

## IMPORTANT NOTICE

THIS DOCUMENT IS AVAILABLE ONLY TO INVESTORS WHO ARE LOCATED OUTSIDE OF THE UNITED STATES OR WHO ARE QUALIFIED INSTITUTIONAL BUYERS (**QIBS**) AS DEFINED IN RULE 144A UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) OR OTHERWISE TO PERSONS TO WHOM IT CAN BE LAWFULLY DISTRIBUTED.

**IMPORTANT:** You must read the following before continuing. The following applies to the preliminary prospectus (the **Prospectus**) following this page and you are therefore advised to read this page carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer (as defined in the Prospectus), and the Managers (as defined in the Prospectus) as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE ATTACHED PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED IN THE ATTACHED DOCUMENT.

**Confirmation of your representation:** In order to be eligible to view the attached Prospectus or make an investment decision with respect to the securities being offered, prospective investors must be (i) located outside the United States or (ii) QIBs acquiring for their account or the account of other QIBs. This Prospectus is being provided to you at your request, and by accessing this Prospectus you shall be deemed to have represented to the Issuer and the Managers that (i) you and any customers you represent are located outside of the United States and any electronic mail address that you gave us and to which the Prospectus may have been delivered is not located in the United States, its territories and possessions, any State of the United States or the District of Columbia or (ii) you are a QIB acquiring the securities referred to herein for your own account and/or for another QIB and that you consent to delivery of such Prospectus by electronic transmission.

You are reminded that this Prospectus has been provided to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this Prospectus to any other person.

The materials relating to this offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer, and the Managers(s) or any affiliate thereof is a licensed broker or dealer in the relevant jurisdiction, the offering shall be deemed to be made by the Managers(s) or such affiliate on behalf of the Issuer in such jurisdiction.

The attached Prospectus may be distributed only to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **Order**) or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as “relevant persons”). Any person who is not a relevant person should not act or rely on this document or any of its contents.

The attached Prospectus has been provided to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer and the Managers, any person who controls them or any director, officer, employee or agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus provided to you in electronic format and a hard copy version that may be available to you on request from the Managers.

*This Canadian Offering Memorandum constitutes an offer of these securities only in those jurisdictions and to those persons where and to whom they may be lawfully offered for sale, and only by persons permitted to sell these securities. This Canadian Offering Memorandum is not, and under no circumstances is to be construed as, an advertisement or a public offering of these securities in Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of these securities, and any representation to the contrary is an offence.*

**CANADIAN OFFERING MEMORANDUM  
DATED MARCH 25, 2013**

**KONINKLIJKE KPN N.V.**  
(the “Issuer”)

**Private Placement in Canada of  
U.S.\$600,000,000 Capital Securities due 2073**  
(the “Securities”)

**THE OFFERING**

The Securities are being offered in Canada in the Provinces of Ontario and Québec as part of an offering that is being made in one or more other countries (the “Offering”). The Offering is described fully in the attached prospectus or offering memorandum (the “Offering Document”), the full text of which is included in this Canadian Offering Memorandum and forms a part of it. The Offering Document may be supplemented by one or more documents sent to you by the dealers acting as underwriters or initial purchasers (the “Dealers”) concerning the Offering, which may include a final term sheet containing pricing and other related information (“Supplementary Material”). The term Supplementary Material does not include the contents of any electronic roadshow for the Offering. The full text of all Supplementary Material, if any, concerning the Offering shall also be incorporated by reference into this Canadian Offering Memorandum and deemed to form a part of it. Accordingly, the term “Canadian Offering Memorandum” means this introductory Canadian supplement, together with the attached Offering Document and any Supplementary Material. The definitions in the Offering Document (except as otherwise stated) apply throughout this Canadian Offering Memorandum.

**RELATIONSHIP BETWEEN THE DEALERS OR CERTAIN OF THEIR AFFILIATES AND THE ISSUER**

**Banc of America Securities Limited, Citigroup Global Markets Limited, Credit Suisse AG, London Branch, Deutsche Bank Luxembourg SA, J.P. Morgan Limited and The Royal Bank of Scotland N.V. are lenders under the Issuer’s Credit Facility, and Goldman Sachs Bank USA and J.P. Morgan Limited were lenders under the Issuer’s standby liquidity facility, which was cancelled upon the issuance of the EUR Capital Securities and the GBP Capital Securities. Additionally, the Dealers, in the ordinary course of their business, have held and in the future may hold the Issuer’s securities for investment. Accordingly, the Issuer may be considered a “related” or “connected” issuer of the Dealers for the purposes of applicable Canadian securities laws. For more information see the section titled “Managers transacting with the Issuer” in the accompanying Offering Document. The decision to offer the Securities was made solely by the Issuer and the terms upon which the Securities are being offered were determined by negotiation between the Issuer and the Dealers. The Issuer is currently in compliance with the credit facilities described above, and no breach thereof has been waived by any of the Dealers or their affiliates since the execution of such facilities.**

**ADDITIONAL INFORMATION ABOUT THIS CANADIAN OFFERING MEMORANDUM**

If the attached Offering Document remains subject to completion or amendment, this Canadian Offering Memorandum similarly remains subject to completion or amendment. The Offering is being made exclusively through this Canadian Offering Memorandum and not through any advertisement of the Securities. No person has been authorized to give any information or to make any representation other than those contained or incorporated by reference into in this Canadian Offering Memorandum and any decision to purchase Securities should be based solely on information contained or incorporated by reference in this document.

## **RESALE RESTRICTIONS**

The Securities have not been nor will they be qualified for sale to the public under applicable Canadian securities laws and, accordingly, any offer and sale of the Securities in Canada will be made on a basis which is exempt from the prospectus requirements of Canadian securities laws.

Any resale of the Securities must be made in accordance with, or pursuant to an exemption from, or in a transaction not subject to, the prospectus requirements of Canadian securities laws. In addition, in order to comply with the dealer registration requirements of Canadian securities laws, any resale of the Securities must be made either by a person not required to register as a dealer under applicable Canadian securities laws, or through an appropriately registered dealer or in accordance with an exemption from the dealer registration requirements. These Canadian resale restrictions may in some circumstances apply to resales made outside of Canada. Purchasers of Securities are advised to seek Canadian legal advice prior to any resale of Securities.

