognition, perceived network quality and a deeply entrenched customer base. KPN may prove unable to compete effectively with these established players, resulting in a material adverse effect on its business, financial condition and results of operations.	• Development of KPIs to monitor the progress and success of an enhanced challenger strategy • Continued acceleration of network roll out in Belgium • Fixed – mobile integration • Mobile broadband network minimally on par with competition • Customer differentiators like price/value leadership and enhanced customer experience • Business model differentiators like improvement of brand positioning and segmentation, regionalization and simplicity, cost leadership initiatives and innovative wholesale and operational partnerships • Encourage the DNA of a challenger in the company's culture • New Mobile Virtual Network Operator (MVNO) contracts.
Lack of return on investments	• High investments in fiber, copper or mobile infrastructure, including licenses, may not be recovered. The mobile market is characterized by increasing competition, accelerating changes in customer behavior, increasing prices pressure and shrinking markets, on the other hand large scale investments in infra-structure are required to meet capacity demands. For the fixed market, fiber roll-out may not meet expectations and activations may fall behind, not reaching the required coverage ratio. This could lead to impairments of assets and increased liabilities related to the options, investment in licenses and goodwill.	• Balance the investments in copper upgrades and fiber-to-the-home rollout • Continuous monitoring of performance, e.g. utilization and return on investment per area • Minimize risks in business cases • Maintain balance between profitability and growth • Decision-making based on business cases (including continuous monitoring) • Develop strategic partnerships and investigate options for network sharing • Centralization of management of capital expenditures.
Non-compliance with regulation and impact of new regulatory decisions	• KPN may face issues in relation to non-compliance with regulation or lack of information security (theft or loss of information caused by e.g. cyber-attacks and similar events). These incidents could have a negative impact on KPN's reputation and relation with regulators and/or supervisors • New regulatory decisions (e.g. related to MTA and roaming) in the EU or the Netherlands could impact KPN's future operations and profitability.	• Improving and maintaining a robust control framework dedicated to complying with Telco regulation (CRA framework) • Proactive stakeholder and reputation management including dialogue with regulators on predictable and pro-competitive (wholesale-based) regulation to minimize interventions in retail markets, consistently over time • Strengthening the IT infrastructure and continued implementation of a new security policy • Strengthened and centralized organization for Compliance and Risk management – Maintenance of internal control framework – Further roll out of compliance training sessions for staff and management – An e-learning about the company codes for all staff members of KPN in the Netherlands – Conducting of internal compliance investigations – Surveys and culture improvement programs.
Disruptive technologies and failure of introduction of new products and services	• KPN's business model and financial performance in the past two years have been impacted by (disruptive) technologies, such as smartphones and OTT (over the top) services. KPN's response to new technologies and market developments and ability to introduce new competitive products or services in the market will be essential to KPN's performance and profitability in the long run • The introduction of new products and services such as new propositions may not be successful and/or timely. This could result in a market share loss and reduced profitability.	• Develop new business models and new pricing models • Closely monitor market developments and trends in customer demands • Build lean and mean and flexible business organization • Develop strategic partnerships • Maintain multi-brand strategy with differentiated propositions and develop fallback scenarios • Develop strategic partnerships and non-organic growth.

Category	Risk	Countermeasure
Dependence on suppliers	• Supplier and outsourcing/offshoring risks: KPN could depend too heavily on the ability to obtain adequate supplies of telecommunications equipment, related software and IT services; KPN's contractors' ability to build and roll out telecommunications networks on schedule, and suppliers' ability to deliver dependable technical support. This could lead to inability to deliver the required services at the right price and quality level.	• Establish a strong demand organization that defines, enforces and monitors compliance with terms of contracts with suppliers and outsourcing parties and prepare re-transition plans as fallback scenario • Perform audits on outsourcing contracts • Implement a well-defined outsourcing process (toll gates, risk analyses, etc.) • Reduce number of suppliers and improve supplier selection criteria • Create supplier default scenarios.
Low equity/ impairment of assets	• Changes in assumptions such as profitability, long term growth and discount rate could negatively impact the value of Cash Generating Units and trigger an impairment.	• Improve profitability of the KPN Group • Implement a solid investment policy.
Pensions	• Specifically for the defined benefit schemes of KPN, (unexpected) movements in interest rates, equity values, inflation rates and mortality rates could lead to volatility in KPN's equity, cash positions and income statement. At the end of 2013, the coverage ratios of the largest KPN pension schemes in the Netherlands were such that no recovery payments are necessary. However, a decrease in the coverage ratios below the minimum required ratios, for example due to turbulence in the financial markets, could lead to further recovery payments. For further information about KPN's pension schemes, including the funding requirements and a sensitivity analysis, reference is made to Note 22 to the Consolidated Financial Statements.	• Closely monitor the development of the pension funds, including coverage ratios • Implement a project team to evaluate KPN's pension risks, determine the strategy and investigate risk-mitigating options • Transfer of pension obligations to insurance companies.

Regulatory developments

Introduction

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

Next generation access networks and the single market for electronic communications

On September 11, 2013, EU Commissioner Kroes presented a reform package for the European regulation, consisting of a Recommendation to promote investment in Next Generation Access networks ('NGAs') and a proposed regulation to stimulate the internal market for electronic communications, to achieve a 'Connected Continent'.

The Recommendation of the Commission aims at providing durable regulatory guidance to enhance the transition to the next generation of high-speed networks, by recommending balanced regulation on unbundled access to copper networks and reducing regulation on NGAs if defined non-discrimination obligations are applied.

The proposed regulation includes directly applicable regulation on a number of issues that the Commission analyzed as prohibiting a single EU market for electronic communications. The proposal includes a new EU Authorization for European communication providers, a strengthened coordination of frequency allocation (with veto powers for the Commission), harmonized European wholesale access products, detailed harmonized end-user protection rules (including on international call tariffs, net neutrality, contract duration and switching of providers) and an amendment to the roaming regulation. Many details of the proposal are criticized by stakeholders, but defended by the Commission as a package that includes 'sour' and 'sweet' for stakeholders. The proposal is aimed to entering into force on July 1, 2014 (and July 1, 2016 for the end user protection), but will probably not be adopted formally before that date as it has to be accepted by Parliament and the Council where it is still under discussion in a first reading.

International roaming on mobile networks

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

The regulated price caps will further decrease annually until July 2014 and include wholesale as well as retail caps for voice, SMS and data tariffs. Since July 2012, MVNOs also can benefit from the regulated wholesale rates.

As of July 2014, retail roaming services must be offered separately from national services and can be obtained from alternative roaming providers. Furthermore, operators need to facilitate that data roaming services can directly be offered by foreign operators in their territories.

The above-mentioned proposed regulation on the internal market for electronic communications includes exemptions from the structural measures for operators that voluntarily would offer 'roam-like-home' retail tariffs under certain conditions and prohibits retail tariffs for incoming calls while roaming abroad.

Market analysis decisions fixed markets (the Netherlands)

In the Netherlands, the national regulatory authority OPTA, the national competition authority NMa and the Consumer Authority have merged into the Authority Consumer and Market (ACM) as of April 1, 2013.

KPN is designated by ACM to have significant market power on some of the national fixed telecommunications markets. The current decisions thereto came into force on January 1, 2012 (unbundled access to copper networks and FttH), May 1, 2012 (wholesale telephony markets) and January 1, 2013 (high-quality wholesale broadband access and wholesale leased lines). On these markets, access obligations, tariff regulation (partly by safety caps based on the 2011 tariff levels) and margin squeeze tests are imposed. Tariff regulation on the wholesale telephony markets has been lifted for the market for single calls (e.g. PSTN), but has been maintained for the markets for two and more simultaneous calls (e.g. ISDN2 and more). The joint venture Reggefiber has significant market power on the market of unbundled access to its FttH network. Furthermore, KPN has been designated as having significant market power in the retail telephony markets for two and more simultaneous calls, for which markets a margin squeeze test is imposed. On the market for low quality wholesale, broadband obligations for KPN have been lifted.

On December 18, 2013 the Trade and Industry Appeals Court (CBb) annulled the decision that came into force on January 1, 2013, by which KPN was designated to have significant market power in the market of unbundled access to KPN FttO networks, by which this market is unregulated unless ACM decides differently. Appeals, by KPN and other market parties, to the fixed telephony and high quality wholesale broadband and leased lines decisions are still running.

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

On August 5, 2013, ACM decided to regulate termination access tariffs, for all operators offering fixed telephony, on a 'pure BULRIC' cost methodology as recommended by the European Commission on a tariff level of 0.108 EURct/min. However, in August 2011, the CBb had decided on an earlier decision of (at that time) OPTA that applying the pure BULRIC methodology was violating Dutch law and ordered OPTA to apply a 'plus BULRIC' approach. On August 27, 2013, the CBb judged in an injunctive procedure that ACM's new decision seems materially not different from the earlier decision and decided as an interim measure that the tariffs should be set at the 'plus BULRIC' level of 0.302 EURct/min instead.

Market analysis decisions mobile markets (mobile call termination)

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

Tariffs in EURct/min, as of the dates specified			
The Netherlands	Sept. 1, 2011	Sept. 1, 2012	**Sept. 1, 2013**
All mobile operators	2.70	2.40	1.861[1]
Belgium[2]	Jan. 1, 2012	Jan. 1, 2013	
BASE Company	2.92 (3.11 after indexation)	1.08 (1.18 after Indexation)	
Proximus	2.46 (2.62 after Indexation)	1.08 (1.18 after Indexation	
Mobistar	2.62 (2.79 after indexation)	1.08 (1.18 after Indexation	

1) ACM decision of August 5, 2013, partially suspended by CBb and replaced by the 'plus BULRIC' level mentioned in the table.
2) BIPT decision of June 29, 2010.

With its decision of 2010, the National Regulatory Authority of Belgium adhered to the EU Commission's Recommendation on the regulatory treatment of fixed and mobile termination rates of May 7, 2009, to apply a 'pure BULRIC approach', which no longer takes into account various costs which had so far been considered when setting MTRs. On May 16, 2012, the Court of Appeal rejected the grounds of annulment petitioned by BASE Company. However, a procedure before the Constitutional Court on procedural issues led to the case being sent back to the Court of Appeal, which will have to annul the BIPT decision for procedural reasons, but may allow BIPT to subsequently adopt a refection decision. In February 2013, BIPT started preparation for a new cost model to be used as a basis for the regulation of MTR during the period 2014-2017. A new final BIPT decision is estimated not to be adopted before mid-2014.

In the Netherlands, as for fixed call termination, ACM decided on August 5, 2013, to regulate mobile call termination tariffs on a 'pure BULRIC' cost methodology at a tariff level of 1.019 EURct/min. On August 27, 2013, the CBb in an injunctive procedure decided as an interim measure that the tariffs should be set at the 'plus BULRIC' level of 1.861 EURct/min instead.

Licenses for mobile communications (the Netherlands)

In the Netherlands, KPN holds licenses for GSM900, DCS1800, UMTS, 2.6 GHz, DVB-T (Broadcast) and a number of licenses of minor significance. The majority of mobile licenses were granted after an auction in October – December 2012, which resulted in the following spectrum:

	KPN	Vodafone	T-Mobile	Tele-2
800 MHz	2*10[1]	2*10	–	2*10
900 MHz	2*10	2*10	2*15	–
1800 MHz	2*20	2*20	2*30	–
1900 MHz	–	–	14,6	–
2100 MHz	2*5	2*5	–	–
2600 MHz	30	–	25	–

1) Amounts of spectrum in MHz.

The new licenses (except for 1900 and 2100 Mhz) have a duration until 2030, in line with the 2600 MHz licenses that were auctioned in 2010. The 1900 and 2100 MHz licenses have a duration until January 1, 2017 and are expected to be auctioned before that date.

Licenses for mobile communications (Belgium)

In Belgium, BASE Company holds licenses for GSM, UMTS and LTE frequencies in the 800, 900, 1800, 2100 and 2600 spectrum bands. Under the law of March 15, 2010, the existing 2G license has been renewed. BASE Company challenged the Act of March 15, 2010 before the Constitutional Court. Belgacom and Mobistar started a similar court procedure. The Constitutional Court referred questions to the European Court of Justice regarding the compatibility of the Act with EU law. The European Court of Justice ruled on March 21, 2013 that the Belgian Government was entitled to impose an additional license fee (and that the Act of March 15, 2010 is compliant with EU law) provided this fee is proportionate, non-discriminatory and is effectively intended to ensure that the 2G frequencies are used in an optimal way. The Belgian Constitutional Court ruled on October 17, 2013 that the Belgian Government was entitled to impose a license fee for the renewal of the 2G licenses of BASE Company, Belgacom and Mobistar. Following this judgment, BASE Company must pay approximately EUR 62 million for the renewal of its 2G license from July 2013 until July 2018.

On November 12, 2013, BASE Company, Belgacom and Mobistart each acquired a 20-year 2x10MHz 800MHz license for a total consideration of EUR 120 million.

Germany (discontinued operations)

Market analysis decisions mobile market

In Germany, E-Plus has also been designated as having significant market power in the markets for call termination on its mobile network. This table provides details of the latest tariffs:

Tariffs in EURct/min, as of the dates specified			
Germany[1]	Dec. 1, 2010	Dec. 1, 2012	**Dec. 1, 2013**
E-Plus	3.36	1.85	1.79
T-Mobile	3.38	1.85	1.79
Vodafone	3.36	1.85	1.79
O2 (Germany)	3.39	1.85	1.79

1) BNetzA decision of July 19, 2013.

BNetzA ruled on July 19, 2013, that the earlier (November 16, 2012) announced preliminary MTA tariffs retroactively apply as of December 1, 2012, notwithstanding the fact that the EC had expressed serious doubts for not applying 'pure BULRIC'. The decisions are based on a bottom-up cost model which identifies the cost of efficient service provision instead of the pure BULRIC recommended by the EU Commission.

For other reasons, all market parties have nevertheless launched preliminary and main proceedings against these BnetzA decisions. It is unclear when respective court decisions are to be announced.

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

Licenses for mobile communications

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

On June 24, 2013, BNetzA published a draft decision in the proceedings which deal with the allocation of all 900 MHz and a major part of the 1800 MHz frequencies after 2016 for public consultation. BNetzA announced a decision to proceed two-fold: on the one hand, it would prolong 2x5 MHz 900 spectrum for every incumbent MNO for about 15 years to uphold ubiquitous voice continuity. On the other hand, it would auction off the remaining 900, the 1800 and the new 700/1500 MHz frequencies (if available) also for about 15 years. In this context, BNetzA assumes that 2x30/2x40 MHz 700 MHz spectrum (Digital Dividend 2) and 1x40 MHz 1500 could become available for mobile use shortly if a consensus among all relevant stakeholders (including broadcasters) can be reached.

In the consultation, a number of stakeholders have pointed to the potential impact of the Telefónica Deutschland-E-Plus merger on these proceedings and asked BNetzA to stop the clock until the merger proceedings have been finalized. Since then, no further procedural steps have been announced by BNetzA.

Corporate Governance

'Our governance is based on the 'Large Company Regime', balancing the interest of all stakeholders. We comply with almost all best practices of the Corporate Governance Code. And where we deviate, we have good grounds to do so – in the interest of our Company and its stakeholders.'

Jasper Spanbroek, Chief Legal Officer & Company Secretary

The corporate governance framework of KPN is based on the requirements of the Dutch Civil Code, the Dutch Corporate Governance Code as well as applicable securities laws. Furthermore, the Company is governed by its Articles of Association and internal procedures, such as the by-laws of the Board of Management and the Supervisory Board.

Legal structure of the Company

Royal KPN N.V. is a public limited liability company established under the laws of the Netherlands, with ordinary shares listed on NYSE Euronext Amsterdam. The Articles of Association of KPN were last amended on April 24, 2013.

KPN has a two-tier management structure with a Board of Management and a Supervisory Board. KPN qualifies as a 'large company' (structuurvennootschap) within the meaning of the Dutch Civil Code and applies the relevant rules of Dutch corporate law. The corporate governance system of KPN includes the General Meeting of Shareholders, the Board of Management and the Supervisory Board. The Board of Management is entrusted with the management of the Company. The Supervisory Board oversees strategic and commercial policymaking by the Board of Management and the way in which it manages and directs KPN's operations and affiliated/associated companies. In the performance of their duties the members of the Board of Management and the Supervisory Board are guided by the interest of the Company and the enterprise connected therewith. The Board of Management is accountable to the General Meeting of Shareholders in accordance with Dutch legislation.

Please see section 'Composition of the Boards' starting on page 80 for information on the composition of the Board of Management and the Supervisory Board.

Shareholders

Share capital

The KPN authorized capital stock totals EUR 2.4 billion, divided into 5 billion ordinary shares of EUR 0.24 each and 5 billion preference shares B of EUR 0.24 each. As of December 31, 2013, a total of 4,270,254,664 ordinary shares and 4,258,098,272 preference shares B were outstanding. The Extraordinary General Meeting of Shareholder held on January 10, 2014 has adopted the resolution to cancel all outstanding preferred shares B, as well as to reduce the nominal value of the share to EUR 0.04 each, and the authorized capital to EUR 720 million, divided into 9 billion ordinary shares and 9 billion preference shares B. These amendments are expected to become effective in March 2014.

Dutch law prohibits KPN from casting a vote on shares it holds. The ordinary shares and the preference shares B 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.

The General Meeting of Shareholders

The General Meeting of Shareholders has the authority to appoint members of the Supervisory Board upon binding nomination by the Supervisory Board and to dismiss the Supervisory Board. The General Meeting of Shareholders is also entitled to approve the remuneration policy and share (option) plans for the Board of Management. Furthermore, a number of decisions are subject to the approval of the General Meeting of Shareholders, including decisions on company transforming transactions, adoption of annual accounts and dividend proposals and various corporate matters such as proposals to amend the articles of association of the Company, to (de)merge or to dissolve the Company or to reduce the issued capital of the Company.

Within six months of the end of a fiscal year, an Annual General Meeting of Shareholders 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 Annual General Meeting of Shareholders. Shareholders who individually or collectively represent at least 1% of the issued capital or who, according to the Official Price List of NYSE Euronext Amsterdam represent at least a value of EUR 50 million have the right to propose items for the agenda. Every shareholder has the right to attend a General Meeting of Shareholders in person or through written proxy, to address the meeting and to exercise voting rights.

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 Annual General Meeting of Shareholders 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 General Meeting of Shareholders.

Purchase of shares in the Company's own capital

The shareholders authorized the Board of Management (for a period of 18 months until October 10, 2014) to purchase shares in the Company's own capital with the aim to support KPN's management and or employee incentive plans and in accordance with the Articles of Association of the Company, at a price per share of at least EUR 0.01 and at most the highest of (i) the Quoted Share Price plus 10% and (ii), if purchases are made on the basis of a program entered into with a single counterparty or using a financial intermediary, the average of the Volume Weighted Average Share Price during the effective 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 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 between 9:00 am (CET) and 5:30 pm (CET) adjusted for block, cross and auction trades.

Supervisory Board

The Supervisory Board oversees strategic and commercial policymaking 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 Annual General Meeting of Shareholders upon binding nomination by the Supervisory Board. The Central Works Council has an enhanced right to recommend persons for nomination up to one-third of the Supervisory Board. The Supervisory Board must nominate the recommended persons unless it is of the opinion that any such person would be unsuitable to fulfill the duties of a Supervisory Board member, or 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. Members of the Supervisory Board resign according to a schedule set by the Supervisory Board. A member steps down at the first Annual General Meeting of Shareholders following his four-year term in office. In line with the Dutch Corporate Governance Code, members can in general 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 last amended on April 22, 2013 to comply with diversity principles of Dutch law. The profile is available on KPN's website.

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 KPN's website.

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 2013 can be found in the section 'Composition of the Boards' starting on page 80.

Management

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

Executive Committee

Whereas the Board of Management is charged with the management of the Company, the Executive Committee (ExCo) is entrusted with providing support, expertise and recommendations to the Board of Management regarding:

- Setting, implementing and achieving KPN's (long term) objectives and strategy
- Ensuring that business issues and practices are shared across the Company
- Discussing, sponsoring and implementing KPN policies, particularly related to risks
- Preparing the annual accounts, the annual budget and important capital investments
- The management of the Company's leadership development

A separate ExCo for KPN Netherlands is entrusted with short term operational management (rolling forecast timeframe) and strategic decisions with segment relevance.

Corporate Social Responsibility (CSR) governance

CSR is embedded in accordance with the hierarchical structure within KPN. Our CEO carries final responsibility. Every CSR theme is assigned to a member of the Executive Committee, who is responsible for stakeholder dialogue, targets, progress and results. Operational activities are delegated to a theme-owner, who reports back to the responsible ExCo member. Every six weeks, these theme-owners come together in the Steering Committee 'KPN in Society', in order to align initiatives and review progress against targets. This Steering Committee is chaired by KPN's CSR manager, who is responsible for the overall reporting, approach and coherency. Twice a year, CSR-data is collected and compared to targets. The CSR-manager reports to the Director Corporate Communication & CSR, who is responsible for the communication to the Board of Management.

To ensure business commitment, managers of all departments involved in one of the themes, take part in the steering committee for that CSR theme. Those departments, headed by the theme-owner coordinate activities and report the CSR data to the CSR manager and the responsible ExCo member.

In order to obtain sufficient outside reflection, since 2011 an Advisory Board consisting of external experts discusses twice a year CSR issues and communications with the Steering Committee 'KPN in Society'.

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 Annual General Meeting of Shareholders to answer questions pertaining to the auditor's report as included in the Annual Report. The Audit Committee approves every engagement of the external auditor, which requires pre-approval by the internal auditor as delegated authority in order to avoid potential breaches of the external auditor's independence. Both the external and internal auditor attend (parts of) the Audit Committee meetings. The Annual General Meeting of Shareholders appoints the external auditor on a yearly basis, upon recommendation by the Board of Management and the Supervisory Board.

Compliance with the Dutch Corporate Governance Code

As a Dutch listed company, KPN applies the Dutch Corporate Governance Code.

The current Dutch Corporate Governance Code entered into force on January 1, 2009. KPN fully endorses the underlying principles of the Dutch Corporate Governance Code which is reflected in a policy that complies with all best practice provisions thereof, with the exception of only the following provisions:

Best practice II.2.8: "The remuneration in the event of a dismissal may not exceed one year's salary (the 'fixed' remuneration component). If the maximum of one year's salary would be manifestly unreasonable for a management board member who is dismissed during his first term of office, such board member shall be eligible for severance pay not exceeding twice the annual salary." Mr. Dirks joined the Board of Management of KPN on November 8, 2011. Mr. Dirks' employment contract contains a non-competition clause for which he will, as required by German law, receive compensation equal to 50% of his German base salary and short-term incentive during a maximum period of 12 months. In case of a termination of his German contract he will receive this compensation on top of the severance pay of one year's base salary that may be due under KPN's remuneration policy.

Best practice III.2.1: "All supervisory board members, with the exception of not more than one person, shall be independent within the meaning of best practice provision III.2.2." On April 10, 2013, Mr. García Moreno Elizondo and Mr. Von Hauske Solís were appointed as members of the Supervisory Board. Both are officers of KPN's major shareholder, América Móvil, and are therefore not independent within the meaning of the Dutch Corporate Governance Code. Mr. García Moreno Elizondo and Mr. Von Hauske Solís were appointed pursuant to the relationship agreement entered into by KPN and América Móvil on February 20, 2013 in relation to the support of KPN's capital raise by América Móvil.

Best practice II.3.5: "A person may be appointed to the supervisory board for a maximum of three 4-year terms." On April 10, 2013, Ms. Van Lier Lels was reappointed as a member of the Supervisory Board for the term of one year, whereas she already served three 4-year terms. The appointment of Ms. Van Lier Lels was based on the enhanced right of recommendation of the Works Council and is important for the Company to ensure continuity within the Supervisory Board.

Deviations from the Dutch Corporate Governance Code are explained in accordance with the "apply or explain" principle. The text of the code as well as KPN's application thereof is available on KPN's website.

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

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

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

The views of the Board of the Foundation, summarized above, have been published on 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.

Composition of the Boards

Supervisory Board

KPN's Supervisory Board currently consists of eight members. The composition of the Supervisory Board changed in 2013. At the Annual General Meeting of Shareholders of April 10, 2013, Mr. C.J. García Moreno Elizondo and Mr. O. Von Hauske Solis were appointed as members of the Supervisory Board upon the nomination of America Móvil, based on the relationship agreement between America Móvil and KPN. At the same time Mr. A.H.J. Risseeuw and Mr. M. Bischoff stepped down as members of the Supervisory Board. Mr. D.J. Haank (4 year term) and Ms. M.E. van Lier Lels and Mr. R.J. Routs (both 1 year term) were reappointed as members of the Supervisory Board at the Annual General Meeting of Shareholders in 2013. As of February 1, 2013 Mr. Spanbroek succeeded Mr. Van Rooij as Chief Legal Officer and Company Secretary.

All members of the Supervisory Board comply with clause 2:142a Dutch Civil Code, which limits the number of positions in a supervisory or management board that a director may hold.

Two vacancies will arise at the closure of the Annual General Meeting of Shareholders in 2014. Mr. R.J. Routs and Ms. M.E. van Lier Lels will step down as they have indicated upon their reappointment that they were only available for a limited period of one year.

J.B.M. Streppel

R.J. Routs

P.A.M. van Bommel

C.J. García Moreno Elizondo

J.B.M. Streppel

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

R.J. Routs

Mr. Routs was appointed as a member of the Supervisory Board on April 7, 2009 and has been the Vice-Chairman of the Supervisory Board since April 13, 2010. His current one-year term expires in 2014. Mr. Routs chairs the Remuneration and Organizational Development Committee and is a member of the Nominating and Corporate Governance Committee. From 2004 until his retirement in 2008, Mr. Routs was an executive board member at Royal Dutch Shell PLC. Before that he held various (senior) management positions at this company in the USA, Canada and the Netherlands. Mr. Routs is Chairman of the Supervisory Board of DSM, Chairman of the Supervisory Board of Aegon N.V., member of the Board of Directors of ATCO and member of the Board of AP Moller-Maersk Denmark and AECOM. Mr. Routs is a Dutch citizen and resides in Switzerland.

P.A.M. van Bommel

Mr. Van Bommel was appointed as a member of the Supervisory Board on April 12, 2012 and his term expires in 2016. He is a member of the Audit Committee. Mr. Van Bommel is currently member of the board of management and CFO of ASM International N.V., which is a world-wide operating supplier of semiconductor process equipment. Mr. Van Bommel is also non-executive director of ASM PT (Hong Kong). Before his appointment as CFO at ASMI, Mr. Van Bommel was CFO at Odersun (a start-up company in the solar industry), CFO at NXP and CFO at various divisions of Phillips. Mr. Van Bommel is a Dutch citizen.

Mr. C.J. García Moreno Elizondo

Mr. García Moreno Elizondo was appointed as a member of the Supervisory Board on April 10, 2013 and his (first) term ends in 2017. He is a member of the Audit Committee. Mr. García Moreno Elizondo is currently Chief Financial Officer of América Móvil.

Mr. García Moreno Elizondo holds several supervisory and advisory positions, including those of Banco Inbursa and Nacional Financiera. Prior to joining América Móvil, Mr. García Moreno Elizondo held amongst other positions at the Mexican Ministry of Finance as the Director General of Public Credit and at the Swiss bank Corporation Warburg as executive director and managing director. Mr. García Moreno Elizondo is a Mexican citizen.

Composition of the Supervisory Board

Name	Year of birth	Start of term	End of current term	Committees
J.B.M. Streppel (Chairman)	1949	May 12, 2003 April 17, 2007* April 6, 2011*	2015	Chairman Nominating and Corporate Governance Committee; Member Remuneration and Organizational Development Committee
R.J. Routs (Vice-Chairman)	1946	April 7, 2009 April 10, 2013*	2014	Chairman Remuneration and Organizational Development Committee; Member Nominating and Corporate Governance Committee
P.A.M. van Bommel	1957	April 12, 2012	2016	Member Audit Committee
C.J. García Moreno Elizondo	1957	April 10, 2013	2017	Member Audit Committee
D.J. Haank	1953	April 7, 2009 April 10, 2013*	2017	Chairman Audit Committee
O. Von Hauske Solis	1957	April 10, 2013	2017	Member Remuneration and Organizational Development Committee Member Nominating and Corporate Governance Committee
C.M. Hooymans	1951	April 17, 2007 April 6, 2011*	2015	Member Nominating and Corporate Governance Committee; Member Remuneration and Organizational Development Committee
M.E. van Lier Lels	1959	May 2, 2001 April 12, 2005* April 7, 2009* April 10, 2013*	2014	Member Audit Committee

* Reappointment.

D.J. Haank

O. Von Hauske Solis

C.M. Hooymans

M.E. van Lier Lels

D.J. Haank
Mr. Haank was appointed as a member of the Supervisory Board on April 7, 2009 and his term (second) expires in 2017. He is the Chairman of the Audit Committee. Mr. Haank is currently CEO of Springer Science+Business Media (Springer). Mr. Haank holds several supervisory and advisory positions, including those of member of the Supervisory Board of NUON and MSD Netherlands B.V. and the Supervisory Council of the Dutch broadcast association TROS. Before his appointment at Springer, Mr. Haank was the CEO of Elsevier Science and Executive Board Member of Reed Elsevier PLC. Mr. Haank is a Dutch citizen.

Mr. O. Von Hauske Solis
Mr. Von Hauske Solis was appointed as a member of the Supervisory Board on April 10, 2013 and his (first) term ends in 2017. He is a member of the Remuneration and Organizational Development Committee, as well as the Nominating and Corporate Governance Committee. Mr. Von Hauske Solis is currently Chief Operating Officer and Board Member of América Móvil.

Mr. Von Hauske Solis holds several supervisory and advisory positions, including those of supervisory board member of Telekom Austria, Telmex, NET Servicios, Embratel Participações, Telmex Brasil, Telmex Argentina, Telmex Colombia, Telmex Péru, Telmex Ecuador, Telmex USA en Hildebrando Software. Mr. Von Hauske Solis is a Mexican citizen.

C.M. Hooymans
Ms. Hooymans was appointed as a member of the Supervisory Board on April 17, 2007 and her current (second) term expires in 2015. She is a member of the Remuneration and Organizational Development Committee, as well as the Nominating and Corporate Governance Committee. Ms. Hooymans is a former 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). Ms. Hooymans 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. Her current one-year term expires in 2014. 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., Eneco N.V. and Reed Elsevier N.V. She is the Chairman of the Supervisory Council of The Netherlands Society for Nature and Environment, member of the Council for the Environmental Infrastructure and member of the Netherlands Bureau for Economic Policy Analysis (CPB). Ms. Van Lier Lels 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.


Joost Farwerck, Steven van Schilfgaarde (CFO a.i.), Eelco Blok, Thorsten Dirks

Board of Management

Composition of the Board of Management

Currently, the Board of Management consists of three members. In April 2013 Mr. Farwerck was appointed as a member of the Board of Management. In September 2013, Mr. Hageman left the Board of Management. Mr. van Schilfgaarde was appointed interim CFO and attends meetings of the Board of Management.

All members of the Board of Management comply with clause 2:132a Dutch Civil Code, which limits the number of positions in a supervisory or management board that a director may hold.

Name	Position	Year of birth	Start of term	End of current term
E. Blok	Chief Executive Officer	1957	June 2006/2010[1]	2014
T. Dirks	Board member	1963	November 2011	2015
J.F.E Farwerck	Board member	1965	April 2013	2017

1) Reappointment.

E. Blok

As of the Annual General Meeting of Shareholders in April 2011, Mr. Blok is the Chairman of the Board of Management and Chief Executive Officer.

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

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

T. Dirks

Mr. Dirks was appointed to the Board of Management on November 8, 2011 and is responsible for the international mobile activities within the KPN Group. He is also the Chief Executive Officer of E-Plus.

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

J.F.E. Farwerck

Mr. Farwerck is a member of the Board of Management and Managing Director the Netherlands.

Mr. Farwerck was appointed to the Board of Management of KPN on April 10, 2013. Since being appointed Managing Director Netherlands in February 2012 he has been responsible for all KPN's activities in the Netherlands. He started work at KPN in 1994 and occupied senior management positions in various divisions. Mr. Farwerck is a member of the executive committee of VNO-NCW and a member of the Board of Nederland-ICT and a non-executive Board member of iBasis.

Insider transactions

KPN employees that have access to inside information through the exercise of their employment, profession or duties, including all members of the Board of Management and 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. Members of the Board of Management and Supervisory Board are furthermore subject to reporting obligations to the Authority for the Financial Markets.

The table below provides an overview of transactions in 2013 by (former) members of KPN's Board of Management and Supervisory Board.

Date	Name	Transaction	Price
April 12	E. Blok	Award of 95,000 conditional KPN shares	EUR 0
April 12	T. Dirks	Award of 66,000 conditional KPN shares	EUR 0
April 12	W.T.J. Hageman	Award of 66,000 conditional KPN shares	EUR 0
April 12	J.F.E. Farwerck	Award of 66,000 conditional KPN shares	EUR 0
April 15	E. Blok	Cancellation of 76,053 conditional KPN shares due to non-fulfillment of performance criteria	EUR 0
April 18	E. Blok	Exchange of 46,843 restricted KPN shares for 46,843 unconditional KPN shares upon fulfillment of performance criterion	EUR 0
April 24	E. Blok	Acquired 828 ordinary KPN shares by inheritance	EUR 0
April 29	W.T.J. Hageman	Bought 46,055 ordinary KPN shares	EUR 1.54
May 17	E. Blok	Bought 333,406 ordinary KPN shares related to the rights issue	EUR 1.06
May 17	W.T.J. Hageman	Bought 2,630 ordinary KPN shares related to the rights issue	EUR 1.06
May 17	J.F.E. Farwerck	Bought 18,130 ordinary KPN shares related to the rights issue	EUR 1.06
May 17	D.J. Haank	Bought 16,234 ordinary KPN shares related to the rights issue	EUR 1.06
May 17	C.J. García Moreno Elizondo	Bought 203,600 ordinary KPN shares related to the rights issue	EUR 1.06
May 17	P.A.M. van Bommel	Bought 76,000 ordinary KPN shares related to the rights issue	EUR 1.06
October 2	J.F.E. Farwerck	Award of 63,966 conditional KPN shares and 9,741 restricted KPN shares due to the adjustment of the LTI plans awarded before the rights issue of May 17, 2013	EUR 0
October 2	E. Blok	Award of 185,079 conditional KPN shares due to the adjustment of the LTI plans awarded before the rights issue of May 17, 2013	EUR 0
October 2	T. Dirks	Award of 85,720 conditional KPN shares due to the adjustment of the LTI plans awarded before the rights issue of May 17, 2013	EUR 0

The following transactions – performed in earlier years by members of the Board of Management or Supervisory Board who were appointed in 2013 – have been notified to the Authority Financial Markets in 2013 upon their appointment:

Upon appointment as member of the Supervisory Board on April 10, 2013:

C.J. García Moreno Elizondo	Held 101,800 ordinary KPN shares for an average price of EUR 2.96

Upon appointment as member of the Board of Management on April 10, 2013:

J.F.E. Farwerck	Held 15,000 restricted KPN shares
J.F.E. Farwerck	Held 32,500 conditional KPN shares

Supervisory Board Report

'In 2013, we laid the operational and financial foundations to be the best provider of a complete range of products for our customers. We are pleased with the growing confidence of our customers and the financial markets in KPN. With the support of our employees we also took further steps towards simplifying KPN.'

Jos Streppel, Chairman of the Supervisory Board

Strategic developments

Execution of strategy

Looking back at the year 2013, the Supervisory Board was actively involved in yet another important year in the history of the Company.

Market conditions remained challenging in 2013. Nevertheless, the Supervisory Board was pleased with the progress made with the execution of the "strengthen-simplify-grow" strategy and the encouraging operational results:

In the Netherlands, KPN's customer base in broadband and TV showed good results. The Dutch mobile market, however, remained challenging, also fuelled by the increased activity of a fourth player. To address the convergence opportunities and the difficult economic circumstances in the Business and IT Solutions markets, KPN announced the integration of its businesses in these markets.

In a very competitive market in Germany, E-Plus continued to make good progress with its strategy to return to growth (albeit with lower margins), with a focus on postpaid and data. In Belgium, BASE Company was successful with its new mobile propositions in a market with intensified competition on price, resulting in a good market share development.

Through the year, KPN continued to invest in its networks and products, e.g. with the (accelerated) 4G roll-out in the Netherlands and Belgium, the continued upgrade of the copper network, the Fiber-to-the-Home roll-out in the Netherlands, improvements to E-Plus' data network quality and further improvements in KPN's TV product. To align KPN's financial position with this investment strategy, the Supervisory Board extensively discussed and supported the capital raise through a EUR 3 billion rights issue and EUR 2 billion hybrid bonds (with 50% equity recognition). The successful execution of these financing instruments strengthened KPN's balance sheet and supported KPN's commitment to maintain an investment grade credit profile. The capital raise was upfront supported by KPN's largest shareholder América Móvil (AMX), which support was accompanied by a relationship agreement between KPN and AMX. This relationship agreement – entered into with the support of the Supervisory Board – included the appointment of two Supervisory Board members designated by AMX. The relationship agreement was terminated by AMX in August 2013, see also 'Intended offer AMX' on this page and Note 32 'Related-party transactions' of the Consolidated Financial Statements.

Following careful strategic deliberations, the Supervisory Board supported the intended sale of E-Plus to Telefónica Deutschland for an implied valuation of EUR 8.55 billion, thereby unlocking significant value in Germany: the premium embedded in the sale price recognized the substantial synergies. KPN will also benefit from these synergies through its remaining stake in the combined entity of E-Plus and Telefónica Deutschland. The Supervisory Board was pleased with the unanimous support of the shareholders for the E-Plus transaction received at an extraordinary shareholders' meeting, including the support of AMX who had committed to the transaction at the time improved terms for the intended sale had been negotiated between AMX, Telefónica and KPN. KPN will use the majority of the EUR 5.0 billion cash proceeds to further increase its financial flexibility and support the execution of its strategy in the Netherlands and Belgium. Following the sale, KPN also intends to recommence dividend payment to shareholders for 2014. KPN post the sale of E-Plus will focus on its clear number one position across all segments in the Netherlands and being a mobile-centric challenger position focused on market outperformance in Belgium.

Intended offer AMX

The Supervisory Board was also closely involved in further interactions with AMX, when AMX terminated the above mentioned relationship agreement following the announcement of the intended sale of E-Plus (which allowed AMX to make an offer for all KPN shares). Shortly before announcing its intention to make an unsolicited public offer for all KPN shares, AMX informed the Supervisory Board of such intention. However, there was no discussion on a customary Merger Protocol prior to the announcement by AMX. The KPN Boards then engaged – consistent with their fiduciary duties – in negotiations with AMX on financial and non-financial matters including price, governance, strategy, investments and the interests of (potentially remaining minority) shareholders, employees and customers, also with an eye to the Dutch society at large.

On August 29, 2013, the Foundation Preference Shares B KPN (the Foundation) – on its own initiative – exercised its option to acquire Class B preference shares in KPN in order to safeguard the interests of KPN and its stakeholders. Such action contributed to a more balanced negotiation position for KPN in the numerous conversations held with AMX.

From the outset, KPN stated to AMX that, in the view of the KPN Boards, the intended offer did not reflect sufficient value for securing a positive recommendation from the Boards. However, despite the improved terms of the intended sale of E-Plus and an agreement with the Dutch tax authorities reflecting material value, AMX was not willing to improve its offer price. Also, the KPN Boards were not able to obtain an acceptable proposal on the content, firmness, duration and enforceability of AMX' commitments to KPN's stakeholders.

In sum, no agreement could be reached on an offer price and other terms and conditions, which would reflect appropriate value, minority shareholder protection and stakeholder commitments for selling control of KPN. The Supervisory Board then took note of AMX' decision to withdraw its intended offer.

Throughout this process, the Supervisory Board met at numerous occasions – with and without the Board of Management – to discuss the developments in the negotiations related to the offer. The Chairman advised the Supervisory Board members designated by AMX not to participate in these meetings, since they were conflicted on the matter at hand (which advice was followed). The Supervisory Board also formed a special committee to assist and support the Board of Management in the offer process, members of which committee also participated in the discussions with AMX. The Supervisory Board was supported by legal and independent financial advisors.

Further 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, further strategic matters that required the approval of the Supervisory Board (such as the Belgian auction mandate) and all other relevant matters brought to its attention. In reviewing specific proposals, the Supervisory Board discussed in each case with the Board of Management the business case for the proposal, the risks involved and possible alternatives to the proposal.

The Company's financial performance was extensively discussed at the Supervisory Board meetings preceding the publication of the quarterly and annual results and meetings at which the business plan was discussed. During the business plan review, the Supervisory Board paid special attention to the assessment of KPN's risk profile relating to its operations and financial performance. In the discussions regarding the financial performance of KPN, the Audit Committee advised the full Supervisory Board on the most relevant matters.

Each quarter, the Supervisory Board was also informed on the Board Report of the external auditor, discussing, e.g. KPN's financial framework, the capital raise, accounting consequences of the intended sale of E-Plus, pension accounting matters, quality of financial reporting and IT security. The Supervisory Board was pleased with the progress made on IT matters, both on governance of IT and IT security. Also, the Supervisory Board discussed certain acquisition and divestment opportunities and approved various matters relating to the financing of KPN. In addition, following the capital raise, the Supervisory Board agreed with the proposal of the Board of Management to adjust the 2013 dividend to zero. As mentioned, KPN announced its intention to reinstate dividends over 2014 subject to the sale of E-Plus.

As part of the strategic discussions, the Supervisory Board was also kept informed on progress made on the Corporate Social Responsibility themes of transparent and reliable service provider, best-in-class networks, healthcare of the future, new way of living and working, energy efficiency and privacy and security. The Supervisory Board was pleased that again important steps had been made on, e.g., KPN's use of energy. Also, KPN was again listed in the Dow Jones Sustainability World Index, is ranked on the third place in the Transparency Benchmark and is the only WNF Partner that exceeds all its targets according to the yearly WNF report on achievements.

On important technical, societal and regulatory developments, the Supervisory Board received regular updates. Also, the Supervisory Board kept itself abreast of the views of (major) shareholders and changes in KPN's investor base. The Chairman of the Board was also engaged in meetings with shareholders.

Members of the Supervisory Board attended some meetings of the Central Works Council. Outside these meetings, the Chairman of the Supervisory Board also met with the Chairman of the Central Works Council.

The Supervisory Board decided on proposals by the Remuneration and Organizational Development Committee and the Nominating and Corporate Governance Committee, regarding e.g. the composition of the Board of Management and the remuneration policy (as described further below).

Finally, the Supervisory Board conducted a self-assessment regarding its performance in 2013, as well as on the interaction with the Board of Management. Following an assessment in 2011 on the basis of interviews conducted by independent consultants, the Supervisory Board this year opted for an internal self-evaluation based on an extensive questionnaire. The outcome of the self-assessment was discussed in a plenary discussion. In general, the Board felt that it had functioned well and also flexibly throughout the turbulent year, whether in the full Board or through a committee set up for a specific project. It felt it had sufficient knowledge and expertise, and good co-operation with the Board of Management to deal with the key projects. It also noted certain topics to which it could pay even more attention, such as innovation and HR related topics.

Meeting information

Meetings of the Supervisory Board

The Supervisory Board met with the Board of Management on twenty occasions in 2013, of which eight were regularly scheduled meetings and the remaining were ad hoc meetings. Mr. Streppel acted as Chairman of the Supervisory Board, Mr. Routs was Vice-Chairman. The Company's Chief Legal Officer and Company Secretary, Mr. Spanbroek, acted as secretary to the Supervisory Board. Certain of these meetings commenced and/or ended with closed meetings where only Supervisory Board members were present.

The attendance at regular Supervisory Board meetings was 87.5%. As mentioned before, the AMX representatives in the Supervisory Board did not participate in meetings when they had conflicting interests. No members were frequently absent and all members had adequate time available to prepare themselves and give the required attention to the matters at hand. In the event members could not join a (ad hoc) meeting, the Chairman discussed the matters at hand before and after the meeting, in order to obtain the input and views of all Supervisory Board members. The Chairman is grateful to the Supervisory Board members for all the time they made available during this year with many ad hoc meetings and bilateral contacts between the Chairman and individual members of the Supervisory Board.

Throughout the year, the Chairman of the Supervisory Board was in close contact with the Chief Executive Officer, and the Chairman of the Audit Committee was in close contact with the Chief Financial Officer (a.i.).

Independence

Throughout the year, six members of the Supervisory Board were independent from the Company within the meaning of the Dutch Corporate Governance Code. Two members – Mr. García Moreno Elizondo and Mr. Von Hauske Solis- were not considered independent within the meaning of the Dutch Corporate Governance Code. The composition of the Supervisory Board was such, however, that the members were able to act critically and independently of one another and of the Board of Management. When conflicted interests appeared in the AMX offer process, Mr. García Moreno Elizondo and Mr. Von Hauske Solis did not participate in the related meetings. See also Note 32 'Related-Party Transactions' in the Consolidated Financial Statements.

For a description of the organization and structure of KPN's Supervisory Board, see 'Composition of the Boards' starting on page 80.

Committees of the Supervisory Board

As set out in section 'Corporate Governance' on page 76, 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

The Audit Committee currently consists of four Supervisory Board members: Mr. Haank (Chairman), Ms. van Lier Lels, Mr. van Bommel and Mr. García Moreno Elizondo (as of April 2013). Mr. van Bommel and Mr. García Moreno Elizondo are considered to be financial experts within the meaning of the Dutch Corporate Governance Code. The Audit Committee met in six regularly scheduled meetings, all of which were also attended by the CFO (or CFO ad interim). The attendance rate at the Audit Committee meetings was 83%. The Committee also met separately with the external auditor. The Corporate Secretary of the Board of Management, Mrs. van Dam-Debruyne, acted as the Audit Committee's secretary.

The Audit Committee reviewed and discussed in particular all financially relevant matters that were presented to the Supervisory Board. These items included the Annual Report, the quarterly results, reports by the internal auditor as well as the Disclosure Committee and the Company's strategic plan. The Audit Committee also kept a close oversight on KPN's financing policy and profile, as well as on the business plan risks and followed carefully the capital raise process. Furthermore, the Audit Committee paid specific attention to the effectiveness and the outcome of the internal control framework and the risk management systems of the Company.

Each quarter, the Audit Committee discussed with the external auditor in detail the matters included in the Board Report of the external auditor. The general meeting of shareholders appointed PricewaterhouseCoopers Accountants N.V. ("PwC") as KPN's independent external auditor for the year 2013. The Audit Committee reviewed the performance evaluation of PwC (which was conducted by senior management) and was satisfied with the good results. The Audit Committee also closely monitored PwC's independence for performing non-audit related services (e.g. when approving the related engagements). A proposal to reappoint PwC as external auditor for the year 2014 will be submitted to the general meeting of shareholders in April 2014.

This year, the Audit Committee was also closely involved in the process of selecting a new external auditor for the period 2015-2018 (in line with new legislation), which process was chaired by the Chairman of the Audit Committee and has been finalized (subject to shareholders' approval).

The Committee also discussed other topics that were within its scope of attention, most notably compliance, fraud management and application of IT in (financial) processes. Finally, the Audit Committee carried out its self-assessment by means of an extensive questionnaire, the results of which were discussed during the last meeting of the Audit Committee in 2013.

Remuneration and Organizational Development Committee

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

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

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.

The attendance of the Remuneration and Organizational Development Committee meetings was 75% (the Committee met five times in 2013). In general terms, the Committee has been involved in reviewing the overall pay policy, taking into account KPN's risk profile, pay trends in the Netherlands and abroad as well as trends in Corporate Governance. Consistent with its charter, the Committee was involved in defining the level of pay-out for individual members of the Board of Management as part of the STI plan 2012 and LTI grant 2010 and setting the financial/non-financial targets and performance criteria for the STI 2013 and LTI grant 2013.

In 2013 the remuneration policy for the Board of Management was changed – with the approval of the shareholders – to correct the fixed number of performance shares (from the long-term incentive plan) for the rights issue described earlier. Also, Mr. Dirks was rewarded a retention bonus for the event the intended E-Plus sale would not be completed. The Committee was involved in preparing the related proposals. An adjustment of the LTI plan design was discussed in the Committee, taking into account the objectives and principles of KPN's pay policy and relevant market trends.

The Committee furthermore discussed and recommended the terms and conditions with regard to changes in the composition of the Board of Management.

Further details on the activities of the Remuneration and Organizational Development Committee are provided in the 'Remuneration and Organizational Development Report' starting on page 88.

Nominating and Corporate Governance Committee

The composition of the Board of Management changed in 2013 following the appointment of Mr. Farwerck in April 2013 as member of the Board of Management with the responsibility in the Board for all of KPN's activities in the Netherlands. Prior to such appointment, Mr. Farwerck already carried this responsibility in his role of Managing Director the Netherlands. The Committee also agreed to the proposed prolongation of the board membership of Mr. Blok for a new period of 4 years.

Mr. Hageman left the Company as of September 9, 2013 due to personal circumstances. Mr. van Schilfgaarde was appointed interim CFO and the Supervisory Board decided to appoint a permanent successor in due course. The Committee initiated a search for the new CFO based on a pre-defined profile and agreed that special attention should be given in the search to identify female candidates with the intention to look for a possibility to enhance the diversity of the Board of Management. Consequently the Committee adopted the principle that at least one female candidate should be included on the shortlist for the search for the new CFO.

During 2013, the composition of the Supervisory Board changed as well when the annual shareholders' meeting approved the reappointment of Ms. Van Lier Lels, Mr. Routs and Mr. Haank and the appointment of Mr. García Moreno Elizondo (CFO of América Móvil) and Mr. Von Hauske Solis, (COO and board member of América Móvil) as members of the Supervisory Board. Mr. Risseeuw and Mr. Bischoff stepped down as members of the Supervisory Board.

The Committee was involved in the discussion and decision by the Supervisory Board to change the profile of the Supervisory Board with the aim (when possible) to ensure that the Supervisory Board consists of at least 30% female and at least 30% male members, thereby incorporating the Dutch law requirement and serving the interest of a balanced composition of the Supervisory Board. In this context (and since the 30% female representatives on Supervisory Board and Board of Management level were not yet achieved), the Committee also asked the Board of Management to pay special attention to the recruitment and retention of female leadership talent at the senior leadership level in order to create a more diverse internal talent pipeline. Special network meetings were set up for female managers, operating in leadership roles. As mentioned above, when searching for candidates for available Board seats, special attention is given to identify female candidates to achieve a more even distribution between male and female members.

For an overview of all members of the Board of Management and Supervisory Board, see 'Composition of the Boards' starting on page 80.

Financial Statements

The Financial Statements for the year ended December 31, 2013, 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' starting on page 179.

The Supervisory Board recommends to the AGM to adopt these Financial Statements.

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

The Hague, February 26, 2014

J.B.M. Streppel

R.J. Routs

P.A.M. van Bommel

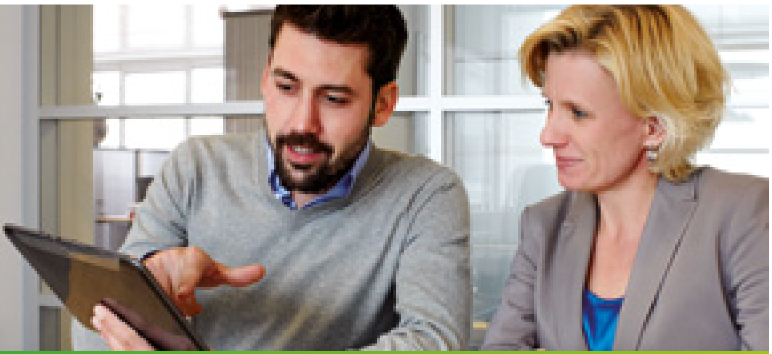
C.J. García Moreno Elizondo

D.J. Haank

O. Von Hauske Solis

C.M. Hooymans

M.E. van Lier Lels



Remuneration and Organizational Development Report

Introduction

We are pleased to present to you the report of the Remuneration and Organizational Development Committee (the Committee) and we are committed to preserving your confidence and trust by presenting an accountable and transparent implementation of our pay policy.

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

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

The Chairman and members of the Remuneration and Organizational Development Committee are appointed by the Supervisory Board. The Committee currently consists of Mr. Routs (Chairman), Mr. Von Hauske Solis, Ms. Hooymans and Mr. Streppel.

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

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
C. Executive pay policy – detailed overview	In-depth insight into KPN's pay policy for the Board of Management
D. Details of actual remuneration	Insight into actual cost levels for the Board of Management
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, motivating 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	
Linking rewards to shareholder value creation	
Complying with best practice in corporate governance	
General acceptance by all stakeholders	

How are executives rewarded?

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

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

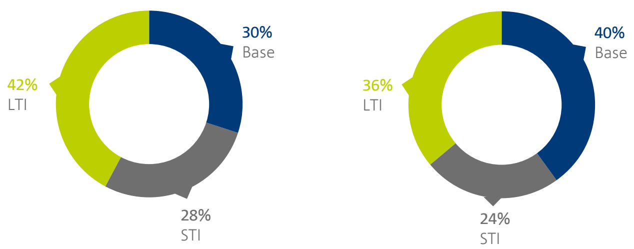
What is the ratio between fixed and variable pay?

The ratio between fixed and variable pay is influenced by the extent to which targets are met. The pie charts represent the pay mix for both the CEO and the other Board members in case of an on-target performance.

Compensation policy

CEO

Other Executives



How is the level of compensation established?

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

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

Are incentives aligned with strategy?

The focus of the strategy is on customer loyalty, networks and services, simplification of the operation model, cost reduction, integration of services and sustainability. The goals and objectives of the new strategy are reflected in the short- to medium-term targets and long-term targets, which are used to compensate executives for their performance.

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

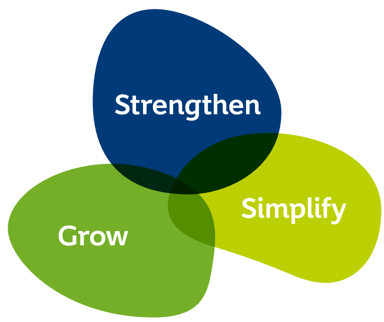
KPN aligns incentives with its long-term strategy, but it also needs to focus on short-term success in order to achieve further growth. The Company's risk profile is embedded in the short-term and long-term incentive structure which is assured by KPN's standards of internal control over financial reporting.

What was rewarded to executives?

The bar chart below shows the actual cost of remuneration. All figures are in thousands of euro.

Strategic Goals of 'Strengthen – Simplify – Grow':

KPN has set a number of key objectives:
- Create customer loyalty
- Invest in best-in-class networks and services
- Simplify the operating model
- Integrate fixed and mobile services
- Conduct business in a sustainable way



Short-term targets

Financial: typically based on, but not limited to, EBITDA, revenue, Free Cash Flow and CAPEX

Non-financial: typically based on quality measures and market shares

Long-term targets

Financial: peer group position, based on relative total shareholder return

Non-financial: based on energy reduction and reputation

Reward

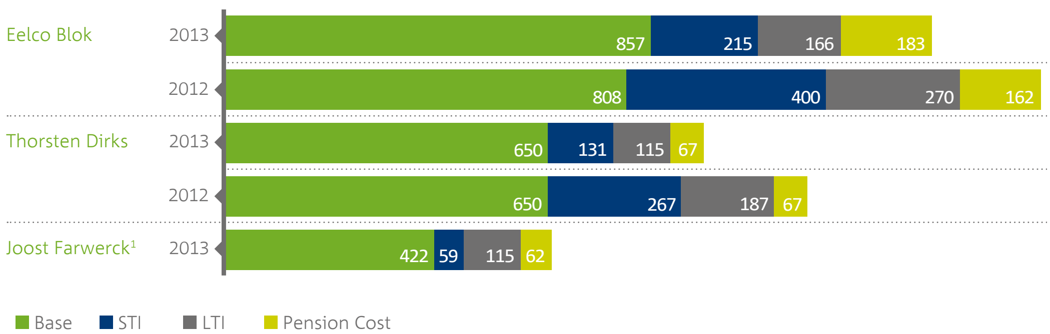
Cash

Reward

Conditional shares

Board of Directors = Board of Management

(in thousands of EUR)



1) Remuneration of Mr. Farwerck since appointment as Board member in April 2013

B. Duties and activities of the Committee

Duties of the Committee

The Committee assists the Supervisory Board with:

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

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

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

Activities during 2013

The Committee met five times in 2013, with an attendance rate of 75%. Consistent with its charter, the Committee has been involved in several aspects, such as:

- Defining the level of pay-out for individual members of the Board of Management as part of the STI plan 2012 and LTI grant 2010 and setting the financial/non-financial targets and performance criteria for the STI plan 2013 and LTI grant 2013;
- Recommending the terms and conditions agreed upon with regard to changes in the composition of the Board of Management;
- Reviewing the design/principles of the LTI plan taking into account KPN's risk profile, the Company's pay policy, pay trends in the Netherlands and abroad as well as trends in Corporate Governance;
- Reviewing the need for adjustments in pay levels (where applicable, and in order to ensure a consistent pay structure for the individual members of the Board of Management);
- Recommending and adjustment in the fixed number of LTI performance shares for the members of the Board of Management as a result of the rights issue based on a mathematical calculated adjustment factor to make the economic value of the LTI grant equal to its economic value immediately before such issue;
- Discussing the details of the proposed retention bonus for Mr. Dirks which is conditional upon satisfaction of certain conditions to ensure the continuity of the E-Plus organization in the event that the sale of E-Plus is not completed;
- Reviewing the pension entitlement and benefits of the applicable pension scheme for the CEO;
- Preparing the Remuneration and Organizational Development Report 2013 to be included in KPN's Annual Report; and
- Reviewing and ensuring the Company's efforts and achievements in the domain of succession planning for the senior leadership roles in the organization.

C. Executive pay policy – detailed overview

Objectives of KPN's pay policy

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

Principles of KPN's pay policy

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

1) Paying competitively: this is achieved through benchmarking against an employment-market peer group consisting of companies with which KPN generally competes for talent;

2) Pay-for-performance: target pay aims at 30-40% of pay in base salary, and 60–70% in variable pay in order to maintain a strong alignment with the Company's annual financial performance goals and long-term value creation strategy; and

3) Differentiating by experience and responsibility: this is achieved through alignment of the pay with the responsibilities, relevant experience, required competence and performance of individual jobholders. Consequently, there can be substantial differentials in pay levels, despite employees having similar job titles.

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

Composition of employment-market peer group and market assessment

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

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

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

The relative size of KPN is taken into account when determining whether KPN 'pays competitively'.

Base salary

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

Short-Term Incentives (STI)

General

At the beginning of each year, the Supervisory Board sets financial and non-financial target ranges for the Board of Management. These ranges are based on the Company's business plan. At the end of the year, the Supervisory Board reviews the Company's performance against the target ranges. Members of the Board of Management are eligible for an annual cash incentive only if Company performance is at or above the predetermined ranges.

Objectives

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

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 pay-out methodology is based on a pay-out approach for each of the financial and non-financial targets.

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

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

Actual pay-out levels

For 2013, amongst other targets, EBITDA was above threshold, market shares were, on average, below target while Free Cash Flow and revenues were below threshold. Market shares represent the latest estimate. Final market shares in 2013 will be determined in March 2014.

Component	Form of compensation	Value determination	Targets	Pay-out at threshold performance	Pay-out at or above maximum performance[1]
STI	Cash	'On-target' incentive equals 90% of base salary for the CEO and 60% of base salary for the other Members of the Board of Management.	Targets typically are EBITDA, Free Cash Flow, CAPEX, Revenue and various measures of quality and market share.	25% of the 'on-target' incentive (i.e. 22.5% of base salary for the CEO and 15% of base salary for the other members of the Board of Management). Pay-out below threshold performance: 0% of the 'on-target' incentive.	150% of the 'on-target' incentive (i.e. 135% of base salary for the CEO and 90% of base salary for the other members of the Board of Management).

1) Maximum including the effect of the discretionary factor.

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.

Component	Form of compensation	Value determination[1]	Drivers	On target	Scenario maximum (position 1 to 3 in peer group and maximum performance on non-financial targets)
Long-term share-based compensation	Shares	CEO: 156,693 shares with deferred dividend Other members of the Board of Management: 108,860 shares with deferred dividend.	For 75% based on Total Shareholder Return (TSR) and 25% based on non-financial parameters (energy reduction and reputation).	100% of the granted shares vest.	200% of the granted shares vest.

1) The fixed number of performance shares for the members of the Board of Management were adjusted based on a mathematically calculated adjustment factor, i.e. the cum-rights price divided by the TERP (Theoretical Ex-Rights Price). In case of the KPN rights issue the adjustment factor is set at 1.6494. The proposal to apply the adjustment factor was approved by the shareholders on October 2, 2013.

The number of shares granted under this plan is based on fixed numbers as shown in the following table. The number of shares that actually vest is conditional on KPN's relative TSR performance (75% weighting) and for 25% on the achievement of the assigned non-financial parameters.

It is considered that comparing KPN with a wider group of companies (either geographically or with other industries) is not meaningful. Variations in returns would most likely be attributed largely to macroeconomic events and/or sector shifts rather than to variations in management actions. Therefore, benchmarking TSR achievements relative to other, similar companies emphasizes rewarding for specific KPN performance.

The non-financial parameters set for 2013 are based on energy reduction and a reputation dashboard. Please refer to the Environmental Performance chapter of this report for detailed information about the energy reduction parameters. Vesting of the non-financial parameters will only take place if KPN's ranking position in the TSR peer group is at least position seven. Vesting is in principle also subject to the condition that the member of the Board of Management has not resigned within three years of the date of the initial grant.

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

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

Performance-measuring and peer group performance

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

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

Position	Top 8 vesting%	Top 8 ranking companies
Position 1	200% of the shares vest	BT Group PLC
Position 2	200% of the shares vest	Telenor ASA
Position 3	200% of the shares vest	Vodafone Group PLC
Position 4	175% of the shares vest	Deutsche Telekom AG
Position 5	150% of the shares vest	Hellenic Telecom (OTE)
Position 6	125% of the shares vest	Swisscom AG
Position 7	100% of the shares vest	Teliasonera AB
Position 8 and below	No vesting takes place	KPN NV (14th position)

The table above provides an overview of the final ranking of the 2011 share plan that vests in 2014.

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

Performance incentive zone

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

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

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

It is KPN's policy to reward 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.

Actual pay-out levels

Final TSR measurement for the 2011 share grant was conducted as per February 15, 2014. KPN's performance resulted in the 14th position in the TSR performance peer group with respect to the 2011 share award. This position does not lead to vesting of the granted shares in April 2014.

Claw-back clause

The Supervisory Board has the discretionary authority to recover variable pay awarded on the basis of 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%. For 2014 this will be adjusted in line with new pension legislation. Mr. Dirks remains eligible for pension benefits (combined defined benefit and defined contribution) as part of his current German pension arrangement with a retirement age of 65.

Additional arrangements

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

Loans

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

Terms of employment/service

Members of the Board of Management have an employment contract for an indefinite period of time with the exception of Mr. Dirks and Mr. Farwerck (service provision agreement).

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 or two years' base salary during the first initial term of four years) with the exception of Mr. Dirks, as communicated as part of his appointment in November 2011 (containing a non-competition clause for which he will, as required by German law, receive additional compensation equal to 50% of his German base salary and short-term incentive, during a maximum period of 12 months).

Change in composition and responsibilities of the Board of Management

The appointment of Mr. Farwerck as a member of the Board of Management came into effect as of KPN's AGM on April 10, 2013. The remuneration package of Mr. Farwerck fits within KPN's remuneration policy as approved by the General Meeting of Shareholders. His employment contract provides for a base salary of EUR 575,000 per year. Mr. Farwerck is eligible to short and long term variable incentives, which are dependent on the performance of KPN versus the Company's financial and/or non-financial targets. The contractual severance pay is in line with the Dutch Corporate Governance Code and amounts to two years' base compensation during the first initial term of four years. If and after the agreement is continued after the first initial period of four years, the contractual severance pay amounts to one year's base salary. A defined contribution pension plan is part of the arrangements. Mr. Farwerck remains eligible for 15,000 restricted shares that were granted to him prior to his nomination as member of the Board of Management. These shares will become unconditional if Mr. Farwerck's service provision agreement is not terminated prior to January 1, 2015.

To ensure the continuity of the E-Plus organization in the event that the sale of E-Plus is not completed, the EGM (October 2, 2013) approved a gross retention bonus to Mr. Dirks equal to his annual base salary of EUR 650,000. This amount will only be payable if Mr. Dirks is still employed one year after a formal announcement of a cancellation of the E-Plus transaction. Completion of the sale of E-Plus is mainly subject to regulatory approval.

Mr. Hageman left the Company in September 2013 due to personal circumstances. His decision was not related to working relationships or present circumstances at KPN. In the light of the 6 months' notice period for cancellation of the employment contract it was agreed with Mr. Hageman to pay his remuneration to the end of the year and pay the remainder in December 2013. Mr. Hageman is not entitled to any STI or LTI, nor to a severance payment. Mr. van Schilfgaarde has been appointed interim CFO.

Outlook for 2014

During 2013, the Company's remuneration policy with regard to the LTI has been re-assessed, leading to a proposal for a number of amendments thereto. With the proposed changes, the Supervisory Board wishes to align the LTI plan more closely with the underlying principles of KPN's remuneration policy (mainly the relative contribution of base salary, STI and LTI to total remuneration), KPN's business performance and common market practice. KPN operates the LTI plan to secure the loyalty of participants and to promote their commitment to KPN's results for the longer term. It is proposed to amend the LTI plan for 2014 onwards on the following points:

- Amend the LTI grant policy from a fixed number of performance shares to a percentage of fixed compensation whereby the participant is conditionally granted a number of shares based on a set percentage of fixed compensation and the actual share price at the date of the grant;
- Adjustment of the LTI vesting methodology from an approach predominantly based on relative TSR performance to a vesting approach based on the individual achievement of certain financial- and non-financial targets. It is proposed to continuously align 25% of the on-target LTI incentive opportunity to the existing Total Shareholder Return (TSR) methodology based on a revised peer/group vesting schedule and to align the remaining 75% of the on-target LTI incentive opportunity to financial targets based on Free Cash Flow (weighting 25%) and Earnings per Share (weighting 25%) and two non-financial parameters (12,5% weighting each): one related to sustainability- or environmental targets, and the other one related to stakeholders- or customers targets;
- A revised vesting schedule for each other individual financial and non-financial target, i.e. 25% for an achievement at threshold level, 100% for an achievement at on-target level and 200% for an achievement at maximum level or above. Vesting on the non-financials targets will be subject to achieving a cumulative net profit during the vesting period of 3 years (i.e. qualifier for pay-out/vesting);
- Adjustment of the change of control clause in the LTI plan to comply with new legislation in the Netherlands. The existing change of control clause is therefore replaced by a new provision, as well as immediate vesting at 100% (irrespective of the actual performance at that moment, whether higher of lower) and lifting of the blocked period normally applicable, to enable the participant to dispose of his shares in the situation of a change of control. The immediate vesting at 100% will be pro rata for the time passed in the plan during the vesting period of 3 years (i.e. 1/3 in year one, 2/3 in year two, full in year three).

D. Details of actual remuneration

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

Name	Year	Salary & Social Security (EUR)	STI[3] (EUR)	LTI: Share Awards[1] (EUR)	Pension costs[2] (EUR)	Total (EUR)
E. Blok	2013	857,171	214,500	166,095	182,500	1,420,266
	2012	807,577	400,000	269,800	162,400	1,639,777
T. Dirks	2013	650,000	131,150	115,392	67,232	963,774
	2012	650,000	267,150	187,440	66,904	1,171,494
J.F.E. Farwerck[4]	2013	422,074	59,363	115,392	62,400	659,229
Total current members[5]	2013	1,929,245	405,013	396,879	312,132	3,043,269
	2012	1,457,577	667,150	457,240	229,304	2,811,271

1) The fair value per share of the 2013 grant was EUR 1.06 (excluding deferred dividend). Please refer to the 'Long-term incentives' section of this report for a further explanation. Under IFRS the fair value of the share based award is recorded as cost over the vesting period. In 2013, cost recognized for shares and share-based awards amounted to EUR 556,466 for Mr. Blok (EUR 713,000 in 2012), EUR 89,153 for Mr. Dirks (EUR -188,853 in 2012) and EUR 86,152 for Mr. Farwerck.
2) The pension costs relate to the premiums paid or service cost. Interest charges and investment yields are not allocated on an individual basis. Since 2006, Board of Management members are eligible for a defined contribution pension plan with a contribution based on the fiscal defined contribution table that corresponds to a retirement age of 65 (67 as of 2014) and an annual accrual rate of 2.25% (2.15% as of 2014). Mr. Dirks remains eligible for pension benefits as part of his current German pension arrangement.
3) Actual STI that relates to performance in the current year but paid out in the following financial year. For 2013, amongst other targets, EBITDA was above threshold, market shares were, on average, below target while Free Cash Flow and revenues were below threshold. Market shares represent the latest estimate. Final market shares in 2013 will be determined in March 2014 which could slightly alter the STI amounts for 2013 above.
4) Remuneration of Mr. Farwerck since appointment as Board member in April 2013.
5) In 2013 the temporary employer tax charge of 16% on 2013 salaries exceeding EUR 150,000 was recorded. This tax charge amounts to EUR 328,138 (EUR 281,589 in 2012) for the current Board members and is not included in the figures above.

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

Name	Year	Salary & Social Security (EUR)	STI (EUR)	Notice period/Exit Payment	LTI: Share Awards[1] (EUR)	Pension costs (EUR)	Total (EUR)
W.T.J. Hageman	2013[3]	619,671	–	236,161	–	88,200	944,032
	2012[3]	178,009	77,745	–	95,140	21,463	372,357
C.M.S. Smits-Nusteling	2012	164,395	–	–	–	21,733	186,128
J.B.P. Coopmans	2012	149,395	–	590,000	–	22,313	761,708
Total former members[2]	2013	619,671	–	236,161	–	88,200	944,032
	2012	491,799	77,745	590,000	95,140	65,509	1,320,193

1) Under IFRS the fair value of the share based awards is charged to the P&L over the vesting period. In 2013, cost recognized for shares and share-based awards amounted to EUR -50,817 for (EUR -43,926 in 2012) for Mr. Hageman and no cost for Mrs. Smits-Nusteling (EUR 87,850 in 2012) and Mr. Coopmans (EUR 145,844 in 2012). At the date of termination of the employment contract, the 2010 and 2011 LTI grant of both Mrs. Smits-Nusteling and Mr. Coopmans forfeited for 13/36 and 25/36 respectively.
2) The temporary employer tax charge of 16% on 2013 salaries exceeding EUR 150,000 amounts to EUR 159,154 (EUR 131,155 in 2012) for the former Board members and is not included in the figures above.
3) Remuneration of Mr. Hageman since appointment as Board member in September 2012 until December 31, 2013. In the light of the six months' notice period for cancellation of the employment contract, it was agreed with Mr. Hageman to pay his remuneration to the end of the year and pay the remainder in December 2013.

The following table summarizes the shares/share-based awards granted to current members of the Board of Management, granted (un) conditional shares/share-based awards held by them during 2013, granted shares sold during 2013, and granted (un)conditional shares/ share-based awards held by them as of December 31, 2013.

	Grant date	Current status[8]	Number of shares granted as of January 1, 2013	Number of shares/ share-based awards granted, vested, forfeited or sold in 2013[1-2-9]	Number of shares/ share-based awards as of December 31, 2013	Total pre-tax fair value of shares on grant date (EUR)[3]	Pre-tax market value of shares on vesting date or end of lock-up in 2013 (EUR)	End of lock-up period
E. Blok								
	4/12/2013	Conditional	–	156,693	156,693	166,095	–	4/12/2018
	4/23/2012	Conditional	95,000	61,693	156,693	269,800	–	4/23/2017
	4/6/2011	Conditional	95,000	61,693	156,693	1,085,850	–	4/6/2016
	4/15/2010[6]	–	–	–	–	–	–	–
	4/9/2009[6]	–	–	–	–	–	–	–
	4/17/2008	Unconditional	46,843	-46,843	–	908,079	131,629	4/17/2013
T. Dirks								
	4/12/2013	Conditional	–	108,860	108,860	115,392	–	4/12/2018
	4/23/2012	Conditional	66,000	42,860	108,860	187,440	–	4/23/2017
	4/6/2011[5]	Conditional	27,600	17,923	45,523	315,468	–	n.a.
	4/15/2010[5-6]	–	–	–	–	–	–	–
	4/9/2009[5-6]	–	–	–	–	–	–	–
J.F.E. Farwerck								
	4/12/2013	Conditional	–	108,860	108,860	115,392	–	4/12/2018
	4/23/2012[5]	Conditional	32,500	21,106	53,606	92,300	–	4/23/2017
	5/1/2012[5-7]	Conditional	15,000	9,741	24,741	76,800	–	n.a.
	4/6/2011[5]	Conditional	23,650	15,358	39,008	270,317	–	n.a.

The following table summarizes the shares/share-based awards granted to former members of the Board of Management

	Grant date	Current status[8]	Number of shares granted as of January 1, 2013	Number of shares/ share-based awards granted, vested, forfeited or sold in 2013[1-2-9]	Number of shares/ share-based awards as of December 31, 2013	Total pre-tax fair value of shares on grant date (EUR)[3]	Pre-tax market value of shares on vesting date or end of lock-up in 2013 (EUR)	End of lock-up period
W.T.J. Hageman[10]								
	9/11/2012	Conditional	33,500	-33,500	–	95,140	–	4/23/2017
	4/23/2012[5]	Conditional	32,500	-32,500	–	92,300	–	4/23/2017
	5/1/2012[5-7]	Conditional	15,000	-15,000	–	76,800	–	n.a.
	4/6/2011[5]	Conditional	25,200	-25,200	–	288,036	–	n.a.
	4/15/2010[5-6]	–	–	–	–	–	–	–
	4/9/2009[5-6]	–	–	–	–	–	–	–
C.M.S. Smits-Nusteling[4]								
	4/6/2011	Conditional	20,167	13,096[9]	33,263	754,380	–	4/6/2016
	4/15/2010[6]	–	–	–	–	–	–	–
J.B.P. Coopmans[4]								
	4/6/2011	Conditional	20,167	13,096[9]	33,263	754,380	–	4/6/2016
	4/15/2010[6]	–	–	–	–	–	–	–
	4/17/2008[8]	Unconditional	40,733	-40,733	–	789,632	114,460	4/17/2013

1) The shares granted to the Members of the Board of Management represent 9% of the total number of shares and share-based awards granted in 2013 to all employees. On the grant date (April 12, 2013) the KPN share price quoted EUR 1.81 (closing price) while the fair value of each granted share was EUR 1.06 for Members of the Board of Management.
2) The 2013 grant numbers do not include any deferred dividend during the vesting period. The deferred dividend during the vesting period will be additional granted in shares.
3) Value is calculated by multiplying number of share awards by the fair value.
4) At the date of termination of the employment contract, the 2010 and 2011 LTI grant of both Mrs. Smits-Nusteling and Mr. Coopmans forfeited for 13/36 and 25/36 respectively.
5) Not granted in capacity as Member of the Board of Management.
6) The 2009 and 2010 share awards had vesting percentages of 0%. Final TSR measurement for the 2011 share grant was conducted as per February 15, 2014.
7) Restricted share plan. On the grant date (May 1, 2013) the KPN share price quoted EUR 1.58 (closing price) while the fair value of each granted share was EUR 1.58.
8) Shares in the vesting period or lock-up period are disclosed as conditional.
9) The fixed number of performance shares for the members of the Board of Management were adjusted based on a mathematically calculated adjustment factor, i.e. the cum-rights price divided by the TERP (Theoretical Ex-Rights Price). In case of the KPN rights issue, the adjustment factor is set at 1.649. This adjustment factor is applicable for the existing (not yet vested) LTI plans, i.e. 2011, 2012 and 2013 and future plans.
10) The 2013 grant was granted and forfeited in 2013.

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

Stock ownership Board of Management

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

Number of shares	December 31, 2013	December 31, 2012
E. Blok	500,109	165,875
T. Dirks	–	–
J.F.E. Farwerck	27,195	n.a.

The table below shows the shares held by former members of the Board of Management

Number of shares	December 31, 2013	December 31, 2012
W.T.J. Hageman[1]	50,000	1,315
C.M.S. Smits-Nusteling[1]	n.a.	2,376
J.B.P. Coopmans[1]	n.a.	72,416

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

Share ownership relates to ordinary shares.

In 2011 a share ownership recommendation was introduced whereby the members of the Board of Management are encouraged to acquire Company shares equal to one time the annual fixed compensation for members of the Board of Management (excluding CEO) and two times the annual fixed compensation for the CEO. Retained vested shares as part of the LTI will be included in the share ownership recommendation.

E. Supervisory Board pay

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 General Meeting of Shareholders for approval. In view of the competitive remuneration developments in the market combined with an increased workload and responsibility for Supervisory Board members, the remuneration policy of the Supervisory Board was reassessed during 2010, resulting in a proposal to adjust the remuneration levels of the Supervisory Board. This proposal was approved by the General Meeting of Shareholders on April 6, 2011. Please refer to the table for further details. Members receive an additional fee if a meeting is held in a country other than the member's country of residence.

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

Mr Risseeuw was not available for reappointment, as the current four-year term of office is his third and last term. Mr M. Bischoff decided to step down as a member of the Supervisory Board in connection with his other commitments. The appointment of Mr. García Moreno Elizondo and Mr. Von Hauske as a member of the Supervisory Board came into effect as of KPN's AGM on April 10, 2013.

The table below shows the pay-out to Supervisory Board Members in 2013 and fixed Committee fees on an annual basis.

Amounts in EUR	Fees 2013
Chairman Supervisory Board	100,000
Vice Chairman of the Supervisory Board	70,000
Member Supervisory Board	60,000
Chairman Audit Committee	20,000
Member Audit Committee	10,000
Chairman Remuneration and Organizational Development Committee	10,000
Member Remuneration and Organizational Development Committee	5,000
Chairman Nominating and Corporate Governance Committee	10,000
Member Nominating and Corporate Governance Committee	5,000

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

Amounts in EUR	Membership fees 2013	Committee fees 2013	2013 Total	2012 Total
J.B.M. Streppel	100,000	15,000	115,000	115,000
R.J. Routs	70,000	15,000	85,000	85,000
M.E. van Lier Lels	60,000	10,000	70,000	70,000
C.M. Hooymans	60,000	10,000	70,000	70,000
D.J. Haank	60,000	20,000	80,000	80,000
P.A.M. van Bommel	60,000	10,000	70,000	50,361
C.J. García Moreno Elizondo	45,000	7,500	52,500	–
O. Von Hauske Solis	45,000	7,500	52,500	–
A.H.J. Risseeuw[1]	15,000	2,500	17,500	70,000
M. Bischoff[1]	15,000	2,500	17,500	70,000

1) Former member of the Supervisory Board.

Stock ownership of the Supervisory Board

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

Number of shares	December 31, 2013	December 31, 2012
J.B.M. Streppel	–	–
R.J. Routs	–	–
M.E. van Lier Lels	–	–
C.M. Hooymans	–	–
D.J. Haank	24,351	8,117
P.A.M. van Bommel	114,000	38,000
C.J. García Moreno Elizondo	305,400	–
O. Von Hauske Solis	–	–
A.H.J. Risseeuw[1]	50,000	50,000
M. Bischoff[1]	9,000	9,000
Total	502,751	105,117

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

The Hague, February 26, 2014

R.J. Routs

C.M. Hooymans

J.B.M. Streppel

O. Von Hauske Solis

ASSURANCE REPORT

To: the Board of Management of Koninklijke KPN N.V.

Report on the sustainability information

Our opinion and conclusion

Our engagement consisted of a combination of audit and review procedures. For a correct understanding of our opinion and conclusion you have to read this complete assurance report.
Based on our audit procedures, in our opinion:
- the energy consumption and net CO_2 emissions data 2013 of own operations in the Netherlands (scope 1 and 2) as included in the 2013 Integrated Annual Report on page 40, are, in all material respects, presented reliably and adequately, in accordance with the KPN reporting criteria.

Based on our audit procedures, we conclude that:
- with respect to the other elements of the sustainability information as included in the 2013 Integrated Annual Report, nothing has come to our attention that would cause us to believe that the sustainability information, in all material respects, does not provide a reliable and adequate presentation of the policy of KPN for sustainable development, or of the activities, events and performance of the organization relating to sustainable development during the reporting year, in accordance with the KPN reporting criteria.

Our responsibilities and the responsibilities of the Board of Management

The Board of Management of KPN is responsible for the preparation of the sustainability information in the Integrated Annual Report in accordance with the KPN reporting criteria.

We are responsible for providing an assurance report on the sustainability information included in the Integrated Annual Report, based on our audit and review procedures.

The scope of our audit and review procedures

We have examined the content of the 'Introduction', 'Strategic Review' and 'Report by the Board of Management' on pages 2 to 83 and 'Appendices 2 and 3', on page 188-193 as included in the accompanying 2013 Integrated Annual Report of Koninklijke KPN N.V., The Hague ('KPN') (in this assurance report referred to as: 'sustainability information') in which KPN renders account of the performance related to sustainability in 2013.
The following elements have been excluded from our assurance scope:
- Risk Management and Compliance (p. 66-73);
- Regulatory developments (p. 74-75).

Our examination consisted of the following combination of audit and review procedures:
- Audit of the energy consumption and net emissions data 2013 of own operations in the Netherlands (scope 1 and 2), as included in the table "Energy consumption and net CO_2 emissions 2013" on page 40;
- Review of all the other elements of the sustainability information included in our assurance scope.

We do not provide any assurance on the assumptions and feasibility of prospective information, such as targets, expectations and ambitions, included in the sustainability information.

The KPN reporting criteria

KPN developed its reporting criteria on the basis of the G4 Guidelines of the Global Reporting Initiative (GRI) as disclosed on page 190-193 'Scope, Reporting Process and Materiality Determination for CSR information'. Detailed information on the reporting scope is given on page 190 'Scope sustainability information'. We consider the reporting criteria to be relevant and appropriate for our examination.

The basis for our opinion and conclusion

We planned and performed our work in accordance with Dutch law, including Standard 3410N 'Assurance engagements relating to sustainability reports'.

Audit procedures focus on obtaining reasonable assurance, substantiated by sufficient and appropriate supporting audit evidence. Review procedures focus on obtaining limited assurance which does not require exhaustive gathering of evidence, therefore providing less assurance than audit procedures. Consequently, we report our conclusions with respect to the audit and review procedures separately. We believe these combined procedures fulfil a rational objective.

Audit procedures

With regard to the audited data, among other things we have gathered audit evidence as follows:
- testing the design, existence and the effectiveness of the relevant internal controls during the reporting period;
- conducting analytical review procedures and substantive testing procedures on the relevant data.

Review procedures

Our most important review procedures were:

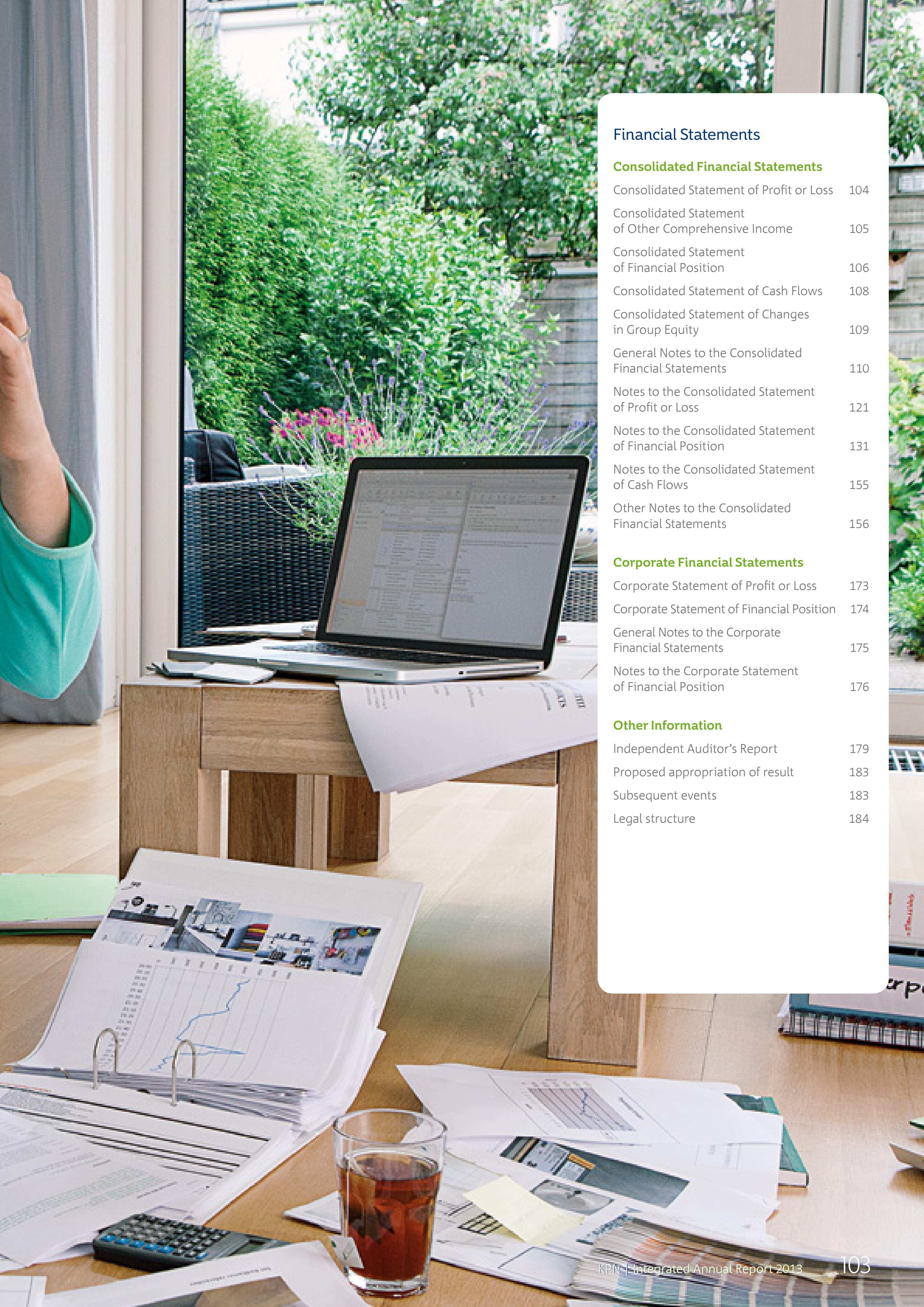
- performing an external environment analysis and obtaining insight into the branch, relevant social issues, relevant laws and regulations and the characteristics of the organization;
- assessing the acceptability of the reporting policies and consistent application of this, such as assessment of the outcomes of the stakeholder dialogue and the process for determining the material subjects, the reasonableness of estimates made by management, as well as evaluating the overall presentation of the sustainability information;
- reviewing the systems and processes for data gathering, internal controls and processing of other information, such as the aggregation process of data to the information as presented in the sustainability information;
- reviewing internal and external documentation to determine whether the sustainability information is substantiated adequately;
- assessing the consistency of the sustainability information and the information in the Integrated Annual Report not in scope for this Assurance Report;
- assessing whether the sustainability information has been prepared 'in accordance' with the GRI G4 Guidelines.