## **REPRESENTATIONS AND AGREEMENT BY PURCHASERS**

Each purchaser of Securities in Canada will be deemed to have represented to the Issuer and the Dealers participating in the sale of the Securities that the purchaser:

- (a) is resident in one of the Provinces of Alberta, British Columbia, Manitoba, Ontario or Québec and is entitled under applicable provincial securities laws to purchase the Securities without the benefit of a prospectus qualified under those securities laws;
- (b) is basing its investment decision solely on this Canadian Offering Memorandum (including the Offering Document forming part of it and any Supplementary Material subsequently deemed to be incorporated by reference) and not on any other information concerning the Issuers or the Offering;
- (c) has reviewed and acknowledges the terms referred to above under the heading “Resale Restrictions”;
- (d) is an “accredited investor” as defined in National Instrument 45-106 *Prospectus and Registration Exemptions* (“NI 45-106”) and, if relying on subsection (m) of the definition of that term, is not a person created or being used solely to purchase or hold securities as an accredited investor;
- (e) is a “Canadian permitted client” as defined in National Instrument 31-103 *Registration Requirements and Exemptions* (“NI 31-103”), or as otherwise interpreted and applied by the Canadian Securities Administrators, which includes, among other things: (i) a person or company, other than an individual or an investment fund, that has net assets of at least Cdn. \$25 million as shown on its most recently prepared financial statements; (ii) an individual who beneficially owns financial assets (being cash, securities, contracts of insurance, deposits, or evidence of a deposit) having an aggregate realizable value that, before taxes but net of any related liabilities, exceeds Cdn. \$5 million; and (iii) a person or company acting on behalf of a managed account which is managed by that person or company, if it is registered or authorized to carry on business as an adviser or the equivalent under the securities legislation of any province or territory of Canada, or the securities legislation of any other country; and
- (f) is either purchasing Securities as principal for its own account, or is deemed to be purchasing Securities as principal by applicable law.

Each purchaser of Securities in Canada hereby agrees that it is the purchaser’s express wish that all documents evidencing or relating in any way to the sale of the Securities be drafted in the English language only. *Chaque acheteur au Canada des valeurs mobilières reconnaît que c’est sa volonté expresse que tous les documents faisant foi ou se rapportant de quelque manière à la vente des valeurs mobilières soient rédigés uniquement en anglais.*

## **CANADIAN TAX CONSIDERATIONS**

THIS CANADIAN OFFERING MEMORANDUM DOES NOT ADDRESS THE CANADIAN TAX CONSEQUENCES OF THE ACQUISITION, HOLDING OR DISPOSITION OF THE SECURITIES. PROSPECTIVE PURCHASERS OF SECURITIES ARE STRONGLY ADVISED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE CANADIAN AND OTHER TAX CONSIDERATIONS APPLICABLE TO THEM.

## INDIRECT COLLECTION OF PERSONAL INFORMATION

By purchasing these Securities, the purchaser acknowledges that its name and other specified information, including the number of Securities it has purchased, may be disclosed to Canadian securities regulatory authorities and become available to the public in accordance with the requirements of applicable laws. The purchaser consents to the disclosure of that information.

### Notice to Ontario Purchasers

By purchasing these Securities, the purchaser acknowledges that personal information such as the purchaser's name will be delivered to the Ontario Securities Commission (the "OSC") and that such personal information is being collected indirectly by the OSC under the authority granted to it in securities legislation for the purposes of the administration and enforcement of the securities legislation of Ontario. By purchasing these Securities, the purchaser shall be deemed to have authorized such indirect collection of personal information by the OSC. Questions about such indirect collection of personal information should be directed to the OSC's Administrative Support Clerk, Suite 1903, Box 55, 20 Queen Street West, Toronto, Ontario M5H 3S8 or to the following telephone number: (416) 593-3684.

### RIGHTS OF ACTION (Ontario Purchasers)

Rule 45-501 provides that when an offering memorandum, such as this Canadian Offering Memorandum, is delivered to an investor to whom securities are distributed in reliance upon the "accredited investor" prospectus exemption in Section 2.3 of NI 45-106, the right of action referred to in Section 130.1 of the *Securities Act* (Ontario) ("Section 130.1") is applicable unless the prospective purchaser is:

- (a) a Canadian financial institution, meaning either:
  - (i) an association governed by the *Cooperative Credit Associations Act* (Canada) or a central cooperative credit society for which an order has been made under section 473(1) of that Act;
  - (ii) a bank, loan corporation, trust company, trust corporation, insurance company, treasury branch, credit union, caisse populaire, financial services cooperative, or league that, in each case, is authorized by an enactment of Canada or a jurisdiction of Canada to carry on business in Canada or a jurisdiction in Canada;
- (b) a Schedule III bank, meaning an authorized foreign bank named in Schedule III of the *Bank Act* (Canada),
- (c) The Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada), or
- (d) a subsidiary of any person referred to in paragraphs (a), (b) or (c), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by the directors of the subsidiary.

Section 130.1 provides purchasers who purchase securities offered by an offering memorandum with a statutory right of action against the issuer of securities and any selling securityholder for rescission or damages in the event that the offering memorandum or any amendment to it contains a "misrepresentation", without regard to whether the purchaser relied on the "misrepresentation". "Misrepresentation" means an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading in light of the circumstances in which it was made.

In the event that this Canadian Offering Memorandum, together with any amendment, is delivered to a prospective purchaser of Securities in connection with a trade made in reliance on Section 2.3 of NI 45-106, and this Canadian Offering Memorandum contains a misrepresentation which was a misrepresentation at the time of purchase of the Securities, the purchaser will have a statutory right of action against the Issuers for damages or, while still the owner of the Securities, for rescission, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages, provided that:

- (a) no action shall be commenced more than, in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or in the case of any other action, the earlier of
  - (i) 180 days after the plaintiff first had knowledge of the facts giving rise to the cause of action, or
  - (ii) three years after the date of the transaction that gave rise to the cause of action;

- (b) the defendant will not be liable if it proves that the purchaser purchased the Securities with knowledge of the misrepresentation;
- (c) the defendant will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the Securities as a result of the misrepresentation relied upon;
- (d) in no case will the amount recoverable exceed the price at which the Securities were offered to the purchaser; and
- (e) the statutory right of action for rescission or damages is in addition to and does not derogate from any other rights or remedies the purchaser may have at law.

This summary is subject to the express provisions of the *Securities Act* (Ontario) and the regulations and rules made under it, and you should refer to the complete text of those provisions.

#### **ENFORCEMENT OF LEGAL RIGHTS**

The Issuer, its directors and officers, as well as any experts named in this document are or may be located outside of Canada and, as a result, it may not be possible for purchasers to effect service of process within Canada upon the Issuer or those persons. All or a substantial portion of the assets of the Issuer or those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the Issuer or those persons in Canada or to enforce a judgment obtained in Canadian courts against the Issuer or those persons outside of Canada.

Each purchaser acknowledges that it has been notified that: (i) the Dealers are not registered as securities dealers in any province or territory of Canada (or, if any are so registered, they are not relying upon their registration status to trade the Securities); (ii) all or substantially all of the assets of the Dealers may be situated outside of Canada; and (iii) there may be difficulty enforcing legal rights against the Dealers for these reasons.