We believe that the evidence obtained from our examination is sufficient and appropriate to provide a basis for our opinion and our conclusion.

The Hague, February 26, 2014

PricewaterhouseCoopers Accountants N.V.

Originally signed by M. de Ridder RA



Financial Statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended December 31

Amounts in millions of EUR, unless otherwise stated	2013	2012 Restated*
Revenues [1]	8,443	9,308
Other income [2]	29	150
Total	**8,472**	**9,458**
Own work capitalized	-78	-74
Cost of materials	574	723
Work contracted out and other expenses	3,187	3,285
Employee benefits [3]	1,297	1,531
Depreciation, amortization and impairments [4]	1,857	1,960
Other operating expenses [5]	609	647
Total operating expenses	**7,446**	**8,072**
Operating profit	**1,026**	**1,386**
Finance income	29	38
Finance costs	-754	-744
Other financial results	-32	-151
Financial income and expenses [6]	**-757**	**-857**
Share of the loss of associates and joint ventures [12]	-7	-11
Profit before income tax from continuing operations	**262**	**518**
Income taxes [7]	31	-204
Profit for the year from continuing operations	**293**	**314**
Profit (loss) for the year from discontinued operations [18]	**-508**	**451**
Profit (loss) for the year	**-215**	**765**
Profit attributable to non-controlling interests [20]	7	2
Profit (loss) attributable to equity holders [19]	-222	763
Earnings per share after taxes attributable to equity holders for the year in EUR [8]		
–Basic (continuing operations)	0.07	0.14
–Fully-diluted (continuing operations)	0.07	0.13
–Basic (discontinued operations)	-0.14	0.19
–Fully-diluted (discontinued operations)	-0.14	0.19
–Basic (total, including discontinued operations)	-0.07	0.33
–Fully-diluted (total, including discontinued operations)	-0.07	0.32

* Based on KPN's continuing operations, comparative 2012 numbers are restated and do not include the financial results of E-Plus. E-Plus is classified as held for sale and discontinued operations. Furthermore, IAS 19R is applied to the Financial Statements 2013 with restatement of comparative 2012 numbers, refer to pages 119 and 120.

[..] 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 OTHER COMPREHENSIVE INCOME

For the year ended December 31

Amounts in millions of EUR, unless otherwise stated	2013	2012 Restated*
Profit (loss) for the year	**-215**	**765**
Other comprehensive income:		
Items of other comprehensive income that will not be reclassified subsequently to profit or loss:		
Remeasurement pensions and other post-employment plans:		
Gains or (losses) arising during the period [19]	383	-672
Income tax [19]	-62	130
Net other comprehensive Income not to be reclassified to profit or loss in subsequent periods	**321**	**-542**
Items of other comprehensive income that will be reclassified subsequently to profit or loss when specific conditions are met:		
Cash flow hedges:		
Gains or (losses) arising during the period [19]	-208	-319
Income tax [19]	53	78
	-155	**-241**
Currency translation adjustments:		
Gains or (losses) arising during the period [19]	-1	3
Income tax [19]	–	–
	-1	**3**
Fair value adjustment available for sale financial assets:		
Unrealized gains or (losses) arising during the period [16, 19]	8	3
Impairment charge through profit and loss	-8	–
	–	**3**
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**-156**	**-235**
Other comprehensive income for the year, net of income tax	**165**	**-777**
Total comprehensive income for the year, net of income tax	**-50**	**-12**
Total comprehensive income attributable to:		
Equity holders	-57	-14
Non-controlling interests	7	2
Total comprehensive income for the year, net of income tax	**-50**	**-12**
Total comprehensive income attributable to equity holders arises from:		
Continuing operations	445	-446
Discontinued operations	-502	432

* Certain amounts do not correspond to the 2012 financial statements and reflect IAS 19R adjustments made, refer to pages 119 and 120.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

Amounts in millions of EUR	December 31, 2013	December 31, 2012 Restated[1]	January 1, 2012 Restated[1]
NON-CURRENT ASSETS			
Goodwill	1,169	5,157	5,575
Licenses	1,729	2,191	2,495
Software	610	838	852
Other intangibles	135	272	290
Total intangible assets [10]	**3,643**	**8,458**	**9,212**
Land and buildings	596	671	705
Plant and equipment	4,274	6,573	5,704
Other tangible non-current assets	80	94	116
Assets under construction	390	557	1,008
Total property, plant and equipment [11]	**5,340**	**7,895**	**7,533**
Investments in associates and joint ventures [12]	320	326	261
Loans to associates and joint ventures [12]	453	227	127
Available-for-sale financial assets [16]	20	35	48
Derivative financial instruments [26]	117	233	169
Deferred income tax assets [7]	1,167	1,847	1,831
Trade and other receivables [13]	122	154	127
Total non-current assets	**11,182**	**19,175**	**19,308**
CURRENT ASSETS			
Inventories [14]	60	111	123
Trade and other receivables [15]	1,214	1,696	1,607
Income tax receivables [7]	1	5	1
Cash and cash equivalents [17]	3,946	1,286	990
Total current assets	**5,221**	**3,098**	**2,721**
Non-current assets and disposal groups classified as held for sale [18]	**9,469**	**28**	**224**
TOTAL ASSETS	**25,872**	**22,301**	**22,253**

1) Certain amounts do not correspond to the 2012 financial statements and reflect IAS 19R adjustments made, refer to pages 119 and 120.

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

Group Equity and Liabilities

Amounts in millions of EUR	December 31, 2013	December 31, 2012 Restated[1]	January 1, 2012 Restated[1]
GROUP EQUITY			
Share capital	1,025	344	344
Share premium	8,993	6,717	6,717
Perpetual capital securities	1,089	–	–
Other reserves	-517	-361	-127
Retained earnings	-5,340	-5,417	-4,661
Equity attributable to equity holders [19]	**5,250**	**1,283**	**2,273**
Non-controlling interests [20]	53	51	–
Total Group equity	**5,303**	**1,334**	**2,273**
NON-CURRENT LIABILITIES			
Borrowings [21]	11,656	12,369	11,641
Derivative financial instruments [26]	753	458	229
Deferred income tax liabilities [7]	9	211	667
Provisions for retirement benefit obligations [22]	1,019	1,557	1,090
Provisions for other liabilities and charges [23]	163	387	397
Other payables and deferred income [24]	77	122	155
Total non-current liabilities	**13,677**	**15,104**	**14,179**
CURRENT LIABILITIES			
Trade and other payables [25]	2,927	3,858	3,804
Borrowings [21]	2,008	1,527	1,458
Derivative financial instruments [26]	10	16	–
Income tax payables [7]	289	270	218
Provisions for other liabilities and charges [23]	120	186	129
Total current liabilities	**5,354**	**5,857**	**5,609**
Liabilities directly associated with non-current assets and disposal groups classified as held for sale [18]	**1,538**	**6**	**192**
TOTAL EQUITY AND LIABILITIES	**25,872**	**22,301**	**22,253**

1) Certain amounts do not correspond to the 2012 financial statements and reflect IAS 19R adjustments made, refer to pages 119 and 120.

[..] 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

For the year ended December 31

Amounts in millions of EUR	2013	2012 Restated[1]
Profit before income tax from continuing operations	262	518
Adjustments for:		
– Net finance cost [6]	757	857
– Share-based compensation [3]	4	-1
– Share of the profit of associates and joint ventures [12]	7	11
– Depreciation, amortization and impairments [4]	1,857	1,960
– Other income	-26	-135
– Changes in provisions (excluding deferred taxes)	-191	-255
Changes in working capital relating to:		
– Inventories	13	11
– Trade receivables	150	-34
– Prepayments and accrued income	95	37
– Other current assets	21	-6
– Trade payables	128	-109
– Accruals and deferred income	-189	47
– Current liabilities (excluding short-term financing)	-56	-47
Dividends received [12]	1	19
Income taxes received / paid	-253	-469
Interest received / paid	-654	-644
Net cash flow provided by operating activities from continuing operations	**1,926**	**1,760**
Net cash flow provided by operating activities from discontinued operations	927	1,247
Net cash flow provided by operating activities	**2,853**	**3,007**
Acquisition of subsidiaries, associates and joint ventures (net of acquired cash)	-5	-307
Disposal of subsidiaries, associates and joint ventures	49	27
Investments in intangible assets (excluding software)	-1,500	-30
Investments in software	-304	-316
Investments in property, plant and equipment	-1,312	-1,259
Disposals of property, plant and equipment	16	126
Loans to associates and joint ventures	-287	-89
Other changes and disposals	15	4
Net cash flow used in investing activities from continuing operations	**-3,328**	**-1,844**
Net cash flow used in investing activities from discontinued operations	-660	-289
Net cash flow used in investing activities [27]	**-3,988**	**-2,133**
Rights issue	2,939	–
Issuance Preference Shares B	256	–
Dividends paid	-6	-979
Paid coupon perpetual hybrid bonds	-34	–
Proceeds from exercised options	–	2
Issuance perpetual hybrid bonds	1,085	–
Proceeds from borrowings [21]	915	1,640
Repayments of borrowings and settlement of derivatives [21]	-1,142	-1,494
Other changes	-33	-12
Net cash flow provided by/used in financing activities from continuing operations	**3,980**	**-843**
Net cash flow used in financing activities from discontinued operations	-172	-33
Net cash flow provided by/used in financing activities [28]	**3,808**	**-876**
Total net cash flow from continuing operations	**2,578**	**-927**
Total net cash flow from discontinued operations	**95**	**925**
Changes in cash and cash equivalents	**2,673**	**-2**
Net cash and cash equivalents at the beginning of the year [17]	947	950
Exchange rate differences	–	-1
Changes in cash and cash equivalents	2,673	-2
Net cash and cash equivalents at the end of the year [17]	**3,620**	**947**
Cash classified as held for sale [18]	–	-4
Bank overdrafts	326	343
Cash and cash equivalents [17]	**3,946**	**1,286**

1) Based on KPN's continuing operations, comparative 2012 numbers are restated and do not include the financial results of E-Plus. E-Plus is classified as held for sale and discontinued operations. Furthermore, IAS 19R is applied to the Financial Statements 2013 with restatement of comparative 2012 numbers, refer to pages 119 and 120.

[..] 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[1]	Share capital	Share premium	Perpetual capital securities	Other reserves	Retained earnings	Equity attributable to equity holders	Non-controlling interests	Total Group equity
Balance as of January 1, 2012 Restated	**1,431,522,482**	**344**	**6,717**	**–**	**-127**	**-4,661**	**2,273**	**–**	**2,273**
Profit for the year[2]	–	–	–	–	–	763	763	2	765
Other comprehensive income for the year[2]	–	–	–	–	-235	-542	-777	–	-777
Total comprehensive income for the year**	**–**	**–**	**–**	**–**	**-235**	**221**	**-14**	**2**	**-12**
Share-based compensation [3]	–	–	–	–	–	2	2	–	2
Exercise of options [3, 19]	–	–	–	–	1	–	1	–	1
Dividends paid	–	–	–	–	–	-979	-979	–	-979
Acquisitions	–	–	–	–	–	–	–	49	49
Total transactions with owners, recognized directly in equity	**–**	**–**	**–**	**–**	**1**	**-977**	**-976**	**49**	**-927**
Balance as of December 31, 2012 Restated	**1,431,522,482**	**344**	**6,717**	**–**	**-361**	**-5,417**	**1,283**	**51**	**1,334**
Profit for the year	–	–	–	–	–	-222	-222	7	-215
Other comprehensive income for the period	–	–	–	–	-156	321	165	–	165
Total comprehensive Income for the year	**–**	**–**	**–**	**–**	**-156**	**99**	**-57**	**7**	**-50**
Rights issue	2,838,732,182	681	2,276	–	–	–	2,957	–	2,957
Issuance of perpetual hybrid bond	–	–	–	1,089	–	–	1,089	–	1,089
Share-based compensation [3]	–	–	–	–	–	3	3	–	3
Dividend perpetual hybrid bond (net of tax)	–	–	–	–	–	-25	-25	–	-25
Dividends paid	–	–	–	–	–	–	–	-5	-5
Total transactions with owners, recognized directly in equity	**2,838,732,182**	**681**	**2,276**	**1,089**	**–**	**-22**	**4,024**	**-5**	**4,019**
Balance as of December 31, 2013	**4,270,254,664**	**1,025**	**8,993**	**1,089**	**-517**	**-5,340**	**5,250**	**53**	**5,303**

1) Subscribed ordinary shares (including treasury shares). Preference shares B are not included and classify as current liabilities, refer to Note 19.

2) Based on KPN's continuing operations comparative 2012 numbers are restated and do not include the financial results of E-Plus. E-Plus is classified as held for sale and discontinued operations. Furthermore, IAS 19R is applied to the Financial Statements 2013 with restatement of comparative 2012 numbers, refer to pages 119 and 120.

[..] 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 deferred tax recorded directly in equity in 2013 was EUR 41 million negative (2012: EUR 334 positive). The amount of EUR 1,089 million regarding the perpetual capital securities included EUR 4 million of deductible current income tax relating to the issuance costs of the perpetual hybrid bond.

GENERAL NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General information
KPN is the leading telecommunications and information and communications technology (ICT) provider in the Netherlands, offering fixed and mobile telephony, fixed and mobile broadband internet and TV to retail consumers. KPN is also a market leader in the Netherlands in ICT services, infrastructure and network related ICT solutions to business customers, including other telecommunications operators. In Belgium, KPN pursues a challenger strategy and offers mobile telephony products and services to retail customers through BASE Company. In Germany, E-Plus, KPN's division that has been classified as 'disposal group held for sale' as of July 23, 2013, pursues a challenger strategy and offers mobile telephony products and services to retail customers. KPN also provides wholesale network services to third parties and operates an IP-based infrastructure for international wholesale customers 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 NYSE 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, 2013 of Koninklijke KPN N.V. were approved for issuance by both the Supervisory Board and the Board of Management on February 26, 2014.

The Financial Statements are subject to adoption by the Annual General Meeting of Shareholders on April 9, 2014.

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 stated otherwise.

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

As the corporate financial information of KPN is included in the Consolidated Financial Statements, the Corporate Statement of Profit or Loss is presented in abbreviated format in accordance with Article 402, Part 9, Book 2 of the Dutch Civil Code.

The Consolidated Financial Statements have been prepared under the historical cost convention, except for available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The Consolidated and Corporate Financial Statements are prepared on a going concern basis.

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 2012
The comparative figures have been restated for the impact of IAS 19R 'Employee benefits'. The restatements affect the Statement of Financial Position as at January 1, 2012 and at December 31, 2012 as well as the Total Comprehensive Income for 2012. Refer to pages 119 and 120 for further details.

Following the requirements of IFRS 5 'Non-current assets held for sale and discontinued operations', E-Plus has been recorded as 'disposal group held for sale' as of July 23, 2013. Given its significance to KPN Group, E-Plus classifies as a 'discontinued operation'. All assets and liabilities of E-Plus have been presented separately on KPN's Statement of Financial Position as of July 23, 2013 as 'non-current assets of disposal groups classified as held for sale' and 'liabilities directly associated with non-current assets and disposal group held for sale'. These assets and liabilities continue to be accounted for in accordance with the relevant IFRS standards as before July 23, 2013 except that non-current assets held by E-Plus are no longer amortized or depreciated as of July 23, 2013 following guidance of IFRS 5. Results from E-Plus are reported as 'profit (loss) for the period from discontinued operations', separate from the results from KPN's continuing operations as if E-Plus was classified as a discontinued operation as of January 1, 2012. Cash flows from E-Plus are reported as 'cash flows from discontinued operations' separate from cash flows from KPN's continuing operations as if E-Plus was classified as a discontinued operation as of January 1, 2012. Refer to Note 18 for further details on the sale of E-Plus and the impact on KPN's financial results.

Following changes in 2013 to KPN's internal structure and reporting to the CEO, who is KPN's Chief Operating Decision Maker ('CODM'), the segment reporting has been changed, including the comparative figures as at December 31, 2012. Refer to Note 34 for further details.

Changes in accounting policies and disclosures
The International Accounting Standards Board (IASB) continues to issue new standards and interpretations, and amendments to existing standards. KPN applies these new standards when effective and endorsed by the European Union. KPN has not opted for early adoption for any of these standards.

Implications of new and amended standards and interpretations
The following standards have been applied in the 2013 Consolidated Financial Statements:
- IAS 1 'Financial statements presentation' has been amended regarding the 'Other Comprehensive Income'. Items in the 'Consolidated Statement of Other Comprehensive Income' (OCI) are now grouped on the basis of whether or not they will be reclassified subsequently to the Consolidated Statement of Profit or Loss. The impact was isolated to presentation only.
- IAS 19 'Employee benefits' as amended in June 2011 (IAS 19R). For the impact on KPN's financial statements, refer to the accounting policies for provisions for retirement benefit obligations and Note 22.
- IFRS 13 'Fair value measurement' becomes the single source of guidance on IFRS for all fair value measurements. This standard did not have material impact on KPN's financial statements. The standard provided further clarification of existing requirements. These

clarifications have been taken into account for all assets, liabilities and transactions recorded at the fair value.
- IFRS 7 'Financial Instruments: Disclosures' has been amended on the topic of offsetting of assets and liabilities. This resulted in additional disclosures to Note 29.
- The Annual Improvements 2009-2011 cover amendments to several standards. The amendments did not have an impact on KPN's financial reporting.

Future implications of new and amended standards and interpretations

The following new standards and interpretations and amendments to existing standards will become effective on or after January 1, 2014. These standards have not been applied in preparing these 2013 Consolidated Financial Statements.
- IFRS 9 'Financial instruments'. This standard is the first step in the process taken by the IASB to replace IAS 39 'Financial instruments: recognition and measurement'. Since the standard has not yet been endorsed by the European Union, it is uncertain when it needs to be applied by KPN. The remaining uncertainty with respect to subsequent phases of the project makes it impossible to quantify the impact of the new standard on KPN's financial statements.
- IAS 36 'Impairment of assets' has been amended regarding disclosure requirements for the recoverable amount of non-financial assets. Certain disclosure requirements of the recoverable amount of the CGU have been removed from IAS 36 since these are now covered by IFRS 13. This amendment is effective January 1, 2014 and has been endorsed by the European Union (December 2013). Therefore, KPN will apply this amendment as of January 1, 2014 (retrospectively). The impact is expected to be limited to disclosures in KPN's financial reporting.
- IAS 39 'Financial Instruments: Recognition and Measurement' has been amended to ensure that novation of derivatives, designated as hedge instruments, from one counterparty to a central counterparty as a consequence of law or regulation would not result in discontinuance of the hedge relationship. This amendment is effective as of January 1, 2014 and has been endorsed by the European Union (December 2013). Therefore, KPN will apply this amendment as of January 1, 2014 (retrospectively). No impact on KPN's financial position is expected.
- IAS 19 'Employee benefits' has been amended regarding treatment of employee contributions in defined benefit plans. The amendment aims to simplify the calculation of employee contributions and will not affect KPN's financial position. This amendment is effective as of July 1, 2014 and will be applied after endorsement (expected in 2014).
- The Annual Improvements 2010-2012 and the Annual Improvements 2011-2013 cover amendments to several standards, none of which are expected to have a material impact on KPN's financial position. The amendments are effective as of July 1, 2014. Endorsement is pending.
- IFRIC 21 'Levies' provides guidance in addition to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on how to account for levies posed by governments other than income taxes, specifically on when to account for the liability. This IFRIC is effective as of January 1, 2014 and will be applied by KPN when endorsed. No material impact is expected.

The following standards have an effective date of January 1, 2013 and will be implemented as of January 1, 2014 (retrospectively) due to the timing of their endorsement by the European Union:
- IFRS 10 'Consolidated financial statement' establishes a single control model that applies to all entities including special purpose entities. The introduction of this new standard will not change KPN's financial position.
- IFRS 11 'Joint arrangements' classifies joint arrangements either as joint operation or joint venture by focusing on the rights and obligations of the parties to the arrangement rather than its legal form. The introduction of this new standard will not change KPN's financial position.
- IFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. It is the complement of the two new standards discussed in preceding paragraphs and will become effective at the same time.

In 2013 these standards, as well as IAS 27 'Separate financial statements' have been amended. KPN will apply these amendments as of January 1, 2014.

Basis of consolidation

KPN's Consolidated Financial Statements include the financial results of its subsidiaries and incorporate KPN's share of the results from associates and joint ventures.

Subsidiaries

Subsidiaries are all entities over which KPN has the power to govern the financial and operating policies, generally by KPN having more than half of the voting rights ('control'). Potential voting rights that are currently exercisable or convertible are taken into consideration when assessing whether KPN controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by KPN and are deconsolidated from the date on which KPN's control ceases. All intercompany transactions, balances and unrealized results on transactions with subsidiaries are eliminated.

Associates and joint ventures

Associates and joint ventures are investments in entities in which KPN can exert significant influence but which KPN does not control, generally by KPN having between 20% and 50% of the voting rights. These entities are accounted for using the equity method and are initially recognized at cost. Their carrying value includes goodwill identified upon acquisition, net of any accumulated impairment.

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

General Notes to the Consolidated Financial Statements continued

Business combinations
KPN uses the acquisition method of accounting to account for business combinations. The consideration paid is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration paid includes the fair value of any contingent assets or liabilities resulting from the arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their fair values at the acquisition date. When a business combination is achieved in stages, any previously held equity interests are re-measured at its acquisition date fair value and any resulting gain or loss is recognized in the Consolidated Statement of Profit or Loss and the equity interests are then considered in the determination of goodwill.

Contingent considerations are recognized at fair value at acquisition date. Subsequent changes to the fair value of contingent considerations deemed to be an asset or liability are recognized in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' either in the Consolidated Statement of Profit or Loss or as a change to the Consolidated Statement of Other Comprehensive Income. Contingent considerations classified as equity are not re-measured and subsequent settlement is accounted for within equity.

For each business combination, KPN elects to recognize any non-controlling interest in the acquiree either at fair value or at the proportionate share in the acquiree's net assets. Acquisition-related costs are expensed as incurred.

The excess of the consideration paid, non-controlling interests recognized and the acquisition date fair value of any previous equity interests in the acquiree over the fair value of KPN's share of the net assets acquired is recorded as goodwill. If negative goodwill occurs in case of a bargain purchase, the difference is recognized directly in the Consolidated Statement of Profit or Loss.

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer (CEO), who is the Chief Operating Decision Maker according to IFRS 8 'Operating Segments'.

Foreign currency translation
Functional and presentation currency
These financial statements are presented in Euro (EUR), which is KPN's presentation currency and functional currency. Each entity within KPN Group has its own functional currency which is determined based on the primary economic environment in which the entity operates. All values are rounded to millions unless stated otherwise.

Transactions and balances
Transactions in foreign currencies are translated into the functional currency of the recording entity using the exchange rates applicable at the dates of the transactions. Monetary assets and liabilities resulting from such transactions are translated at the applicable rates at reporting date. These exchange rate differences are recognized in the Consolidated Statement of Profit or Loss except when deferred in the Consolidated Statement of Other Comprehensive Income as qualifying cash flow hedges and qualifying net investment hedges.

Exchange rate differences on non-monetary assets and liabilities are reported as part of the fair value gain or loss from that asset or liability.

Exchange rate differences arising from the translation of the net investment in foreign entities, of borrowings and other currency instruments designated as hedges of such investments, are recognized in the Consolidated Statement of Other Comprehensive Income.

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

Subsidiaries
The results and Financial Position of subsidiaries that have a functional currency other than KPN's presentation currency (Euro) are translated as follows:
- assets and liabilities for each Financial Position presented are translated at the closing rate at the date of that Financial Position;
- income and expenses for each statement of profit or loss are translated at average exchange rates; and
- all resulting exchange differences are recognized in the Consolidated Statement of Other Comprehensive Income (in the currency translation reserve, a separate component within equity).

Significant accounting estimates, judgments and assumptions
The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenue and expenses during the period as well as the information disclosed and the contingent liabilities. For KPN's significant accounting estimates, judgments and assumptions, reference is made to the Notes to the Consolidated Financial Statements. The accounting estimates, judgments and assumptions deemed significant to KPN's financial statements relate to:
- the determination of deferred tax assets for losses carry forward and provisions for tax contingencies (see Note 7);
- the determination of fair value less costs to sell and value in use of cash-generating units for goodwill impairment testing (see Note 10);
- the depreciation rates for the copper and fiber network included within property, plant and equipment (see Note 11);
- the assumptions used to determine the value of the call/put arrangements of Reggefiber Group BV (see Note 29);
- the assumptions used to determine the provision for retirement benefit obligations and periodic pension costs, such as discount rate, return on plan assets and benefit increases (see Note 22);
- 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 (see Notes 23 and 31);
- the assumptions used to determine the fair value less costs to sell of assets and liabilities held for sale, including disposal groups (see Note 18);

- the assumptions on the outcome of regulatory approval and timing of the transfer of disposal groups (see Note 18); and
- the assessments of exposure to credit risk and financial market risks (see Note 29).

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

Statement of Profit or Loss

Revenue recognition

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

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

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

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

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

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

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

Revenue arrangements with multiple deliverables

Arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet recognition criteria of IFRS. Revenues from multiple deliverables arrangements are allocated to the identified separate units of accounting based on their relative fair values. If the fair value of the delivered item exceeds the cash received at the time of delivery, revenue is recognized up to the non-contingent cash received.

Any connection fee proceeds not allocated to the delivered equipment are deferred upon connection and recognized as service revenue over the customer contract period unless KPN has the obligation to continue providing services beyond that period in which case the expected customer service period is used.

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

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

Other income

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

Leases

Leases where KPN as lessor retains a significant portion of the risks and rewards of ownership of the leased asset are classified as operating leases. The assets remain on the Financial Position and are depreciated over the asset's useful life. The lease payments received from the lessee are recognized as revenue on a straight-line basis over the lease period.

Payments made by KPN as lessee under operating leases are charged to the Consolidated Statement of Profit or Loss 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 using the fair value of the assets sold and recognized in the Consolidated Statement of Profit or Loss immediately.

Leases where KPN as lessee has assumed substantially all risks and rewards of ownership are classified as finance leases. KPN then recognizes the leased assets on the Financial Position at the lower of the fair value and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges,

General Notes to the Consolidated Financial Statements continued

are included in other long-term payables in the Financial Position. 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 Profit or Loss 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.

Share-based compensation

KPN operates a number of share-based compensation plans, both equity and cash-settled. For equity-settled plans, the fair value of options or shares granted to employees is measured at grant date. For cash-settled plans, the fair value of the liability for the awards granted is re-measured at each reporting date and at settlement. The costs of share-based compensation plans are determined based on the fair value of the options and shares and the number of options or shares expected to vest. On each Financial Position date, KPN determines whether it is necessary to revise the expectation of the number of options or shares that will vest. The fair value is recognized as costs in the Consolidated Statement of Profit or Loss over the vesting period of the options or shares against an increase in equity in case of equity-settled share-based compensation plans and against recognition of a liability in case of cash-settled share-based compensation plans. For details on KPN's share-based compensation plans, see Note 3.

Operating expenses

Operating expenses are measured and recognized based on the accounting principles that are applied to related assets or liabilities and are allocated to the year in which they are incurred.

Subscriber acquisition and retention costs are expensed as incurred. The most common subscriber acquisition costs are handsets and dealer fees. The cost of a handset is expensed when the handset is sold. The sale can be an individual sale or a component of a multiple deliverable arrangement containing for example the sale of a handset combined with a subscription. In both cases, the handset is expensed when the costs are incurred. When a handset is leased out, it depends on the type of lease (operating or finance) whether the costs are expensed as incurred or capitalized and depreciated over the expected lifetime (see 'leases' above).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. KPN's qualifying assets mainly are its network (included in property, plant and equipment) as well as operating licenses (included under intangible fixed assets) which are dependent on a related network. Borrowing costs related to licenses are capitalized during the construction phase of the related network up to the time that services can be first rendered on a commercial basis.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Taxation

Current income tax

The current corporate income tax charge recognized in the Consolidated Statement of Profit or Loss is calculated in accordance with the prevailing tax regulations and rates taking into account non-taxable income and non-deductible expenses. The current income tax expense reflects the amount for the current reporting period that KPN expects to recover from or pay to the tax authorities. Current income tax related to items recognized directly in equity is recorded in equity and not in the Consolidated Statement of Profit or Loss. KPN's management periodically evaluates positions taken in the tax returns regarding situations in which applicable tax regulations are subject to interpretation and establishes provisions when deemed appropriate.

Deferred income taxes

Deferred income tax positions are recognized for temporary differences between the tax basis of assets and liabilities and their carrying values in KPN's Consolidated Statement of Financial Position.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Both the recognized and unrecognized deferred tax assets are reassessed at each reporting date. No deferred tax assets are recognized for deductible temporary differences that arise from initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit or loss reported in the Consolidated Statement of Profit or Loss nor the taxable profit or loss. Deferred tax assets are recorded for deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures and are recorded only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences except when they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit or loss reported in the Consolidated Statement of Profit or Loss nor the taxable profit or loss. Also, no deferred tax liabilities are recorded for taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax positions are stated at nominal value and are measured at the corporate income tax rates KPN expects to be applicable in the year when the asset is realized or liability is settled based on enacted or substantially enacted tax laws.

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, deferred income tax assets and 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.

Statement of Financial Position

Intangible assets

Goodwill

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose, irrespective of whether other assets or liabilities of the acquiree are assigned to those cash-generating units.

Goodwill is carried at cost less accumulated impairment losses and tested for impairment annually or whenever KPN has an indication that the goodwill may be impaired. 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 fair value less cost to sell and the value in use of the cash-generating units concerned. Following the restrictions of IFRS, impairment losses on goodwill are not reversed.

In case of disposal of a business which was part of a cash-generating unit, goodwill is allocated to that business on a relative fair value basis and included in the carrying amount of the business when determining the result on the sale.

Licenses

Licenses are valued at cost less amortization and impairment. The cost value of a qualifying asset may include capitalized borrowing costs related to qualifying assets incurred during the construction phase of the related asset. Amortization is calculated using the straight-line method and is commenced at 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 5 to 20 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 book value of the licenses 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 or whenever KPN has an indication that the licenses may be impaired. Licenses are tested as part of a cash-generating unit as licenses do not generate independent cash flows.

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. During the development phase, interest expenses incurred are capitalized as part of qualifying assets if material. Software is amortized over the estimated useful life of three to five years. Amortization commences when software is available for use.

Software is reviewed for impairment whenever events or changes in circumstances indicate that the book value may no longer 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 their fair values at acquisition date and are amortized using the straight-line method over an estimated useful life of 4 to 20 years.

Other intangible fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the book value may no longer 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.

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), directly attributable overhead costs and may include capitalized borrowing costs recorded during the construction phase of property, plant and equipment components.

Asset retirement obligations are capitalized as part of the cost of tangible fixed assets and expensed as either

General Notes to the Consolidated Financial Statements continued

depreciation over the asset's estimated useful life or as impairment charges. The estimated useful lives of the principal property, plant and equipment categories are as follows:

Land	No depreciation
Buildings	14 to 33 years
Network equipment	3 to 7 years
Network infrastructure	10 to 30 years
Vehicles	10 years
Office equipment	4 to 10 years

Property, plant and equipment is depreciated using the straight-line method, based on 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 assets concerned may not be recoverable. An impairment loss is recognized for the amount by which the asset's book value exceeds its recoverable amount. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use.

Subsequent costs such as costs for replacement of network components are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that KPN will receive future economic benefits associated with the item and the cost can be measured reliably. The carrying amounts of replaced assets are derecognized. All other repairs and maintenance costs are recognized in profit or loss when incurred.

The assets' residual values and useful lives are reviewed at least annually and adjusted if appropriate.

Financial assets

KPN's financial assets include investments in companies other than subsidiaries and associates, financial receivables held for investment purposes and other securities. At initial recognition, KPN classifies its financial assets in one of the following categories:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments (not applicable in 2012 and 2013); 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. All financial assets are initially recognized at fair value plus transaction costs attributable to the acquisition of the asset if a financial asset is not recorded at fair value through profit or loss. Subsequent measurement depends on the classification of the financial asset.

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. Financial assets held for trading are classified in this category when acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives, including separated embedded derivatives, are classified as held for trading except when they are designated as effective hedge instruments under IAS 39 'Financial Instruments: Recognition and Measurement'. Financial assets at fair value through profit or loss are recognized in the Consolidated Statement of Financial Position at their fair value with net changes in the fair value presented as finance costs (in case of negative net changes to the fair value) or finance income (in case of positive net changes to the fair value) in the Consolidated Statement of Profit or Loss.

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.

After initial measurement, loans and receivables are carried at amortized cost using the effective interest rate, which may equal cost if there is no maturity, less an allowance for uncollectibility. The amortized cost is calculated by taking into account any discounts or premiums on acquisition and transactions costs. The effective interest rate amortization is recognized in the Consolidated Statement of Profit or Loss under finance income or finance costs.

Loans and receivables are included in current assets, except for maturities greater than 12 months after the Financial Position date. Loans and receivables are included in Trade and other receivables in the Consolidated Statement of Financial Position. See also Notes 15 and 29.

Available-for-sale financial assets

KPN's available-for-sale financial assets include equity investments. KPN intends to hold these assets for an indefinite (undefined) period of time and has therefore not classified the assets as held for trading nor has designated the assets at fair value through profit or loss. Available-for-sale financial assets are carried at fair value with unrealized gains and losses (except for impairment losses) recognized in the Consolidated Statement of Other Comprehensive Income until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in the Consolidated Statement of Other Comprehensive Income is taken to the Consolidated Statement of Profit or Loss for the period. Impairment losses occurred are recognized directly in the Consolidated Statement of Profit or Loss for the period.

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

Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value. Subsequently, KPN measures all derivative financial instruments based on fair values derived from market prices of the instruments or valuation techniques such as discounted cash flows. Gains and losses arising from changes in the fair value of the instruments are recognized in the Consolidated Statement of Profit or Loss as finance cost (in case of negative net changes to the fair value) or finance income (in case of positive net changes to the fair value) during the period in which they arise to the extent that the derivatives have no hedging designation or they are ineffective.

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

At the inception of transactions, KPN documents the relationship between the derivative and hedged item (such as 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 effective – at inception and on an ongoing basis – and how the effectiveness is tested.

Changes in the fair value of an effective derivative, which is designated as a fair value hedge and qualifies as such, along with the gain or loss on the hedged item that is attributable to the hedged risk, are recorded in the Consolidated Statement of Profit or Loss as finance cost (in case of negative changes to the fair value) or finance income (in case of positive net changes to the fair value).

Changes in the fair value of an effective derivative, which is designated as a cash flow hedge and qualifies as such, are recorded in the Consolidated Statement of Other Comprehensive Income for the effective part, until the profit or loss are affected by the variability in cash flows of the designated hedged item. The ineffective part of the cash flow hedge is recognized in the Consolidated Statement of Profit or Loss as finance cost (in case of negative changes to the fair value) or finance income (in case of positive net changes to the fair value).

If an underlying transaction has ceased to be an 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 Profit or Loss, under 'finance income' or 'finance costs'. The cumulative amount recorded in the Consolidated Statement of Other Comprehensive Income is amortized over the remaining duration of the derivative in case of a cash flow hedge.

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

Refer to Note 26 on KPN's derivative financial instruments and Note 29 on KPN's financial risks.

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.

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

Transition costs relating to fixed-price contracts involving managed ICT services are capitalized and subsequently recognized in the Consolidated Statement of Profit or Loss 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 costs 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 costs 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 KPN 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 carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. The provision is set up through the Consolidated Statement of Profit or Loss (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 Profit or Loss. See Notes 13 and 15 on further information on KPN's trade and other receivables.

Cash and cash equivalents

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

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups classified as held for sale as well as liabilities directly associated herewith 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. A disposal group classifies as a 'discontinued operation' based on its significance to the KPN Group.

General Notes to the Consolidated Financial Statements continued

See Note 18 for further information on KPN's non-current assets and disposal groups held for sale.

Equity

KPN's share capital consists of ordinary shares which are classified as equity and preference shares B which are classified as short-term liabilities (Note 19). The surplus paid by shareholders above the nominal value of shares is recognized as share premium. Incremental costs directly attributable to the issue of new shares or options are shown in the Consolidated Statement of Other Comprehensive Income as a deduction, net of tax, from the proceeds.

Equity instruments and other financial instruments with long-term nature are classified based on their specific nature, terms and characteristics. Refer to Note 21 for disclosures on KPN's accounting of the perpetual hybrid bonds issued. The consideration paid by KPN for the acquisition of its own equity instruments (treasury shares) 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.

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

Transactions with non-controlling interests are treated as transactions with equity holders of KPN. For purchases of equity instruments from non-controlling interests, the difference between any consideration paid and the carrying amount of the non-controlling interest of the subsidiary acquired is recorded in equity. Since KPN already controls the acquired entity, no additional purchase price allocation is performed. Gains or losses on disposal of a non-controlling interest in a subsidiary are also recorded in the Consolidated Statement of Other Comprehensive Income.

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.

Financial liabilities

KPN's financial liabilities include loans and borrowings, derivative financial instruments, other payables and deferred income and trade and other payables. At initial recognition, KPN classifies its financial liabilities in one of the following categories:

- Financial liabilities at fair value through profit or loss;
- Loans and borrowings; and
- Derivatives.

All financial liabilities are initially recognized at fair value net of directly attributable transaction costs in case of loans and borrowings. Subsequent measurement depends on the classification of the financial liability. Management determines the classification of the financial liabilities at initial recognition and assesses the designation at every reporting date.

Financial liabilities at fair value through profit or loss

This category has two subcategories: financial liabilities held for trading and those designated at fair value through profit or loss at inception. Financial liabilities held for trading are classified in this category when incurred for the purpose of repurchasing in the near future. This includes derivatives, including separated embedded derivatives, that are designated as hedging instruments in a hedging relationship as defined by IAS 39. Financial liabilities at fair value through profit or loss are recognized in the Consolidated Statement of Financial Position at their fair value with net changes in the fair value presented as finance costs or income in the Consolidated Statement of Profit or Loss. KPN has not designated financial liabilities at fair value through profit or loss.

Loans and borrowings

After initial recognition, loans and borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the Consolidated Statement of Profit or Loss over the period of the borrowings using the effective interest method. The amortized cost is calculated by taking into account any discounts or premiums on acquisition or issuance and transaction costs. The effective interest rate amortization is recognized in the Consolidated Statement of Profit or Loss under finance costs.

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 Financial Position date.

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

This category applies to KPN's borrowings (Note 21), other payables (Note 24) and trade and other payables (Note 25).

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and reported on a net basis on KPN's Consolidated Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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 Financial Position date less the fair value of plan assets. KPN uses actuarial calculations (projected unit credit method) to measure the obligations and the costs. For the calculation, actuarial assumptions are made about demographic variables (such as employee turnover and mortality) and financial variables (such as future indexation and the discount rate). The discount rate is determined by reference to market rates. These are interest rates of high-quality corporate bonds that are denominated in the currency in which the benefit will be paid and that have terms to maturity, approximating the terms of the related liability.

A net defined benefit asset may arise where a defined benefit plan has been overfunded. KPN recognizes a net defined benefit asset in such a case only when future economic benefits are available to KPN in the form of a reduction in future contributions or a cash refund.

Actuarial gains and losses are recognized immediately in the Consolidated Statement of Other Comprehensive Income.

Past service costs, curtailments and settlements are recognized immediately in the Consolidated Statement of Profit or Loss.

The amount of pension costs included in operating expenses with respect to defined benefit plans consist of service cost, past service costs, curtailments and settlements and administration costs. Interest cost and expected return on plan assets are presented as part of finance costs.

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

IAS 19R

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

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

IAS 19R specifically addresses the incorporation in the valuation of the defined benefit obligation of risk sharing and shared funding between employer and employees (e.g. employee contributions) which are typical for Dutch pension arrangements and which reduce the defined benefit obligation.

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

IAS 19R is applied in the Consolidated and Corporate Financial Statements 2013 with restatement of comparative 2012 numbers. At January 1, 2013, all unrecognized cumulative actuarial losses and past service costs have been recognized at once reducing equity attributable to equity holders by EUR 1,127 million (net of tax). The net pension provision in the Consolidated Statement of Financial Position increased by EUR 1,380 million and the deferred tax assets increased by EUR 253 million. Under IAS 19R, the pension provision in the Consolidated Statement of Financial Position is equal to the defined benefit obligation less the fair value of plan assets of the defined benefit pension plans. The impact of IAS 19R on equity at January 1, 2012 is a reduction of EUR 657 million (net of tax).

Pension costs (excluding net interest costs) in 2012 are EUR 111 million lower as a result of the application of IAS 19R, mainly due to the elimination of amortization of actuarial gains and losses through the Consolidated Statement of Profit or Loss (EUR 91 million) and the replacement of interest cost and expected return on plan assets (EUR 20 million expense under IAS 19) with a net interest amount presented as finance costs. The net interest cost under IAS 19R relating to the pension provision amounts to EUR 36 million in 2012.

In 2012, actuarial losses of EUR 672 million were incurred (EUR 542 million net of tax) which under IAS 19R have been recognized immediately in the Consolidated Statement of Other Comprehensive Income.

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

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

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

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

General Notes to the Consolidated Financial Statements continued

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

The impact of IAS 19R on the Consolidated Statement of Profit or Loss in 2012 is as follows (in millions of EUR):

	As reported (after restatement for discontinued operations)	IAS 19R impact	Adjusted
Employee benefits	1,641	-110	1,531
Total operating expenses	8,182	-110	8,072
Operating profit	1,276	110	1,386
Finance income and expense	-822	-35	-857
Profit before income tax from continuing operations	**443**	**75**	**518**
Income taxes	-201	-3	-204
Profit for the year from continuing operations	**242**	**72**	**314**
Profit for the year from discontinued operations	451	–	451
Profit for the year	693	72	765

The impact of IAS 19R on earnings per share after taxes attributable to equity holders in 2012 is as follows (in millions of EUR):

	As reported (after restatement for discontinued operations)	IAS 19R impact	Adjusted
–Basic (continuing operations)	0.11	0.03	0.14
–Fully-diluted (continuing operations)	0.10	0.03	0.13
–Basic (discontinued operations)	0.19	–	0.19
–Fully-diluted (discontinued operations)	0.19	–	0.19
–Basic (total, including discontinued operations)	0.30	0.03	0.33
–Fully-diluted (total, including discontinued operations)	0.29	0.03	0.32

The impact of IAS 19R on the Other Comprehensive Income in 2012 is a decrease of EUR 470 million (consisting of net actuarial losses of EUR 542 million and profit for the period of EUR 72 million).

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 Financial Position 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 for items 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 Financial Position 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. See Notes 22 and 23 on KPN's provisions.

Statement of Cash Flows

The Consolidated 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 consideration paid in cash for newly acquired KPN group companies and associated companies is included in the cash flow from investing activities net of cash acquired. Cash flows resulting from the acquisition or disposal of KPN group companies are disclosed separately. Investments in property, plant and equipment, which are financed by financial leases, are not included in the cash flow used in investing activities.

Cash flows from arising from disposal groups held for sale (E-Plus) are presented separated from cash flows arising from KPN's continuing operations. Comparative financial information has been restated.

NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

[1] Revenues

Amounts in millions of EUR	2013	2012 Restated
Rendering of services	7,829	8,835
Sale of goods	575	408
Royalties and other revenues	39	65
Total revenues	**8,443**	**9,308**

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

Reference is made to Note 34 for more information on KPN's revenues per segment.

[2] Other income

Amounts in millions of EUR	2013	2012 Restated
Gains on the sale of property, plant and equipment	5	103
Other gains	24	47
Total other income	**29**	**150**

Gains on the sale of property, plant and equipment decreased due to the sale and lease back transactions of mobile towers in 2012.

In 2013, other gains mainly included a positive result of the sale of Infrastructure Services & Partners B.V. (EUR 23 million), the sale of Utility Connect B.V. (EUR 5 million) and a negative result of the sale of Compucom (EUR -3 million). In 2012, other gains included, among others, gains from the sale of Getronics International (EUR 8 million) and the sale of KPN Spain (EUR 36 million).

[3] Employee benefits

Amounts in millions of EUR	2013	2012 Restated
Salaries and wages	1,064	1,252
Pension charges [22]	101	108
Social security contributions	132	171
Total employee benefits	**1,297**	**1,531**

[..] Bracketed number refers to the related Note.

Reference is made to Note 34 'Segment Reporting' for further information on the number of employees and to Note 23 'Provisions for other liabilities and charges' for further information on employee redundancy costs. In the other operating expenses, an amount of EUR 100 million is recorded related to restructuring of the personnel (2012: EUR 120 million).

Board of Management and Supervisory Board

The Remuneration and Organizational Development Report included in this Annual Report contains required information comprising 'D: Details of actual pay-out for 2013' and 'E: Supervisory Board Pay 2013', which are deemed part of these financial statements.

Share option plans

KPN has granted stock options on its shares to members of the Board of Management, Senior Management and employees in the Netherlands with a collective labor agreement. As all remaining share option plans vested in 2010, no cost is recorded in 2013 and 2012.

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

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

1) If options are exercisable immediately, the profits from any exercise prior to the third anniversary of the date of issue will be held in escrow until the third anniversary of the issue, at which time such profits will be released to the relevant option holder, provided that the option holder remains employed by KPN.

2) The number of options that vested after the three-year vesting period and were performance-related, depended on KPN's Total Shareholder Return (stock appreciation plus dividend pay-out; TSR) relative to a peer group of European telecommunication companies.

Notes to the Consolidated Statement of Profit or Loss continued

Summary of the changes in outstanding options

	2013		2012	
	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	**405,282**	**6.75**	**908,226**	**7.62**
Options granted	–	–	–	–
Options exercised [19]	–	–	-243,433	6.48
Options expired	-405,282	6.75	-259,511	10.04
Options forfeited	–	–	–	–
Outstanding at the end of the year	**–**	**–**	**405,282**	**6.75**
– of which: exercisable	–	–	405,282	6.75

[..] Bracketed number refers to the related Note.

The average KPN stock price in 2013 was EUR 2.02 (2012: EUR 6.83). The fair value of each option was estimated at the date of grant using a binomial model.

Share plans

Since 2006, KPN has granted shares and share-based awards on its shares to members of the Board of Management and Senior Management: The Performance Share Plan (PSP). The conditionally granted PSP award will vest after three years if the employee is still employed with KPN. The number of share-based awards which vest depends on KPN's Total Shareholder Return (TSR) position ranking relative to its peer group of European telecommunications companies (including KPN). Since 2011, vesting is based for 75% on relative TSR and for 25% on non-financial performance measures i.e. energy reduction targets and a reputation dashboard. The list of companies included in the peer group and the vesting schedule can be found under 'Long-term incentives' in the 'Remuneration and Organizational Development Report' section.

In May 2012 and May 2013, an additional equity settled plan was granted to Senior Management: the KPN Restricted Share Plan. Shares under this plan will vest on January 1, 2015 and on January 1, 2016 respectively if the employee is still employed with KPN. For this plan, no other performance measures are applicable.

The share plan rules provide the possibility to adjust granted rights under the incentive plans to maintain its economic value if, subsequent to the date of grant, an issue of shares occurs. This approach is exclusively aimed at reflecting the increased number of shares following the rights issue and is in line with market practice. Therefore, the granted shares were adjusted based on a mathematically calculated adjustment factor, i.e. the cum-rights price divided by the TERP (Theoretical Ex-Rights Price) which, in case of the KPN rights issue, set the adjustment factor at 1.6494. This adjustment factor will be applicable for the existing (not yet vested) LTI plans, i.e. 2011, 2012 and 2013 and future plans.

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

		Maximum term	Settlement type[1]	Vesting period	Holding period after vesting of/until
2008	Board of Management	5 years	Equity	3 years	2 years
	Senior Management	3 years	Cash	3 years	–
2009	Board of Management	5 years	Equity[2]	3 years	2 years
	Senior Management	3 years	Cash	3 years	–
2010	Board of Management	5 years	Equity	3 years	2 years
	Senior Management	3 years	Cash	3 years	–
2011	Board of Management	5 years	Equity[2]	3 years	2 years
	Senior Management	3 years	Cash	3 years	–
2012	Board of Management and Senior Management	5 years	Equity[2]	3 years	2 years
	Senior Management	3 years	Cash	3 years	–
	Senior Management Restricted Share Plan	2.7 years	Equity	2.7 years	–
2013	Board of Management and Senior Management	5 years	Equity[2]	3 years	2 years
	Senior Management	3 years	Cash	3 years	–
	Senior Management Restricted Share Plan	2.7 years	Equity	2.7 years	–

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

2) Including deferred dividend.

The total compensation expense associated with the share plans was EUR 4 million in 2013 (2012: EUR 3 million benefit) and the related liability (for cash-settled shares) at December 31, 2013 was EUR 1 million (2012: EUR 105,000). This liability is included under Other payables and deferred income. During 2013, KPN granted 6,511,905 shares and share-based awards (2012: 2,240,959) to members of the Board of Management and Senior Management, including the adjustment for the rights issue.

The following table presents the number of shares and share-based awards under the share plans for the year ended December 31, 2013.

Number of shares and share based awards	Total at December 31, 2011	Granted/ additional vesting[2]	Exercised/ Vested	Forfeited	Total at December 31, 2012	Granted/ additional vesting[2,5]	Exercised/ Vested	Forfeited	**Total at December 31, 2013[3-5]**	– of which: Non-Vested
2008 Shares Board of Management	**87,576**	–	–	–	**87,576**	–	-87,576	–	**–**	–
2010 Share-based awards Senior Management	**1,667,142**	–	–	-1,667,142[4]	**–**	–	–	–	**–**	–
2010 Shares Board of Management	**194,813**	–	–	-194,813[4]	**–**	–	–	–	**–**	–
2011 Share-based awards Senior Management	**1,603,402**	–	–	-208,187	**1,395,215**	810,747	–	-137,266[4]	**2,068,696**	2,068,696
2011 Shares Board of Management	**227,000**	–	–	-91,666	**135,334**	87,885	–	–[4]	**223,219**	223,219
2012 Share-based awards Senior Management	**–**	1,166,459[1]	–	-49,901	**1,116,558**	704,672	–	-132,449	**1,688,781**	1,688,781
2012 Shares Board of Management/Senior Management	**–**	459,500[1]	–	-20,833	**438,667**	188,317	–	-25,311	**601,673**	601,673
2012 Restricted Shares Senior Management	**–**	615,000	–	-7,500	**607,500**	375,200	–	-42,359	**940,341**	940,341
2013 Share-based awards Senior Management	**–**	–	–	–	**–**	1,776,293[1]	–	–	**1,776,293**	1,776,293
2013 Shares Board of Management/Senior Management	**–**	–	–	–	**–**	634,113[1]	–	–	**634,113**	634,113
2013 Restricted Shares Senior Management	**–**	–	–	–	**–**	1,934,678	–	-20,600	**1,914,078**	1,914,078

1) On the basis of 100% grant. The equity-settled share numbers do not include any deferred dividend during the vesting period. The deferred dividend during the vesting period will be granted in additional shares.
2) At grant date, the fair value is calculated using a Monte Carlo Simulation model except for the restricted shares. At April 12, 2013 the fair value was EUR 1.06 (2012 grant: EUR 2.84) for the 2013 share-based award (cash-settled) and EUR 1.06 (2012 grant: EUR 2.84) for the 2013 equity-settled share grant for Members of the Board of Management and Senior Management (excluding deferred dividend). At May 1, 2013 the fair value was EUR 1.58 for the 2013 Restricted share award for Senior Management.
3) At December 31, 2013 the fair value of each cash-settled share-based award was measured, using a Monte Carlo Simulation model, 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, 2013). At December 31, 2013 the fair value was EUR 0 (2012: EUR 0.06) for the 2011 share-based award, EUR 0.06 (2012: EUR 0.22) for the 2012 share-based award and EUR 1.96 for the 2013 share-based award.
4) At the end of 2013, KPN held the 14th position with respect to the 2011 share grant and at the end of 2012 KPN held the 13th position with respect to the 2010 share grant. Final TSR measurement for the 2011 share grant was conducted as per February 15, 2014.
5) Granted shares were adjusted based on a mathematically calculated adjustment factor, i.e. the cum-rights price divided by the TERP (Theoretical Ex-Rights Price) which, in case of the KPN rights issue, is set at 1.6494.

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

	2013 PSP	**2013 Restricted Shares**	2012 PSP	2012 Restricted Shares
Risk-free interest rate based on euro governments bonds for remaining time to maturity of 2.7 years	0.6%	0.6%	1.2%	1.1%
Expected dividend for KPN (based on one year's historical daily data preceding the date of award)	0.0%	–	10.2%	–
Expected volatility (PSP grant based on 2.7 years daily historical daily data)	32.9%	–	20.0%	–
Share price at date of award (closing at grant date)	EUR 1.06	EUR 1.58	EUR 6.66	EUR 6.78

Notes to the Consolidated Statement of Profit or Loss continued

[4] Depreciation, amortization and impairments

Amounts in millions of EUR	2013	2012 Restated
Impairment of goodwill	–	314
Amortization of other intangible assets	585	558
Impairment of other intangible assets	14	9
Total amortization and impairments of goodwill and other intangible assets	**599**	**881**
Depreciation of property, plant and equipment	1,232	1,049
Impairments and retirements of property, plant and equipment	26	30
Total depreciation and impairments of property, plant and equipment	**1,258**	**1,079**
Total	**1,857**	**1,960**

Impairment of Goodwill

During 2012, continued adverse market trends and price pressure negatively impacted the performance and outlook of Corporate Market (in 2013 partly renamed to IT Solutions). As a result, the annual impairment testing led to an impairment of goodwill of Corporate Market of EUR 314 million over 2012. Reference is made to Note 10.

Other impairments and depreciation

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

Amounts in millions of EUR	2013	2012 Restated
By classification:		
Land and buildings	79	71
Plant and equipment	1,127	949
Other tangible fixed assets	41	53
Assets under construction	11	6
Total	**1,258**	**1,079**

[5] Other operating expenses

In 2013, Other operating expenses comprised, among others, an addition to the restructuring provision of EUR 122 million (2012: EUR 135 million). For more details reference is made to Note 23.

Auditor's fees

The fees listed below relate to the services provided to KPN and its consolidated group entities by PwC Accountants N.V., the Netherlands, KPN's external auditor as referred to in Section 1(1) of the Dutch Accounting Firms Oversight Act ('Wet toezicht accountantsorganisaties' or 'Wta'), as well as by other Dutch and foreign-based PwC individual partnerships and legal entities, including their tax services and advisory groups:

Amounts in millions of EUR	2013	2012
Financial statements audit fees	6.8	7.9
Other assurance fees	4.5	3.5
Tax fees	3.2	1.2
All other fees	0.3	0.5
Total	**14.8**	**13.1**

Above fees include EUR 753,000 (2012: EUR 1.3 million) of fees charged to E-Plus. The total fees of PwC Accountants N.V., the Netherlands, charged to KPN and its consolidated group entities amounted to EUR 13.9 million in 2013 (2012: EUR 10.1 million).

The financial statements audit fees include the aggregate fees billed in each of 2013 and 2012 for professional services rendered for the audit of KPN's annual financial statements and annual statutory financial statements of subsidiaries or services that are normally provided by the auditor in connection with the audits.

The other assurance fees include the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of KPN's financial statements and are not reported under audit services. This includes revenue and IT related assurance services and regulatory related assurance services. In 2013 this also included EUR 2.0 million fees related to the rights and bonds issues. From the total other assurance fees billed in 2013 some EUR 2.5 million related to services that are still regarded as permitted services under the 'Wta'. The remainder of some EUR 2.0 million in fees billed in 2013 related to services that are no longer permitted but were carried out based on contracts that were in existence prior to January 1, 2013.

Tax fees in 2013 mainly related to tax services in relation to the sale of E-Plus and the rights and bonds issues. All tax fees billed in 2013 as well as all other fees billed in 2013 related to services based on contracts that were in existence prior to January 1, 2013.

[6] Financial income and expenses

Amounts in millions of EUR	2013	2012 Restated
Finance income	**29**	**38**
Interest on borrowings	-688	-693
Interest on provisions for retirement benefit obligations	-41	-34
Interest on other provisions	-1	-2
Other	-24	-15
Finance costs	**-754**	**-744**
Amortizable part of hedge reserve [19]	-6	-6
Ineffectiveness cash flow hedges [19, 26]	6	–
Financial instruments not qualified for hedge accounting	17	-40
Exchange rate differences	3	-5
Reggefiber call/put arrangements	-56	-100
Other	4	–
Other financial results	**-32**	**-151**
Total	**-757**	**-857**

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

In 2013, interest on borrowings included a non-cash amount of EUR 19 million (2012: EUR 21 million) relating to debt issue costs and similar costs which are amortized over the remaining life of the respective bonds.

Interest on provisions for retirement benefit obligations is the net amount of interest cost on the defined benefit obligation and expected return on plan assets (see Note 22).

Changes in the carrying value of Reggefiber call/put arrangements to acquire the remaining shares resulted in a loss for the period of EUR 56 million (2012: EUR 100 million loss). Refer to Notes 12 and 29 for further information on the call/put arrangements.

In 2013, line item 'Other' in Other financial results include the net result of the sale of available-for-sale financial assets (11% stake in Compucom) for the amount of EUR 21 million. This was largely offset by the amortizable part of discontinued fair value hedges, CVA/DVA adjustments on derivatives and several one-off items.

Notes to the Consolidated Statement of Profit or Loss continued

[7] Taxation

The Netherlands

In 2006, KPN signed a horizontal monitoring 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, 2013, of which the timing of the deductibility of costs regarding the tender of outstanding bonds in 2010 of approximately EUR 90 million and the deductibility of the loss of EUR 119 million relating to the liquidation of a foreign entity in 2011 are the most significant.

The German activities (E-Plus) of KPN form a German partnership transparent for German tax purposes and a permanent establishment for Dutch tax purposes. An agreement in 2004 with the Dutch tax authorities allowed KPN 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. For the tax payments on this recapture, a deferred tax liability had been recognized. As per December 31, 2013 this recapture is fully realized. After the agreement in principle KPN and the Dutch tax authorities reached a final agreement in December 2013 on the Dutch tax consequences of the tax book loss which is expected to be recognized as a result of the expected sale of E-Plus to Telefónica Deutschland. This tax book loss amounts to approximately EUR 3.7 billion and, to the extent it cannot be carried back to earlier years, is expected to offset KPN's taxable income in the Netherlands in the coming years, starting in 2014. Dividends received and/or capital gains (up to amount of loss deducted) realized on KPN's 20.5% shareholding in Telefónica Deutschland will be subject to Dutch corporate income tax. Following this agreement, KPN recognized a deferred tax asset of EUR 932 million in the Netherlands. Due to its close relationship with the expected sale of E-Plus, this tax benefit is reported as 'profit for the period from discontinued operations'. The deferred tax asset associated with this benefit is not included in the disposal group held for sale.

In 2011, KPN reached an agreement with the Dutch tax authorities with regard to the application of the so-called innovation tax facilities. Innovation tax facilities are facilities under Dutch corporate income tax law whereby profits attributable to innovation are taxed at an effective rate of 5%. The agreement has retroactive effect from January 1, 2007. The application of the innovation tax facilities resulted in a benefit of EUR 53 million in 2013 (partly reflecting a reassessment of prior years). As a result of the application of the innovation tax facilities KPN's effective tax rate in the Netherlands is reduced from the statutory tax rate of 25% to approximately 20%.

Germany/E-Plus discontinued operations

In Germany, income tax consists of trade tax ('Gewerbesteuer') and corporate tax (Körperschaftssteuer). E-Plus has considerable loss carry forward for both trade tax and corporate tax. For tax purposes, certain past impairments of goodwill and licenses were not recognized and therefore are amortized over the remaining useful lives (deductible temporary differences). In Germany, taxable income in a certain year, exceeding EUR 1 million, can only be offset for 60% against tax loss carry forward. Trade tax and corporate tax is payable over the remaining 40% of taxable income. E-Plus is classified as 'disposal group held for sale' and upon that classification an impairment of deferred tax assets for tax losses carry forward EUR 747 million was recorded (as 'loss for the period from discontinued operations') resulting from changes in expectations of future taxable income in the German legal entities remaining within KPN Group. On August 29, 2013 The Foundation Preference Shares B KPN exercised its call option and obtained an interest in KPN's issued share capital equal to 50% minus 1 share. This event resulted in a change of control from a German tax perspective and expiration of 50% of the available losses carry forward in Germany. This triggered a permanent partial release of recognized deferred tax assets for tax losses carry forward of EUR 99 million as loss for the period from discontinued operations.

At December 31, 2013, a deferred tax asset (DTA) of EUR 471 million remains as part of the disposal group held for sale of which EUR 127 million relates to estimated future tax savings due to available tax loss carry forward and EUR 344 million for estimated future tax savings due to the realization of temporary differences. E-Plus determines the DTA by estimating future taxable income taking into account various uncertainties in future cash flows which are also used in impairment testing.

Other entities

There are several other entities in the Netherlands which are separately liable for income taxes. In most other countries in which KPN operates, tax loss carry forward are available and therefore no income tax is payable except when minimum taxation rules are applicable. In 2013, iBasis recognized a deferred tax asset to an amount of EUR 23 million based on tax loss carry forward to offset positive taxable income in the coming years.

Income tax expense

Amounts in millions of EUR	2013	2012 Restated[7]
Current tax	-53	-112
Changes in deferred taxes	84	-92
Income tax benefit/(charge) from continuing operations	**31**	**-204**

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

Amounts in millions of EUR	2013	2012 Restated[7]
Profit before income tax from continuing operations[1]	**269**	**529**
Taxes at Dutch statutory tax rates[2]	-67	-132
Tax rate differences of foreign operations[3]	-4	-13
Non-taxable income and non-deductible expenses[4]	-16	-81
Notional interest deduction Belgium	13	14
Innovation tax facilities current year	37	40
Innovation tax facilities prior years[5]	16	-14
(De)recognition of deferred tax positions[6]:		
– related to prior years	45	4
– related to the current year	4	-18
Other	3	-4
Income tax benefit/(charge) from continuing operations	**31**	**-204**
Effective tax rate continuing operations	**-11.5%**	**38.6%**

1) Excluding the share in profits or losses of associates and joint ventures.
2) Taxes at Dutch statutory tax rates are calculated on the basis of profit before income tax (excluding the share of profits of associates and joint ventures) and the applicable Dutch corporate income tax rate of 25% in 2013 and 2012.
3) Tax rate differences of foreign operations reflect the impact of different tax rates in the fiscal jurisdictions in which KPN operates. In 2013 and 2012, the corporate tax rates amounted to 34% in Belgium and 40% in the United States.
4) Non-taxable income and non-deductible expenses represent adjustments for income not subject to taxation.
5) In 2011, KPN reached an agreement with the Dutch tax authorities with regard to the application of the so-called innovation tax facilities which was reassessed in 2012 and 2013.
6) (De)recognition of deferred tax positions reflects the effects of valuation or non-valuation of tax loss carry forward and deductible temporary differences. In 2013 iBasis recognized a deferred tax asset to an amount of EUR 23 million based on tax loss carry forward to offset positive taxable income in the coming years. The deferred tax asset of EUR 932 million in the Netherlands in relationship with the expected sale of E-Plus and the impairment of deferred tax assets for tax losses carry forward in Germany is reported as 'profit for the period from discontinued operations'.
7) Restated for IAS 19R and the reclassification of E-Plus as held for sale and discontinued operations.

Deferred tax assets and liabilities

Amounts in millions of EUR	December 31, 2013	December 31, 2012 Restated
Deferred tax assets	**1,167**	**1,847**
– of which: to be recovered after 12 months	1,103	1,918
– of which: to be recovered within 12 months	64	-71
Deferred tax liabilities	**9**	**211**
– of which: to be realized after 12 months	9	6
– of which: to be realized within 12 months	–	205
Deferred tax assets and liabilities	**1,158**	**1,636**

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

Notes to the Consolidated Statement of Profit or Loss continued

Deferred tax assets

	Deductible temporary differences						
	Tax loss carry forward[3]	Goodwill	Other intangibles[2]	Pension provisions	Other[1]	Offset against deferred tax liabilities	Total
Balance as of January 1, 2012 Restated	**924**	**254**	**446**	**183**	**579**	**-555**	**1,831**
Income statement benefit/(charge)	181	-56	-8	-13	-154	–	-50
Tax charged to equity	–	–	–	131	78	–	209
Reclassification	–	–	–	–	12	-159	-147
Changes in consolidation	4	–	–	–	–	–	4
Transferred to held for sale	–	–	–	8	-8	–	–
Balance as of December 31, 2012 Restated[1]	**1,109**	**198**	**438**	**309**	**507**	**-714**	**1,847**
Exchange differences	–	–	–	-2	2	–	–
Income statement benefit/(charge)	-628	-29	–	-27	838	–	154
Tax charged to equity	–	–	–	-62	53	–	-9
Reclassification	5	–	–	-40	36	156	157
Transferred to held for sale	-388	-83	-438	–	-73	–	-982
Balance as of December 31, 2013[1]	**98**	**86**	**–**	**178**	**1,363**	**-558**	**1,167**

1) Other deductible temporary differences at December 31, 2013 include property, plant and equipment of EUR 231 million (2012: EUR 272 million), cash flow hedge reserves of EUR 130 million (charged to equity, 2012: EUR 77 million) and revenue recognition of EUR 19 million (2012: EUR 22 million). Furthermore, it includes the deferred tax asset of EUR 932 million in the Netherlands in relationship with the expected sale of E-Plus. The tax benefit relating to this DTA is reported as 'profit for the period from discontinued operations'.

2) Mainly related to UMTS licenses in Germany.

3) The impairment of EUR 747 million of deferred tax assets for tax losses carry forward in Germany in 2013 is reported as 'loss for the period from discontinued operations'.

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

Deferred tax liabilities

	Taxable temporary differences					
	Deferred liability due to losses German permanent establishment	Software development	Accelerated depreciation[1]	Other[2-3]	Offset against deferred tax assets	Total
Balance as of January 1, 2012 Restated	**519**	**253**	**285**	**165**	**-555**	**667**
Income statement charge	–	-15	19	11	–	15
Tax payable due to E-Plus loss recapture	-314	–	–	–	–	-314
Changes in consolidation	–	–	–	7	–	7
Tax charged to equity	–	–	–	1	–	1
Reclassification (Restated)	–	–	–	12	-159	-147
Transfer to current tax	–	-10	1	-10	–	-19
Transferred to held for sale	–	–	–	1	–	1
Balance as of December 31, 2012 Restated	**205**	**228**	**305**	**187**	**-714**	**211**
Income statement charge	–	–	–	-113	–	-113
Tax payable due to E-Plus loss recapture	-205	–	–	–	–	-205
Changes in consolidation	–	–	–	5	–	5
Reclassification	–	–	–	-9	156	147
Transfer to current tax	–	-45	-61	88	–	-18
Tax charged to equity	–	–	–	-15	–	-15
Transferred to held for sale	–	–	–	-3	–	-3
Balance as of December 31, 2013	**–**	**183**	**244**	**140**	**-558**	**9**

1) Relates to property, plant and equipment in the Netherlands.

2) Balance at January 1, 2012 was adjusted relating to the IAS 19R impact on retirement benefit obligations.

3) Other taxable temporary differences at December 31, 2013 include intangible fixed assets of EUR 65 million (2012: EUR 80 million), property plant and equipment of EUR 40 million (2012: EUR 58 million) and provisions for early retirement of EUR 19 million (2012: EUR 27 million).

Tax loss carry forward

	December 31, 2013		December 31, 2012	
	Tax loss carry forward	**Recognized deferred tax assets**	Tax loss carry forward	Recognized deferred tax assets
Koninklijke KPN – corporate tax[1]	84	9	133	11
BASE Company – corporate tax	173	63	179	67
Other	275	26	215	11
Total continuing operations	**532**	**98**	**527**	**89**
E-Plus – trade tax[2]	794	82	1,428	202
E-Plus – corporate tax[2]	6,883	45	10,167	818
Total KPN Group	**8,209**	**225**	**12,122**	**1,109**

1) The tax loss carry forward are pre-consolidation losses ('voorvoegingsverliezen') limited in their use as such losses may only be compensated by taxable income generated by the specific company itself.

2) The loss carry forward 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 forward. Trade tax and corporate tax have to be paid over the remaining 40% of taxable income. E-Plus has been classified as 'disposal group held for sale' as of July 23, 2013 and upon that classification an impairment of deferred tax assets for tax losses carry forward of EUR 747 million was recorded (as 'loss for the period from discontinued operations') resulting from changes in expectations of future taxable income in the German legal entities remaining within KPN Group. On August 29, 2013 the Foundation Preference Shares B KPN obtained an interest in KPN's issued share capital equal to 50% minus 1 share which resulted in a change of control from a German tax perspective and expiration of 50% of the available losses carry forward in Germany. This triggered a permanent partial release of recognized deferred tax assets for tax loss carry forward of EUR 99 million as loss for the period from discontinued operations.

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

The expiration of the available tax loss carry forward and recognized tax assets at December 31, 2013 is as follows:

	Tax loss carry forward	Maximum deferred tax asset	Recognized deferred tax asset[1]
2014	4	1	–
2015	10	2	1
2016	11	2	2
2017	20	5	4
2018	29	7	1
Later	117	38	25
Unlimited	341	105	65
Total continuing operations	**532**	**160**	**98**
Discontinued operations unlimited[2]	7,677	1,212	127
Total Group	**8,209**	**1,372**	**225**

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

2) The amount of tax loss carry forward contains EUR 6,657 million which relate to the abovementioned impairment of deferred tax assets of EUR 747 million.

	Tax loss carry forward	Maximum deferred tax asset	Recognized deferred tax asset[1]
2013	20	5	1
2014	5	1	–
2015	10	3	–
2016	18	4	2
2017	18	5	4
Later	121	33	8
Unlimited	335	99	74
Total continuing operations	**527**	**150**	**89**
Discontinued operations unlimited	11,595	1,832	1,020
Total Group	**12,122**	**1,982**	**1,109**

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

Notes to the Consolidated Statement of Profit or Loss continued

[8] Earnings per share

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

	2013	2012 Restated
Profit for the year from continuing operations in millions of EUR	**293**	**314**
Profit (loss) for the year from discontinued operations in millions of EUR	**-508**	**451**
Profit (loss) for the year in millions of EUR	**-215**	**765**
Profit attributable to non-controlling interests [20]	7	2
Profit (loss) attributable to equity holders [19]	-222	763
Weighted average number of subscribed ordinary shares outstanding	**3,536,302,579**	**2,348,443,311**
Dilution effects:		
– options and non-vested shares	4,090,205	2,136,157
Weighted average number of subscribed ordinary shares outstanding including dilution effects	**3,540,392,784**	**2,350,579,468**
Earnings per share after taxes attributable to equity holders for the year in EUR		
– basic continuing operations[1]	0.07	0.14
– fully-diluted continuing operations[1]	0.07	0.13
– basic discontinued operations[1]	-0.14	0.19
– fully-diluted discontinued operations[1]	-0.14	0.19
– basic total, including discontinued[1]	-0.07	0.33
– fully-diluted total, including discontinued[1]	-0.07	0.32

1) Historic EPS and number of weighted average number of shares (non-diluted and fully diluted) restated following the rights issue based on the adjustment of the historical share price (adjustment factor of 0.60628)

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

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 2013, being EUR 2.02) 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. Dividend on the perpetual hybrid bonds is deducted from the profit attributable to equity holders since the perpetual hybrid bonds represent equity but do not constitute profit attributable to equity holders.

[9] Dividend per share

KPN will not pay a dividend over 2013. Subject to closing of the sale of E-Plus, KPN intends to recommence dividend payment in respect of 2014.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

[10] Intangible fixed assets

Amounts in millions of EUR	December 31, 2013	December 31, 2012
Goodwill	1,169	5,157
Licenses	1,729	2,191
Software	610	838
Other intangibles	135	272
Total intangible assets	**3,643**	**8,458**

Statement of changes in goodwill

Amounts in millions of EUR	2013	2012
Cost	5,914	6,020
Accumulated impairments	-757	-445
Balance as of January 1	**5,157**	**5,575**
Investments	–	93
Impairment	–	-314
Disposals	-5	-202
Exchange rate differences	-2	-1
Subsequent purchase price adjustments	5	–
Transferred to held for sale	-3,986	6
Closing net book value	**1,169**	**5,157**
Cost	1,921	5,914
Accumulated impairments	-752	-757
Balance as of December 31	**1,169**	**5,157**

For goodwill impairment testing, KPN's cash-generating units are deemed equal to KPN's operating segments. The allocation of goodwill is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The allocation of goodwill to cash-generating units is made in accordance with KPN's internal structure, and is shown below (refer also to Note 34 'Segment reporting'):

Amounts in millions of EUR	December 31, 2013	December 31, 2012 Restated
Consumer Mobile	262	262
Consumer Residential[1]	167	162
Business[2]	343	345
NetCo	211	211
Germany[3]	–	3,956
Belgium	96	96
iBasis[4]	82	83
Rest of World[5]	8	42
Total	**1,169**	**5,157**

1) Increase due to subsequent purchase price adjustment of Edutel, XMS, KickXL and Concepts ICT from Reggeborgh.
2) Parts of Corporate Market have been integrated into Business Segment. The remaining part of Corporate Market has been renamed as IT Solutions to which no goodwill has been allocated.
3) E-Plus is excluded in December 31, 2013 figures since KPN classified E-Plus as held for sale.
4) Change in goodwill relates to exchange rate differences.
5) Rest of World, consisting mainly of Ortel Mobile, ceased to report separately. Part of the Ortel Mobile activities have been integrated into Germany, Belgium and Consumer Mobile. Due to the integration, EUR 33 million goodwill has been allocated to Germany. The remaining goodwill of Rest of World consists of goodwill of Ortel Mobile.

In 2013, no investments related to acquisitions were made. In 2012, the acquisition of Lijbrandt Telecom Holding B.V., Glashart Media B.V. and Reggefiber Wholesale B.V. resulted in a goodwill of EUR 23 million. The acquisition of strategic partner GroupIT B.V. (RoutIT) led to a goodwill amount of EUR 42 million. The investments related to the acquisition of Edutel, XMS, KickXL and Concepts ICT from Reggeborgh resulted in recognition of EUR 33 million in goodwill (including purchase price adjustment of EUR 5 million in 2013). Refer to Note 30 for further information on business combinations.

The disposal of EUR 5 million in 2013 relates to the sale of Multiconnect. In 2012, the disposals of goodwill related to the EUR 202 million goodwill allocated to the sold and leased back mobile towers and related business in Germany and at NetCo based on the relative fair value of the disposed business versus the total operating segment.

In 2013, no goodwill impairment charges were made. In 2012, the goodwill impairment charges amounted to EUR 314 million and related to impaired goodwill allocated to IT Solutions (part of Corporate Market has been renamed as IT Solutions).

Notes to the Consolidated Statement of Financial Position continued

Goodwill impairment test

Goodwill is impaired if the recoverable amount of the cash-generating unit to which it is allocated is lower than the book value of the cash-generating unit concerned including goodwill. A detailed review has been performed of the recoverable amount of each cash-generating unit. For all cash-generating units the recoverable amount is based on their value-in-use.

Significant cash-generating units

For Consumer Mobile, Consumer Residential, Business and NetCo, the recoverable amount is based on their value-in-use. The value-in-use was determined by using the discounted cash flow method. Key assumptions used in the cash flow projections are estimated EBITDA and estimated capital expenditures, the estimated change in working capital and the pre-tax weighted average cost of capital (WACC) used for discounting the cash flow projections. The cash flow projections for the first three years are management's best estimate based on the most recent business plans and historical growth rates and EBITDA margins. KPN believes the period used in the projections to be a suitable timescale for reviewing and considering the annual performance before applying a fixed terminal value multiple to the final year cash flows of the detailed projection. The key long-term assumptions used in the impairment test are summarized in the table below:

	Sales growth	Capex intensity	EBITDA margin	Discount rate
2013	0%	16%-19%	38%-42%	8.5%-9.0%
2012	0%	20%-22%	40%-45%	6.5%-7.0%

Other cash-generating units

For Belgium and iBasis the recoverable amount is also based on their value-in-use. The value-in-use was determined by using the discounted cash flow method. Key assumptions used in the cash flow projections are estimated EBITDA and estimated capital expenditures, the estimated change in working capital and the pre-tax weighted average cost of capital (WACC) used for discounting the cash flow projections. The cash flow projections for the first three years are management's best estimate based on the most recent business plans and historical growth rates and EBITDA margins. KPN believes the period used in the projections to be a suitable timescale for reviewing and considering the annual performance before applying a fixed terminal value multiple to the final year cash flows of the detailed projection. For both cash-generating unites the impairment test in 2013 resulted in relatively small headroom as per December 31, 2013, which is mainly driven by the adjusted discount rate. The key long-term assumptions used in the impairment test are summarized in the table below:

	Sales growth	Capex intensity	EBITDA margin	Discount rate
Belgium 2013	0%	15%-25%	25%-27%	9.5%-10%
Belgium 2012	0%	14%-28%	26%-28%	6.5%-7.5%
iBasis 2013	0%	0%-1%	1%-3%	16%-17%
iBasis 2012	0%	0%-1%	2%-3%	13%-14%

Sensitivity to changes in key assumptions

The expected future cash flows used in the impairment analysis are based on management's estimates. Events amongst others in technology and telecommunications markets as well as the financial markets and the overall economy may have an adverse impact on the estimated future cash flows of KPN's businesses.

The following table gives an indication of value change of Belgium and iBasis as per year end 2013, if key assumptions had changed adversely and would have been used in the impairment testing.

Amounts in millions of EUR	Sales growth		Capex intensity		EBITDA margin		Discount rate	
	-0.5pps	+0.5pps	-0.5pps	+0.5pps	-0.5pps	+0.5pps	-0.5pps	+0.5pps
Value change Belgium	-36	40	-27	26	-35	34	45	-41
Value change iBasis	-2	2	-16	16	-16	16	3	-3

Considering the relatively small margin between the recoverable and carrying amount of Belgium and iBasis, negative sensitivities above may result in an impairment.

Statement of changes in intangible fixed assets with finite lives

Amounts in millions of EUR	Licenses	Computer software	Software in development	Customer relationships	Trade names	Other	Total
Balance as of January 1, 2012	**2,495**	**728**	**124**	**156**	**56**	**78**	**3,637**
Investments	15	388	41	–	–	8	452
Disposals	–	-2	–	–	–	–	-2
Changes in consolidation	28	4	–	48	8	–	88
Reclassification	–	3	-1	–	–	–	2
Amortization	-346	-437	–	-56	-9	-15	-863
Impairment	–	-3	-4	–	–	-2	-9
Transferred to held for sale (net)	-1	-2	-1	–	–	–	-4
Closing net book value	**2,191**	**679**	**159**	**148**	**55**	**69**	**3,301**
Cost	9,425	2,190	159	476	118	149	12,517
Accumulated amortization/ impairments	-7,234	-1,511	–	-328	-63	-80	-9,216
Balance as of December 31, 2012	**2,191**	**679**	**159**	**148**	**55**	**69**	**3,301**
Investments	1,558	373	-20	–	–	3	1,914
Disposals	–	-4	–	–	–	–	-4
Changes in consolidation	–	–	–	2	-4	–	-2
Reclassification	44	6	–	1	1	-44	8
Amortization	-295	-396	–	-49	-8	-6	-754
Impairment	–	-2	-56	–	–	–	-58
Transferred to held for sale (net)	-1,769	-122	-7	-4	-18	-11	-1,931
Closing net book value	**1,729**	**534**	**76**	**98**	**26**	**11**	**2,474**
Cost	1,779	1,359	76	377	81	72	3,744
Accumulated amortization/ impairments	-50	-825	–	-279	-55	-61	-1,270
Balance as of December 31, 2013	**1,729**	**534**	**76**	**98**	**26**	**11**	**2,474**

Licenses

Amounts in millions of EUR	**December 31, 2013**	December 31, 2012
Germany	–	1,853
NetCo	1,465	250
Belgium	264	87
Other	–	1
Total	**1,729**	**2,191**

As E-Plus is classified as a disposal group held for sale, licenses in Germany no longer include E-Plus as of December 31, 2013. The increase at NetCo relates to the acquired licenses of spectrum 2G, 3G and 4G in the Netherlands. The increase in Belgium is mainly due to the acquired 4G licenses and the 2G license renewal. At the end of 2013, the book value of Computer software and Software in development comprised internally generated software for EUR 167 million (2012: EUR 214 million).

Notes to the Consolidated Statement of Financial Position continued

[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, 2012	**705**	**5,704**	**116**	**1,008**	**7,533**
Investments	57	2,254	49	-432	1,928
Disposals	-16	-105	-1	-2	-124
Depreciation	-80	-1,336	-56	–	-1,472
Impairments and retirements	-1	-29	-2	-15	-47
Exchange rate differences	–	–	–	–	–
Reclassifications	2	12	-15	-1	-2
Change in consolidation	–	76	4	1	81
Transferred to held for sale (net)	4	-3	-1	-2	-2
Closing net book value	**671**	**6,573**	**94**	**557**	**7,895**
Cost	1,972	16,822	327	582	19,703
Accumulated depreciation/ impairments	-1,301	-10,249	-233	-25	-11,808
Balance as of December 31, 2012	**671**	**6,573**	**94**	**557**	**7,895**
Investments	48	1,621	38	17	1,724
Disposals	-2	-5	–	–	-7
Depreciation	-83	-1,426	-42	-7	-1,558
Impairments and retirements	-1	-24	-1	-9	-35
Reclassifications	–	-14	-3	9	-8
Change in consolidation	–	-3	–	–	-3
Transferred to held for sale (net)	-37	-2,448	-6	-177	-2,668
Closing net book value	**596**	**4,274**	**80**	**390**	**5,340**
Cost	1,914	9,553	241	397	12,105
Accumulated depreciation/ impairments	-1,318	-5,279	-161	-7	-6,765
Balance as of December 31, 2013	**596**	**4,274**	**80**	**390**	**5,340**

Property, plant and equipment primarily concerns assets located in the Netherlands (2013: approximately 90%; 2012: approximately 61%) and Belgium (2013: approximately 10%; 2012: approximately 6%). The increase in the relative shares is caused mainly by the classification of E-Plus as disposal group held for sale. 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 to EUR 102 million (2012: EUR 256 million, excluding E-Plus: EUR 127 million).

The book value of property, plant and equipment of which KPN is the lessor under operating lease programs amounted to EUR 319 million (2012: EUR 326 million, excluding E-Plus: EUR 129 million). The decrease in the book value of property, plant and equipment of which KPN is the lessor under operating lease programs is caused by higher depreciation charges of plant and equipment. The future minimum lease payments receivable related to these operating leases are EUR 117 million (2012: EUR 148 million) in total, of which EUR 97 million (2012: EUR 94 million) matures within one year and the remaining EUR 20 million (2012: EUR 54 million) matures within one to five years.

Sensitivity analysis

At the end 2013, the book value for copper and fiber cables is EUR 2,026 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 is 10 years. If the useful life was set at 20 years, the depreciation charge for 2014 would be EUR 81 million lower. For fiber cables, KPN estimates that the current useful life is 30 years. If the useful life was set at 40 years, the depreciation charge for 2014 would be EUR 15 million lower.

[12] Investments in associates and joint ventures

Amounts in millions of EUR	2013	2012
Balance as of January 1	**326**	**261**
Additions	7	88
Income from associates and joint ventures	-7	-13
Dividend received	-1	-1
Transferred to held for sale	-3	–
Other changes	-2	-9
Total changes	**-6**	**65**
Balance as of December 31	**320**	**326**

Other changes includes an impairment of EUR 8 million (2012: nil), which is recorded as results from discontinued operations.

Reggefiber

KPN has a stake of 51% (December 31, 2012: 51%) in Reggefiber Group B.V. (Reggefiber), a strategic partnership with Reggeborgh B.V. for the roll-out of the Fiber-to-the-Home network. Reggeborgh owns 49% of Reggefiber. Under the arrangements in the joint venture agreement with Reggeborgh, KPN will only obtain control over Reggefiber as from 60% ownership of the shares in the company.

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

The details of the remaining call/put arrangement between KPN and Reggeborgh as at December 31, 2013 are as follows:

	Ownership stake	Option trigger	Exercise price	Conditions for exercise
Option 2	Additional 9% Leading to 60% ownership	Call/put vest earliest of: • 1.5 million Homes Connected • January 1, 2014	EUR 116 – 161 million, depending on Capex efficiency at Reggefiber	i) Exercise of option 1 required ii) ACM approval required

Furthermore, Reggeborgh holds an option to sell the remaining 40% of its shares to KPN. This option can be exercised three and a half years after the second option has been settled over a period of one and a half years, for an amount of EUR 647 million. Alternatively, this option can also be exercised at fair value for a period of seven years after the second option has been settled.