DATED 25 MARCH 2013



# KONINKLIJKE KPN N.V.

*(Incorporated in The Netherlands as a public limited company with its corporate seat in The Hague)*

## U.S.\$600,000,000 Capital Securities due 2073

**Issue Price:  
100.00 per cent.**

The U.S.\$600,000,000 capital securities due 2073 (the **Securities**) will be issued by Koninklijke KPN N.V. (the **Issuer**) on 28 March 2013 (the **Issue Date**). The offering of the Securities is referred to as the **Offering**. The Securities will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 28 March 2023 (the **First Reset Date**) at a rate of 7.00 per cent. per annum, payable semi-annually in arrear on 28 March and 28 September in each year. From (and including) 28 March 2023 to (but excluding) 28 March 2043 the Securities will bear interest at a rate per annum which shall be 5.21 per cent. above the 10 year Swap Rate (as defined in the Terms and Conditions of the Securities (the **Conditions**)) for the relevant Reset Period (as defined in the Conditions) payable semi-annually in arrear on 28 March and 28 September in each year. From (and including) 28 March 2043 to (but excluding) 28 March 2073, the Securities will bear interest at a rate per annum which shall be 5.96 per cent. above the 10 year Swap Rate for the relevant Reset Period payable semi-annually in arrear on 28 March and 28 September in each year, all as more particularly described in “Terms and Conditions of the Securities—Interest Payments”.

If the Issuer does not elect to redeem the Securities in accordance with Condition 6(f) following the occurrence of a Change of Control Event (as defined in the Conditions), the then prevailing interest rate per annum (and each subsequent interest rate per annum otherwise determined in accordance with the Conditions) shall be increased by 5 per cent. per annum with effect from (and including) the date on which the Change of Control Event occurred, see “Terms and Conditions of the Securities—Interest Payments—Step-up after Change of Control”.

If the Issuer does not elect to redeem the Securities in accordance with Condition 6(g) following the occurrence of an Equity Offering Linked Call Event (as defined in the Conditions) by the date falling 6 months after the Issue Date, the then prevailing interest rate per annum (and each subsequent interest rate per annum) shall be increased by 5 per cent. per annum with effect from (and including) the date falling 6 months after the Issue Date, see “Terms and Conditions of the Securities—Interest Payments—Step-up in connection with Equity Offering”.

The Issuer may, at its discretion, elect to defer all or part of any payment of interest on the Securities as more particularly described in “Terms and Conditions of the Securities—Optional Interest Deferral”. Any amounts so deferred, together with further interest accrued thereon (at the interest rate per annum prevailing from time to time), shall constitute Arrears of Interest (as defined in the Conditions). The Issuer may pay outstanding Arrears of Interest, in whole or in part, at any time in accordance with the Conditions. Notwithstanding this, the Issuer shall pay any outstanding Arrears of Interest, in whole but not in part, on the first Mandatory Settlement Date, all as more particularly described in “Terms and Conditions of the Securities—Optional Interest Deferral—Mandatory Settlement”.

The Securities will be long-dated securities redeemable on 28 March 2073 (the **Maturity Date**), but shall be redeemable (at the option of the Issuer) prior to the Maturity Date on the First Reset Date, on 28 March 2028, and on the next succeeding Reset Date (as defined in the Conditions) and thereafter, on each applicable Interest Payment Date (as defined in the Conditions), at the principal amount of the Securities, together with any accrued and unpaid interest up to (but excluding) such date and any outstanding Arrears of Interest. In addition, upon the occurrence of a Change of Control Event, an Equity Offering Linked Call Event, a Rating Event, a Substantial Repurchase Event, a Tax Deduction Event or a Withholding Tax Event (each such term as defined in the Conditions), the Securities shall be redeemable (at the option of the Issuer) in whole but not in part at the prices set out, and as more particularly described, in “Terms and Conditions of the Securities—Redemption”.

The Securities will be unsecured securities of the Issuer and will constitute subordinated obligations of the Issuer, all as more particularly described in “Terms and Conditions of the Securities—Status” and “Terms and Conditions of the Securities—Subordination”.

Payments in respect of the Securities shall be made free and clear of, and without withholding or deduction for, or on account of, taxes of the Netherlands, unless such withholding or deduction is required by law. In the event that any such withholding or deduction is made, additional amounts may be payable by the Issuer, subject to certain exceptions as are more fully described in “Terms and Conditions of the Securities—Taxation”.

Application has been made to The Netherlands Authority for the Financial Markets (the **AFM**) in its capacity as competent authority under the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) relating to prospectuses for securities, for the approval of this Prospectus for the purposes of Directive 2003/71/EC (the **Prospectus Directive**). Application has also been made to Euronext Amsterdam N.V. for the Securities to be listed on Euronext Amsterdam by NYSE Euronext (**Euronext Amsterdam**). References in this Prospectus to the Securities being “listed” (and all related references) shall mean that the Securities have been listed and admitted to trading on Euronext Amsterdam. Euronext Amsterdam is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

The Securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) or under any securities laws of any state or other jurisdiction of the United States and may not be offered, sold, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state and other securities laws of the United States. There will be no public offer of the Securities in the United States. The Securities are being offered and sold in offshore transactions in compliance with Regulation S of the Securities Act (**Regulation S**) and within the United States to qualified institutional buyers (**QIBs**) as defined in Rule 144A of the Securities Act (**Rule 144A**) pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Purchasers are hereby notified that sellers of the Securities are relying on an exemption from the registration requirements of Section 5 of the Securities Act, which may include Rule 144A or Regulation S thereunder. For a description of certain restrictions on transfer of the Securities, see “Subscription and Sale”.

The Securities will initially be represented by global certificates in registered form (the **Global Certificates**). The Securities offered and sold in the United States to QIBs in reliance on Rule 144A (the **Rule 144A Securities**) will be represented by beneficial interests in one or more permanent global certificates in fully registered form without interest coupons (the **Restricted Global Certificate**) and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company (**DTC**) and will be deposited on or about the Issue Date with a custodian for DTC. The Securities offered and sold outside the United States in reliance on Regulation S (the **Regulation S Securities**) will be represented by beneficial interests in one or more permanent global certificate in fully registered form without interest coupons (the **Unrestricted Global Certificate**) and will be registered in the name of Cede & Co., as nominee for DTC and will be deposited with a custodian for DTC.

The Securities are expected to be rated BB by Standard & Poor’s Credit Market Services Europe Limited (**S&P**), Ba1 by Moody’s Investors Service Ltd. (**Moody’s**) and BB by Fitch Ratings Ltd. (**Fitch**) (each a **Rating Agency**). Each of S&P, Moody’s and Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the **CRA Regulation**). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Prospective investors should have regard to the factors described under the section headed “Risk Factors” in this Prospectus.

Joint Structuring Advisers to the Issuer, Joint Global Coordinators and Joint Bookrunners

Deutsche Bank Securities

Goldman Sachs International

J.P. Morgan

Joint Bookrunners

Credit Suisse

RBS

Co-Managers

BofA Merrill Lynch

Citigroup

This Prospectus comprises a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC (the **Prospectus Directive**) and for the purpose of giving information with regard to the Issuer, the Group and the Securities which, according to the particular nature of the Issuer and the Securities, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer. The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all the documents which are incorporated herein by reference (see “Documents Incorporated by Reference”).

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Managers (as defined in “Subscription and Sale” below) to subscribe or purchase, any of the Securities. The distribution of this Prospectus and the offering of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions.

For a description of further restrictions on offers and sales of Securities and distribution of this Prospectus, see “Subscription and Sale” below.

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer or the Managers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Securities is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

To the fullest extent permitted by law, the Joint Structuring Advisers to the Issuer, the Managers and the Trustee accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Joint Structuring Adviser to the Issuer, a Manager or the Trustee or on its behalf in connection with the Issuer or the issue and offering of the Securities. Each of the Joint Structuring Advisers to the Issuer, the Managers and the Trustee accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

**ANY FORWARDING, REDISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.**

**NOTHING IN THIS PROSPECTUS CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES OR IN ANY OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN THE UNITED STATES IN ACCORDANCE WITH AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.**

**THE SECURITIES OFFERED HEREBY HAVE NOT BEEN RECOMMENDED BY ANY U.S. FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT PASSED UPON OR ENDORSED**

**THE MERITS OF THE OFFERING OF THE SECURITIES OR CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.**

In the United States, this Prospectus is being furnished on a confidential basis solely for the purpose of enabling a prospective purchaser to consider purchasing the particular securities described herein.

The Securities may not be a suitable investment for all investors. Each potential investor in the Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact the Securities will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (d) understand thoroughly the terms of the Securities and be familiar with the behaviour of the relevant financial markets and of any financial variable which might have an impact on the return on the Securities; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Securities are complex financial instruments and such instruments may be purchased by potential investors as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities unless it has the expertise (either alone or with a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of the Securities and the impact this investment will have on the potential investor's overall investment portfolio.

Prospective investors should also consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of the Securities.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Securities are legal investments for it, (2) the Securities can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any of the Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Securities under any applicable risk-based capital or similar rules.

Unless otherwise specified or the context requires, references to **€**, **EUR** and **euro** are to the lawful currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, references to **£**, **GBP** and **pounds sterling** are to the lawful currency of the United Kingdom and references to **U.S.\$**, **USD** and **dollars** are to the lawful currency of the United States of America.

References to the **Issuer**, **KPN** and the **Group** are to Koninklijke KPN N.V. and, as the context requires, any or all of its subsidiaries and consolidated joint ventures.

In connection with the issue of the Securities, J.P. Morgan Securities LLC (the **Stabilising Manager**) (or any person acting on behalf of the Stabilising Manager) may over-allot the Securities or effect transactions with a view to supporting the market price of the Securities at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Securities is made and, if begun, may be ended at any



time, but it must end no later than the earlier of 30 days after the issue date of the Securities and 60 days after the date of the allotment of the Securities. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSONS, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE SUBSCRIBER, PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

#### **AVAILABLE INFORMATION**

To permit compliance with Rule 144A in connection with any resales or other transfers of Securities that are “restricted securities” within the meaning of the Securities Act, the Issuer has undertaken in the Trust Deed (as defined under “Terms and Conditions of the Securities”) to furnish, upon the request of a holder of such Securities or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Securities remain outstanding as “restricted securities” within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, (the **Exchange Act**) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

#### **SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES**

The Issuer is a public limited liability company incorporated under the laws of the Netherlands. All of the officers and directors named herein reside outside the United States and all or a substantial portion of the assets of the Issuer and of such officers and directors are located outside the United States. As a result, it may not be possible for investors to effect service of process outside the Netherlands upon the Issuer or such persons, or to enforce judgments against them obtained in courts outside the Netherlands predicated upon civil liabilities of the Issuer or such directors and officers under laws other than the Netherlands law, including any judgment predicated upon United States federal securities laws.

## DOCUMENTS INCORPORATED BY REFERENCE

The current articles of association (the **Articles of Association**) and the Consolidated Financial Statements of KPN are incorporated in, and form part of, this Prospectus by reference and can be obtained free of charge on KPN's website at [www.kpn.com/corporate/aboutkpn/investor-relations/corporate-governance/legal-structure.htm](http://www.kpn.com/corporate/aboutkpn/investor-relations/corporate-governance/legal-structure.htm) and [www.kpn.com/corporate/aboutkpn/company-profile/annual-report.htm](http://www.kpn.com/corporate/aboutkpn/company-profile/annual-report.htm), respectively.

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The auditor's reports incorporated by reference are the original auditor's reports that were issued on 26 February 2013, 17 February 2012 and 21 February 2011 with respect to the Consolidated Financial Statements as of and for the years ended 31 December 2012, 31 December 2011 and 31 December 2010, respectively. These Consolidated Financial Statements also contained KPN's corporate financial statements. For the purposes of this Prospectus, KPN's corporate financial statements are not incorporated by reference. In each case, unless stated otherwise, the entire document is incorporated by reference into this Prospectus. Notwithstanding the foregoing, where the documents incorporated by reference themselves incorporate information by reference, such information does not form part of this Prospectus.

Potential investors should only rely on the information that is provided in this Prospectus or incorporated by reference into this Prospectus. No other documents or information, including the contents of KPN's website ([www.kpn.com](http://www.kpn.com)) or of websites accessible from hyperlinks on that website, form part of, or are incorporated by reference into, this Prospectus.

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## RISK FACTORS

*KPN believes that the following factors may affect its ability to fulfil its obligations under the Securities. All of these factors are contingencies which may or may not occur and KPN is not in a position to express a view on the likelihood of any such contingency occurring.*

*Factors which KPN believes may be material for the purpose of assessing the market risks associated with the Securities are also described below.*

*KPN believes that the factors described below represent the principal risks inherent in investing in the Securities, but KPN may be unable to pay interest, principal or other amounts on or in connection with the Securities for other reasons, and KPN does not represent that the statements below regarding the risks of holding the Securities are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.*

*Capitalised terms used herein have the meaning given to them in “Terms and Conditions of the Securities”.*

### **Factors that may affect KPN’s ability to fulfil its obligations under or in connection with the Securities**

***If the proposed Rights Offering (as defined below) is not approved by the shareholders of KPN, or does not ultimately raise sufficient capital, KPN would likely need to seek alternative means of raising additional capital, which may not be successful and its liquidity position may be significantly adversely affected.***

In recent years, KPN’s financial position has been adversely impacted by rising debt levels combined with increased commercial investments, and its credit profile has come under pressure. KPN’s reported Net Debt/Adjusted EBITDA has increased over the last 12 months, from 2.3x as of 31 December 2011, to 2.7x as of 31 December 2012. In addition, KPN paid EUR 1,352 million in January 2013 in connection with the Dutch spectrum auction, which, when taken into consideration, would have increased its Net Debt/Adjusted EBITDA to approximately 3.0x as of 31 December 2012.