Book value

The book value of KPN's 51% share in Reggefiber as at December 31, 2013 amounted to EUR 293 million (2012: EUR 293 million), including EUR 131 million of goodwill. The movement of the book value of the investment in Reggefiber is presented in the table below:

Amounts in millions of EUR	
Balance as of December 31, 2011	**234**
Acquisition	74
Share in the 2012 results	-7
Other changes	-8
Balance as of December 31, 2012	**293**
Share in the 2013 results	-3
Other changes	3
Balance as of December 31, 2013	**293**

In addition to the 51% share in Reggefiber, KPN provided shareholder loans to Reggefiber. These shareholder loans are recorded under loans to associates and joint ventures for EUR 534 million (2012: EUR 227 million). The shareholder loans bear interest of 6.00% – 6.75% per December 31, 2013 and have a final maturity date of January 1, 2019. On October 1, 2013, KPN took over EUR 222 million of shareholder loans to Reggefiber from Reggeborgh, KPN's joint venture partner. This transaction did not affect the joint venture agreement or the control over the joint venture.

The call/put arrangements are valued at fair value and recorded as a derivative financial instrument of EUR 334 million (2012: EUR 278 million), which is recorded as a liability. The change in the fair value of the call/put arrangements during the year of EUR 56 million (2012: EUR 100 million) is recorded in the consolidated statement of profit or loss as a loss under other financial results. Refer to Note 29 for further details on the call/put arrangements.

At the end of 2013, Reggefiber had capital commitments (100%) for EUR 158 million (2014: EUR 146 million). The total capital commitments as at December 31, 2012 amounted to EUR 285 million. For rental and operational lease contracts, Reggefiber had commitments for EUR 14 million as at December 31, 2013 (less than 1 year: EUR 3 million, 1 to 5 years EUR 4 million, more than 5 years: EUR 7 million). At the end of 2012, Reggefiber's commitments under rental and operational lease contracts were EUR 15 million.

Notes to the Consolidated Statement of Financial Position continued

Other

As of December 31, 2013 investments in associates and joint ventures also include NTT Data Getronics (30%) for an amount of EUR 17 million (2012: EUR 16 million).

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

Amounts in millions of EUR	Reggefiber	Other	December 31, 2013	December 31, 2012
Current assets	32	59	91	141
Non-current assets[1]	879	15	894	725
Current liabilities	22	43	65	138
Non-current liabilities	681	6	687	498
Total revenues	56	148	204	164
Total operating expenses	-14	-150	-164	-137
Profit or loss after taxes	-2	-4	-6	-13

1) Including EUR 47 million goodwill at Reggefiber.

The difference in value between the assets and liabilities of the table above and the investment value is the goodwill paid by KPN which is included in the book value of the associates and joint ventures.

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

Amounts in millions of EUR	2013	2012 Restated
Balance as of January 1	**154**	**127**
Current portion of non-current receivables	84	4
Gross	**238**	**131**
Additions	46	124
Redemptions	-31	-16
Impairment	–	-1
Transferred to held for sale	-43	–
Total gross at December 31	**210**	**238**
Current portion of non-current receivables	88	84
Balance as of December 31	**122**	**154**

The balance as of December 31 included the following:

Amounts in millions of EUR	2013	2012 Restated
Accrued income and prepayments	112	130
Receivables from financial leases	3	2
Other loans	7	22
Total	**122**	**154**

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 (2012: EUR 3 million), which fully matures within five years. The short-term portion of the financial leases amounting to EUR 1 million (2012: EUR 1 million) is classified as current trade and other receivables.

[14] Inventories

Amounts in millions of EUR	December 31, 2013	December 31, 2012
Resources, parts, tools and measuring instruments	50	65
Finished goods	21	70
Total inventories, gross	**71**	**135**
Provision for obsolescence	-11	-24
Total inventories, net	**60**	**111**

During 2013, a net amount of EUR 8 million (2012: EUR 6 million) was recorded as an expense for inventories carried at net realizable value. The expense is included in the line 'cost of materials' in the Consolidated Statement of Profit or Loss.

The transition expenses relating to fixed-price contracts involving managed ICT services are included under finished goods and amount to EUR 4 million at the end of 2013 (2012: EUR 10 million).

[15] Trade and other receivables

Amounts in millions of EUR	December 31, 2013	December 31, 2012
Trade receivables	690	1,045
Social security and other taxes	3	36
Other receivables	181	157
Accrued income	244	318
Prepayments	96	140
Total	**1,214**	**1,696**

Amounts in millions of EUR	December 31, 2013	December 31, 2012
Trade receivables – gross	802	1,195
Provision for doubtful trade receivables	-112	-150
Total	**690**	**1,045**

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

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

Amounts in millions of EUR	2013	2012
Balance as of January 1	**150**	**161**
Addition through statement of profit or loss	36	48
Usage	-6	-49
Other movements	4	-3
Transferred to held for sale	-72	-7
Balance as of December 31	**112**	**150**

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, 2013		December 31, 2012	
Amounts in millions of EUR	Gross	Provision	Gross	Provision
Consumer Mobile	56	14	47	11
Consumer Residential	50	12	49	11
Business Segment	271	18	183	12
IT Solutions	61	1	175	8
NetCo Segment	118	44	123	18
iBasis Segment	133	5	212	4
Germany Segment	–	–	285	64
Belgium Segment	96	12	101	16
Other	17	6	20	6
Total	**802**	**112**	**1,195**	**150**

Notes to the Consolidated Statement of Financial Position continued

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 (Belgium, part of Business and Consumer Mobile Segments). 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, 2013 was EUR 61 million (2012: EUR 175 million) for which a provision of EUR 1 million (2012: EUR 8 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, 2013		December 31, 2012	
Amounts in millions of EUR	**Gross**	**Provision**	Gross	Provision
Amounts undue	332	10	646	2
Past due 0-30 days	152	6	161	5
Past due 31-60 days	52	8	48	6
Past due 61-90 days	33	6	33	3
Past due 91-180 days	108	17	138	13
Past due 181-270 days	17	11	21	13
Past due 271-360 days	16	6	18	10
More than one year	92	48	130	98
Total	**802**	**112**	**1,195**	**150**

[16] Available-for-sale financial assets

Amounts in millions of EUR	**2013**	2012
Balance as of January 1	**35**	**48**
Decrease due to sale	-23	–
Impairment recorded in the Statement of Profit or Loss	–	-16
Fair value adjustment recorded in other comprehensive income	8	3
Balance as of December 31	**20**	**35**

In the second quarter of 2013, the equity stake in Compucom, a privately held IT outsourcing company in North America, was sold which caused a decline of EUR 23 million.

KPN holds a 5% equity share in Jasper Wireless amounting to EUR 10 million (2012: EUR 10 million), 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, amounting to EUR 10 million (2012: EUR 9 million).

[17] Cash and cash equivalents

At December 31, 2013, cash and cash equivalents amounted to EUR 3,946 million (EUR 1,286 million at December 31, 2012. The increase in cash and cash equivalents mainly relates to the concluded capital raise consisting of EUR 2 billion hybrid bonds and a EUR 3 billion rights issue. Part of the proceeds were used for the frequency licenses obtained in the Dutch spectrum auction that ended in December 2012 (EUR 1,352 million) and to repay drawings under the credit facility and to finance bond redemptions in March and September 2013 (EUR 1,085 million). The remaining proceeds of the capital raise have been used to strengthen KPN's capital structure and to continue to invest in KPN's operations.

Net cash and cash equivalents, including EUR 326 million bank overdrafts related to cash pooling arrangements, amounted to EUR 3,620 million at December 31, 2013 as shown in the Cash Flow Statement. Cash and cash equivalents consist of highly liquid instruments, mainly deposits, interest-bearing bank accounts and money market funds. All cash and cash equivalents are at free disposal to KPN within three months.

Cash and cash equivalents as at December 31, 2013 were for more than 99% (2012: 98%) denominated in the functional currency of the related entities. The effective interest rate on the outstanding bank deposits and money market funds as at December 31, 2013 was approximately 0.08%.

On December 31, 2013, KPN's total outstanding bank guarantees amounted to EUR 52 million (2012: EUR 161 million), which were issued in the ordinary course of business. The decrease in 2013 was mainly related to a bank guarantee for the Dutch State for the Dutch spectrum auction. This bank guarantee was terminated following the payment of the frequency licenses on January 9, 2013.

Amounts in millions of EUR	**December 31, 2013**	December 31, 2012
Cash	821	883
Short-term bank deposits and money market funds	3,125	403
Total cash and cash equivalents	**3,946**	**1,286**

Net cash and cash equivalents

As of December 31, 2013 KPN's net cash and cash equivalents position amounted to EUR 3,620 million (including EUR 326 million of bank overdrafts) as presented in the Cash Flow Statement:

Amounts in millions of EUR	**December 31, 2013**	December 31, 2012
Cash and cash equivalents	3,946	1,286
Cash classified as held for sale [18]	–	4
Bank overdraft	-326	-343
Net cash and cash equivalents	**3,620**	**947**

Notes to the Consolidated Statement of Financial Position continued

[18] Non-current assets, liabilities and disposal groups held for sale

Amounts in millions of EUR	December 31, 2013	December 31, 2012
Intangible assets (including goodwill)	5,976	4
Property, plant and equipment	3,132	9
Other non-current assets	515	–
Current assets	401	15
Fair value adjustment of disposal group	-555	–
Total assets held for sale	**9,469**	**28**
Non-current liabilities	318	–
Current liabilities	1,220	6
Total liabilities directly associated with the non-current assets and disposal groups classified as held for sale	**1,538**	**6**

On July 23, 2013, KPN announced it had entered into a transaction to sell and transfer 100% of its interest in E-Plus to Telefónica Deutschland. Given the significance of E-Plus to KPN Group, IFRS 5 also classifies E-Plus as a 'discontinued operation'.

In March 2013, KPN classified its division Infrastructure Services & Projects B.V. with a negative book value of EUR 0.2 million as held for sale. The disposal group was sold in March 2013 (refer to Note 2).

In September 2012, KPN classified its investment in the Multiconnect business in Germany with a net book value of EUR 9 million as held for sale. The disposal group was sold in January 2013.

E-Plus

The initially agreed consideration on a cash and debt free basis consisted of EUR 3.7 billion in cash and newly issued shares in Telefónica Deutschland representing 24.9% of the share capital in the combination of E-Plus and Telefónica Deutschland ('the combined entity'). Simultaneously with the transfer of E-Plus to Telefónica Deutschland by KPN, Telefónica will acquire a 7.3% interest in Telefónica Deutschland from KPN for a cash consideration of EUR 1.3 billion. Therefore, on deal close, KPN will receive EUR 5.0 billion in cash and a net stake of 17.6% in the combined entity, in total representing an implied transaction value of EUR 8.1 billion.

On August 26, 2013, improved terms of the transaction were agreed upon. The stake which KPN will retain in the combined entity after completion increased from 17.6% to 20.5%. In addition, KPN will receive a total cash consideration of EUR 5.0 billion as originally agreed. Furthermore, KPN provides a call option to Telefónica to acquire a 2.9% stake in Telefónica Deutschland from KPN, exercisable one year after transfer of E-Plus, either partial or in full. The exercise price for the 2.9% stake amounts to EUR 510 million, plus interest at 2.27% from the time of completion of the sale of E-Plus and reduced by any dividend payments on the 2.9% stake. Based on these improved terms, the total implied transaction value for E-Plus is EUR 8.55 billion.

On October 2, 2013, the shareholders of KPN approved the transaction. The transaction remains mainly subject to regulatory approval.

E-Plus has been classified as 'disposal group held for sale' as of July 23, 2013. Some small operations in Germany are not included in the disposal group held for sale. Upon classification as 'disposal group held for sale', an impairment of EUR 529 million was recorded (as 'profit for the period from discontinued operations') due to the fair value less costs to sell of the disposal group being lower than its carrying value. At December 31, 2013, an additional impairment of EUR 26 million was recorded in connection herewith. Furthermore, an impairment of deferred tax assets for tax losses carry forward (EUR 747 million) was recorded (as 'profit for the period from discontinued operations') resulting from changes in expectations of future taxable income in the German legal entities remaining within KPN Group upon classification of E-Plus as 'disposal group held for sale'.

As mentioned in KPN's Annual Reports from 2004 onwards and the tax papers regarding KPN's Dutch tax position issued on January 27, 2005 and February 6, 2007, the German partnership structure of E-Plus is transparent for Dutch tax purposes and, as a consequence, KPN Mobile is deemed to carry on business in Germany through a permanent establishment. In accordance with KPN's horizontal monitoring convenant ('Handhavingsconvenant') with the Dutch tax authorities, KPN discussed the tax consequences of the envisaged sale of E-Plus with the Dutch tax authorities. After the agreement in principle (September 2013), KPN and the Dutch tax authorities reached a final agreement in December 2013 on the Dutch tax consequences of the tax book loss which is expected to be recognized upon completion of the sale of E-Plus to Telefónica Deutschland. This book loss amounts to approximately EUR 3.7 billion and is expected to offset KPN's taxable income in the Netherlands in the coming years, starting in 2014. Dividends received and/or capital gains (up to amount of loss deducted) realized on KPN's 20.5% stake in Telefónica Deutschland will be subject to Dutch corporate income tax. Following this agreement, KPN recognized a deferred tax asset of EUR 932 million in the Netherlands per December 31, 2013. Due to its close relationship with the expected sale of E-Plus, this tax benefit has been reported as 'profit for the period from discontinued operations'.

On August 29, 2013, the Foundation Preference Shares B KPN exercised its call option and obtained an interest in KPN's outstanding share capital equal to 50% minus 1 share. This event resulted in a change of control from a German tax perspective and expiration of 50% of the available losses carry forward in Germany. This triggered a permanent partial release of recognized deferred tax assets for tax losses carry forward of EUR 99 million in E-Plus. For further details on the Foundation reference is made to Note 19.

The fair value of the E-Plus disposal group held for sale at year end 2013 is based on the total implied transaction value for E-Plus amounting to EUR 8.55 billion. Besides the consideration in cash of EUR 5.0 billion, the fair value of the E-Plus disposal group held for sale includes the estimated fair value of the stake of 20.5%, which KPN will obtain in the combined entity at deal close. KPN management's estimate of the fair value of this stake is based on the stand-alone value of Telefónica Deutschland and of E-Plus and the combined managements' best estimate of the expected synergies to be achieved by the combination. This estimate of the fair value of the 20.5% stake has been supported by an external independent valuator. At completion of the sale of E-Plus, the fair value of the 20.5% stake will be based on the listed share price of Telefónica Deutschland.

KPN is of the opinion that the listed share price of Telefónica Deutschland per December 31, 2013 does not fully reflect the expected synergies and expects the share price to increase in the period until deal close. The share price could also be impacted by regulatory approval, potential remedies to be imposed by the regulator and other factors like for instance market sentiment.

At completion of the sale, the fair value of the 20.5% stake in the combined entity could be lower or higher than estimated at December 31, 2013 which could lead to an additional impairment or a bookgain. As a reference, KPN calculated at year-end 2013, for sensitivity purposes only, that if the listed share price of Telefónica Deutschland would not increase in the period between December 31, 2013 and deal close, an impairment of approximately EUR 580 million net after tax would have to be recognized at completion of the sale of E-Plus ceteris paribus.

The following table summarizes the results of E-Plus included in the consolidated statement of profit or loss as 'profit from the period from discontinued operations'.

Amounts in millions of EUR	**2013**	2012 Restated
Revenues and other income	3,096	3,250
Operating expenses	-2,686	-2,706
Finance income and expenses	-28	-23
Share of the loss of associates and joint ventures	-10	-2
Income taxes	-411	-68
Result for the period from discontinued operations before impairment and tax effects resulting from the transaction	**-39**	**451**
Impairment disposal group	-555	–
Impairment German deferred tax assets	-747	–
Income tax benefit Dutch fiscal unity	932	–
Tax effect resulting from the change of control	-99	–
Total profit (loss) for the period from discontinued operations	**-508**	**451**

The net cash flows of the disposal group 'E-Plus' are as follows:

Amounts in millions of EUR	**2013**	2012 Restated
Cash flow from operating activities	927	1,247
Cash flow from investing activities	-660	-289
Cash flow from financing activities	-172	-33
Total net cash (outflow)/inflow from discontinued operations	**95**	**925**

Notes to the Consolidated Statement of Financial Position continued

[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. The total distributable reserves at December 31, 2013 amounted to EUR 3,970 million (2012: EUR 1,762 million). For further details of the non-distributable reserves, reference is made to the Corporate Financial Statements.

Share capital

After an amendment to the Articles of Association on April 24, 2013 KPN's authorized capital stock totals EUR 2.4 billion divided into 5 billion ordinary shares of EUR 0.24 each and 5 billion Class B preference shares of EUR 0.24 each. As of December 31, 2013, a total of 4,270,254,664 ordinary shares were outstanding and fully paid-in. Dutch laws prohibit KPN from casting a vote on shares KPN holds (Treasury shares). 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 '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.

On January 10, 2014, KPN's Extraordinary General Meeting of Shareholders (EGM) approved a proposal to reduce the nominal value of KPN's shares from EUR 0.24 to EUR 0.04. In addition, the authorized capital stock has been decreased to EUR 720 million, divided into 9 billion ordinary shares and 9 billion Class B preference shares.

On April 25, 2013, KPN set the terms of its EUR 3 billion rights issue, which was announced on February 20, 2013 and approved by the Annual General Meeting on April 10, 2013. KPN announced a 2 for 1 rights issue of 2,838,732,182 new ordinary shares with a nominal value of EUR 0.24 at an issue price of EUR 1.06 through the granting of transferable subscription entitlements to holders of ordinary shares in KPN's issued and outstanding share capital pro rata to their shareholdings. The issue price represented a discount of 35.1% to the theoretical ex-rights price (TERP), based on the closing price of EUR 2.78 per ordinary share on April 24, 2013. At the end of the subscription period, the take-up amounted to 97.4% of the Offer Shares. The remaining Offer Shares were placed with institutional investors through a rump placement. Payment, delivery and start of trading of the Offer Shares occurred on May 17, 2013. The net proceeds from the rights issue amounted to EUR 2,957 million.

Share premium

The additional paid-in capital is exempt from Dutch tax up to an amount of EUR 9,744 million (2012: EUR 7,416 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[1]	Treasury shares reserve	Hedge reserve	Fair value reserve available for sale financial assets	Currency translation reserve	Total other reserves
Balance as of January 1, 2012	**12,401,139**	**-139**	**2**	**–**	**10**	**-127**
Sold (exercise options/shares) [3]	-244,748	1	–	–	–	1
Addition (net)	–	–	-246	3	–	-243
Transfer to Statement of Profit or Loss [6]	–	–	5	–	–	5
Exchange differences	–	–	–	–	3	3
Balance as of December 31, 2012	**12,156,391**	**-138**	**-239**	**3**	**13**	**-361**
Addition (net)	–	–	-155	–	–	-155
Exchange differences	–	–	–	–	-1	-1
Balance as of December 31, 2013	**12,156,391**	**-138**	**-394**	**3**	**12**	**-517**
– of which: to be cancelled	–					
Total treasury shares	12,156,391					

1) Adjusted numbers due to elimination of shares in lock-up period related to share-based compensation.
[..] Bracketed numbers refer to the related Notes.

Hedge reserve

Amounts in millions of EUR	December 31, 2013	December 31, 2012
Effective portion cash flow hedges	-437	-253
Amortizable part [6]	-87	-63
Hedge reserve	**-524**	**-316**
Tax effect	130	77
Hedge reserve, net of tax	**-394**	**-239**

[..] Bracketed number refers to the related Note.

Treasury shares and treasury shares reserve

Until 2011, KPN purchased shares in its own capital under a share repurchase program and also for delivery upon exercise of share options by management and personnel under the share option and performance share plans (see Note 3). Votes on purchased shares may not be cast and they do not count towards determining the number of votes required at a General Meeting of Shareholders.

In 2013 and 2012, no shares were purchased under the share repurchase program.

Treasury shares are accounted for at cost, representing the market price on the acquisition date. The proceeds at delivery of the treasury shares are recognized directly in the other reserves. In the event that more options are exercised than available as treasury shares for option plans, KPN anticipates providing shares for equity-settled plans through the purchase of shares in the market. All rights with respect to repurchased treasury shares are suspended until those shares are delivered.

Foundation Preference Shares B KPN

KPN had renewed option arrangements regarding the issuance of Class B preference shares to the Foundation Preference Shares B KPN (the Foundation).

KPN has a put option to sell to the Foundation a number of its Class B preference shares, which have the same voting rights as ordinary shares, not exceeding the total issued share capital before such issue or, subject to prior approval by the General Meeting of Shareholders, such larger number as the parties may agree. In addition, the Foundation has a call option, which is not limited in time, to acquire a number of Class B preference shares from KPN not exceeding the total issued amount of ordinary shares, minus one share and minus any shares already issued to the Foundation. Since October 12, 2006, the authority of the Board of Management to issue Class B preference shares under the put option has 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 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.

On August 29, 2013, the Foundation Preference Shares B KPN exercised its call option and obtained 4,258,098,272 newly issued preference shares B. These shares reflect an interest in KPN's outstanding shares of 50% minus 1 share. In compliance with the statutory arrangement, 25% of the nominal value of these shares (EUR 255 million) was paid to KPN in cash.

On November 11, 2013, KPN announced that it had received a request from the Foundation to convene an EGM to cancel all of the 4,258,098,272 outstanding Preference Shares B. On January 10, 2014, the EGM approved the proposal to cancel the outstanding Preference Shares B. For more information, see Note 33 'Subsequent events'.

The right granted to the Foundation to acquire preference shares is unconditional and continuous, and the Foundation is therefore entitled to acquire Preference Shares B in the future.

Under IFRS, the Preference Shares B do not meet the definition of equity and therefore the paid up amount is presented as a current liability (EUR 255 million) and dividends due are recorded as financial expenses. KPN is of the opinion that neither the put option nor the call option represent a significant fair value as mentioned 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 Preference Shares B, issued after exercise of the call option, bear interest linked to EURIBOR. The options are therefore not accounted for in the annual accounts nor is any additional information disclosed as meant in IFRS 7.

[20] Non-controlling interests

In 2013, no new non-controlling interests were acquired by KPN. In 2012, KPN acquired a stake in GroupIT B.V. of 12.5% at fair value with a right to acquire the remaining stake and thus obtained the control over GroupIT B.V. The amount of non-controlling interests at December 31, 2013 of EUR 53 million represents the 87.5% stake of other shareholders in GroupIT B.V. (2012: EUR 51 million).

Notes to the Consolidated Statement of Financial Position continued

[21] Borrowings

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

	December 31, 2013		December 31, 2012	
Amounts in millions of EUR	Carrying amount	Fair value	Carrying amount	Fair value
Eurobonds EUR	8,835	9,481	10,007	10,742
Eurobonds GBP	2,107	2,263	2,151	2,407
Global Bonds USD	1,037	937	1,089	996
Hybrid Bonds (GBP and USD)	905	947	–	–
Financial lease obligations	105	99	256	233
Bank overdraft	326	326	343	343
Credit facility	–	–	–	–
Preference Shares B	255	255	–	–
Other loans	93	96	50	52
Total borrowings	**13,663**	**14,404**	**13,896**	**14,773**
– of which: current	*2,008*	*2,022*	*1,527*	*1,553*
– of which: non-current	*11,655*	*12,382*	*12,369*	*13,220*

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

KPN's weighted average interest yield on the borrowings outstanding before swaps at December 31, 2013 was 5.6% (2012: 5.3%). The weighted average interest yield on borrowings outstanding after swaps was 5.2% (2012: 5.1%). The EUR hybrid bonds, classified as equity, have been included in this calculation. Excluding the hybrid bonds, the average interest rate on the senior bond portfolio after swaps at December 31, 2013 was 5.0%.

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

Bonds

On September 16, 2013, KPN redeemed EUR 545 million of the Eurobond 2008-2013, in accordance with the regular redemption schedule.

On March 18, 2013, KPN redeemed EUR 540 million of the Eurobond 2006-2013, in accordance with the regular redemption schedule.

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

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

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

Hybrid bonds

On March 14, 2013 KPN issued a EUR 1.1 billion hybrid bond with a 6.125% coupon and a GBP 400 million hybrid bond with a 6.875% coupon (swapped to EUR 460 million and a 6.78% coupon for a period of 7 years).
On March 28, 2013 KPN issued a USD 600 million hybrid bond with a 7% coupon (swapped to EUR 465 million and a 6.34% coupon for a period of 10 years).

The EUR 1.1 billion hybrid bond is a subordinated bond with a perpetual maturity, while the GBP 400 million and USD 600 million hybrid bonds are subordinated bonds with 60-year maturities. The EUR, GBP and USD hybrid bonds can, at KPN's discretion, first be redeemed in September 2018, March 2020 and March 2023 respectively. KPN may, at its discretion and subject to certain conditions, elect to defer payments of interest on these hybrid bonds. The ratings for the hybrid bonds are BB by S&P, Ba1 by Moody's and BB by Fitch Ratings. The rating agencies recognize 50% of the hybrid bonds as equity. The hybrid bonds are for 50% treated as equity and 50% as debt in KPN's gross and net debt definitions. The EUR hybrid bond is classified as equity in the consolidated statement of financial position (classified as Perpetual hybrid bonds), while the GBP and USD hybrid bonds are classified as liabilities in the consolidated statement of financial position (classified as Borrowings).

The hybrid bonds issued in 2013 and all bonds issued in 2012 (issued under KPN's Global Medium Term Note program) have been listed on Euronext Amsterdam.

Preference Shares B

On August 29, 2013, the Foundation Preference Shares B exercised its call option to subscribe for preference shares B in KPN for a total consideration of EUR 255 million. According to IFRS, the paid-up value is classified as current liability on KPN's balance sheet.

Financial lease obligations

As of December 31, 2013, the financial lease obligations amounted to EUR 105 million. Refer to Note 29 for more information.

Other loans

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

Credit rating

KPN maintains credit ratings from Standard & Poors, Moody's and Fitch. Per December 31, 2013, KPN has a credit rating of Baa2 with a negative outlook by Moody's, BBB- with a stable outlook by Standard & Poor's and BBB- with a stable outlook by Fitch. The table below shows the adjustments to the credit ratings during 2013 and 2012.

Credit rating agency	Rating as at December 31, 2013	Current outlook	Adjustments 2013	Adjustments 2012
Standard & Poor's	BBB-	Stable	• February 8: rating changed to BBB- with stable outlook from BBB with credit watch negative • July 26: outlook changed to positive from stable • August 15: rating on credit watch positive • November 6: rating changed to BBB- with stable outlook from BBB- with credit watch positive	• February 21: rating changed from BBB+ with stable outlook to BBB with stable outlook • November 21: outlook changed to negative from stable • December 18: rating on credit watch negative
Moody's	Baa2	Negative	• February 6: Baa2 rating confirmed with negative outlook following review for downgrade	• January 26: outlook on Baa2 rating changed to negative from stable • December 18: rating under review for downgrade
Fitch	BBB-	Stable	• None	• January 31: rating changed from BBB+ with stable outlook to BBB with negative outlook • December 17: rating changed from BBB with negative outlook to BBB- with stable outlook

[22] Provisions for retirement benefit obligations

Provisions for retirement benefit obligations consist mainly of pension provisions.

Amounts in millions of EUR	**December 31, 2013**	December 31, 2012 Restated
Pensions	1,018	1,555
Other	1	2
Total	**1,019**	**1,557**

Pensions

The majority of KPN's employees in the Netherlands and Belgium is covered by defined benefit plans. The measurement date for all defined benefit plans is December 31. KPN is required to make contributions to provide sufficient assets to fund the benefits payable to participants of most defined benefit plans. The table on the next page gives an overview of KPN's main defined benefit plans based on size and risk profile as at December 31, 2013. These defined benefit plans are administered by trusts which are legally separated from KPN. In the Netherlands, the boards of the pension funds comprise employee, employer and retiree representatives and an independent chair. The boards of the pension funds are required by law to act in the best interests of all stakeholders and are responsible for setting certain policies (e.g. investment and indexation policies). The defined benefit plans expose KPN to a number of risks. The most significant risks are summarized below:

- Asset volatility: the pension plans' assets include significant investments in equity securities and therefore KPN is exposed to equity market risks.
- Interest rate risk: the plans' liabilities are calculated for IFRS purposes using a discount rate set with reference to corporate bond yields; a decrease in corporate bond yields will increase the plans' liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.
- Inflation risk: pension liabilities are to a certain extent adjusted to consumer price indices and therefore KPN's pension plans are exposed to inflation risk.
- Life expectancy: KPN's pension plans provide benefits for the life of the members, so increases in life expectancy will result in an increase in the plans' liabilities.

There are no unusual or plan-specific risks to which KPN is exposed. For a description of the policies to mitigate the above-mentioned risks, reference is made to paragraph 'Strategic investment policies' in this Note.

Notes to the Consolidated Statement of Financial Position continued

<table>
<tr><th>Pension Plan</th><th>Characteristics</th><th>Funding</th><th>Minimum funding requirement</th></tr>
<tr><td>KPN PF (main plan)</td><td>KPN's main Dutch pension plan covers most 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 consist of a defined benefit average pay plan for the salary up to EUR 45,378 per annum and a defined contribution part for the salary exceeding EUR 45,378 per annum. Furthermore, employees can opt to participate in an individual pension saving scheme.

For accruals as of January 1, 2014, the retirement age is increased from 65 to 67.

Indexation of the pension benefits is conditional and depends on the fund's financial position.</td><td>This plan is externally funded through '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 KPN's collective labor agreement.

For the defined contribution part, KPN guarantees a 0% return on the contributions made.

For the individual pension saving scheme, all contributions are made entirely by the employees.</td><td rowspan="3">These plans are mandated by Dutch law ('Pensioenwet') which requires minimum coverage ratios. The coverage ratio is calculated based on this law and differs from the defined benefit obligation as calculated under IFRS, among others due to different discount rates. When the coverage ratio is below approximately 105%, the Dutch funds are required to recover to this ratio by additional contributions and reduction of indexation (short-term recovery plan). Next to that, the Dutch funds are required to recover to a coverage ratio of approximately 115% over a 15-year period either by additional contributions or a decrease in indexation (long-term recovery plan).

At the end of 2013, the short-term recovery plan which started in 2009, ended. The coverage ratio of KPN PF was 109.1% and of KPN OPF 112.3% at December 31, 2013. Should the coverage ratio again drop below the required 105%, a new short-term recovery period will start, depending on new pension legislation. For KPN PF and KPN OPF, the amount of additional contributions in the short term recovery plan is limited to EUR 390 million (subject to indexation since 2009) within this short-term recovery period.

SVG has agreed with KPN that during the period 2010 to 2013, KPN can be required to provide additional lump sum payments of in total up to EUR 50 million for additional reserves, financing of guaranteed return on investments or to prevent a cut of benefits. Based on the coverage ratio at December 31, 2013 of 101.1%, the outstanding amount of EUR 37 million under this guarantee will be paid in 2014. KPN is not required to make any other lump-sum payments. However, as KPN will remain exposed to certain (limited) negative and positive risks, the SVG plan will continue to be accounted for as a defined benefit plan.</td></tr>
<tr><td>KPN OPF</td><td>KPN's OPF plan covers Senior Management with an individual 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.

For accruals as of January 1, 2014, the retirement age is increased from 65 to 67.

Indexation of the pension benefits is conditional and depends on the fund's financial position.</td><td>This plan is externally funded through '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.</td></tr>
<tr><td>IT Solutions (NL) SVG</td><td>Plan participants accrue retirement benefits by means of an individual savings account. For accruals as of January 1, 2013, the retirement age is increased from 65 to 67. Indexation of the pension benefits is conditional and depends on the fund's financial position.</td><td>The individual savings accounts are externally funded through 'Stichting Voorzieningsfonds Getronics' (SVG).

For this scheme, contributions are made both by KPN and employees. The annual accrual of the individual savings account is based on a defined contribution scheme.</td></tr>
<tr><td>Getronics UK</td><td>The Getronics UK operations were divested in 2012. The closed and frozen defined benefit plan remained with KPN. Indexation is unconditional and is based on a combination of consumer and retail price indices.</td><td>This defined benefit plan is externally funded through a trust.</td><td>In line with the requirements of the UK pension regulator, any deficit in the defined benefit plan must be recovered by means of monthly contributions determined every 3 years.

As at December 31, 2013, the defined benefit plan was in deficit.</td></tr>
<tr><td>Getronics US</td><td>The Getronics US operations were divested in 2008. The closed and frozen defined benefit plans remained with KPN.</td><td>These defined benefit plans are externally funded through a trust.</td><td>Until the plans are fully funded to 100% of liabilities, US funding rules require quarterly contributions to recover to a fully funded position over a seven year period based on a roll-over system.

As at December 31, 2013, the defined benefit plan was in deficit.</td></tr>
</table>

Net defined benefit liability (asset)

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

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability (asset)	
Amounts in millions of EUR	**2013**	2012	**2013**	2012	**2013**	2012
Balance as of January 1	**9,771**	**8,299**	**-8,216**	**-7,224**	**1,555**	**1,075**
Included in profit or loss[1]						
– Operating expense:						
current service costs	117	95	–	–	117	95
past service cost (gain)[2]	23	–	-49	–	-26	–
administration cost	–	–	9	9	9	9
– Interest costs (income)	276	312	-235	-278	41	34
Total	**416**	**407**	**-275**	**-269**	**141**	**138**
Included in OCI						
Remeasurements loss (gain):						
– Actuarial loss (gain) arising from:						
demographic assumptions	-64	103	–	–	-64	103
financial assumptions	-294	1,182	–	–	-294	1,182
experience adjustment	-91	-10	–	–	-91	-10
– Return on plan assets excluding interest income	–	–	72	-603	72	-603
Effect of movements in exchange rates	-16	–	10	-1	-6	-1
Total	**-465**	**1,275**	**82**	**-604**	**-383**	**671**
Other						
Employer's contribution	–	–	-244	-329	-244	-329
Employees' contribution	32	37	-32	-37	–	–
Benefits paid	-241	-247	241	247	–	–
Transferred to held for sale	-60	–	9	–	-51	–
Balance as of December 31	**9,453**	**9,771**	**-8,435**	**-8,216**	**1,018**	**1,555**
The defined benefit obligation and fair value of plan assets per pension fund are as follows:						
KPN PF	6,690	6,731	-6,045	-5,891	645	840
KPN OPF	772	767	-733	-722	39	45
IT Solutions (NL) SVG	1,155	1,185	-1,130	-1,085	25	100
Getronics UK	296	333	-226	-210	70	123
Getronics US	223	250	-159	-154	64	96
Other[3]	317	505	-142	-154	175	351
Total	**9,453**	**9,771**	**-8,435**	**-8,216**	**1,018**	**1,555**

1) Includes E-Plus until 'held for sale' classification as of July 23, 2013.

2) In 2013, KPN and the trade unions agreed to amend the pension arrangements of KPN PF and KPN OPF to reflect new fiscal legislation. The retirement age for new benefit accruals as of January 1, 2014, has been increased to 67 and the annual accrual rate has been decreased from 2.25% to 2.15%. As a result of these amendments, KPN's net defined benefit liability decreased by EUR 28 million. A corresponding gain has been recognized in the Consolidated Statement of Profit or Loss in 2013. Past service cost (gain) also includes the effects of the merger in 2013 of the SNT pension fund with KPN PF. As a result of the merger, the SNT plan is accounted for as a defined benefit plan leading to a past service cost of EUR 2 million.

3) Other includes a number of funded schemes which are closed to new entrants and which are insured at external parties, and a number of early retirement schemes, all in the Netherlands, which are unfunded.

There was no impact in 2013 or 2012 on the net defined benefit liability of minimum funding requirements or asset ceiling. The pension plan in Belgium has been accounted for as a defined contribution plan. However, due to the requirement by Belgian law to guarantee a minimum return of 3.25% on the contributions and the fact that this risk in the course of 2013 could no longer be fully insured, the plan in Belgium must be accounted for as a defined benefit plan per December 31, 2013. However, no liability has been recognized as the impact is estimated not to be significant.

Defined benefit obligations

Actuarial assumptions

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

	December 31, 2013		December 31, 2012	
	KPN PF	**Other**	KPN PF	Other
Discount rate (%)	3.2	3.4	2.8	3.0
Expected salary increases (%)	2.0	1.6	2.0	1.6
Expected benefit increases/indexation (%)	1.6	1.1	1.3	0.8
Life expectancy for pensioners at the age of 65 (years):				
– Male	21.9	22.1	21.8	22.0
– Female	23.6	23.7	23.5	23.6

Notes to the Consolidated Statement of Financial Position continued

At December 31, 2013, the (weighted) average duration of the defined benefit obligation was 16 years for KPN PF and 18 years for the other pension plans.

The mortality used in the Netherlands is the projected table 2012-2062 which includes projected improvement rates varying by year of birth, corrected for fund specific circumstances. For example in the Netherlands, the life expectancy at the age of 65 is expected to increase in the next 20 years with approximately 2 years.

The discount rate is based on yield curves of AA corporate bonds with maturities equal to the duration of the benefit obligations and in the applicable currency.

Sensitivity analysis

The table below shows the approximate impact on the defined benefit obligation as at December 31, 2013 of a change in the key actuarial assumptions of 0.5% and in the case of life expectancy of a change of 1 year.

Amounts in millions of EUR	Increase	Decrease
Discount rate	-761	880
Expected salary increases	3	-4
Expected benefit increases	685	-674
Life expectancy	285	-247

The sensitivities in the table above were estimated by actuaries based on the defined benefit obligations per December 31, 2013. If more than one of the assumptions change, the impact would not necessarily be equal to the total impact of changes in those assumptions in isolation.

Plan assets

The pension funds actively manage their investment portfolio. In most cases, the investment strategy is determined based on an asset-liability management (ALM) 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 ALM study is an important tool in setting the strategic investment policy, because it provides insight into the return and risk characteristics of policy choices. The pension funds mainly invest in the global equity and debt markets. As the pension funds invest in market indices like MSCI, a minor part of these investments is related to KPN equities.

The assets of all defined benefit pension plans at December 31, 2013 and 2012 consisted of the following (in millions of EUR):

	December 31, 2013				December 31, 2012			
	Quoted	**Unquoted**	**Total**		Quoted	Unquoted	Total	
Equity securities								
– Europe	1,301	–			1,067	–		
– North America	1,556	–			1,347	–		
– Asia	669	–			515	–		
– South America	88	–			93	–		
– Other	165	–			158	–		
– Total	**3,779**	**–**	**3,779**	**45%**	**3,180**	**–**	**3,180**	**39%**
Fixed Income securities including inflation linked bonds (per Standard & Poor's rating)								
– AAA	772	–			1,112	–		
– AA	292	–			180	–		
– A	549	–			993	–		
– BBB	742	–			492	–		
– < BBB	314	–			168	–		
– no rating	136	217			111	–		
– Total	**2,805**	**217**	**3,022**	**36%**	**3,056**	**–**	**3,056**	**37%**
Real estate[1]	**127**	**397**	**524**	**6%**	**135**	**437**	**572**	**7%**
Commodities[2]	**299**	**–**	**299**	**3%**	**316**	**–**	**316**	**4%**
Derivatives[3]	**–**	**476**	**476**	**6%**	**–**	**775**	**775**	**9%**
Other (including insurance contracts)	**193**	**142**	**335**	**4%**	**170**	**147**	**317**	**4%**
Total	**7,203**	**1,232**	**8,435**	**100%**	**6,857**	**1,359**	**8,216**	**100%**

1) Around 90% of the investments in real estate is located in Europe.

2) Includes investment funds which invest in financial instruments related to commodities such as energy, agricultural products and precious metals.

3) Includes interest rate swaps, interest rate swaptions and put options on equity securities. Reference is made to the description of the strategic investment policies for an explanation of the use of these financial derivatives.

Strategic investment policies

The strategic investment portfolios at the end of 2013 of the pension funds (before hedging) were as follows:

	KPN PF	Other plans (weighted average)
Equity securities	41%	38%
Fixed income securities (including inflation linked bonds)	39%	43%
Real estate	10%	5%
Other	10%	14%
Total	**100%**	**100%**

KPN PF (main plan)

The strategic investment policy is in principle for the long term but the board of the KPN PF annually reviews the policy. The board of the KPN PF opted for an investment whereby the risk of a decline in the coverage ratio (calculated on local funding basis) is reduced. This is done by mitigating the two main risks: a decline in interest rates and a decline in equity prices.

Interest rate risk is hedged through a combination of investments in fixed income securities, interest rate swaps and options on interest rate swaps (swaptions). The hedging policy is dynamic and based on market circumstances. At the end of 2013, 57% of the interest rate risk was effectively hedged. The risk of falling equity prices is partially hedged through the use of put options on equity securities in developed markets. At the end of 2013, 16 % of the risk of a decline in equity prices was effectively hedged. Currency risks are for the major part hedged.

Other plans

For a description of the strategic investment policy of KPN OPF, reference is made to KPN PF (main plan). At the end of 2013, 55% of the interest rate risk and 16% of the investments in equity securities were effectively hedged at KPN OPF.

The IT Solutions (NL) SVG uses interest rate swaps to mitigate the interest rate risk on the obligations (on local funding basis). At the end of 2013, 59% of the interest rate risk was effectively hedged. Currency risks on the main foreign currencies are fully hedged for the total portfolio. The risks of a decline in equity prices are not hedged.

At the end of 2013, the Getronics UK and US pension funds invest predominantly in equity securities. Interest rate risks, currency risks and equity risks are not hedged. In the UK, a roadmap is in place to shift from investments in equity securities to fixed income securities, when the coverage ratio reaches certain thresholds.

Expected contributions and benefits

In 2013, the total employer contributions and benefit payments for all defined benefit plans (excluding discontinued operations) amounted to EUR 244 million, consisting of EUR 96 million for defined benefit premiums (an amount of EUR 27 million was prepaid in 2012), EUR 55 million for recovery payments for KPN PF (an amount of EUR 19 million was prepaid in 2012) and EUR 93 million benefit payments for unfunded plans. The contributions for defined contribution plans amounted to EUR 3 million (excluding discontinued operations).

KPN's main pension plans are funded plans for which KPN makes annual contributions. Therefore, future benefit payments to pensioners do not immediately have an impact on KPN's cash flows. For 2014, total employer contributions of EUR 155 million are expected, excluding recovery payments. This includes the outstanding amount of EUR 37 million under the guarantee given to the IT Solutions (NL) SVG plan. Based on the coverage ratio at December 31, 2013, no recovery payments are required in 2014 for KPN PF and KPN OPF. Whether or not further recovery payments are required, depends on the development of the coverage ratios. Should the coverage ratio again drop below approximately 105%, a new short-term recovery period will start, depending on new pension legislation. For KPN PF and KPN OPF, the amount of additional contributions in the short term recovery plan is limited to EUR 390 million (subject to indexation since 2009) within this short-term recovery period.

Notes to the Consolidated Statement of Financial Position continued

[23] Provisions for other liabilities and charges

Amounts in millions of EUR	December 31, 2013	December 31, 2012
Restructuring provision	95	162
Asset retirement obligations	66	303
Other provisions	122	108
Balance	**283**	**573**
– of which: non-current	*163*	*387*
– of which: current	*120*	*186*

Restructuring provision

The restructuring provision consists of the following components:

Amounts in millions of EUR	2013	2012
Personnel (redundancy obligations)	50	111
Contractual obligations	45	51
Restructuring provision	**95**	**162**

Of the restructuring provision, an amount of EUR 60 million has a term of less than one year (2012: EUR 131 million) and EUR 35 million of provisions has a term of between one and five years (2012: EUR 31 million).