To facilitate the Group meeting its current and long-term capital requirements, KPN is proposing to undertake a rights issue in respect of new ordinary shares for a gross amount of up to EUR 3 billion (the **Rights Offering**) which is expected to be completed prior to 30 June 2013. The Rights Offering is intended to strengthen KPN’s balance sheet and provide a stable financial position in the coming years. If the Rights Offering is successfully completed, the net proceeds from the Rights Offering will increase KPN’s financial and strategic flexibility and will enable KPN to continue to invest in its operations and reduce its net debt level.

The proposed Rights Offering is conditional on the approval of the shareholders of KPN (the **Shareholders**) to adopt, at an annual general meeting, the collective proposals made to them as set out in the agenda for such meeting as published on 27 February 2013. The Rights Offering is underwritten, subject to customary conditions, on a standby basis by Deutsche Bank, Goldman Sachs and J.P. Morgan who are expected to enter into an underwriting agreement with a syndicate of banks and KPN upon shareholder approval of the Rights Offering. KPN has called for an annual general meeting to be held on 10 April 2013, and may call for further extraordinary general meetings if the proposed Rights Offering is not approved at such annual general meeting. While KPN’s major shareholder, América Móvil, S.A.B. De C.V. (**América Móvil**) has committed to participate in the Rights Offering through a shareholder commitment letter dated 20 February 2013, this commitment is subject to certain conditions. These conditions include, among others, KPN fully complying with and KPN continuing to fully comply with its obligations under that letter and under the relationship agreement between KPN and América Móvil dated 20 February 2013; KPN not being downgraded two notches or more by Moody’s Investor Service or at all by S&P or Fitch; the standby underwriting agreement among KPN, Deutsche Bank, J.P. Morgan and Goldman Sachs dated 20 February 2013 not being terminated; América Móvil’s nominees for the Supervisory Board of KPN being appointed at the annual General Meeting; and there has been no material adverse change in the general affairs, business condition (financial or otherwise), results of operations, properties, assets, liquidity, solvency or prospectus of KPN and its subsidiaries. The termination of the shareholder commitment letter, or any other reasons, could result in América Móvil’s failing to support the Rights Offering.

If the proposed Rights Offering is not approved by the Shareholders, including as a result of América Móvil’s failing to support the Rights Offering at the annual General Meeting to be held on 10 April 2013, or if the Rights Offering does not ultimately raise sufficient capital, the key benefits expected to be achieved by the

Rights Offering will not accrue. As a result, the Group's business, results of operations and financial condition would suffer and its credit rating may be downgraded. This could have a negative impact on the Group's ability to access further funding and increase its cost of funds. This would, in turn, have an adverse impact on KPN's Net Debt/Adjusted EBITDA ratio and contribute to potential rating downgrades and higher financing costs for KPN's other debt instruments. If the Rights Offering is not completed, KPN would likely need to seek to raise additional funds by other means, including by way of additional issuances of debt or equity securities, or by means of asset sales or disposals. See "—Risks associated with the Securities generally—The Securities will be subject to optional redemption by KPN including upon the occurrence of Special Events, a Change of Control Event or an Equity Offering Linked Call Event and the EUR Capital Securities and the GBP Capital Securities include substantially similar provisions." If additional funding is not available on commercially attractive terms, or at all, KPN may be required to significantly alter its strategy or curtail its future capital expenditure and investment plans and its liquidity position could be significantly adversely affected.

### **Risks associated with competition**

*KPN is exposed to significant competition in all areas of its business and in the various geographies where it operates from existing and potential new telecommunications service or ICT solutions providers and network operators.*

KPN is subject to significant competition for all its products and services in the fixed-line and mobile telecommunications markets, along with information and communications technology (ICT) solutions for business customers. Competitors include cable network operators, mobile network operators, mobile virtual network operators (MVNOs) and branded resellers as well as non-traditional voice, data and ICT service providers. KPN also competes with domestic and international business service providers in the provision of ICT services for business customers. KPN competes in the telecommunications markets in the Netherlands, Germany and Belgium on the basis of pricing, network speed and reliability, customer experience, products and services offered, customer service and support and its ability to be technologically adept, innovative and secure.

KPN is the incumbent telecommunications and ICT provider in the Netherlands. KPN's primary competitors in the fixed-line and mobile telecommunications market for both retail and business customers are cable operators, such as UPC and Ziggo, as well as copper and fiber-based providers, such as Tele2 and T-Mobile, for fixed-line telephony, broadband and TV and mobile network operators, such as Vodafone and T-Mobile, for mobile telecommunications. In the business and corporate ICT market KPN's main competitors in the Netherlands are international ICT providers, such as T-Systems, Capgemini, IBM, Atos and Hewlett Packard. KPN's primary competitors have pursued aggressive marketing and pricing strategies to retain and expand their market share which, if pursued in the future, could reduce KPN's margins, cause it to increase its marketing and promotional expenses in response to such strategies, and result in increased customer churn.

In addition, Tele2, which already operates as an MVNO in the Netherlands, is expected to enter the Dutch mobile telecommunications market as a new mobile network operator in the foreseeable future. The entry of Tele2 in the Dutch mobile telecommunications market could introduce a new round of aggressive price competition in that market, which could, in turn, materially impact KPN's market share and affect its revenues, EBITDA and results of operations. KPN's subscriber acquisition and retention costs or the level of discounts it offers to its customers may increase as a result of significant competition, such as Tele2's expansion of its operations in the Netherlands, for new subscribers, or for the retention of existing subscribers, which could put further pressure on its revenues and margins.

KPN is pursuing a challenger strategy in the German and Belgian mobile telecommunications markets, and competes with large, established players, such as Vodafone, Deutsche Telekom and Telefónica Deutschland in Germany and Belgacom Mobile (Proximus), Mobistar and Telenet in Belgium. KPN's competitors in Germany and Belgium are larger established network operators that benefit from considerable financing, marketing and personnel advantages, broad brand-name recognition, perceived network quality and a deeply entrenched customer base. KPN may prove unable to compete effectively with these established players, resulting in a material adverse effect on its business, financial condition and results of operations.

In the Netherlands, Germany and Belgium, KPN's mobile businesses compete with MVNOs that may be able to offer lower prices to customers as a result of their lower capital expenditure and investment obligations. In addition to competing with MVNOs for retail customers, KPN competes with other mobile network operators for customer relationships with certain MVNOs, branded resellers and other large wholesale customers that use KPN's networks to supply mobile services to their retail customers. KPN's ability to compete with these mobile network operators for business from MVNO customers directly impacts its ability to maintain both its wholesale and retail customer relationships.