The movements in the restructuring provision are as follows:

	Personnel	Contractual obligations	Total
Balance as of January 1, 2012	**98**	**4**	**102**
– of which: current portion	*98*	*2*	*100*
Additions / Releases	123	50	173
Usage	-110	-3	-113
Balance as of December 31, 2012	**111**	**51**	**162**
– of which: current portion	*111*	*20*	*131*
Additions / Releases	98	18	116
Usage	-151	-17	-168
Transferred to held for sale	-8	-7	-15
Balance as of December 31, 2013	**50**	**45**	**95**
– of which: current portion	*50*	*10*	*60*

Personnel (redundancy obligations)

During 2013 and 2012, KPN continued to substantially reduce its staff. The restructuring provision relating to FTE reduction amounted to EUR 50 million as at December 31, 2013. A total amount of EUR 116 million is added to the restructuring provision including a EUR 6 million release at E-Plus till July 23, 2013. As at December 31, 2013, the restructuring provision set up for Business Segment amounted to EUR 15 million and for IT Solutions amounted to EUR 22 million.

Asset retirement obligations

Amounts in millions of EUR	**2013**	2012
Balance as of January 1	**303**	**352**
Additions	–	1
Usage	-2	-23
Changes in assumptions	-29	-17
Release	-54	-13
Interest	4	6
Transferred to held for sale	-156	–
Other movements	–	-3
Balance as of December 31	**66**	**303**
– of which: current	*2*	*3*

The asset retirement obligations at December 31, 2013 amounted to EUR 66 million (2012: EUR 303 million), of which EUR 31 million (2012: EUR 53 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 discount rate for 2013 is 2.5% (2012: 2.1%).

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 by a landlord. Due to the fact that the date when the cables will become idle is uncertain and KPN is not able to predict whether and when a landlord will place a request for removal, KPN is not able to make a reliable estimate of the impact and no provision was recognized at December 31, 2013.

Other provisions

The movements in other provisions are as follows:

Amounts in millions of EUR	**2013**	2012
Balance as of January 1	**108**	**72**
Additions	87	53
Usage	-53	-17
Transferred to held for sale	-20	–
Balance as of December 31	**122**	**108**
– of which: current	*57*	*52*

Other provisions relate to various risks and commitments, claims and litigations (refer to Note 31) and onerous contracts. Of the Other provisions, approximately EUR 57 million had a term of less than one year (2012: EUR 52 million), EUR 34 million had a term of between one and five years (2012: EUR 27 million) and EUR 31 million had a term of more than five years (2012: EUR 29 million).

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

Amounts in millions of EUR	**December 31, 2013**	December 31, 2012
Non-interest bearing accruals	26	32
Deferred income	31	60
Cash settled share plans	1	–
Other payables	19	30
Total	**77**	**122**

Deferred income concerns amounts received in advance for deferred connections fees and other revenues that will be recognized in the future.

[25] Trade and other payables (current)

Amounts in millions of EUR	**December 31, 2013**	December 31, 2012
Trade payables	1,091	1,402
Deferred income	351	598
Accrued interest	395	380
Accrued expenses	748	1,151
Social security and other taxes payable	230	286
Other payables	112	41
Total	**2,927**	**3,858**

Deferred income (current) mainly concerns amounts billed in advance for fixed fees and subscriptions that will be recognized in the future.

Notes to the Consolidated Statement of Financial Position continued

[26] Derivative financial instruments

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

Amounts in millions of EUR	December 31, 2013	December 31, 2012
Assets	**117**	**233**
Non-current	117	233
Current	–	–
Liabilities	**-763**	**-474**
Non-current	-753	-458
Current	-10	-16
Total derivative financial instruments	**-646**	**-241**
– of which: call/put arrangements Reggefiber Group B.V. (net)	*-334*	*-278*
– of which: designated in a hedge relationship	*-310*	*62*
– of which: forward exchange contracts	*-1*	*–*
– of which: other derivative financial instruments not designated in a hedge relationship	*-1*	*-25*

In 2013, a EUR 5 million gain from ineffectiveness of the cash flow hedges was recognized in the hedge reserve (2012: nil). The ineffective portion of the fair value hedges during 2013 recognized in the Consolidated Statement of Profit or Loss resulted in a gain of EUR 3 million (2012: nil).

In 2013, the call/put arrangements regarding Reggefiber Group B.V. are included in derivative financial instruments for a net liability of EUR 334 million (2012: EUR 278 million net liability). Refer to Notes 12 and 29 for more information.

KPN reports its derivatives positions on the balance sheet on a gross basis. Part of the derivatives portfolio is subject to master netting agreements that allow netting under certain circumstances. If netting was applied, the total derivatives asset position would be EUR 20 million and the total derivatives liability position would be EUR 666 million at December 31, 2013 (asset position of EUR 117 million and liability position of EUR 358 million at 31 December 2012).

Bonds denominated in foreign currency

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

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

An overview of the cross-currency swaps at December 31, 2013 and December 31, 2012 is presented below (in millions):

Nominal	Currency	Maturity date	Pay	Receive	Hedge accounting	Fair value in EUR[1]
2013						
275	GBP	March 18, 2016	Fixed	Fixed	Cash Flow	3
250	GBP	May 29, 2019	Fixed	Fixed	Cash Flow	8
400	GBP	March 14, 2020	Fixed	Fixed	Cash Flow	-5
600	USD	March 28, 2023	Fixed	Fixed	Cash Flow	-65
400	GBP	November 11, 2026	Fixed	Fixed	Cash Flow	-36
850	GBP	September 17, 2029	Fixed	Fixed	Cash Flow	-63
1,000	USD	October 1, 2030	Fixed	Fixed	Cash Flow	-244
					Total	**-402**
2012						
275	GBP	March 18, 2016	Fixed	Fixed	Cash Flow	13
250	GBP	May 29, 2019	Fixed	Fixed	Cash Flow	29
400	GBP	November 11, 2026	Fixed	Fixed	Cash Flow	-1
850	GBP	September 17, 2029	Fixed	Fixed	Cash Flow	-19
1,000	USD	October 1, 2030	Fixed	Fixed	Cash Flow	-146
					Total	**-124**

1) Negative amounts are liabilities.

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

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

For the GBP 400 million Hybrid bond, with a first call date in March 2020 and annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in GBP to EUR 460 million. KPN also hedged the interest rate exposure by swapping the interest rate from GBP fixed to Euro fixed on an annual basis (approximately 6.78% per annum).

For the USD 600 million Hybrid bond, with a first call date in March 2023 and semi-annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in USD to EUR 465 million. KPN also hedged the interest rate exposure by swapping the interest rate from USD fixed to Euro fixed on a semi-annual basis (approximately 6.34% per annum).

For the GBP 400 million bond, maturing in November 2026 with annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in GBP to EUR 467 million. KPN also hedged the interest rate exposure by swapping the interest rate from GBP fixed to Euro fixed on an annual basis (approximately 5.02% per annum).

For the GBP 850 million bond, maturing in September 2029 with annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in GBP to EUR 971 million. KPN also hedged the interest rate exposure by swapping the interest rate from GBP fixed to Euro fixed on an annual basis (approximately 5.80% per annum).

For the USD 1,000 million bond, maturing in October 2030 with semi-annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in USD to EUR 756 million. KPN also hedged the interest rate exposure by swapping the interest rate from USD fixed to Euro fixed on a semi-annual basis (approximately 8.56% per annum).

Part of KPN’s derivatives portfolio contains reset clauses or collateral postings at pre-agreed dates, in order to mitigate counterparty exposure during the life of the swap. These reset clauses may result in early Euro settlement obligations in cash with the swap counterparty for part of the outstanding notional amount of the swap. This could lead to additional cash inflows or outflows before maturity. In order to reduce liquidity risks, the reset clauses or collateral postings of these derivatives are spread over different points in time and are not more frequent than every two years per swap.

Bonds denominated in EURO

In 2011, KPN changed its interest rate profile by swapping the fixed coupons on three Eurobonds. The bonds have been swapped to a two-year duration, which is expected to result in lower interest costs, while maintaining visibility on interest paid for the next two years.

The Eurobonds with maturities on September 21, 2020 (notional EUR 1.0 billion), October 4, 2021 (notional EUR 500 million) and September 30, 2024 (notional EUR 700 million) have been swapped to a floating rate based on 3-month Euribor using fixed-to-floating interest swaps. At inception, the first two years have been fixed with a floating-to-fixed interest rate swap. In subsequent quarters, KPN entered into additional forward starting swaps to maintain a 2-year horizon of fixed interest rates.

For the fixed-to-floating interest rate swaps, KPN meets the criteria of, and also applies, hedge accounting. KPN determines the effectiveness of these fair value hedges at inception and on a quarterly basis, based on a regression method.

Based on the current hedge accounting rules, KPN is not allowed to apply hedge accounting for above-mentioned floating-to-fixed swaps. These swaps are held at fair value through profit and loss, designated upon initial recognition. Until December 31, 2013, KPN booked a gain in the Consolidated Statement of Profit or Loss of EUR 17 million (2012: EUR 40 million loss).

Notes to the Consolidated Statement of Financial Position continued

An overview of the interest rate swaps at December 31, 2013 and December 31, 2012 is presented below (in millions).

Nominal	Currency	Maturity date	Pay	Receive	Hedge accounting	Fair value in EUR
2013						
1,000	EUR	September 21, 2020	Floating	Fixed	Fair Value	43
500	EUR	October 4, 2021	Floating	Fixed	Fair Value	26
700	EUR	September 30, 2024	Floating	Fixed	Fair Value	23
					Total	**92**

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

Nominal	Currency	Maturity date	Pay	Receive	Hedge accounting	Fair value in EUR
2013						
1,000	EUR	September 21, 2016	Fixed	Floating	None	-5
700	EUR	September 30, 2015	Fixed	Floating	None	-4
500	EUR	October 4, 2016	Fixed	Floating	None	-3
					Total	**-12**

Nominal	Currency	Maturity date	Pay	Receive	Hedge accounting	Fair value in EUR
2012						
1,000	EUR	September 21, 2015	Fixed	Floating	None	-14
700	EUR	September 30, 2015	Fixed	Floating	None	-9
500	EUR	October 4, 2015	Fixed	Floating	None	-7
					Total	**-30**

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 2013**	**Fair value 2013**	Contract volume 2012	Fair value 2012
Term shorter than 1 year	104	-1	72	–
Term longer than 1 year	–	–	–	–
Total	**104**	**-1**	**72**	**–**

In 2013, the liability position of the cash flow hedge reserve increased by EUR 188 million before tax (2012: increase of EUR 310 million) resulting from changes in the valuation of the USD and GBP cross-currency swaps. As KPN applies hedge accounting, any change in swap value will result in an opposite movement in the cash flow hedge reserve, such that there is minimal impact on the Consolidated Statement of Profit or Loss.

For further details on derivative financial instruments, reference is made to Note 29.

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

[27] Net cash flow used in investing activities

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

In 2013, disposals of subsidiaries, associates and available for sale financial assets mainly related to the sale of Infrastructure Services & Partners B.V. (EUR 26 million) and Compucom (EUR 27 million). In 2012, disposals of subsidiaries, associates and joint ventures mainly related to the net proceeds from the sale of Ortel Germany to E-Plus (EUR 41 million) and the sale of KPN Spain (EUR 24 million) less the net negative proceeds from the sale of Getronics International (EUR 26 million) and various other disposals (EUR 12 million).

In 2013 and 2012, investments in intangible assets (excluding software) related to the acquisition of licenses for additional spectrum. The amount in 2013 includes a payment of EUR 1,352 million relating to obtained frequency licenses in the Dutch spectrum auction, which took place at the end of 2012.

Loans to associates and joint ventures in 2013 and 2012 mainly concerned shareholder loans provided to Reggefiber (see also Note 12).

[28] Net cash flow used in financing activities

On September 16, 2013, KPN redeemed EUR 545 million of the Eurobond 2008-2013, in accordance with the regular redemption schedule.

On March 28, 2013, KPN issued a USD 600 million Hybrid bond with a fixed coupon of 7%, swapped to EUR 465m and a 6.34% coupon for a period of 10 years.

On March 18, 2013, KPN redeemed EUR 540 million of the Eurobond 2006-2013, in accordance with the regular redemption schedule.

On March 14, 2013, KPN issued a EUR 1,100 million Hybrid bond with a fixed coupon of 6.125%.

On March 14, 2013, KPN issued a GBP 400 million Hybrid bond with a fixed coupon of 6.875%, swapped to EUR 460 million and a 6.78% coupon for a period of 7 years.

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

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

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

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

KPN had no drawings on the Credit Facility as of December 31, 2013 (December 31, 2012: no drawings).

OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[29] Capital and Financial Risk Management

Capital management

Financing policy

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

On February 5, 2013, KPN announced a EUR 4 billion equity equivalent capital raise, in order to align its financial position with its strategy. The capital raise was intended to strengthen KPN's financial position and to provide a stable financial position in the coming years. The capital raise was supported by América Móvil and consisted of a EUR 3 billion rights issue and, in addition, issuance of EUR 2 billion hybrid bonds with 50% equity recognition. Through this combination, KPN achieved the targeted EUR 4 billion equity equivalent capital raise. The proceeds increased KPN's financial and strategic flexibility and were used to continue to invest in KPN's operations and reduce KPN's net debt level.

The table below shows the calculation of KPN's Net Debt / EBITDA ratio, which is based on numbers including E-Plus. Therefore, a number of corrections were made to the borrowings excluding E-Plus from Note 21, in order to arrive at the Net Debt for the Net Debt / EBITDA calculation.

Amounts in millions of EUR	2013	2012
Total borrowings (carrying values, excluding derivatives, excluding E-Plus) [21]	13,663	13,763
Financial leases E-Plus	352	133
Bank overdraft (included in net cash and cash equivalents) [17]	-326	-343
Perpetual hybrid bonds (issued in EUR)	1,100	–
50% equity credit for hybrid bonds	-1,013	–
Cash collateral on derivatives	-6	-6
Difference between carrying value and nominal value	-367	-573
Adjusted gross debt	**13,403**	**12,974**
Cash and cash equivalents (including held for sale)	3,946	1,290
Bank overdraft	-326	-343
Net cash and cash equivalents	**3,620**	**947**
Net Debt	**9,783**	**12,027**
Normalized EBITDA	3,994	4,403
Net Debt / EBITDA	**2.4x**	**2.7x**

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

KPN defines EBITDA as operating result before depreciation and impairments of Property, Plant and Equipment (PPE) 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 Net Debt as the nominal value of interest-bearing financial liabilities excluding derivatives and related collateral, representing the net repayment obligations in EUR, taking into account 50% of the nominal value of the hybrid capital instruments, less net cash and short-term investments, and defines normalized EBITDA as a 12-month rolling total excluding restructuring costs, incidentals and major changes in the composition of the Group (acquisitions and disposals). The Net Debt and Net Debt / EBITDA definitions were amended and aligned with other definitions in Q4 2013. The Net Debt position and Net Debt / EBITDA ratio did not materially differ according to the old and new definition.

Shareholder remuneration policy

KPN is committed to strive for the right balance between a prudent financing policy, investments in the business and shareholder remuneration. Following an adjustment to its dividend outlook in July and December 2012, KPN paid no dividend in 2013. During 2013, KPN did not execute a share repurchase program, nor did it return excess cash to shareholders in another way. KPN intends to recommence dividend payments for 2014, subject to the closing of the E-Plus sale.

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 cooperation with the Group companies, business operations and other corporate departments. During 2012 and 2013, several Treasury policies have been reviewed and approved by the Board of Management. KPN's key Treasury polices are the following:

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

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

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

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

	December 31, 2013		December 31, 2012	
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]	117	117	233	233
Derivatives – current [26]	–	–	–	–
Loans and receivables:				
Non-current receivables from financial leases [13]	3	3	2	2
Loans to associates and joint ventures [12]	453	453	227	227
Trade receivable [15]	690	690	1,045	1,045
Other receivables [15]	181	181	157	157
Cash and cash equivalents [17]	3,946	3,946	1,286	1,286
Subtotal	**5,390**	**5,390**	**2,950**	**2,950**
Available-for-sale financial assets [16]	20	20	35	35
Total	**5,410**	**5,410**	**2,985**	**2,985**
Financial liabilities				
Fair value through profit and loss:				
Derivatives – non-current [26]	753	753	458	458
Derivatives – current [26]	10	10	16	16
Subtotal	**763**	**763**	**474**	**474**
Financial liabilities measured at amortized costs:				
Borrowings [21]	13,663	14,404	13,896	14,773
Trade payables [25]	1,091	1,091	1,402	1,402
Other payables and accrued expenses and interest [25]	1,255	1,255	1,572	1,571
Subtotal	**16,009**	**16,750**	**16,870**	**17,746**
Total	**16,772**	**17,513**	**17,344**	**18,220**

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

The following table presents the Group's financial assets and liabilities that were measured at fair value at December 31, 2013.

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)	–	13	–	13
Derivatives (interest rate swap)	–	93	–	93
Other derivatives	–	–	11	11
Available-for-sale financial assets:				
Listed securities	10	–	–	10
Unlisted securities	–	–	10	10
Total assets	**10**	**106**	**21**	**137**
Liabilities				
Financial liabilities at fair value through profit and loss:				
Derivatives (cross-currency interest rate swap)	–	415	–	415
Derivatives (interest rate swap)	–	13	–	13
Other derivatives [12]	–	1	334	335
Total liabilities	**–**	**429**	**334**	**763**

[..] Bracketed number refers to the related Note.

Other Notes to the Consolidated Financial Statements continued

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

Amounts in million of EUR	Level 1	Level 2	Level 3	Total Balance
Assets				
Financial assets at fair value through profit and loss:				
Derivatives (cross-currency interest rate swap)	–	42	–	42
Derivatives (interest rate swap)	–	186	–	186
Other derivatives	–	–	5	5
Available-for-sale financial assets:				
Listed securities	9	–	–	9
Unlisted securities	–	–	26	26
Total assets	**9**	**228**	**31**	**268**
Liabilities				
Financial liabilities at fair value through profit and loss:				
Derivatives (cross-currency interest rate swap)	–	166	–	166
Derivatives (interest rate swap)	–	30	–	30
Other derivatives [12]	–	–	278	278
Total liabilities	**–**	**196**	**278**	**474**

[..] Bracketed number refers to the related Note.

The fair value of financial instruments traded in active markets is based on quoted market prices. If applicable, these instruments are included in Level 1.

An instrument is included in Level 2 if the financial instrument is not traded in an active market and if the fair value is determined by using valuation techniques based on maximum use of observable market data for all significant inputs. For the derivatives used for hedging purposes, KPN uses the estimated fair value of financial instruments determined by using available market information and appropriate valuation methods, including relevant credit risks. The estimated fair value approximates to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. KPN has its derivative instruments outstanding with financial institutions that had a credit rating equivalent to A3 or higher with Moody's at December 31, 2013.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3 and the 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 under financial liabilities at fair value through profit and loss are the call/put arrangements of Reggefiber Group B.V. These options are valued using a binominal tree approach and depend on the business performance of Reggefiber under various scenarios with different probabilities (combination of penetration rates, price structure and estimated chance of approval by Dutch competition authority ACM), discount rates and the conditions of the call/put arrangement itself. Based on current business performance and management's best estimate of the likelihood of possible scenarios and expected business performance, the value of the call/put arrangements was EUR 334 million (liability) at December 31, 2013, EUR 278 million (liability) at December 31, 2012. During 2013, the change in the value of the call/put arrangements resulted in a loss of EUR 56 million on the Consolidated Statement of Profit or Loss (2012: loss of EUR 100 million). In case of a 5%-point lower expected penetration rate, ceteris paribus, the liability position related to the call/put arrangement would have been approximately EUR 17 million higher as at December 31, 2013. In case of approval by ACM, ceteris paribus, the value of the call/put arrangements would increase to EUR 477 million, which would result in an additional loss of EUR 143 million.

The decrease in the value of the unlisted securities during 2013, included in available-for-sale financial assets, was due to the sale of assets (predominantly shares in Compucom). The increase in value during 2012 was EUR 3 million and was also recognized in Other Comprehensive Income.

The following table presents the net changes in 'other derivatives' in Level 3:

Amounts in million of EUR	**2013**	2012
Balance as of January 1	**278**	**203**
Losses recognized in profit or loss [12]	56	100
Redemption	–	-25
Balance as of December 31	**334**	**278**

[..] Bracketed number refers to the related Note.

For other financial assets and liabilities, the following methods and assumptions were used to determine fair value:
- Borrowings: based on the listed price of the bonds
- Cash, cash equivalents, accounts receivable and payable, Preference Shares B: as the maturity of these financial instruments is short, the carrying value approximates to the fair value.

Credit and counterparty risk

KPN's financial assets are subject to credit risk and counterparty risk. Credit risk arises from the possibility of asset impairment occurring when counterparties are unable to meet their obligations in transactions involving financial instruments.

KPN sets limits for the maximum exposure per counterparty and investment periods, which are primarily based on minimum credit ratings. These policies have been reviewed and updated in 2013. It is KPN's policy to invest cash balances with counterparties with a minimum credit rating equivalent to A2 at Moody's. Cash balances used for working capital purposes can also reside at (local) banks with lower credit ratings. It is KPN's policy only to engage into new derivative transactions with counterparties with a minimum credit rating equivalent to A2 at Moody's.

KPN spreads its cash and cash equivalents balances and derivatives over several counterparties. Separate limits are set for some strong counterparties without credit ratings or counterparties with limited credit risk such as the Dutch State. Furthermore, KPN only invests in money market funds and deposits with short maturities. The majority part of the cash balances at year end 2013 was invested in institutions with a credit rating equivalent to A2 at Moody's or stronger. In addition, KPN invested its cash balances in instruments with high liquidity.

During 2013 and 2012, KPN monitored counterparty risk on a regular basis, based on the counterparty's credit ratings and other metrics. These other metrics include Credit Default Swap (CDS) levels of the counterparties, levels of government ownership and the level of systemic importance to the banking system.

Credit risk on trade receivables is controlled based on restrictive policies for customer acceptance. Credit management is focused on mobile services as the credit risk is considered to be the highest within this part of KPN's business. Before accepting certain new customers 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'.

KPN takes into account credit risk for the valuations of its derivatives portfolio, based on IFRS 13. As at December 31, 2013, KPN recorded a gain of EUR 3 million in the Comprehensive Statement of Income, related to interest rate swaps recorded as fair value hedges (2012: no gains or losses). As at December 31, 2013, KPN recorded a gain of EUR 5 million in Other Comprehensive Income, related to cross-currency swaps recorded as cash flow hedges (2012: no gains or losses).

Guarantees
The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. As at December 31, 2013, KPN has parent guarantees (based on Article 403, Part 9, Book 2 of the Dutch Civil Code) 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 5,410 million at December 31, 2013 and EUR 2,985 million at December 31, 2012).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations associated with financial instruments as they fall due. The Group's approach to managing liquidity is to ensure sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group. This means that KPN secures its bond redemptions well ahead. KPN has a EUR 2 billion syndicated credit facility maturing in 2018, with 14 banks, all of which have a rating of Baa2 or higher with Moody's as at December 31, 2013.

Other Notes to the Consolidated Financial Statements continued

The table below provides a maturity analysis of the financial liabilities based on the remaining contractual maturities as of December 31, 2013.

	Borrowings				Derivatives			
Amounts in millions of EUR	Bonds and Loans[1]	Interest on Bonds and Loans[2]	Financial lease obligations	Other Debt[3]	Derivatives inflow (including interest)	Derivatives outflow (including interest)	Trade and other payables and accrued expenses	Total
2014	1,400	619	14	595	-300	261	1,951	4,540
2015	1,000	542	12	13	-299	256	–	1,524
2016	1,255	502	9	13	-625	574	–	1,728
2017	1,000	423	8	6	-275	226	–	1,388
2018	–	375	7	647	-275	226	–	980
2019 and subsequent years	7,939	2,246	55	–	-5,406	5,224	–	10,058
Contractual cash flows	**12,594**	**4,707**	**105**	**1,274**	**-7,180**	**6,767**	**1,951**	**20,218**

1) The GBP and USD hybrid bonds are included with final maturities in 2073 (redemption of EUR 915 million). Please see Note 21 for more information on the hybrid bonds.
2) Interest payments on the GBP and USD hybrid bonds (EUR 63 million per year until the first call date in 2018) are not included. KPN may, at its discretion and subject to certain conditions, elect to defer payments of interest on these hybrid bonds. Any arrears of interest must be paid at redemption at the latest, the amount of which cannot be reliably measured because of the duration of the hybrid bonds.
3) Including the redemptions on the bank overdraft facilities, Preference Shares B, spectrum payments and the Reggefiber call/put arrangements for the maximum cash out. The timing of the cash out regarding the Reggefiber call/put options as shown above is indicative as the timing of the exercise of these options is uncertain. See Note 12 for an explanation of the Reggefiber option triggers and the related cash flows. At December 31, 2013, the Reggefiber call/put arrangements were valued at a negative amount of EUR 334 million and included in the Consolidated Statement of Financial Position under derivative financial instruments (see Note 26).

The present value of the financial lease obligations amounts to EUR 105 million at December 31, 2013 (2012: EUR 256 million). The financial lease obligations primarily include lease obligations for buildings leased by KPN (see also Note 11) and handsets. 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, 2012.

	Borrowings				Derivatives[1]			
Amounts in millions of EUR	Bonds and Loans[1]	Interest on Bonds and Loans	Financial lease obligations	Other Debt[1]	Derivatives inflow (including interest)	Derivatives outflow (including interest)	Trade and other payables and accrued expenses	Total
2013	1,085	671	99	345	-240	207	2,594	4,761
2014	1,400	625	65	161	-240	200	–	2,211
2015	1,000	547	12	–	-237	184	–	1,506
2016	1,262	507	11	–	-573	510	–	1,717
2017	1,000	428	9	–	-217	165	–	1,385
2018 and subsequent years	7,096	2,677	60	647	-4,628	4,281	–	10,133
Contractual cash flows	**12,843**	**5,455**	**256**	**1,153**	**-6,135**	**5,547**	**2,594**	**21,713**

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

Part of KPN's derivatives portfolio contains reset clauses or collateral postings at pre-agreed dates, in order to mitigate counterparty exposure during the life of the swap. These reset clauses will result in early Euro settlement obligations in cash with the swap counterparty for part of the outstanding notional amount of the swap. This could lead to additional cash inflows or outflows before maturity. In order to reduce liquidity risks, the reset clauses or collateral postings of these derivatives are spread over different points in time and are not more frequent than every two years per swap.

With regard to other purchase and capital commitments, reference is made to Note 31 'Commitments, contingencies and legal commitments'.

Available financing sources 2013

As of December 31, 2013, KPN's net cash and cash equivalents position amounted to EUR 3,946 million (including EUR 326 million in non-netted notional cash pools). Due to German capital maintenance rules, KPN is committed to keep certain funds available at E-Plus. In principle, net cash and cash equivalents are at disposal to KPN on a group level, except for limited amounts of cash held at local subsidiaries.

In addition to the available cash and cash equivalents, cash flows from operations and cash flows from any further sales of non-core assets, KPN has the following financing resources available:

EUR 2.0 billion multi-currency revolving credit facility

In July 2011, KPN signed a new EUR 2.0 billion Revolving Credit Facility with a tenor of five years with two one-year extension options. The facility replaced the previous EUR 1.5 billion revolving credit facility, while obtaining competitive conditions. The credit facility does not contain any financial covenants. In June 2012 and June 2013, KPN used the extension options for its EUR 2 billion revolving credit facility. All 14 relationship banks agreed to the extensions, which brings the final maturity of the revolving credit facility to July 2018.

As of December 31, 2013 and December 31 2012, KPN had no drawings on its credit facility.

In December 2012, KPN signed a EUR 500 million standby credit facility, which was available for drawdown until March 31, 2013 and which had a final maturity date 364 days after drawdown. This facility was undrawn at December 31, 2012 and was cancelled after the issuance of hybrid bonds in March 2013.

Overdraft facilities

During 2013, KPN had four uncommitted overdraft facilities with four banks of EUR 50 million each. The overdraft facilities may be cancelled at any time and do not have a specified maturity date. In 2013 and 2012, KPN drew on these facilities from time to time. As of December 31, 2013 and 2012, 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 June 2013. The program does not contain any 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, 2013, which could trigger additional financial obligations or early redemption of the outstanding indebtedness.

All of KPN's senior bonds issued after January 1, 2006 (EUR 9.8 billion at December 31, 2013) and the EUR 50 million private placement issued in 2012 contain a change of control clause by means of which KPN may be required to redeem such outstanding bonds early, in the event that (i) certain changes of control occur and (ii) within the change of control period a rating downgrade to sub-investment grade occurs in respect of that change of control. The change of control period ends 90 days after the change of control event occurs.

In addition, many of KPN's capital resources contain a covenant prohibiting KPN from entering into any amalgamation, demerger, merger, corporate restructuring or reorganization, unless prior written consent has been given by a majority of the lenders or bondholders or the resulting company assumes all of the rights and obligations with respect to the loans or bonds.

Market risk

KPN is exposed to various kinds of market risks in the ordinary course of business. These risks include:
- Foreign currency exchange rate risks
- Interest rate risks
- Other market price risk

KPN has established policies that deal with the use of derivative financial instruments in order to reduce foreign currency exposure and to manage the interest rate profile. KPN's centralized Treasury department matches and manages intercompany and external foreign currency exposures reported by the various business operations and Group companies. Hedges are applied on a full coverage basis, if economically feasible.

In line with these policies, derivative financial instruments are used solely for the purpose of hedging underlying exposures to foreign currency exchange rate risk and interest rate risk. KPN does not enter into derivative financial instruments for speculative purposes. Contracts related to derivative financial instruments are entered into for periods consistent with the underlying exposures (if economically feasible) and do not constitute positions independent of these exposures. None of these financial instruments are used for trading purposes or taken as speculative positions.

KPN's policy is to apply hedge accounting to the extent possible for derivative financial instruments related to interest-bearing debt and foreign exchange risk for bonds that are not denominated in Euro. Management has set up a policy to apply hedge accounting only when certain criteria are met regarding formal designation and documentation of the hedge relationship, the risk management objective, the strategy for undertaking the hedge and the effectiveness of the hedge. As a consequence, KPN tests effectiveness of the hedge relationship at inception and every quarter. Reference is made to Note 26.

Foreign currency exchange rate risks

The group's primary activities are denominated in Euro. Accordingly, the Euro is the company's functional currency, which is also the Group's presentation currency. Items included in the financial information of individual entities in the group are measured using the individual entity's functional currency, which is the currency of the primary economic environment in which the entity operates.

Currency exchange risk is the risk that the future cash flows will fluctuate because of changes in foreign exchange rates. The risk mainly results from settlement of international telecommunications traffic and purchase of goods and equipment and primarily consist of pound sterling and US dollar exposure. Foreign currency exchange rate risks related to bonds that are not denominated in Euro are hedged into Euro in line with KPN's hedging policies.

As a result of currency fluctuations, the value of subsidiaries operating outside the Eurozone markets could fluctuate and affect KPN's financial position and equity positions from year to year. These translation exposures are not hedged.

Group companies and business operations are obliged to hedge their firm commitments and highly predictable anticipated transactions in non-functional currencies by forward contracts transacted with KPN's Treasury department. Accordingly, Treasury matches and manages the intercompany and external exposures using forward exchange contracts. KPN does not apply hedge accounting for these hedge instruments.

Other Notes to the Consolidated Financial Statements continued

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Consolidated Statement of Profit or Loss.

As of December 31, 2013 more than 99% of cash and cash equivalents was denominated in the functional currency of the related entities. At December 31, 2013 more than 95% of the net amount of trade receivables and more than 94% of the amount of trade payables was outstanding in the functional currency of the related entities.

Reference is made to Note 6 for the recognized exchange rate differences in the Consolidated Statement of Profit or Loss.

Foreign exchange

As of December 31, 2013 KPN carried out a sensitivity analysis with regard to changes in foreign exchange rates for entities with a functional currency different from Euro. All changes in foreign exchange rates and resulting sensitivities have impact on the profit and loss statement and equity, but do not have an impact on the cash flow statement. The results of the analyses are shown in the table below, indicating the hypothetical impact on equity:

		Total	
Amounts in millions of EUR	Change	**2013**	2012
Change in FX rate	+20%-point	8	2
	+10%-point	5	1
	-10%-point	-3	-1
	-20%-point	-8	-3

Interest rate risk and interest rate profile

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. Borrowings, derivatives, cash and cash equivalents are subject to interest rate risk. As KPN has a mix of financial instruments bearing a floating or a fixed interest rate, KPN is subject to risk from movements in interest rates. An unfavorable interest rate movement would result in additional financial expenses.

In 2011, KPN changed its interest rate profile by swapping the fixed coupons on three Eurobonds. The bonds have been swapped to a 2-year duration, which is expected to result in lower interest costs, while maintaining visibility on interest paid for the next two years. The Eurobonds with maturities on September 21, 2020 (notional EUR 1.0 billion), October 4, 2021 (notional EUR 500 million) and September 30, 2024 (notional EUR 700 million) have been swapped to a floating rate based on 3-month Euribor using fixed-to-floating interest swaps. The first two years have been fixed with a floating-to-fixed interest rate swap. In subsequent quarters, KPN entered into additional forward starting swaps to maintain a 2-year horizon of fixed interest rates.

With regard to interest rate risk exposure, KPN periodically evaluates the desired mix of fixed and floating interest rate liabilities. Any interest exposure longer than one year is considered to be fixed. As of December 31, 2013, all of KPN's interest-bearing gross debt excluding bank overdraft was at fixed interest rates (2012: 100%). With a view to existing and forecasted debt structure, KPN's Treasury department could enter into additional future derivative instruments to adjust the mix of fixed and floating interest rate liabilities.

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 30 million at December 31, 2013 (2012: EUR 58 million) (see Note 31).

Sensitivity analysis

As of December 31, 2013 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 (2012: none) because all interest-bearing liabilities carried a fixed interest rate while only the outstanding net cash and cash equivalents carried a floating interest.

Cash flow hedges

As of December 31, 2013, KPN carried out a sensitivity analysis with regard to interest rate risk and currency on the cash flow hedges. KPN applies cash flow hedges on all bonds not denominated in Euro. With all other variables held constant, KPN calculated the hypothetical impact of changes in interest rates based on various scenarios. This would hypothetically result in a higher or lower value on the balance of the hedge reserve, which is included in equity attributable to equity holders. In a similar way, KPN calculated the hypothetical impact of changes in the EUR/USD rate and the EUR/GBP rate, holding all other variables constant. The results of the analyses are shown in the table below, indicating the hypothetical impact on the balance of the hedge reserve as at December 31, 2013:

		GBP		USD		Total	
Amounts in millions of EUR	Change	**2013**	2012	**2013**	2012	**2013**	2012
Change in interest rate	+2%-point	-33	-13	-52	-23	-85	-36
	+1%-point	-18	-8	-28	-12	-45	-20
	-1%-point	21	10	31	13	52	23

		GBP		USD		Total	
Amounts in millions of EUR	Change	**2013**	2012	**2013**	2012	**2013**	2012
Change in FX rate	+20%-point	108	143	98	111	206	254
	+10%-point	59	78	54	60	112	138
	-10%-point	-72	-95	-65	-74	-137	-169
	-20%-point	-162	-214	-147	-166	-309	-380

Prospective effectiveness testing indicates that all cash flow hedges are expected to be highly effective. As a consequence, the expected impact on the statement of profit or loss is immaterial.

Fair value hedges

As of December 31, 2013, KPN carried out a sensitivity analysis with regard to interest rate risk on the fair value hedges. KPN applies fair value hedge accounting on Euro-denominated bonds that are swapped from fixed rate to a floating rate. With all other variables held constant, KPN calculated the hypothetical impact of changes in interest rates based on various scenarios. The expected impact on the cash flow statement and the statement of profit or loss is immaterial, since the hedges are expected to be highly effective. This results in minimal hedge ineffectiveness and volatility of KPN's financial result.

Derivatives held at fair value

As of December 31, 2013, KPN carried out a sensitivity analysis with regard to the interest rate swaps for which no hedge accounting is applied. All changes in interest rates and resulting sensitivities have only profit & loss impact and no cash flow impact.

Impact Profit & loss amounts in millions of EUR	Change	**2013**	2012
Interest rate swaps (2-year floating-fixed)			
Changes in EUR interest rates	+2%-point	78	81
	+1%-point	39	41
	-1%-point	-42	-42

For a sensitivity analysis on interest rate risk with regard to pensions, reference is made to Note 22.

Other Notes to the Consolidated Financial Statements continued

Offsetting financial assets and financial liabilities

(a) Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements:

As at 31 December 2013 Amounts in millions of EUR	Gross amount of recognized financial assets	Gross amounts of recognized financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amounts not set off in the balance sheet: Financial instruments	Related amounts not set off in the balance sheet: Cash collateral received	Net amount
Derivative financial instruments	117	–	117	-97	–	20
Trade receivables	753	-63	690	-14	–	676
Total	**870**	**-63**	**807**	**-111**	**–**	**696**

As at 31 December 2012 Amounts in millions of EUR	Gross amount of recognized financial assets	Gross amounts of recognized financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amounts not set off in the balance sheet: Financial instruments	Related amounts not set off in the balance sheet: Cash collateral received	Net amount
Derivative financial instruments	233	–	233	-116	–	117
Trade receivables	1,061	-16	1,045	-14	–	1,031
Total	**1,294**	**-16**	**1,278**	**-130**	**–**	**1,148**

(b) Financial liabilities

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

As at 31 December 2013 Amounts in millions of EUR	Gross amount of recognized financial liabilities	Gross amounts of recognized financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related amounts not set off in the balance sheet: Financial instruments	Related amounts not set off in the balance sheet: Cash collateral received	Net amount
Derivative financial instruments	763	–	763	-97	–	666
Trade payables	1,131	-40	1,091	-14	–	1,077
Accrued expenses	770	-22	748	–	–	748
Total	**2,664**	**-62**	**2,602**	**-111**	**–**	**2,491**

As at 31 December 2012 Amounts in millions of EUR	Gross amount of recognized financial liabilities	Gross amounts of recognized financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related amounts not set off in the balance sheet: Financial instruments	Related amounts not set off in the balance sheet: Cash collateral received	Net amount
Derivative financial instruments	474	–	474	-116	–	358
Trade payables	1,418	-16	1,402	-14	–	1,388
Accrued expenses	1,151	–	1,151	–	–	1,151
Total	**3,043**	**-16**	**3,027**	**-130**	**–**	**2,897**

For the financial assets and liabilities summarized above, each agreement between KPN and the counterparty allows for net settlement of the relevant financial assets and liabilities when both parties elect to settle on a net basis. If parties chose not to settle on a net basis, the financial assets and liabilities will be settled on a gross basis.

[30] Business combinations and other changes in consolidation

Changes in consolidation 2013

In 2013, no new businesses were acquired by KPN. In March 2013, Infrastructure Services & Partners (IS&P) was sold by KPN. IS&P was deconsolidated from that date, with no significant impact. As of July 23, 2013, E-Plus is presented as disposal group held for sale and discontinued operation (refer to Note 18).

Significant changes in consolidation 2012

In April 2012, KPN acquired 100% of the shares of Lijbrandt Telecom Holding B.V., Glashart Media B.V., ISP Fabriek and Reggefiber Wholesale from Reggefiber for EUR 123 million. The acquisitions strengthen KPN's commitment to a national roll-out of a fibre to the home ("FttH") network and allow Reggefiber to focus solely on the roll-out of FttH and to operate an open access passive FttH network.

The purchase price and fair value allocation was finalized in April 2013 with minor adjustments. The following table summarizes the final consideration paid for aforementioned entities, the fair value of assets acquired and liabilities assumed at acquisition date.

Recognized amounts of identifiable assets acquired and liabilities assumed	
Tangible fixed assets [11]	73
Customer relationships (included in intangibles) [10]	18
Trade name (included in intangibles) [10]	3
Net tangible non-operating assets	4
Net working capital	2
Deferred tax liabilities [7]	-4
Total identifiable net assets	**96**
Goodwill	23
Consideration paid	**119**
Net cash and cash equivalents acquired	**4**
Net cash outflow	123

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

Reggefiber is a passive operator that implements a national roll-out of a FttH network. In the past, it also started active operations in the areas that could not yet be serviced by KPN's ISPs. Management of KPN indicated that the main reasons for acquiring Reggefiber Wholesale were to increase its homes activated base and to expand its service area.

Other changes in consolidation 2012

In September 2012, KPN entered into a strategic partnership with GroupIT B.V. (RoutIT) and acquired a stake of 12.5% with a potential right to acquire the remaining stake and thus obtain control over GroupIT B.V. The acquisition did not have a significant impact on the financial position, income and cash flows of KPN.

In October 2012, KPN acquired 100% of the shares of FttH service providers Edutel, XMS, KickXL and Concepts ICT from Reggeborgh. The acquisition did not have a significant impact on the financial position, income and cash flows of KPN.

The purchase price and the allocated fair values of all acquisitions in 2012 have been finalized in 2013 without adjustments.

If the acquisitions had occurred on January 1, 2012, KPN's estimated consolidated revenues would have been approximately EUR 45 million higher. Profit for the year would have been approximately EUR 5 million lower.

[31] Commitments, contingencies and legal proceedings

Commitments

Amounts in millions of EUR					Amounts due by period
	Less than 1 year	1-5 years	More than 5 years	**Total December 31, 2013**	Total December 31, 2012
Capital and purchase commitments	1,113	556	37	1,706	3,557
Rental and operational lease contracts	203	462	272	937	2,484
Guarantees	114	76	128	318	351
Other	10	3	–	13	14
Total commitments	**1,440**	**1,097**	**437**	**2,974**	**6,406**

The amounts as at December 31, 2013 are excluding E-Plus. Total commitments of E-Plus as at December 31, 2013 are EUR 1,808 million (2012: EUR 1,936 million). The total commitments of E-Plus as at December 31, 2012 (EUR 1,936 million) are included in the total amount of EUR 6,406 million.

Capital and purchase commitments

The decrease in capital and purchase commitments mainly relate to capitalized licenses of spectrum 2G, 3G and 4G in 2013.

Rental and operational lease contracts

Other Notes to the Consolidated Financial Statements continued

For buildings, the majority of contracts included rental fees that are subject to a yearly indexation. Some contracts give KPN an option to buy the property when the landlord wants to sell that property.

For site rentals and mobile towers, the majority of agreements included an option for renewal of the contract and rental fees that are subject to a yearly indexation percentage. In addition, the majority of contracts can be cancelled by KPN only, with a notice period of 12 months.

The minimum non-cancellable sublease amounts expected to be received amount to EUR 8 million (2012: EUR 4 million), both amounts excluding E-Plus. The amounts related to E-Plus in 2013 are EUR 138 million and EUR 132 million in 2012. These amounts mainly relate to subleases of buildings, site sharing arrangements and lease handsets.