As a result of the above, or as a result of increasing competitive pressure due to factors beyond KPN's control, KPN's business, financial condition and results of operations could be materially adversely affected. For a further discussion of the market environment and competition, see the "—Market environment and competition" subsection within the discussion of each operating segment in "Business Overview".

***The sectors in which KPN competes are subject to rapid and significant changes in technology, with which KPN may have difficulty competing successfully.***

The fixed and mobile telephony, broadband internet, TV and business ICT markets are characterized by rapid and significant changes in technology, customer demand and behavior, and as a result feature a constantly changing competitive environment. The telecommunications industry is experiencing continuous structural changes, including new revenue models introduced by KPN's competitors and new market entrants. These structural changes, together with the accompanying products, such as emerging customer demand for 4G LTE handsets, or other technological developments are exerting substantial pricing pressure on KPN's products and services, and may increase KPN's subscriber acquisition and retention costs. In particular, new technologies such as voice over internet protocol (**VoIP**) (over fixed and mobile technologies), mobile instant messaging, Wi-Fi or internet protocol TV (**IPTV**) for retail customers and cloud computing for business customers have had and are expected to have a continued effect on the telecommunications industry and on KPN's business. As a consequence of these or other developments, new and established information and telecommunications technologies or products may not only fail to complement each other, but in some cases may even substitute or decrease demand for each other. KPN is also investing in new technologies, such as 4G LTE, that may have slower than expected customer acceptance, or may be limited by the lack of supply of products by third parties to enable KPN's customers to take advantage of such new technology, for example, a limited supply of 4G LTE handsets by third parties. If KPN is unable to effectively anticipate, react to or access technological changes in the telecommunications market, KPN could lose customers, fail to attract new customers, experience lower average revenue per user (**ARPU**) or incur substantial or unanticipated costs and investments in order to maintain its customer base, all of which could have a material adverse effect on its business, financial condition and results of operations.

***As a result of the increasing substitution of data services in place of traditional voice and SMS communications, KPN's traditional voice and SMS markets have been decreasing and are expected to continue to decrease due to increasing competition from alternative modes of telecommunication.***

KPN is facing increasing competition from non-traditional data services based on new voice and messaging over the internet technologies, in particular over-the-top (**OTT**) applications, such as Skype, Google Talk, FaceTime and WhatsApp. These applications are often free of charge, other than for data usage, accessible via smartphones, tablets and computers and allow their users to have access to potentially unlimited messaging and voice services over the internet, bypassing more expensive traditional voice and messaging services such as short message service (**SMS**) which have historically been a source of significant revenues for fixed and mobile network operators such as KPN. With the growing share of smartphones, tablets and computers in the geographies in which KPN operates, an increasing number of customers are using OTT applications services in substitution for traditional voice or SMS communications. On average, KPN charges lower rates for internet data usage as compared to per-minute or per SMS fees, and may also offer its services through flat fee packages which tend to generate a lower ARPU as compared to traditional per-minute or per-SMS tariffs. Moreover, many devices can access the internet via Wi-Fi connections, as opposed to over a mobile network, further limiting the fees KPN can charge for its products and services. Within KPN's Business segment, this trend towards data usage is resulting in an increasing proportion of machine-to-machine (**M2M**) traffic, which is significantly lower margin than traditional voice or SMS. Historically, KPN has generated a substantial portion of its revenues from voice and SMS services, particularly in its mobile business in the Netherlands, E-Plus in Germany and KPN Group Belgium, and the substitution of data services for these traditional voice and SMS volumes has had and is likely to continue to have a negative impact on KPN's revenues and EBITDA, particularly from mobile services. As a result of these and other factors, KPN faces a mobile market in which price pressure has been increasing, resulting in declining total revenues and EBITDA in recent years.

All mobile network operators, including KPN, are currently competing with OTT application providers who leverage on existing infrastructures and who generally do not operate capital-intensive business models associated with traditional mobile network operators like KPN. OTT application service providers have recently become more sophisticated competitors, and technological developments have led to a significant improvement in the quality of service, in particular speech quality, delivered via data communications applications such as OTT. In addition, players with strong brand capability and financial strengths, such as Apple, Google and

Microsoft, have turned their attention to the provision of OTT application services. In the long term, if non-traditional mobile voice and data services or similar services continue to increase in popularity, as they are expected to do, and if KPN and other mobile network operators are not able to address this competition, this could contribute to further declines in ARPU and lower margins across many of KPN's products and services, thereby having a material adverse effect on KPN's business, results of operations, financial condition and prospects.

***Customer churn may increase, and revenues and margins could be significantly lower than expected, if KPN fails to offer customer propositions that respond to customer demand.***

One of KPN's primary revenue drivers is its number of customers. The success of KPN's business and its ability to limit churn by retaining existing customers or to win new customers depends upon the introduction of new or enhanced products and services, flexible pricing models, high quality customer service, and improved network capabilities in response to evolving customer expectations, new technologies, or the offerings of its competitors. Any of the new or enhanced products, services or pricing models KPN introduces may fail to achieve market acceptance, or products or services introduced by KPN's competitors may prove more appealing to customers, who may discontinue using KPN's services, either of which would, in turn, increase KPN's customer churn. Any increase in customer churn may lead to a reduced number of total customers, increased acquisition and retention costs, the need to reduce other costs to preserve margins, or lower overall revenues and margins.

The various measures KPN has taken and plans to take to manage churn and to increase customer loyalty may not be successful in managing its churn rate. For example, KPN's broadband internet market share among retail customers in the Netherlands has faced significant rates of customer churn in recent years due to competitors being able to offer faster internet connection and download speeds in certain areas. KPN believes customers purchasing bundled services may be less likely to switch to a different operator for all or part of their bundled services. As a result, KPN's ability to offer attractive and competitively priced product bundles, including integrated fixed and mobile packages, is important to its ability to compete, reduce churn by retaining existing customers and win new customers. Certain of KPN's competitors, such as UPC and Ziggo, increasingly offer integrated products over their fixed line and/or cable networks, including "triple-play" offerings to retail customers that combine fixed-line telephony, broadband and TV, and KPN's competitors may begin to offer "quadruple-play" offerings which add mobile telephony through partnerships with MVNOs or mobile network operators other than KPN, or through the development of their own mobile networks. Bundled services, already a significant component of KPN's product offering, are expected to become increasingly important to retail customers and small business customers and to grow in popularity. Although KPN expects to introduce its own integrated quadruple-play offering, such offering could take longer than it expects to commercialize, or if commercialized, fail to gain market acceptance. In addition, in Germany and Belgium, KPN generally does not offer extensive bundled offerings to customers, except in conjunction with its recent introduction of a triple play package in Belgium, and as a result, may be exposed to higher rates of churn than its competitors in those countries.

KPN's efforts to retain customers and reduce churn may also require additional upgrades to its network infrastructure, particularly in Germany, and failure to successfully maintain and improve network performance could contribute to increased customer churn. Moreover, in Belgium, in the context of recent regulatory developments, KPN has opted to have no minimum length for its mobile contracts, which has resulted in and may continue to result in increased customer churn.

If KPN fails to communicate effectively the quality, reliability or other benefits of its network through marketing and advertising efforts, or to successfully instill its brands with a reputation for network quality and reliability, it may not be able to attract new customers or reduce churn by retaining existing customers, and its marketing and advertising efforts may cost more than the incremental revenue attributable to such efforts, which in turn, may decrease EBITDA margins. Similarly, KPN's efforts to increase pricing flexibility by offering flat fee bundles in various operating segments, and by introducing new handset financing and selection options in its Consumer Mobile segment, may fail to achieve the expected benefits, attract new subscribers, or reduce churn. In addition, KPN's competitors may improve their ability to attract new subscribers, for example by offering products and attractive price plans that KPN currently does not offer, or offer their products or services at lower prices, which would make it more difficult for KPN to retain its current subscribers or to acquire new subscribers.

## **Risks associated with KPN's business and the telecom industry**

*KPN's results of operations and financial condition depend on economic conditions in the Netherlands, Germany and Belgium.*

KPN operates almost entirely in the Netherlands, Germany and Belgium, and its success is therefore closely tied to general economic conditions in those markets. According to the OECD, the macro-economic outlook in KPN's geographical markets remains relatively weak compared to historical levels, with projected 2013 GDP growth of 0.2%, 0.6% and 0.5% in the Netherlands, Germany and Belgium, respectively. Weakness in the Dutch, German or Belgian economies, and, in particular, low GDP growth and increasing levels of unemployment, has had and, if such economic weakness persists, may continue to have a direct negative impact on the spending patterns of customers, both in terms of the products they subscribe for and the extent to which they use such products. During periods of deteriorating economic conditions and high unemployment, retail customers generally have less discretionary income with which to purchase products. KPN's revenue in its Consumer Mobile and Consumer Residential segments in the Netherlands as well as in its German and Belgian mobile operations are most directly impacted by a reduction in discretionary income, and as a result of continued economic weakness in the Netherlands, Germany or Belgium, it may be more difficult for KPN to attract new customers, or retain existing customers, and KPN's revenue and ARPU, particularly in those segments, may continue to decline.

Additionally, KPN's business and corporate customers are also affected by general economic conditions and consumer spending, and therefore an extended recession, or public perception of declining economic conditions, is and could continue to substantially decrease IT expenditures among KPN's business customers, which would in turn adversely affect KPN's revenues in its Business and Corporate Market segments. KPN also provides products and services to a number of government entities that have in the past and may in the future be subject to budget cuts or expenditure limitations. In addition, a further deterioration of economic conditions may lead to a higher number of non-paying customers or generally result in a higher number of service disconnections. A weak economy and negative economic developments may jeopardize KPN's ability to achieve its strategy and have had and may continue to have a material adverse effect on its business, financial condition, results of operations and prospects.

*KPN's success depends upon maintaining and improving its networks, systems and operations.*

KPN must continuously maintain and improve its networks and other infrastructure in a timely and cost-effective manner. A reliable and high quality network is necessary to manage churn by sustaining its customer base, to maintain strong customer brands and reputation and to satisfy regulatory requirements, including minimum service requirements. The maintenance and improvement of KPN's existing networks and infrastructure depends on its ability to:

- enhance the functionality or upgrade the technology of its existing fixed copper and mobile networks in order to offer increasingly customized services to KPN's customers;
- expand the capacity of its existing fixed copper and mobile networks to cope with increased bandwidth usage;
- simplify, modify and improve customer service, network management and administrative systems; and
- finance its maintenance costs, future network and IT projects, upgrades and capacity expansion.

KPN is making significant investments to upgrade its networks in the Netherlands, Germany and Belgium. In particular, KPN is investing in new technologies based on its existing fixed-line copper network, such as upgrading and extending its VDSL capabilities, while also focusing on the further expansion of a fiber to the home (**Ftth**) network, executed through its FttH joint venture, Reggefiber Group B.V. (**Reggefiber**), and its fiber to the office (**FttO**) in the Netherlands. It is also continuing its HSPA+ and mobile broadband rollout in Germany and Belgium. KPN also has begun to roll out its 4G LTE network for mobile communication in the Netherlands, and intends to begin rolling out 4G LTE in Belgium in either 2013 or 2014, with the aim to have 4G LTE available to the majority of Belgium in 2014. It also expects to begin deploying 4G LTE in Germany in either 2013 or 2014 in line with customer demand. KPN's network investments may fail to generate adequate returns, or may require significantly more cash investment than is currently projected, with no assurance of market acceptance or regulatory cooperation. Furthermore, these roll outs may take longer to complete than anticipated and may suffer from technical delays or faults that require additional repair.

It is possible that KPN may participate in spectrum auctions (or other forms of frequency allocations) in Germany or Belgium as early as this year, which could result in KPN incurring significant and unexpected



capital expenditures or investments. For example, KPN recently participated in the spectrum auction in the Netherlands, in which it paid EUR 1.35 billion, which cost more than expected, to acquire the bandwidth necessary to continue its existing services, and to introduce new services for its customers. See “—KPN may fail to obtain or renew its spectrum licenses in the jurisdictions in which it operates, and, in particular, may participate in spectrum auctions in Germany and Belgium in the near future.”

In addition, due to rapid changes in the telecommunications industry, KPN’s network investments may prove to be inadequate or may be superseded by new technological changes. KPN’s network investments may also be limited by market uptake and customer acceptance. For example, despite KPN’s significant investments in its 4G LTE network roll out in the Netherlands, it may not be able to ensure a smooth transition in service between 3G and 4G LTE, or customers may be unable to acquire 4G LTE capable handsets, including acquiring handsets designed for 800MHz 4G LTE networks, such as KPN’s. If KPN fails to make adequate capital expenditures or investments, or to properly and efficiently allocate such expenditures or investments, the performance of its networks, both in real terms and in relative terms as compared to its competitors, could suffer, resulting in lower customer satisfaction, diminution of brand strength and increased churn. Moreover, these and other factors may result in KPN’s specific plans and targets, as described under “—Strategy” and “—Challenger Strategy” in “Business Overview”, not being realized on time or at cost.

In addition, certain regulatory approvals, such as new building permits or licenses and permits for digging related to KPN’s FttH network, may be required. For example, KPN may require building permits to modify existing mobile sites to shift from a higher frequency to a lower frequency or licenses to provide services based on new technologies. As a result of complying with such regulations, KPN’s current and future technology initiatives may experience delays, cost overruns or fail to achieve the desired results.