The total net costs of operating leases and rental contracts amounted to EUR 354 million in 2013 (2012: EUR 549 million, excluding E-Plus) and is included in 'cost of work contracted out and other expenses' and 'other operating expenses' in the Consolidated Statement of Profit or Loss. The amount related to E-Plus in 2013 is EUR 105 million (2012: EUR 266 million). The operating lease and rental commitments mainly relate to property, plant and equipment.

Guarantees

These commitments mainly consist of financial obligations of Group companies under certain contracts guaranteed by KPN.

As a customer of Reggefiber, KPN has agreed to guarantee ODF fees for homes connected in 15 projects up to a certain minimum penetration level in a project. The ODF fees paid accrue interest for a period of five years. The ODF fees paid and the accrued interest will be settled with Reggefiber when the minimum penetration level is reached against the ODF fees incurred above that minimum level. KPN and Reggeborgh jointly have a similar agreement with Reggefiber regarding 72 other projects. However, an additional condition regarding the repayment compared to the other 15 projects is that repayment is only due when free cash flow is available. The guarantees under the KPN and the KPN/Reggeborgh contracts terminate upon reaching specified penetration targets, but ultimately after 20 years. At the end of 2013, the prepaid fees and accrued interest amounted to EUR 44 million (2012: EUR 31 million).

Contingent assets

In 2003, BASE Company launched a damages claim against Belgacom Mobile (Proximus), claiming that the latter had abused its dominant position by applying very low on-net-rates. In 2004, Mobistar launched a similar claim. In 2007, the Commercial Court determined Belgacom Mobile's dominant position on the retail market until the end of 2004, and ordered an expertise. In a preliminary report of October 2, 2009, the court experts concluded that Proximus had indeed abused its dominance and that, for the period 1999-2004, this abuse had resulted in damages of EUR 824 million for BASE Company and of EUR 357 million for Mobistar. In a second preliminary report of December 9, 2010, the damages for BASE Company were increased to EUR 1,329 million and for Mobistar to EUR 510 million. These amounts were exclusive of interest. Following the publication of the second preliminary report, Proximus requested the court to remove the experts from the case arguing that the experts are biased and/or incompetent. In first instance, the court denied said request, but in appeal it decided to remove the experts from the case. As a result hereof, a new expertise will have to be started. On January 2, 2012, Proximus has also appealed the original decision of the Commercial Court of 2007. New experts were appointed in the course of 2012, but they rejected their appointment, following which BASE Company initiated a new procedure before the commercial court in order to get new experts on board. New experts were appointed on January 21, 2014.

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 adjudged to be liable for wilful misconduct ('opzet') or intentional recklessness ('bewuste roekeloosheid').

As defined in the Telecommunications Act, the obligation for landlords to tolerate cables which are part of a public electronic communications network terminates as soon as those cables have been idle for a continuous period of ten years. In that situation, a public electronic communications network supplier is required to remove cables at the request of a landlord. Although KPN currently records a provision for its future obligations to dismantle and remove certain other elements of its network, such as technical buildings, towers, and rooftop equipment, KPN has determined no such provision is appropriate for installed fiber cables, given that the date when such cables may be deemed idle is uncertain.

In KPN's judgment, it has not been able to make a reliable estimate of the impact of such obligations, and no provisions have been made.

Legal proceedings

KPN is involved in a number of legal proceedings that have arisen in the ordinary course of its business. Save as discussed below, there are no governmental, legal or arbitration proceedings which may have a significant effect on the financial position or profitability of KPN. The outcome of legal proceedings, however, can be extremely difficult to predict with certainty, and KPN can offer no assurances in this regard. Below is a description of legal proceedings that KPN considers material.

KPNQwest

KPN is involved in several legal proceedings related to the bankruptcy of KPNQwest.

On September 13, 2006, KPN was served with a writ of summons by Citibank N.A. and Cargill Financial Markets Plc. claiming EUR 219 million, excluding interest and costs, from various former officers and former shareholders, including KPN, of KPNQwest. Citibank and Cargill claim compensation for damages on a EUR 525 million syndicated loan provided to KPNQwest in 2002 on the basis of misrepresentation and concealment by former management and former shareholders when the loan was provided to KPNQwest. Citibank acted as agent of the syndicate and as a 14.7% principal lender of the syndicated loan. Cargill claims that it acquired 85.3% of the claim by assignments of their part in the syndicated loan by other original lenders. The District Court of Amsterdam dismissed all the claims of Citibank and Cargill on April 25, 2012. Citibank and Cargill have appealed the decision.

Reggefiber

In 2009, cable operators Ziggo and UPC, as well as other telecommunications providers in the Netherlands, filed a suit in the administrative District Court of Rotterdam, seeking to challenge the ACM's 2008 approval of KPN's entry into the Reggefiber joint venture. Plaintiffs claimed that by allowing the joint venture, competition in various fixed-line services, including fiber, cable and copper, would be restricted. In an interim court ruling by the administrative District Court of Rotterdam on November 18, 2010, the court held that the ACM had provided insufficient evidence for a part of its competition analyses. In particular, the ACM had not adequately demonstrated the potential effects on competition regarding non-price effects (such as the quality and roll-out of fiber) in its assessment or remedies. The District Court then allowed the ACM to submit additional evidence and, after further consideration, it held on May 10, 2012 that the Reggefiber joint venture could continue despite its annulment of the ACM decision.

Ziggo appealed the District Court's decision on June 15, 2012 to the Trade and Industry Appeals Tribunal (College van Beroep voor het bedrijfsleven (CBb)), claiming, among other things, that the Reggefiber joint venture should have been assessed in a second phase enquiry by the ACM to take into account the effects on the market as well as the effectiveness of the remedies. As a hearing will take place in Q2 2014 a decision in response to Ziggo's appeal is expected sometime in 2014. If the appeal is successful, the CBb could annul the ACM or court decision or remand the matter to the court or the ACM for further consideration, which in turn could lead to the confirmation, dissolution or amendment of the Reggefiber joint venture.

Regarding the settlement of the bankruptcy trustees claim, reference is made to Note 33 'Subsequent events'.

[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, except for the transactions with shareholders. Transactions within the KPN Group are not included in the description as these are eliminated in the Consolidated Financial Statements.

Transactions with shareholders

On April 25, 2013, KPN set the terms of its EUR 3 billion rights issue, which was announced on February 20, 2013 and approved by the Annual General Meeting on April 10, 2013. KPN announced a 2 for 1 rights issue of 2,838,732,182 new ordinary shares with a nominal value of EUR 0.24 at an issue price of EUR 1.06 through the granting of transferable subscription entitlements to holders of ordinary shares in KPN's issued and outstanding share capital pro rata to their shareholdings. For further information about the rights issue, see Note 19.

On August 29, 2013, the Foundation Preference Shares B KPN exercised its call option and obtained 4,258,098,272 newly issued preference shares B. These shares reflect an interest in KPN's outstanding shares of 50% minus 1 share. In compliance with the current statutory arrangement, 25% of the nominal value of these shares (EUR 255 million) was paid to KPN in cash. For more information about the issue of the Preference Shares B, see Note 19.

América Móvil published on February 12, 2014 that they owned 13.6% of KPN's ordinary share capital (taking into account the issuance of the preference shares B) at December 31, 2013.

The total value of sales transactions by the continuing operations of KPN in 2013 with AMX, its subsidiaries, joint ventures and associated companies amounted to approximately EUR 6 million and the total value of purchase transactions amounted to approximately EUR 21 million.

The total trade receivables and payables per December 31, 2013 amounted to approximately EUR 3 million and EUR 6 million respectively.

Pursuant to the Dutch Financial Supervision Act ('Wet op het financieeltoezicht' or 'Wft'), legal entities as well as natural persons must immediately notify the Dutch Authority for the Financial Markets (AFM) when a shareholding equals or exceeds 3% of the issued capital. To KPN's knowledge, no other shareholder owned 3% or more of KPN's issued share capital as at December 31, 2013. KPN did not enter into agreements with AMX or other shareholders which could have a material impact on KPN's Financial Statements. On February 20, 2013, KPN and AMX entered into a relationship agreement, governing the long-term relationship between both parties. In accordance with best practice provision III 6.4 of the Dutch Corporate Governance Code, the relationship agreement was approved by KPN's Supervisory Board. On July 29, 2013, the relationship agreement was terminated by AMX.

Other Notes to the Consolidated Financial Statements continued

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 Notes 12 and 16).

The total value of sales transactions by the continuing operations of KPN in 2013 with joint ventures and associated companies amounted to approximately EUR 63 million (2012: EUR 64 million) and the total value of purchase transactions amounted to approximately EUR 138 million (2012: EUR 77 million). The total trade receivables and payables per December 31, 2013 amounted to approximately EUR 17 million and EUR 36 million respectively.

In addition, KPN acquired in 2012 100% of the shares in Lijbrandt Telecom Holding B.V., Glashart Media B.V. and Reggefiber Wholesale B.V. from Reggefiber Group B.V., in which KPN held 41% of the shares. Furthermore, in 2012 KPN acquired a further 10% share in Reggefiber Group B.V.

Transactions with Directors and related parties

For details of the relation between directors and the Company, reference is made to the 'Remuneration and Organizational Development Report' on pages 88 to 98 of this Annual Report. Directors in this respect are defined as key management and relate to those having authority and responsibility for planning, directing, and controlling the activities of an entity, either directly or indirectly. At KPN, key management consists of the members of the Board of Management.

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 2013.

The total value of sales transactions by the continuing operations of KPN in 2013 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 24 million (2012: EUR 5 million) and the total value of purchase transactions amounted to approximately EUR 9 million (2012: EUR 14 million), all in the ordinary course of business. The total trade receivables and payables per December 31, 2013 amounted to approximately EUR 5 million and EUR 5 million respectively.

[33] Subsequent events

On January 2, 2014, the second option of the Reggefiber joint venture agreement was exercised. Completion is subject to approval by the Dutch Competition Authority (ACM). The option represents an additional 9% equity stake in the Reggefiber joint-venture ('Reggefiber') and will bring KPN's ownership to 60% following completion. At 60% ownership, KPN will obtain full control and Reggefiber will be consolidated in the financial statements of KPN. This will only take place once the ACM has approved the increase of KPN's ownership. The exercise price of the option will be between EUR 116 million and EUR 161 million, depending on the level of Capex efficiencies reached at Reggefiber.

On January 10, 2014, KPN's Extraordinary General Meeting of Shareholders (EGM) approved the proposal to cancel the outstanding preference shares B. The cancellation is expected to occur in March 2014, taking into account the statutory objection period of two months. Following the cancellation, KPN must repay the paid up amount received on the preference shares B (EUR 255 million) plus accrued dividend. The EGM, as well as the majority of the ordinary shares present, also approved a proposal to reduce the nominal value of KPN shares from EUR 0.24 to EUR 0.04 to lower the costs related to the preference shares B. This will be implemented following the cancellation of the preference shares B.

On September 28, 2010, the bankruptcy trustees KPNQwest served a writ of summons against Qwest, Koninklijke KPN N.V., the former CEO of KPNQwest and nearly all former members of the Supervisory Board of KPNQwest. The bankruptcy trustees claim that all defendants are liable for the full amount of damages caused by the bankruptcy of KPNQwest. On February 21, 2014, KPN announced it had reached final agreement on the terms of a settlement in these proceedings. Under this agreement, KPN would contribute an amount of EUR 50 million to a total settlement amount of EUR 260 million.

[34] Segment reporting

KPN's segments reporting is driven by the internal structure and reporting to KPN's Chief Executive Officer (CEO), who is KPN's chief operating decision maker according to IFRS 8. KPN's operating segments are summarized below.

As from January 1, 2013, KPN made the following organizational changes:

- Certain parts of KPN Corporate Market have been integrated into Business. The remaining part of KPN Corporate Market has been renamed as IT Solutions and will continue to focus on data centers, consulting services and workspace solutions. The internal reporting structure was changed and comparative segment information has been restated accordingly.
- Rest of World, consisting mainly of Ortel Mobile, ceased to report separately. The Ortel Mobile activities have been integrated into Germany, Belgium and Consumer Mobile, depending on geography. The remaining activities are included in other Mobile International. The comparative segment information has not been restated for this organizational change as the revenue of Ortel Mobile was already largely incorporated in the respective segments as intercompany revenues.

As of July 23, 2013, part of KPN's operating segment Germany is classified as 'disposal group held for sale' (E-Plus). The internal reporting of KPN's operating segment Germany continues to include E-Plus. Therefore, E-Plus is still included in KPN's segment reporting.

The Netherlands

The Netherlands consists of the following:

- Consumer Mobile Segment – providing mobile telephony and mobile data. KPN offers retail customers a broad package of services in the areas of communication, information, entertainment and commercial services;
- Consumer Residential Segment – providing internet and TV, fixed telephony. KPN offers retail customers a broad package of services in the areas of communication, information, entertainment and commercial services;
- Business Segment – KPN offers its business customers (small, medium-sized, large and corporate) a complete portfolio of service from fixed and mobile telephony and internet to a range of data network services, workspace management and data center services;
- IT Solutions Segment operates an ICT services company with a market-leading position in the Netherlands, offering end-to-end solutions in infrastructure and network-related IT to KPN's largest, corporate customers;
- NetCo Segment is responsible for KPN's operational activities for the Dutch networks (both fixed and mobile), IT services and for KPN's wholesale customers; and
- The Netherlands' Other Segment.

Mobile International

Mobile International comprises:

- Germany Segment (including 'discontinued operations'), including E-Plus, Blau Mobilfunk and Magnum – is a challenger network operator with own brands and partners in Germany;
- Belgium Segment, consists of BASE Company, a challenger network operator with own brands and partners in Belgium; and
- Rest of World Segment, ceased to report separately as of January 1, 2013 and therefore only 2012 information is available
- Mobile International Other Segment, reported separately as of January 1, 2013 and therefore only 2013 information is available.

iBasis Group

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

Other activities Segment

Other activities comprise the results of KPN's Corporate Center (support) and the call center activities of SNT Germany.

Due to the fact that KPN neither allocates interest expenses to all segments nor accounts for taxes in the segments, the disclosure is limited to operating profit for the year.

The basis for inter-segment pricing for wireless services is as follows:

1) KPN's mobile terminating services are regulated in some aspects. The price level of the mobile terminating services to external wholesale operators has been set in consultation with and approved by the Dutch competition and telecommunications regulators. The mobile terminating tariffs are applied on a non-discriminatory basis within the segment Consumer, Business and NetCo and to other (external) operators; and
2) Roaming tariffs between KPN's Mobile operators are based on bilateral agreements and contain generally similar terms as bilateral agreements with third parties.
3) The basis for inter-segment pricing within the Netherlands, other than mentioned in categories 1) and 2) above can be described as follows:
   - For identical products which are also sold to external parties, KPN uses wholesale prices;
   - For non-regulated retail products which do not fall within the scope of category 3, KPN uses cost-based prices; and
   - For regulated retail products which do not fall within the scope of category 3, KPN uses external purchase costs and an additional charge which is equal to a pre-determined percentage of the difference between the gross external retail revenues and external purchase costs; this method is also referred to as 'retail-minus'.

Other Notes to the Consolidated Financial Statements continued

The Netherlands

Amounts in millions of EUR, unless otherwise stated	Consumer Mobile 2013	Consumer Mobile 2012	Residential 2013	Residential 2012	Business 2013	Business 2012	NetCo 2013	NetCo 2012	IT Solutions 2013	IT Solutions 2012	Other (including eliminations) 2013	Other (including eliminations) 2012	Total the Netherlands 2013	Total the Netherlands 2012
Statement of Profit or Loss														
External revenues[1]	1,440	1,611	1,839	1,730	2,559	2,799	482	582	413	638	3	1	6,736	7,361
Other income	–	–	–	–	29	–	4	102	-3	10	–	–	30	112
Inter-division revenues	70	96	123	122	128	157	1,857	1,937	211	214	-2,353	-2,467	36	59
Total revenues	**1,510**	**1,707**	**1,962**	**1,852**	**2,716**	**2,956**	**2,343**	**2,621**	**621**	**862**	**-2,350**	**-2,466**	**6,802**	**7,532**
Total operating expenses excluding depreciation, amortization and impairments	-1,100	-1,197	-1,587	-1,485	-2,040	-2,209	-1,046	-1,160	-591	-793	2,317	2,447	-4,047	-4,397
EBITDA[2]	**410**	**510**	**375**	**367**	**676**	**747**	**1,297**	**1,461**	**30**	**69**	**-33**	**-19**	**2,755**	**3,135**
Depreciation, amortization and impairments	-242	-120	-297	-256	-145	-274	-907	-835	-76	-272	-12	1	-1,679	-1,756
Operating profit	**168**	**390**	**78**	**111**	**531**	**473**	**390**	**626**	**-46**	**-203**	**-45**	**-18**	**1,076**	**1,379**
Total assets	1,805	1,646	2,003	1,817	3,177	3,108	10,081	9,069	1,223	1,253	-567	-609	17,722	16,284
Total liabilities	1,485	1,381	1,929	1,746	3,113	2,764	10,083	9,071	1,386	1,355	-567	-608	17,436	15,709
Other														
Investments in intangible assets	60	64	54	116	70	102	1,439	82	14	15	–	–	1,637	379
Investments in property, plant and equipment	170	199	221	223	51	48	673	603	29	59	–	–	1,144	1,132
Investments in associates and joint ventures	–	–	–	–	–	–	294	293	21	21	–	–	315	314
Results associates and joint ventures	–	–	–	–	–	–	-3	-7	1	-1	–	–	-2	-8
Employees end of period (FTEs)	1,296	1,344	3,167	3,517	3,987	5,098	2,113	3,010	3,272	3,684	612	412	14,447	17,065
Employees average (FTEs)	1,320	1,378	3,342	3,431	4,543	5,368	2,562	3,035	3,478	6,011	511	434	15,756	19,657

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 (including discontinued operations) 2013	Germany (including discontinued operations) 2012	Belgium 2013	Belgium 2012	Other (including eliminations) 2013	Rest of World (including eliminations) 2012	Total Mobile International 2013	Total Mobile International 2012	iBasis 2013	iBasis 2012
Statement of Profit or Loss										
External revenues[1]	3,160	3,173	720	768	50	214	3,930	4,155	777	820
Other income	17	149	–	–	-1	36	16	185	–	–
Inter-division revenues	20	82	8	36	-8	-87	20	31	192	215
Total revenues	**3,197**	**3,404**	**728**	**804**	**41**	**163**	**3,966**	**4,371**	**969**	**1,035**
Total operating expenses excluding depreciation, amortization and impairments	-2,234	-2,114	-536	-532	-37	-189	-2,807	-2,835	-940	-1,005
EBITDA[2]	**963**	**1,290**	**192**	**272**	**4**	**-26**	**1,159**	**1,536**	**29**	**30**
Depreciation, amortization and impairments	-982	-757	-151	-161	–	-9	-1,133	-927	-12	-18
Operating profit	**-19**	**533**	**41**	**111**	**4**	**-35**	**26**	**609**	**17**	**12**
Total assets	11,189	10,520	2,047	1,934	21	64	13,257	12,518	389	458
Total liabilities	26,328	26,398	410	335	26	104	26,764	26,837	253	358
Other										
Investments in intangible assets	113	125	226	42	–	-2	339	165	–	–
Investments in property, plant and equipment	871	674	160	110	–	–	1,031	784	7	9
Investments in associates and joint ventures	1	6	2	3	–	–	3	9	–	–
Results associates and joint ventures	-10	-2	-2	-1	-1	–	-13	-3	–	–
Employees end of period (FTEs)	4,529	4,691	889	895	38	147	5,456	5,730	332	329
Employees average (FTEs)	4,609	4,689	892	853	92	194	5,593	5,738	331	346

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 2013	Other activities Segment 2012	Total segments 2013	Total segments 2012	Eliminations 2013	Eliminations 2012	Consolidated 2013	Consolidated 2012
Statement of Profit or Loss								
External revenues[1]	79	73	11,522	12,409	–	–	11,522	12,409
Other income	–	2	46	299	–	–	46	299
Inter-division revenues	-1	1	247	306	-247	-306	–	–
Total revenues	**78**	**76**	**11,815**	**13,014**	**-247**	**-306**	**11,568**	**12,708**
Total operating expenses excluding depreciation, amortization and impairments	-179	-139	-7,973	-8,376	247	306	-7,726	-8,070
EBITDA[2]	**-101**	**-63**	**3,842**	**4,638**	**–**	**–**	**3,842**	**4,638**
Depreciation, amortization and impairments	-5	-7	-2,829	-2,708	–	–	-2,829	-2,708
Operating profit	**-106**	**-70**	**1,013**	**1,930**	**–**	**–**	**1,013**	**1,930**
Balance sheet								
Total assets	30,203	25,421	61,571	54,681	-35,426	-32,380	26,145	22,301
Total liabilities	24,557	24,971	69,010	67,875	-48,456	-46,908	20,554	20,967
Other								
Investments in intangible assets	1	1	1,977	545	–	–	1,977	545
Investments in property, plant and equipment	3	3	2,185	1,928	–	–	2,185	1,928
Investments in associates and joint ventures	3	3	321	326	–	–	321	326
Result associates and joint ventures	8	-2	-7	-13	–	–	-7	-13
Employees end of period (FTEs)	3,216	3,032	23,451	26,156	–	–	23,451	26,156
Employees average (FTEs)	3,124	2,879	24,804	28,620	–	–	24,804	28,620

1) External revenues mainly consist of rendering of services.
2) Earnings before interest, tax and depreciation, amortization and impairments.

Reconciliation KPN Segment Information

Amounts in millions of EUR, unless otherwise stated	KPN Total Consolidated 2013	KPN Total Consolidated 2012	Discontinued Operations 2013	Discontinued Operations 2012	KPN Continuing Operations 2013	KPN Continuing Operations 2012
Statement of Profit or Loss						
External revenues[1]	11,522	12,409	3,079	3,101	8,443	9,308
Other income	46	299	17	149	29	150
Inter-division revenues	–	–	–	–	–	–
Total revenues	**11,568**	**12,708**	**3,096**	**3,250**	**8,472**	**9,458**
Total operating expenses excluding depreciation, amortization and impairments	-7,726	-8,070	-2,137	-1,958	-5,589	-6,112
EBITDA[2]	**3,842**	**4,638**	**959**	**1,292**	**2,883**	**3,346**
Depreciation, amortization and impairments	-2,829	-2,708	-972	-748	-1,857	-1,960
Operating profit	**1,013**	**1,930**	**-13**	**544**	**1,026**	**1,386**
Balance sheet						
Total assets	26,145	22,301	-273	–	25,872	22,301
Total liabilities	20,554	20,967	15	–	20,569	20,967
Other						
Investments in intangible assets	1,977	545	63	–	1,914	545
Investments in property, plant and equipment	2,185	1,928	462	–	1,723	1,928
Investments in associates and joint ventures	321	326	1	–	320	326
Result associates and joint ventures	-7	-13	–	2	-7	-11
Employees end of period (FTEs)	23,451	26,156	4,502	–	18,949	26,156
Employees average (FTEs)	24,804	28,620	4,582	–	20,222	28,620

1) External revenues mainly consist of rendering of services.
2) Earnings before interest, tax and depreciation, amortization and impairments.

Other Notes to the Consolidated Financial Statements continued

Geographical information

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	2013	9,146	3,056	4,809	6,765
	2012	8,056	1,955	4,825	7,355
Germany	2013	7,921	5,852	2,854	3,251
	2012	7,925	6,101	2,603	3,425
Belgium	2013	876	403	511	726
	2012	642	231	448	812
The Americas	2013	60	94	17	777
	2012	85	99	20	820
Other	2013	6	72	–	49
	2012	6	72	-1	296
Consolidated	**2013**	**18,009**	**9,477**	**8,191**	**11,568**
	2012	16,714	8,458	7,895	12,708

1) Excluding deferred tax assets, pensions and financial instruments.

CORPORATE STATEMENT OF PROFIT OR LOSS

For the year ended December 31

Amounts in millions of EUR	2013	2012 Restated*
Income from subsidiaries after taxes	403	1,435
Other income and expense after taxes	-625	-672
Profit (loss) attributable to equity holders	**-222**	**763**

* Certain amounts do not correspond to the 2012 financial statements and reflect IAS 19R adjustments made.

CORPORATE STATEMENT OF FINANCIAL POSITION

Before appropriation of results

Assets

Amounts in millions of EUR	December 31, 2013	December 31, 2012 Restated*
NON-CURRENT ASSETS		
Financial fixed assets		
Investments in subsidiaries	25,968	25,433
Loans to subsidiaries	5,748	5,622
Other financial fixed assets	426	569
Total non-current assets [A]	**32,142**	**31,624**
CURRENT ASSETS		
Accounts receivable from subsidiaries	623	451
Other receivables and accrued income [B]	13	14
Cash and cash equivalents	3,175	423
Total current assets	**3,811**	**888**
TOTAL	**35,953**	**32,512**

* Certain amounts do not correspond to the 2012 financial statements and reflect IAS 19R adjustments made.

[..] Bracketed letters refer to the Notes to the Corporate Statement of Financial Position.

Equity and Liabilities

Amounts in millions of EUR	December 31, 2013	December 31, 2012 Restated*
Subscribed capital stock	1,025	344
Additional paid-in capital	8,993	6,717
Treasury shares reserve	-138	-138
Perpetual hybrid bonds	1,089	–
Hedge reserve	-394	-239
Legal reserves	255	304
Retained earnings	-5,358	-6.468
Profit (loss) current year	-222	763
Total equity attributable to equity holders [C]	**5,250**	**1,283**
PROVISIONS		
Provisions for retirement benefit obligations	847	1,181
Other provisions	109	27
Total provisions [D]	**956**	**1,208**
NON-CURRENT LIABILITIES		
Loans [E]	12,348	12,995
Derivative financial instruments	419	179
Other long-term liabilities	50	50
Total non-current liabilities	**12,817**	**13,224**
CURRENT LIABILITIES		
Accounts payable to subsidiaries	14,339	14,803
Other current liabilities [F]	2,176	1,604
Accruals and deferred income	415	390
Total current liabilities	**16,930**	**16,797**
TOTAL	**35,953**	**32,512**

* Certain amounts do not correspond to the 2012 financial statements and reflect IAS 19R adjustments made.

[..] Bracketed letters refer to the Notes to the Corporate Statement of Financial Position.

GENERAL NOTES TO THE CORPORATE FINANCIAL STATEMENTS

With reference to the Corporate Statement of Profit or Loss of Koninklijke KPN N.V., use has been made of the exemption pursuant to Article 402, Part 9, 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 Article 362 sub 8, Part 9, Book 2 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. The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS). Reference is made to the Notes to the Consolidated Financial Statements.

Investments in consolidated subsidiaries are measured at net asset value. Net asset value is based on the measurement of assets, provisions and liabilities and determination of profit based on the principles applied in the consolidated financial statements.

Investments in which the company has significant influence on the financial and operational policies, but not control (associates), are accounted for using the equity method. Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the company's share of profit or loss of the investment after the date of acquisition. The company's investments in associates include goodwill identified on acquisition.

NOTES TO THE CORPORATE STATEMENT OF FINANCIAL POSITION

[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, 2012 Restated	**24,278**	**5,440**	**344**	**30,062**
Exchange rate differences	4	–	–	4
Income from Group companies after taxes	1,435	–	–	1,435
Capital contributions	2	–	–	2
Received dividends	-6	–	–	-6
New loans	–	182	53	235
Withdrawals/redemptions	–	–	-1	-1
Change in derivative financial instruments	–	–	59	59
Other (including IAS 19R)	-280	–	114	-166
Total changes	**1,155**	**182**	**225**	**1,562**
Balance as of December 31, 2012 Restated	**25,433**	**5,622**	**569**	**31,624**
Exchange rate differences	-1	–	–	-1
Income from Group companies after taxes	384	–	–	384
Capital contributions	1	–	–	1
Received/paid dividends	-4	–	–	-4
New loans	–	126	–	126
Withdrawals/redemptions	–	–	-2	-2
Change in derivative financial instruments	–	–	-122	-122
Other	155	–	-19	136
Total changes	**535**	**126**	**-143**	**518**
Balance as of December 31, 2013	**25,968**	**5,748**	**426**	**32,142**

Other financial fixed assets is restated as a result of the introduction of IAS 19R.

The loans to Group companies have maturity dates between 2014 and 2016 and a mixture of floating, fixed and profit-depending interest rates.

[B] Other receivables

Amounts in millions of EUR	December 31, 2013	December 31, 2012
Accrued income	11	10
Other receivables	2	4
Total	**13**	**14**

[C] Equity attributable to equity holders

For a breakdown of Equity attributable to equity holders, reference is made to the Consolidated Statement of Changes in Group Equity and the Notes thereto.

Legal reserves

Legal reserves (net of tax) are presented below:

Amounts in millions of EUR	Revaluation reserve property, plant and equipment	Cumulative translation adjustments	Capitalized software development costs	Hedge reserve	Fair value reserve available-for-sale financial assets	Other non-distributable reserves	Total
Balance as of January 1, 2012	**90**	**10**	**208**	**2**	**–**	**48**	**358**
Exchange rate differences	–	3	–	–	–	–	3
Addition/(release) retained earnings	-21	–	-37	-2	3	–	-57
Balance as of December 31, 2012	**69**	**13**	**171**	**–**	**3**	**48**	**304**
Exchange rate differences	–	-1	–	–	–	–	-1
Addition/(release) retained earnings	-16	–	-37	–	–	5	-48
Balance as of December 31, 2013	**53**	**12**	**134**	**–**	**3**	**53**	**255**

The legal reserves presented above and the subscribed capital stock are restricted for distribution. 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, 2013 amounted to EUR 3,970 million (2012: EUR 635 million, restated for IAS 19R).

Retained earnings

Movements in retained earnings were as follows:

Amounts in millions of EUR	
Balance as of December 31, 2011 (not restated)	**-5,899**
Profit for the year 2011 (not restated)	1,549
Balance as of January 1, 2012 (not restated)	**-4,350**
Restatement for IAS 19R	-657
Balance as of January 1, 2012 Restated	**-5,007**
Dividend	-979
Actuarial gain/(loss) pensions and other post-employment plans	-542
Release/(addition) legal reserves	57
Other	3
Balance as of December 31, 2012 Restated	**-6,468**
Profit for the year 2012 (restated)	763
Dividend perpetual hybrid bond (net of tax)	-25
Actuarial gain/(loss) pensions and other post-employment plans	321
Release/(addition) legal reserves	48
Other	3
Balance as of December 31, 2013	**-5,358**

In June 2011, IAS 19 'Employee benefits' was amended (IAS 19R) and became effective at January 1, 2013. For details about the impact on KPN's financial statements reference is made to pages 119 and 120 of this Integrated Annual Report.

Retained earnings can be reconciled with the Consolidated Statement of Financial Position as follows:

Amounts in millions of EUR	**December 31, 2013**	December 31, 2012 Restated
Retained earnings as per Consolidated Statement of Financial Position	**-5,340**	**-5,417**
Revaluation reserve	-53	-69
Capitalized software development costs	-134	-171
Other non-distributable reserves	-53	-48
Current year profit	222	-763
Retained earnings as per Corporate Statement of Financial Position	**-5,358**	**-6,468**

[D] Provisions

Movements in provisions were as follows:

	Retirement benefit obligations	Other provisions	Total
Balance as of January 1, 2012	**806**	**26**	**832**
Additions / Releases to income	108	2	110
Additions / Releases directly to equity	525	–	525
Usage	-258	-1	-259
Balance as of December 31, 2012	**1,181**	**27**	**1,208**
Additions / Releases to income	110	84	194
Additions / Releases directly to equity	-227	–	-227
Usage	-217	-2	-219
Balance as of December 31, 2013	**847**	**109**	**956**
– of which: current portion	–	*50*	*50*

The provisions for retirement benefit obligations mainly include the KPN PF and KPN OPF pension plans. For details reference is made to Note 22 of the Consolidated Financial Statements. The other provisions mainly relate to claims and litigations. The increase in other provisions mainly relates to an addition regarding the KPNQwest legal proceeding (EUR 50 million).

Notes to the Corporate Statement of Financial Position continued

Non-current liabilities

[E] Loans

Loans include bonds outstanding for EUR 10,579 million (2012: EUR 12,163 million), hybrid bonds outstanding for EUR 905 million, and loans from subsidiaries for EUR 863 million (2012: EUR 832 million).

Loans from subsidiaries have maturity dates in 2014 and bear fixed interest rates.

For more information on the bonds outstanding, refer to Note 21 of the Consolidated Financial Statements.

[F] Other current liabilities

Amounts in millions of EUR	**December 31, 2013**	December 31, 2012
Current portion of loans	1,399	1,085
Income tax payable	81	59
Social security and other taxes payable	124	121
Bank overdrafts	306	324
Other debt	256	–
Derivative financial instruments	10	15
Total	**2,176**	**1,604**

[G] Commitments and contingencies

Amounts in millions of EUR	**December 31, 2013**	December 31, 2012
Commitments by virtue of guarantees	254	270

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 of the Consolidated Financial Statements on employee benefits.

The Hague, February 26, 2014

Supervisory Board	Board of Management
J.B.M. Streppel	E. Blok
R.J. Routs	T. Dirks
P.A.M. van Bommel	J.F.E. Farwerck
C.J. García Moreno Elizondo	
D.J. Haank	
O. Von Hauske Solis	
C.M. Hooymans	
M.E. van Lier Lels	

INDEPENDENT AUDITOR'S REPORT

To: the General Meeting of Shareholders of Koninklijke KPN N.V.

Report on the audit of the financial statements

Our opinion
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, 2013, 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 (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- the corporate financial statements give a true and fair view of the financial position of Koninklijke KPN N.V. as at December 31, 2013, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited
We have audited the 2013 financial statements of Koninklijke KPN N.V. (the Company), The Hague, as set out on pages 104 to 178.

The financial statements include
- the consolidated financial statements which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statements of profit or loss, other comprehensive income, changes in group equity and cash flows for the year then ended, and the notes, including a summary of significant accounting policies and other explanatory information.
- the corporate financial statements which comprise the statement of financial position as at December 31, 2013, and the statement of profit or loss and the notes, including a summary of significant accounting policies and other explanatory information.

The basis for our opinion
We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' as included in the appendix to our report.

We are independent of the Company within the meaning of the relevant Dutch ethical requirements as included in the 'Verordening op de gedrags- en beroepsregels accountants' (VGBA) and the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO) and have fulfilled our other responsibilities under those ethical requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality
We set certain thresholds for materiality to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. For the purposes of determining whether the financial statements are free from material misstatement we defined materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced.

Based on our professional judgement the materiality for the consolidated financial statements as a whole was set at EUR 50 million. The materiality is based on an average of 5% profit before tax and 0.5% of total revenues including the revenues and result of E-Plus and adjusted for one-off items primarily related to the impairment loss on the E-Plus disposal group classified as held for sale.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 2.5 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit
Our audit scope covered the entities in the Netherlands and Germany with a full scope audit and for the entities in Belgium and the United States detailed audit procedures on specified financial line items were executed.

We determined the type of work that needed to be performed at reporting units and identified those reporting units which, in our view, required a full audit of their complete financial information, either due to their size or their risk characteristics. This, together with additional procedures performed on consolidated level, gave us the evidence we needed for our opinion on the Company's consolidated financial statements as a whole.

Independent Auditor's Report continued

The key audit matters from our audit

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with the Board of Management and the Supervisory Board, but are not intended to represent all matters that were discussed with them. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

Sensitivity in valuation of disposal group held for sale remains until closing date

At December 31, 2013, the total assets held for sale amount to EUR 9.5 billion and the total liabilities directly associated with the non-current assets and disposal group classified as held for sale amount to EUR 1.5 billion. The valuation is based on management's best estimate of the expected sale proceeds including EUR 5 billion in cash and a 20.5% stake in Telefónica Deutschland. The valuation of this stake is based on the stand-alone value of Telefónica Deutschland and of E-Plus and managements' best estimate of the expected synergies to be achieved by the combination of the two companies. Our audit procedures included, amongst others, using our valuation specialists to assist us in evaluating the assumptions and methodologies used by the Company supported by its own external valuator. Sensitivities regarding the value at closing date remain due to potential remedies imposed by the regulator, the realization of synergies (and their reflection in the share price of Telefónica Deutschland), and the impact of the rights offering. The disclosures about disposal group held for sale are included in the summary of significant accounting policies and in the notes to the consolidated statement of financial position in Note 18.

Valuation of deferred income tax assets

At December 31, 2013, the deferred income tax assets are valued at EUR 1.2 billion. Under EU-IFRS, the Company is required to annually determine the valuation of deferred tax positions. This was significant to our audit because the assessment process is complex and judgmental and is based on assumptions that are affected by expected future market or economic conditions. The main element in the deferred tax assets is related to the discontinuance of the German activities based on an agreement with the Dutch tax authorities, as the sale of E-Plus is expected to result in a tax loss ('stakingsverlies') which can be off-set against future taxable profits in the Netherlands. As a result, our audit procedures included, amongst others, using an internal tax specialist to assist us in evaluating the assumptions and methodologies used by the Company. The disclosures concerning income taxes are included in the summary of significant accounting policies and in the notes to the consolidated statement of financial position in Note 7.

Valuation of call/put arrangements Reggefiber

At December 31, 2013, the derivative financial instruments are valued at EUR 646 million (negative) including EUR 334 million (negative) based on a level 3 valuation of the options related to Reggefiber. The Company used an external valuator to assist in their level 3 valuation of these options. Our audit included consideration of the level 3 valuation report, assisted by our own internal valuation specialists, and focussed on the judgmental elements in the valuation like the roll out/penetration rate of the Reggefiber network and the likelihood of ACM approval relating to the Reggefiber acquisition. The disclosures about the Reggefiber options are included in the summary of significant accounting policies and in the notes to the consolidated statement of financial position in Notes 12, 26 and 29.

Our findings with respect to going concern

As included in the significant accounting policies to the financial statements, the Company's financial statements have been prepared using the going concern basis of accounting. The use of this basis of accounting is appropriate unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

As part of our audit of the financial statements, we concur with management's use of the going concern basis of accounting in the preparation of the Company's financial statements.

Management has not identified a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern, and accordingly none is disclosed in the financial statements. Based on our audit of the financial statements, we also have not identified such a material uncertainty.

However, neither management nor the auditor can guarantee the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Board of Management and the Supervisory Board

The respective responsibilities are set out in the Appendix to this report.

We have communicated with the Board of Management and the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and we have communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on the management board report and the other information

Pursuant to the legal requirements under Part 9 Book 2 of the Dutch Civil Code with respect to our responsibilities to report on the management board report and the other information:

- we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, and whether the other information has been annexed as required by Part 2 Book 2 of this Code.
- we report that the management board report, to the extent we can assess, is consistent with the financial statements.

The Hague, February 26, 2014

PricewaterhouseCoopers Accountants N.V.

Originally signed by M. de Ridder RA

APPENDIX TO THE INDEPENDENT AUDITOR'S REPORT

Responsibilities of Management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error. The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Dutch Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Dutch Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Company and the entities and business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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). 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 25, 2014, the Board of Management, with approval of the Supervisory Board, has allocated the loss of EUR 222 million to the Other reserves. On December 14, 2012, KPN announced an adjustment of its dividend outlook in order to accommodate the vital strategic investment into the frequency licenses obtained in the Dutch spectrum auction. In 2013 no interim dividend was paid to holders of ordinary shares.

The Board of Management, with the approval of the Supervisory Board, will propose to the AGM not to pay a dividend over 2013 to holders of ordinary shares.

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 direct ownership and voting interest (if different) in, our principal operating subsidiaries and other principal interests as of December 31, 2013.

Name of subsidiaries and other principal interests	Country of incorporation	Percentage ownership/ voting interest
KPN B.V.:	The Netherlands	100.0
– KPN EuroRings B.V.	The Netherlands	100.0
– XS4ALL Internet B.V.	The Netherlands	100.0
– iBasis Inc.	USA	100.0
– Telfort Zakelijk B.V.	The Netherlands	100.0
– E-Plus Nederland B.V.	The Netherlands	100.0
– Reggefiber Group B.V.	The Netherlands	51.0
KPN Telecommerce B.V.:	The Netherlands	100.0
– SNT Deutschland A.G.	Germany	100.0
KPN Mobile Holding B.V.:	The Netherlands	100.0
– E-Plus Mobilfunk Gesch GmbH	Germany	100.0
– E-Plus Mobilfunk GmbH & Co.KG	Germany	22.5
KPN Mobile N.V.:	The Netherlands	100.0
– KPN Mobile International B.V.	The Netherlands	100.0
– BASE Company N.V.	Belgium	100.0
– Ortel Mobile Holding B.V.	The Netherlands	100.0
– E-Plus Mobilfunk GmbH & Co.KG (indirect)	Germany	77.5
Getronics N.V.:	The Netherlands	100.0
– KPN Corporate Market B.V.	The Netherlands	100.0
– Getronics Finance Holdings B.V.	The Netherlands	100.0

Analysis of underlying results 2013

The following table shows the key items between reporting and underlying revenues. E-Plus continues to be included in KPN's segment reporting until the sale is completed.[1]

Underlying revenues and other income is derived from revenues and other income and is adjusted for the impact of MTA and roaming (regulation), changes in the composition of the group (acquisitions and disposals) and incidentals. Incidentals are non-recurring transactions over EUR 5 million which are not directly related to day to day operational activities.

Revenues and other income (in EUR m)	FY 2013 reported	M&A	Incidentals	FY 2013 underlying	FY 2012 reported	Regulation[1]	M&A	Incidentals	FY 2012 underlying	Δ y-on-y reported	Δ y-on-y underlying
Germany (incl. discontinued operations)	3,197		29	3,168	3,404	-142		119	3,143	-6.1%	0.8%
Belgium	728			728	804	-45			759	-9,5%	-4.1%
Rest of World	–			–	247				247	-100%	-100%
Other	41			41	-84			36	-120	n.m.	n.m.
Mobile International	**3,966**	**–**	**29**	**3,937**	**4,371**	**-187**	**–**	**155**	**4,029**	**-9.3%**	**-2.3%**
Consumer Mobile	1,510		7	1,503	1,707	-23		7	1,677	-12%	-10%
Consumer Residential	1,962	59	13	1,890	1,852				1,852	5.9%	2.1%
Business	2,716	34	23	2,659	2,956	-20	55		2,881	-8.1%	-7.7%
NetCo	2,343	14	-13	2,342	2,621	-6		96	2,519	-11%	-7.0%
Other	-2,086			-2,086	-2,133				-2,133	2.2%	2,2%
Dutch Telco	**6,445**	**107**	**30**	**6,308**	**7,003**	**-49**	**55**	**103**	**6,796**	**-8.0%**	**-7.2%**
IT Solutions	621			621	862		174	2	686	-28%	-9.5%
Other	-264			-264	-333				-333	21%	21%
The Netherlands	**6,802**	**107**	**30**	**6,665**	**7,532**	**-49**	**229**	**105**	**7,149**	**-9.7%**	**-6.8%**
iBasis	969			969	1,035				1,035	-6.4%	-6.4%
Other activities	78			78	76				76	2.6%	2.6%
Intercompany revenues	-247			-247	-306				-306	19%	19%
KPN Group	**11,568**	**107**	**59**	**11,402**	**12,708**	**-236**	**229**	**260**	**11,983**	**-9.0%**	**-4.8%**
Of which discontinued operations	3,096	–	29	3,067	3,250	-142	–	119	2,989	-4.7%	2.6%
KPN continuing operations	**8,472**	**107**	**30**	**8,335**	**9,458**	**-94**	**229**	**141**	**8,994**	**-10%**	**-7.3%**

1) To calculate regulatory impact the revenues for the same period last year are adjusted using last year's volumes and this year's tariffs.

The following table specifies the revenue incidentals in more detail.

Revenue incidentals (in EUR m)	Segment	**FY 2013**	FY 2012
Change in provisions	NetCo, IT Solutions	-13	-6
Adjustment deferred revenue	Germany, Consumer Mobile, Residential	49	7
Bookgain on tower sales	Germany, NetCo	–	199
Impact disposal of subsidiaries	Germany, Business, IT Solutions, Other	23	60

1) Reference is made to Note 18 of the financial statements for further information on the sale of E-Plus and the impact on KPN's financial information.

The following table shows the key items between reporting and underlying EBITDA. E-Plus continues to be included in KPN's segment reporting until the sale is completed.[1]

Underlying EBITDA is derived from EBITDA and is adjusted for the impact of MTA and roaming (regulation), changes in the composition of the group (acquisitions and disposals), restructuring costs and incidentals. Incidentals are non-recurring transactions over EUR 5 million which are not directly related to day to day operational activities.

EBITDA (in EUR m)	FY 2013 reported	M&A	Incidentals	Restruct-uring	FY 2013 underlying	FY 2012 reported	Regulation[1]	M&A	Incidentals	Restruct-uring	FY 2012 underlying	Δ y-on-y reported	Δ y-on-y underlying
Germany (incl. discontinued operations)	963		66		897	1,290	-79		119	-39	1,131	-25%	-21%
Belgium	192		6		186	272	-29				243	-29%	-23%
Rest of World	–				–	-25				-2	-23	-100%	-100%
Other	4		12		-8	-1			-2		1	n.m.	n.m.
Mobile International	**1,159**	**–**	**84**	**–**	**1,075**	**1,536**	**-108**	**–**	**117**	**-41**	**1,352**	**-25%**	**-20%**
Consumer Mobile	410		7	-7	410	510	-10		7	-2	495	-20%	-17%
Consumer Residential	375	-3	13	-17	382	367				-27	394	2.2%	-3.0%
Business	676	11	13	-10	662	747	-14	11	-9	-30	761	-9.5%	-13%
NetCo	1,297	1	9	-10	1,297	1,461			110	-42	1,393	-11%	-6.9%
Other	-32			-32	–	-19				-3	-16	-68%	-100%
Dutch Telco	**2,726**	**9**	**42**	**-76**	**2,751**	**3,066**	**-24**	**11**	**108**	**-104**	**3,027**	**-11%**	**-9.1%**
IT Solutions	30			-37	67	69		2	12	-10	65	-57%	3.1%
Other	-1				-1	–					–	n.m.	n.m.
The Netherlands	**2,755**	**9**	**42**	**-113**	**2,817**	**3,135**	**-24**	**13**	**120**	**-114**	**3,092**	**-12%**	**-8.9%**
iBasis	29				29	30					30	-3.3%	-3.3%
Other activities	-101		-77	-9	-15	-63				-18	-45	-60%	67%
KPN Group	**3,842**	**9**	**49**	**-122**	**3,906**	**4,638**	**-132**	**13**	**237**	**-173**	**4,429**	**-17%**	**-12%**
Of which discontinued operations	959	–	66		893	1,292	-79	–	119	-39	1,133	-26%	-21%
KPN Group continuing operations	**2,883**	**9**	**-17**	**-122**	**3,013**	**3,346**	**-53**	**13**	**118**	**-134**	**3,296**	**-14%**	**-8.6%**

1) To calculate regulatory impact the revenues for the same period last year are adjusted using last year's volumes and this year's tariffs.

The following table specifies the EBITDA incidentals in more detail.

EBITDA incidentals (in EUR m)	Segment	**FY 2013**	FY 2012
Change in provisions	NetCo, Business, IT Solutions, Other	-78	-27
Adjustment deferred revenue	Germany, Consumer Mobile, Residential	49	7
Bookgain on tower sales	Germany, NetCo	–	199
Impact disposal of subsidiaries	Germany, Business, IT Solutions, Other	23	49
Release of accruals	NetCo	7	–
Release of asset retirement obligations	Germany, Belgium, NetCo	48	9

1) Reference is made to Note 18 of the financial statements for further information on the sale of E-Plus and the impact on KPN's financial information.

Overview of main CSR targets and achievements

Description	Target 2013	Result 2013	Result 2012
Transparent and reliable service provider			
Net Promoter Score	-6 Consumer Mobile: -4 Consumer Residential: -5 Business: -10	-10[1] Consumer Mobile: -6 Consumer Residential: -5 Business: -18[1]	-11[1] Consumer Mobile: -6 Consumer Residential: -10 Business: -17[1]
Percentage of mobile network availability	N/a	99.55%	N/a
Best-in-class networks			
Percentage of the Netherlands that agree that KPN has the best ICT infrastructure	–	Consumers: 46% best fixed network, 52% best mobile network[2] Business: 64% best fixed network, 58% best mobile network[3]	Consumers: 51% best fixed network, 51% best mobile network
Drop call rate nationwide (2G and 3G)	N/a	0.6%	N/a
Healthcare of the future			
Number of healthcare locations connected	4,500	4,319[4]	4,038
Number of healthcare consumers supplied with personal comfort services	27,000	~40,000	~21,000
Number of chronically ill children provided with a KPN Classmate	500	192	216
The New Way of Living & Working			
Growth in the Netherlands of the use of services that make The New Way of Living & Working possible compared to 2012	20% compared with 2012	5% compared with 2012[6]	17% compared with 2011
Percentage of KPN employees in the Netherlands who feel they can work in line with The New Way of Living & Working[7]	90%	74%	76%
Energy efficient (continuing operations)			
Percentage reduction of CO_2 emissions KPN Group compared with 2005	93%	94%	93%
CO_2 reduction effect of KPN products/services for customers	Improve KPN Bespaarmeter and prepare tool for measuring effects of KPN products	CO_2 saving calculated for 8 services in NL (approximately twice KPN NL footprint (scope 1 and 2)	KPN Bespaarmeter implemented, no results measured
CO_2 in the value chain (scope 3 in GHG Protocol)	N/a	First calculation in the Netherlands based on all categories of the GHG Protocol	N/a
Percentage reduction of energy consumption KPN Group compared with 2010	8.6%	12.0%	8.8%[8]
Privacy & Security			
Percentage of Dutch people who feel that their data is safe with KPN	70%	69%	66%[9]
Number of customers that choose opt-in for sharing personal data on traffic and roaming with KPN	N/a	N/a	N/a
Percentage of customers helped who were unintentionally infected by malware	N/a	N/a	N/a
Number of new and innovative security products and services that enable a secure working and living environment	N/a	N/a	N/a
Employees			
Percentage of women in top management at KPN the Netherlands	21%	18.7%[10]	18.9%[10]
Percentage of women in middle management at KPN the Netherlands	17%	16.5%[10]	16.3%[10]
Overall percentage of women at KPN the Netherlands	24%	24%[10]	23.4%[10]
Employee survey score (%) on Engagement and Vitality	N/a	Engagement: 63% Vitality: 56%	N/a
Suppliers			
Percentage of high-risk suppliers audited on site	35%	39%	26%
Number of substantial sustainable solutions implemented at suppliers resulting in cost savings at KPN	5	5	N/a

1) The NPS measurement method for the Business segment was adjusted in 2013, the 2012 NPS has been adjusted according to this new method. The 2014 target for the Business segment has been restated. Due to a recalculation of the appropriate weight of each of the segments in the overall score, following the integration of IT Solutions in the Business segment, an overall NPS target will become available during 2014.
2) A substantial number of people has no opinion about who has the best network. We have not included this group of respondents in the scores.
3) Idem, and the results of this first survey did not yet allow us to draw conclusions about our IT services in the business market.
4) The continuing increase of number of mergers in the healthcare sector reduces the number of locations connected. In a response, the target was adjusted.
5) As the initial 2014 target was already achieved in 2013, this target was adjusted.
6) Our NWLW products and services portfolio is in development, explaining the low 2013 performance. The 2014 target will be determined in 2014.
7) Employees who, by virtue of the nature of their work, cannot work in line with The New Way of Living & Working are not yet excluded. This will be done from 2014.
8) Energy saving accounted for a part of the reduction in comparison with 2010. The remaining reduction was the result of the sale of Getronics International in 2012.
9) The percentage for 2012 has been restated from 67% to 66% due to a rounding inconsistency.
10) Results are based on the employee population of KPN the Netherlands in line with the population for the public commitment "Talent to the Top" (over 95% of the KPN the Netherlands population). Figures for the whole of KPN the Netherlands are shown in the appendix 'social figures'.

Result 2011	target 2014	targets 2015 and beyond	Sections
-14	N/a[1] Consumer Mobile: -3 Consumer Residential: -1 Business: -12[1]	+1 in 2015 Consumer Mobile: +1 Consumer Residential: +3 Business: 0	Social performance and reputation, customer loyalty, p. 34-35.
N/a	99.35%	N/a	Reputation, p. 35.
N/a	50%	60% in 2015	NetCo, social and environmental review, p. 56-57.
N/a	0.6%	0.6%	
N/a	4,500[4]	5,000[4] in 2015	Business, social and environmental review, p. 50.
N/a	42,000[5]	48,000 in 2015	Business, social and environmental review, p. 50.
282	550	1,250 in 2015	Social performance and reputation, sponsoring: connecting people, p. 39.
71% compared with 2010	N/a[6]	N/a	Business, social and environmental review, p. 50-51.
N/a	90%	N/a	Social performance and reputation, employees, p. 36-38.
91%	96%	100% before 2020	Environmental performance, energy efficient, p. 40-43.
KPN Bespaarmeter developed	Improve calculations current products/services in scope Extend savings calculation to more products/services	In 2020, save as much CO_2 as our own energy consumption	Environmental performance, energy efficient, p. 40-43.
N/a	Improve calculations and extend to KPN Group Define targets for 2015 on upstream and downstream emission reduction	In 2015: targets both on upstream and downstream emission reduction where possible	Environmental performance, energy efficient, p. 40-43.
4.0%	11%	11% in 2015 13% in 2016	Environmental performance, energy efficient, p. 40-43.
N/a	70%	N/a	Privacy & Security, p. 64-65.
N/a	250,000	N/a	Privacy & Security, p. 64-65.
N/a	98% within 8 hours	98% within 8 hours	Privacy & Security, p. 64-65.
N/a	30% compared to 2013	N/a	Privacy & Security, p. 64-65.
17.2%	22% or higher	25% in 2015	Social performance and reputation, employees, p. 36-38.
16.5%	18% or higher	20% in 2015	Social performance and reputation, employees, p. 36-38.
23.4%	25% or higher	26% in 2015	Social performance and reputation, employees, p. 36-38.
N/a	Engagement: > 63% Vitality: > 56%	N/a	Social performance and reputation, employees, p. 36-38.
15 on-site audits	35%	35% annually	Social performance and reputation, suppliers, p. 38-39.
N/a	5	N/a	Social performance and reputation, suppliers, p. 38-39.

KPN defined 40 CRS targets of which the main 25 targets are disclosed in this overview. For the other targets, please see http://corporate.kpn.com/csrtargets

Scope, reporting process and materiality determination for CSR information

Scope sustainability information

The purpose of the sustainability information in our Integrated Report (including the GRI index and social and environmental appendices), covering the calendar year 2013, is to inform our stakeholders about our role in society, in connection to our main strategic objectives and targets. We regard as stakeholders all people and organizations affected by our operations or with whom we maintain a relationship, such as customers, employees, shareholders, banks, suppliers, journalists, partners and social organizations.

The scope of the sustainability information in this report, GRI index and social and environmental figures (appendices) covers the KPN Group including subsidiaries in which KPN has a majority shareholding. Unless stated otherwise, references to KPN should be read as referring to the KPN Group. In this report, KPN Group refers to all continuing operations. In 2013, KPN intended to sell E-Plus Gruppe. As a result, activities of E-Plus are regarded as discontinued operations and are reported separately in the business segment Germany. The performance of KPN Group excludes E-Plus unless stated otherwise, also in the appendices and GRI index. In this report (including the GRI index and social and environmental appendices) KPN the Netherlands refers to all the activities of the KPN Group in the Netherlands. Outside the Netherlands, our principal divisions are BASE Company, iBasis, Ortel Mobile and SNT. The data in this report refer to KPN's performance and not to that of our subcontractors, unless stated otherwise. The full scope of the financial information is reported in the Consolidated Financial Statements.

This report specifically reviews developments and performance in 2013 and is based on topics identified as highly material for KPN. Aspects of a more static nature (such as our management approaches to our CSR themes and our stakeholders) or with less reporting priority (such as our impact on biodiversity and the list of external memberships) are included in the GRI index on www.kpn.com/csrreport or reported on http://corporate.kpn.com/dutch-society.htm.

Reporting process sustainability information

The Integrated Report is published on February 26, 2014. The sustainability information in this report is presented in accordance with the comprehensive option of GRI G4. This means that KPN reports on all general standard disclosures and all specific standard disclosures related to identified material topics. The process for defining the material topics and report content, as well as the list of material topics are described in the materiality assessment (see 'materiality assessment' in this appendix). The results of this assessment (list of material topics for KPN, including their reporting priority) determine which GRI indicators are set out in the Integrated Report and which indicators are featured only on our website or in our GRI index. The overview can be found in the GRI index. In addition to these GRI G4 guidelines, KPN has taken as its point of orientation the pilot version of the Telecommunications Sector Supplement in determining material topics.

The GRI Index specifies the aspect boundaries and omitted indicators where relevant (including clarifications). In the Integrated Report there are no departures of any significance from the GRI standard disclosures. This report shows the performance indicators applicable to the KPN Group. Where relevant, the appendices contain specified data per KPN business unit: KPN the Netherlands, BASE Company, and other subsidiaries of the KPN Group. Where relevant and material, data for discontinued German operations is reported separately. Where available and relevant, the report includes data for 2011 and 2012. Adjustments to the data set out in the 2012 Sustainability Report have been made regarding the intended sale of E-Plus. The report specifically points out whether data reflects continuing operations (excluding E-Plus) or includes discontinued operations (including E-Plus), also for previous years. Quantitative data concerning the workforce and financial results set out in this report have been collected using our financial data management system. The remaining data set out in this report have been collected using a standardized questionnaire that was completed by the responsible KPN business units. The Internal Audit and Corporate Control departments used consistency and availability of supporting evidence as the basis for their assessment of the data reported at group level. Validation criteria set out in advance were also used to assess the data.

KPN has engaged PricewaterhouseCoopers Accountants N.V. (PwC) to provide reasonable assurance on KPN's Dutch CO_2 emissions (excluding scope 3 emissions) and the underlying energy consumption. Limited assurance is provided on all other metrics in the scope of PwC, including the information in the appendix to the Integrated Annual Report on http://corporate.kpn.com/annualreportdownloads (see also page 100-101). Reasonable assurance is obtained through audit work, while other elements of the report have been reviewed. Review work provides only limited assurance because exhaustive gathering of evidence is not required. The assurance work is performed in accordance with the Assurance Standard 3410N 'Assurance Engagements Relating to Sustainability Reports' as drawn up by the professional body of Dutch Accountants (NBA).

The key social and environmental figures, which are available in the appendices on http://corporate.kpn.com/annualreportdownloads, are also part of this report. Partly, they provide more detailed numbers on key figures that reflect on highly material topics within the report (such as CO_2 emissions and electricity consumption). Partly, they provide quantitative information (multiple years) on medium material topics which are represented qualitatively within the report or information requested by some external benchmarks. All information in the sustainability appendices is covered by the external assurance.

Calculation and determination of reported emissions

In the Integrated Report KPN reports the CO_2 emissions in accordance with the method of the Greenhouse Gas Protocol and the ISO 14064-1 standard.

KPN uses the operational control approach when reporting the CO_2 emissions. Two of the six greenhouses gases are most relevant to KPN, carbon dioxide (CO_2) and hydrofluorocarbons (HFCs). Where available, we have taken CH_4, N_2O into consideration in our greenhouse gas emissions information. We use the term 'CO_2 emissions' to refer to the greenhouse gas emissions reported on. These are stated in CO_2 equivalents.

The KPN emissions report is subdivided as follows:

Scope 1 – Direct emissions due to:
- Fuel consumption of the lease vehicle fleet (employees' passenger vehicles and commercial vehicles)
- Heating of buildings (gas)
- Consumption of hydrofluorocarbons (HFCs) for air conditioning and/or cooling
- Fuel consumption of emergency power generators

Scope 2 – Indirect emissions due to:
- Electricity consumption of sites of the fixed and mobile networks, data centers, offices and shops
- District heating
- District cooling

Scope 3 – Other indirect emissions due to:
- Emissions in our upstream value chain (during the production phase of our products, services and equipment at our suppliers) and our downstream value chain (during the use phase including recycling and disposal of the products, services and equipment). In 2013 we started calculating all 15 GHG scope 3 categories for our operations in the Netherlands. The calculations are based on the Greenhouse Gas Protocol scope 3 standard (Corporate Value Chain Accounting and Reporting Standard). The results of the calculation of the upstream and downstream emissions show and confirm the impact KPN has in its value chain and gives us information on which hot spots to focus on in reducing our impacts where possible. Due to the impacts of several assumptions and estimations the calculated scope 2013 scope 3 emissions will not be reported. In 2014, we intend to improve the calculation of our upstream and downstream footprint and define targets for 2015 om upstream and downstream emission reduction. See for further explanation and clarification of our scope 3 carbon impact assessment the chapter Environmental Performance.

For details of the individual headings we refer you to the environmental indicators (EN3 to EN7, E16 and E17) in the 2013 GRI index on www.kpn.com/csrreport.

Methodology

The energy targets for KPN are related to different base years. The base year 2005 (for targets on improving energy-efficiency and reducing absolute electricity consumption) were determined at the start of the energy-efficiency program in 2008. Most of the targets that were introduced after 2010, have 2010 as a reference year (due to data availability). Exception are the German an Belgium targets (base year 2009).

1. Activities

Emissions (CO_2 and HFCs) are calculated on the basis of all the activities of the KPN Group. Most of the emissions relate to activities that use energy, such as the electricity consumption of the networks, transport, and heating and/or cooling buildings. As virtually all the emissions are of CO_2, details of this are given below. KPN reports on a number of ratio's, which are included in the figures in the chapter 'Environmental Performance' as footnotes. The footnotes show the denominator used.

2. Emission factors

The CO_2 emissions are calculated by multiplying the consumption data for each activity by the CO_2 emission factors for each unit of consumption. These emission factors are updated annually. KPN uses a monitoring protocol for the Carbon footprint reporting. In this protocol all sources for used emission factors are specified. The emissions factors are checked and updated annually when necessary. The most important sources for our emissions factors are IEA (International Energy Agency) and DEFRA.

3. Accuracy

The accuracy of the consumption data is a key factor in the reliability of the CO_2 emissions calculations. In the data collection process a number of factors affect the accuracy of the collected data. In general, the data originating from direct measurements and recordings, such as summaries from energy and other suppliers and direct invoices, is the most accurate. Data may also be estimated or calculated, using assumptions and expert opinions. The materiality of all KPN units and subsidiaries is determined every year on the basis of sales and number of FTEs (>=1% of the total).

For the data collection and auditing KPN employees use several internal audit measures to minimize the risk of incomplete and incorrect reporting of consumption data.

Materiality determination

The annual materiality assessment is the basis for determining the report content and is performed before the Integrated Report is compiled. The assessment is approved by the Board of Management. The process consists of three steps:

Step 1: Identification of relevant aspects and other topics

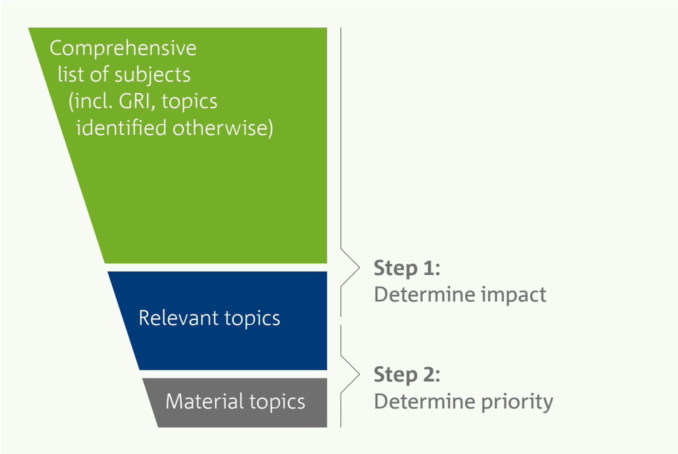
The goal of the first step is to create a gross overview of relevant CSR topics. In this process KPN annually updates a comprehensive list of topics based on GRI guidelines and the pilot version of the Telecommunication Sector Supplement. Where relevant, missing topics are added, including topics identified during media scans and stakeholder dialogues. Following the update of the list, KPN assesses the relevance of each of the topics. Relevant topics are those on which KPN has or can have an impact (inside the organization and in the value chain or society). This is determined based on stakeholder input and KPN's own experience. The outcome is an overview of all relevant topics.

Step 2: Determining reporting priority

The second step aims to assess the reporting priority of all relevant topics, which is presented graphically and used not only to determine the contents of the integrated report but also as input to determine our (CSR) strategy, policies and approach.

KPN determines the reporting priority by reviewing all relevant topics on: (1) significance of the topic for KPN and (2) significance of the topic for key stakeholders. This review is performed using nine criteria, which are relevant to KPN and based on GRI G4. The priority determination is performed twice a year; a preliminary review and a final review including all inputs from stakeholder dialogues and stakeholder surveys performed throughout the year in order to validate the outcomes. The result of this second step is an overview of all material topics for KPN, which is supported by current stakeholder expectations. The materiality chart combines the two aspects schematically. The combination of the horizontal axis (significance to KPN) and the vertical axis (stakeholders' expectations) determines the degree of influence that the topic has on our reputation and therefore the reporting priority. Within the results, KPN divides three categories:

- Highly material topics: We aim to fulfill a leading role on these topics and translated them into our six CSR themes and two additional themes. We report on these topics in our Integrated Report.
- Medium material topics: we want to demonstrate our social responsibility regarding these topics. We report on them in our GRI index, additional policy document and/or on our website.
- Low material topics: these are topics we monitor, but do not report on.



In 2013 the following topics are (highly) material to each of the six CSR themes and two additional themes on which we want to have a leading role. These topics are covered by our integrated report. Other material (and not material) topics are covered by our GRI index and website.

For more information on material topics and KPN's performance, please refer to our GRI Index.

Financial review, p. 26-29.
- Economic impact

Transparent reliable service provider (customer loyalty, reputation), p. 34-35.
- Product and service labelling (customer satisfaction)

Best-in-class networks, p. 56-57.
- Indirect economic impact
- ICT infrastructure investments

Healthcare of the future, p. 50.
- Impact of ICT applications

The New Way of Living & Working, p. 37, 50-51.
- Impact of ICT applications
- Sustainable products and services

Energy-efficient, p. 40-43.
- Impact of ICT applications
- Energy and emissions
- Sustainable products and services
- Transport

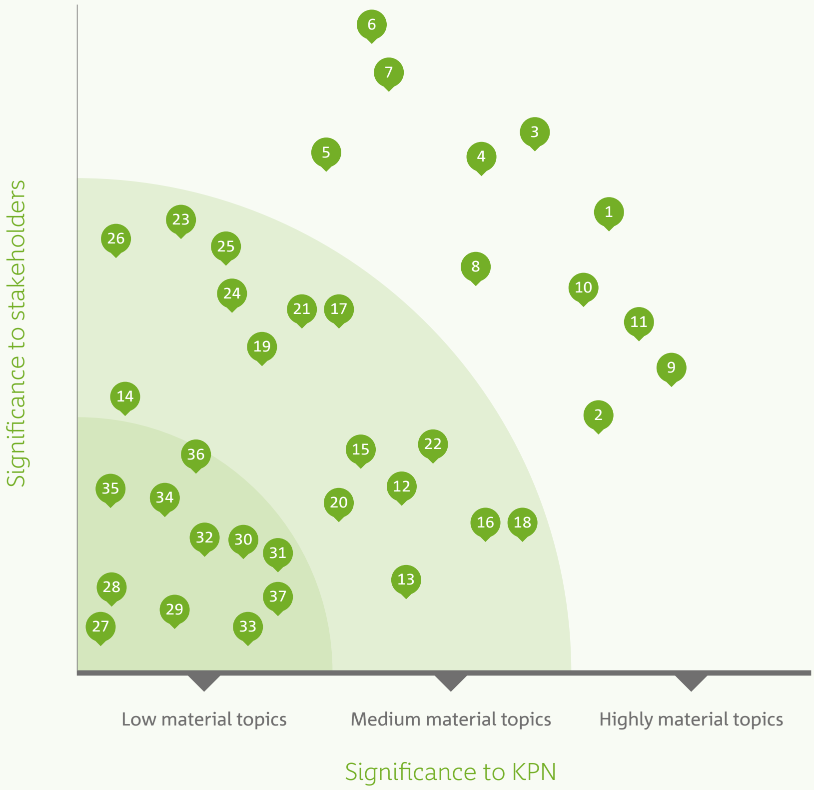
Privacy & Security, p. 64-65.
- Customer privacy
- ICT security

Employees, p. 36-38.
- Employment
- Diversity
- Occupational health & safety
- Training & education

Suppliers, p. 38-39.
- Supplier assessment
- Human rights

Risk management and compliance, p. 66-73.
- Ethical behavior and compliance

Materiality assessment



Highly material topics
1. Economic Performance
2. Indirect Economic Impacts
3. Energy and emissions
4. Sustainable products and services
5. Supplier assessment
6. Employment
7. Diversity
8. Ethical behaviour and compliance
9. Customer Privacy
10. ICT infrastructure investments
11. Impact of ICT applications

Medium material topics
12. ICT security
13. Transport
14. Materials
15. Occupational health and safety
16. Training and education
17. Digital divide
18. Product and service labeling
19. Environmental compliance
20. Grievance Mechanisms
21. Labor/Management relations
22. Equal Remuneration
23. Customer health and safety
24. Marketing communications
25. Products and services compliance
26. Electromagnetic fields and radiation

Low material topics
27. Security Practices
28. Indigenous Rights
29. Human rights assessment
30. Community engagement
31. Public policy
32. Market presence
33. Procurement practices
34. Water
35. Biodiversity
36. Effluents and waste
37. Environmental investment

Step 3: Implementation

Based on the priority outcomes of the materiality determination (approved by the BoM), we determine the topics to be addressed in the report, including the scope and aspect boundaries of all material topics. Business units are informed on new and altered topics to be acted and reported on, to prepare reporting systems, enhance internal mechanisms, develop reporting definitions and, where relevant, targets. Timelines are developed and new/altered topics are included in the relevant reporting process mechanisms (financial/HR data management systems or CSR questionnaires).

Glossary of terms

2G
Second Generation Mobile System, which is based on the GSM universal standard.

3G
Third Generation Mobile System, which is based on the UMTS universal standard.

4G
Fourth Generation Mobile System, a standard for wireless communication delivering high-speed data for mobile phones and data terminals.

Access lines
Access lines are the total number of traditional voice and VoIP connections provided to customers of KPN's Business segment as of the end of the specified period.

ACM
The Dutch Competition Authority (Autoriteit Consument en Markt or 'ACM') acts as a regulator in the Netherlands and is responsible for monitoring compliance with anti-trust rules. The ACM is the authority body that arose on April 1, 2013 following the merger of the Consumentenautoriteit ('CA', government body charged with handling consumer rights), the Dutch Anti-trust Authority (Nederlandse Mededingingsautoriteit or 'NMa') with the Independent Post and Telecommunications Authority (Onafhankelijke Post en Telecommunicatie Autoriteit or 'OPTA').

ADR
American Depository Receipt.

ADSL (Asymmetric Digital Subscriber Line)
With ADSL, transmissions from provider to user take place at a higher speed than from user to provider. ADSL allows high-speed digital communication, including video signals, across an ordinary twisted-pair copper phone line. An ADSL modem is required.

ARPU (Average Revenue Per User)
ARPU is the sum of connection fees, monthly fixed subscription revenues, traffic revenues and gross service provider revenues less related discounts during a one-month period, divided by the average number of customers during that month. Gross service provider revenues represent revenues generated by third-party providers. KPN accounts for the net part as gross service provider revenues. Gross service provider revenue is mainly generated by E-Plus.

BCF (Business Control Framework)
The Business Control Framework contains all corporate policies and guidelines that are mandatory for KPN segments and entities. It forms the cornerstone of the governance of the KPN Group.

BiPT (Belgisch instituut voor Postdiensten en Telecommunicatie)
The Belgian Institute for Postal Services and Telecommunications operates as the telecommunications regulator in Belgium.

BNetzA (Bundesnetzagentur, former RegTP)
The Federal Network Agency is active as the telecommunications regulator in Germany.

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.

BYOD (Bring Your Own Device)
The technology of Bring Your Own Device (BYOD) enables employees to use their own devices (laptops, tablets and smartphones) at the office.

CBb (College van Beroep voor het bedrijfsleven)
The Trade and Industry Appeals Tribunal in the Netherlands.

CDP
The CDP (formerly Carbon Disclosure Project) is a joint initiative of investors worldwide that questions and benchmarks listed companies on their approach to climate change.

Churn
The number of mobile customers no longer connected to a mobile operator's network divided by the operator's customer base.

CISO (Chief Information Security Office)
CISO is responsible within KPN for the security of the IT and TI architecture. Part of this office are the CISO REDteam, KPN's ethical hacking team and the CERT (Computer Emergency Response Team) that acts in case of a (potential) cyber attack.

Climate neutral
For KPN, climate neutral means operating with zero net CO_2 emissions.

Cloud services
Cloud services are standardized IT capability (services, software or infrastructure) delivered via internet technologies in a pay-per-use, self-service way.

CO_2
Carbon dioxide is a gas that is created when fossil fuels such as oil and coal are burned. Carbon dioxide is a greenhouse gas.

Committed ARPU
Committed ARPU is the monthly fixed fees KPN receives per user, which are included in the customer's bundle.

Conflict minerals
Conflict minerals are minerals mined under conditions of armed conflicts and human rights issues. These minerals are used in a variety of products, including consumer electronic devices such as mobile phones.

CSR (Corporate Social Responsibility)
Corporate Social Responsibility, to KPN, is the integrated vision of entrepreneurship, in which the company takes responsibility and creates value in economic (Profit), ecological (Planet) and social (People) terms. We incorporate CSR into our business and by doing so, take our social responsibility and contribute to societal challenges.

Customer base
Customer base is the total number of subscribers.

DEFRA
UK Department for Environment Food & Rural Affairs. DEFRA published conversion factors to calculate greenhouse gas emissions.

DJSI (Dow Jones Sustainability Index)
The Dow Jones Sustainability Index is a collection of indices that track the performance of companies that are frontrunners in terms of CSR. The DJSI is based on an analysis of corporate economic, environmental and social performance. There are several sub-indices based on geographical parameters.

Drop call rate
The drop call rate is the fraction of telephone calls which are cut off unexpectedly as a result of technical issues, measured as a percentage of all calls.

DSL (Digital Subscriber Line)
DSL is a technology for bringing high bandwidth information to homes and small businesses over ordinary copper PSTN lines. The widely used term xDSL refers to different variations of DSL, such as ADSL, HDSL, VDSL and SDSL.

DTA (Telecommunicatiewet)
The Dutch Telecommunications Act.

EEIO (Environmentally-extended input output data)
Environmentally-extended input output (EEIO) models estimate energy use and/or GHG emissions resulting from the production and upstream supply chain activities of different sectors and products. The resulting EEIO emissions factors can be used to estimate cradle-to-gate GHG emissions for a given industry or product category. EEIO models are derived by allocating national GHG emissions to groups of finished products based on economic flows between industry sectors.

E-TASC
E-TASC is a worldwide self-audit system for suppliers in the ICT-sector.

E-VPN (Ethernet Virtual Private Network)
E-VPN is a VPN that connects two or more offices using IP-VPN and extends the benefits of ethernet technology that has traditionally been confined to the LAN.

Fiber-optic cable
Fiber-optic cable is a transmission medium composed of extremely pure and uniform glass. Digital signals are transmitted across fiber-optic cable as pulses of light. While signals transmitted over fiber-optic cable travel at the same speed as those transmitted over traditional copper cable, fiber-optic cable benefits from greater transmission capacity and lower distortion of signals transmitted.

FTE (full-time equivalent)
The equivalent of the number of employees with a full-time contract.

FttH (Fiber-to-the-Home)
FttH is defined as an access network architecture in which the final part of the connection to the home consists of optical fiber.

FttO (Fiber-to-the-Office)
FttO is fiber connection for business customers to the customers' offices.

FttHA (Fiber-to-the-Home activated)
Homes activated is the number of homes that are connected to fiber and have a subscriber with a service provider.

FttHP (Fiber-to-the-Home passed)
Homes passed is the number of homes that a service provider has capability to connect through fiber in a service area.

GHG (Greenhouse Gas) Protocol
The Greenhouse Gas Protocol Initiative is a multi-stakeholder partnership of business, non-governmental organizations (NGOs), governments, and others that develop internationally accepted greenhouse gas (GHG) accounting and reporting standards for organizations.

GHz
GHz is one billion hertz (a unit of frequency).

Green electricity
Green electricity is electricity from renewable sources. KPN only uses wind energy and electricity from biomass that does not compete with food production.

GRI (Global Reporting Initiative)
The Global Reporting Initiative is an organization that publishes international guidelines for CSR reporting.

GRIP
GRIP is the integrated risk management system of KPN. It is an acronym for Governance & Compliance, Risk management, Internal control and Processes.

GPRS
GPRS is an application that enables data packet switching via GSM networks as well as via existing voice communication. GPRS is based on and complements GSM.

Hertz
Hertz is a unit of frequency of one cycle per second.

HSDPA (High-Speed Downlink Packet Access)/HSPA+ (Evolved High-Speed Packet Access)
HSDPA and HSPA+ are mobile telephony protocols that, as an evolution of UMTS, are designed to increase the available data rate by a factor 5 or more.

i change
The interactive coaching program for companies and their employees, that supports people in changing their behavior in health-related areas.

ICT
Information and Communication Technology.

IPTV
IPTV is a system through which television services are delivered using the internet protocol suite over a packet-switched network such as the internet. iTV ('Interactieve TV') is KPN's IPTV offering in the Netherlands.

IP-VPN (Internet Protocol – Virtual Private Network)
Offers a secured and private network using IP-based infrastructure.

ISDN (Integrated Services Digital Network)
A worldwide digital communications network evolving from existing telephone services. A standard ISDN connection consists of three channels, i.e. two B channels to carry data and voice at a speed of 64 Kbps and one D channel to carry control information at a speed of 16 Kbps.

ISO (International Organization for Standardization)
This organization is responsible for international management standards such as ISO 14001, ISO 140064-1, ISO 27001 and ISO 22301 (mentioned in this report).

ISP (Internet Service Provider)
A company that provides individuals and companies access to the internet.

JAC (Joint Audit Cooperation)
The JAC is a cooperation of nine European Telecommunication Operators (including KPN) focusing on the social, ethical, and environmental conditions across their supply chains.

KPN Classmate
Through the KlasseContact project of the KPN Mooiste Contact Fonds, chronically-ill children can use an ICT-set (a KPN Classmate) to take a 'virtual seat' in the classroom.

KPN Mooiste Contact Fonds
This KPN foundation supports societal initiatives aimed a stimulating social contact, by combining people and technological resources to the best advantage.

Lean & Green Awards
Lean & Green is a Dutch initiative aimed at stimulating companies and government towards sustainability. Products and services that contribute to reducing CO_2-emissions and costs can be awarded a Lean & Green Solution Award.

Machine to Machine (M2M)
M2M refers to technologies that allow both wireless and wired systems to communicate between devices of the same ability.

Market share
Market share is the percentage or proportion of the total available market that is being serviced by KPN. These figures are based on externally available market data, which may not be completely accurate.

Mbps (Megabits per second)
Mbps is a unit of data transfer rate equal to 1 million bits per second. The bandwidths of broadband networks are often indicated in Mbps.

MDF (Main Distribution Frame) access
Allows other telecommunication companies to access the local network, enabling them to connect with their customers through our main distribution frame.

MHz (Megahertz)
MHz is one million hertz (a unit of frequency).

MNO (Mobile Network Operator)
An MNO is a company that has frequency allocations and all the required infrastructure to run an independent mobile network, as opposed to an MVNO.

MTA/MTR tariff (Mobile Terminating Access tariff)
The tariff charged by mobile operators for the termination of incoming telephone traffic (originating from either a fixed or a mobile network) on their network.

Multi-play
Propositions combining more than one product and / or type of service is considered a mutli-play proposition. Triple-play and quad-play propositions are types of multi-play propositions.

MVNO (Mobile Virtual Network Operator)
A mobile operator that does not have its own spectrum or 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 gain/loss
Net line gain/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.

Net adds
Net adds is defined as the difference between the total number of contracts for a specific type of service from one period compare to the previous period.

NPS (Net Promoter Score)
NPS is a tool for measuring customer satisfaction. The key question asked is whether customers would recommend KPN to friends or family.

NWLW (New Way of Living & Working)
The New Way of Living & Working means being able to work without the constraints of time and place with the use of modern technology.

Open access
Open access is a model where an operator is required by regulation to provide access to its network to wholesale customers at capped prices.

PUE (power usage effectiveness)
An international standard for the calculation of energy efficiency of data centers, which compares the total data center electricity consumption with the electricity consumption of equipment used for customer purposes.

PSTN (Public Switched Telephone Network)
Traditional telephone system that runs through copper cables (voice up to 64 Kbps, data up to 56 Kbps).

RepTrak
RepTrak, developed by the Reputation Institute, is a method to calculate a reputation score of companies.

RGU (Revenue Generating Unit)
RGU is the total of all subscribers receiving standard cable, broadband internet or telephony services over KPN's network at a given date. Thus, one subscriber who receives a bundle of KPN's services (telephony, internet and TV) would be counted as three RGUs.

Roaming
Transfer of mobile traffic from one network to another, referring to the exchange of international mobile traffic.

SAC/SRC
Subscriber acquisition/retention costs is the amount that is spent to acquire or retain subscribers.

Scope 1
Direct greenhouse gas emissions occurring from sources that are owned or controlled by an organization.

Scope 2
Indirect greenhouse gas emissions from the generation of purchased electricity, heating or cooling consumed by an organization.

Scope 3
Other direct greenhouse gas emissions as a consequence of the activities of the company, but occurring from sources not owned or controlled by an organization.

Service revenues
Service revenues are defined as the aggregate of connection fees, monthly subscription fees and traffic fees. The term service revenues refers to wireless service revenues.

SIM card (Subscriber Identity Module card)
A chip card inserted into a mobile phone, which contains information such as telephone numbers and memory for storing a directory.

Smartphone
A smartphone is a mobile phone built on a mobile computing platform and features high-resolution (touch) screens, web browsers that can access and properly display standard web pages and that has high-speed data access via Wi-Fi and mobile broadband.

SOC (Security Operations Center)
The SOC monitors the high-risk systems of KPN in order to quickly act in case of security risks or incidents.

SoHo/SME
SoHo refers to Small Office/Home Office companies. SME refers to Small and Medium Enterprises.

Spectrum Auction
A spectrum auction is a process whereby a government uses an auction system to sell rights (licenses) to transmit signals over specific brands of the electromagnetic spectrum and to assign scarce spectrum resources.

Stakeholder
Stakeholders are the people or organizations with an interest in the company, such as employees, shareholders, suppliers, customers, governments and media.

Startover TV
Startover TV allows the viewer to replay the current TV show being watched from its beginning.

Subscriber
A subscriber is defined as an end-user with a connection to the mobile or fixed networks and/or service platforms of KPN. The subscriber is included in the subscriber base if there is a direct or indirect (business, wholesale) billing relation, either prepaid or postpaid, with the following exceptions:
- if the connection is owned through wholesale by full MVNOs or fixed line access parties or
- if the connection has been inactive for a specific time period (prepaid or postpaid without contract).

Triple-play
Term used to describe the provision of telephony, internet and television services to a household by a single provider.

UMTS (Universal Mobile Telecommunications System)
Third generation mobile communications systems. UMTS is suited to deliver voice, text, music and animated images. Data can be sent via UMTS at approximately six times the speed of ISDN.

Underlying revenues and underlying EBITDA
Underlying revenues and other income and underlying EBITDA are derived from revenues and other income and EBITDA, respectively, and are adjusted for the impact of MTA and roaming (regulation), changes in the composition of the group (acquisitions and disposals), restructuring costs and incidentals. Incidentals are non-recurring transactions over EUR 5 million which are not directly related to day to day operational activities.

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.

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.

VPN (Virtual Private Network)
A virtual network constructed from logic connections that are separated from other users.

WhatsApp
WhatsApp Messenger is a cross-platform instant messaging application for smartphones with internet access.

Wholesale broadband access
Wholesale broadband access is the rental by broadband internet service providers of access to KPN's networks to supply broadband internet access to their end customers. The broadband internet service provider charges its end customer for the combined wholesale broadband access it purchases from KPN along with its service fees.

Wi-Fi
Wi-Fi is a technology that allows an electronic device to exchange data wirelessly over a computer network, including broadband internet connections. Wi-Fi is a trademark of the Wi-Fi Alliance.

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, providers can rationalize their organization's invoicing with one bill for line rental and call charges.

WWF Climate Saver
The Climate Savers program is WWF's global platform to engage business and industry in climate and energy. Member companies commit to becoming best in class in reducing GHG emissions and to influencing market or policy developments by promoting their vision and solutions.

For additional Information please contact
KPN Investor Relations
Tel: +31 (0) 704460986
Fax: +31 (0) 704460593
www.kpn.com/ir
ir@kpn.com

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Koninklijke KPN N.V.
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www.helder-tekstwerk.nl

Royal HaskoningDHV
www.royalhaskoningdhv.com

RRED Communications
www.rred.nl

Stampa Communications
www.stampacommunications.com

Design and Production
Addison Group
www.addison-group.net

Print
Veenman+

Print Coordination
PostNL

Photography
ANP/Marcel Antonisse
ANP/Martijn Beekman
ANP/ Evert-Jan Daniels
ANP/ Federico Gambarini

Hollandse Hoogte

Lars van den Brink

Lukkien

Michel Porro

Sjaak Ramakers

Hans Ringnalda

Paper
Maxi offset

Maxi offset is produced by an ISO 14001 accredited manufactorer as an FSC mixed sources product. It is produced with fibre sourced from controlled wood.

Forward-looking statements and management estimates

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

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

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

All market share information in this financial report is based on management estimates based on externally available information, unless indicated otherwise.

The terms “we”, “our” and “us” are used to describe the company; where they are used in the chapter “Segment performance”, they refer to the business concerned.

Koninklijke KPN N.V.
Maanplein 55
2516 CK Den Haag
Nederland

Postbus 30000
2500 GA Den Haag
Nederland
T: +31 (0)70 343 43 43

www.kpn.com