KPN has also entered into sale and leaseback transactions for the majority of its mobile towers in the Netherlands and Germany. Although these arrangements provide obligations for third parties to maintain the towers, KPN has limited control over the actions of these third parties in maintaining these sites. These third parties may fail to adequately maintain the sites on which KPN’s mobile towers are located and the terms of the sale and leaseback transactions may limit KPN’s operational flexibility, for example by requiring long-term revenue sharing, under which KPN would be obligated to make payments even if it no longer needs one or more of the mobile towers due to technological change.

If KPN fails to maintain or improve its networks, IT systems or operations, its business, financial condition and results of operations could be materially adversely affected.

***KPN’s challenger strategy in Germany and Belgium may not be successful.***

KPN pursues a challenger strategy in Germany and Belgium, where it also competes with incumbent mobile service providers which generally have superior brand recognition, distribution networks and financial resources. Traditional voice and SMS revenues in these markets have declined as a result of customer optimization and preference for mobile data, particularly driven by OTT applications, and due to regulatory restrictions on the level of mobile termination rates (MTRs) and roaming fees that may be charged by mobile providers. This decreasing market revenue may make pursuing a challenger strategy by KPN particularly difficult as it can be more challenging to gain market share in an environment where traditional voice and SMS revenues are declining.

In order to execute its challenger strategy, KPN is seeking to monetize the shift to data by upgrading the quality of its networks in Germany and Belgium, requiring additional capital expenditures and investments. In addition, KPN is seeking to grow its market share by entering regions in Germany and Belgium where it has lower market share, which requires additional marketing and distribution expenses and which may not be successful. In both Germany and Belgium, KPN expects to face lower margins as it makes such investments and targets market share growth. If the next phase of KPN’s challenger strategy is not successful in Germany or Belgium, its business, financial condition and results of operations could be materially adversely affected.

***Rating agency action could material adversely affect the market price of the Securities as well as KPN’s ability to obtain future financing and the terms of that financing.***

Following the results of the Dutch spectrum auction, each of Fitch, Moody’s and S&P negatively amended KPN’s ratings. On 17 December 2012, Fitch downgraded KPN’s long-term issuer default rating from BBB to BBB- with a stable outlook; on 6 February 2013, Moody’s confirmed KPN’s Baa2/Baa3 senior unsecured rating

and confirmed its Prime-2 short-term debt rating with negative outlook on all ratings; and on 8 February 2013, S&P downgraded KPN's long- and short-term ratings to BBB-/A-3 from BBB/A-2, with a stable outlook. All three rating agencies cited the price KPN paid in the Dutch spectrum auction and the corresponding impact on KPN's Net Debt/Adjusted EBITDA ratio as the primary reason for their actions.

The Securities are expected to be rated BB by S&P, Ba1 by Moody's and BB by Fitch. The ratings may not reflect the potential impact of all risks related to structure, market and other factors that may affect the value of the Securities. In addition, the Securities may be assigned lower than expected ratings, or experience subsequent downgrades, which could adversely affect the market value of the Securities.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization. Ratings do not address the marketability of the Securities at any market price. The significance of each rating should be analyzed independently from any other rating. Lower credit ratings could make it more difficult or more expensive for KPN to obtain financing in the future or to refinance its existing debt, and could negatively impact the market price of the Securities.

***KPN's business depends on the strength and visibility of its various brands. Failure to promote and reinforce customer trust in its brands would have a material adverse effect on KPN's business, results of operations and financial condition.***

KPN maintains multiple well-recognized brands in its areas of operation in the Netherlands, Germany and Belgium, and promotes different brands for its various operating segments, including multiple brands per operating segment, across various price points. As a means of protecting and increasing market share, reducing customer churn, and growing its revenues, KPN intends to continue to pursue a strategy of promoting its various brands in the Netherlands, Germany and Belgium.

In the Netherlands, KPN seeks to protect its incumbent position by maintaining its brands against competition and potential new entrants, and has incurred, and may have to increase in the future, high levels of marketing expenses as a result. In Germany and Belgium, in support of its challenger strategy, KPN intends to significantly invest in its brands to increase customer awareness in the near future. In particular, E-Plus in Germany plans to increase marketing associated with each of its brands and to target geographic regions where it has lower market share to stimulate brand awareness of certain of those brands. KPN may not be able to successfully increase customer awareness of its brands, expand the use of its brands into new geographic regions, or strengthen brand recognition, and its efforts to do so may not prove to be cost-effective. There can be no assurance that KPN's brands will retain their current recognition levels or that the strength of, or investment in, KPN's brands will lead to a measurable increase in net adds, reduce customer churn, or increase KPN's revenues.

In addition, KPN's multiple brands may prove confusing for customers, lead to duplicative or costly replication of marketing efforts, or may promote KPN's more economical brands at the expense of its premium brands. In particular, as KPN continues to market its products and services online, particularly in Germany, it may increase sales or recognition of one brand at the expense of another of its brands. KPN is currently consolidating its brands in the Netherlands to streamline marketing and to provide customers with its clearly-defined brands targeted at different market segments. In the process of consolidating its brands, KPN may lose customers to competitors or suffer from customer confusion, loss of brand awareness, or other factors. KPN's brands could also be subject to negative publicity as a result of various factors, including a perception of poor customer service, interruptions in power or service supply, intermittent network coverage, security breaches or misuse of personal and financial data provided by customers, or the conduct of employees or of subcontractors. Any damage to KPN's brand or reputation could have a material adverse impact on KPN's business, results of operations and financial condition.

***KPN's deployment of FttH is dependent upon its joint venture, Reggefiber, and increasing KPN's ownership in the joint venture through the Call/Put Arrangement would require KPN to fully consolidate Reggefiber's assets and liabilities on KPN's consolidated balance sheet.***

KPN has entered into a joint venture (**Reggefiber**) with Reggeborgh Group B.V. (**Reggeborgh**) for deployment of FttH in the Netherlands, as a key part of its strategy. If there is a dispute or other disagreement, KPN may not have the right or power to direct the management or policies of Reggefiber and the deployment of FttH may fail to result at the pace KPN expects or at all.

KPN has made significant investments in Reggefiber, and the book value of Reggefiber on KPN's consolidated balance sheet amounted to EUR 293 million as of 31 December 2012. KPN also has the option to purchase an additional 9% stake in Reggefiber, and Reggeborgh has the option to sell 9% of its interest in Reggefiber to KPN (the options jointly referred to as the **Call/Put Arrangement**). If either party exercises its option under the Call/Put Arrangement, KPN would be required to pay between EUR 116 to EUR 161 million to acquire an additional 9% stake in Reggefiber, depending on the reduction of average per home FttH activation capital expenditure at the time of payment as compared to prior periods. Both options vest on the earlier of 1 January 2014 or upon the achievement of 1.5 million homes connected to the Reggefiber FttH network, and are subject to the approval of the Netherlands Competition Authority (the **NMa**). Such approval may not be forthcoming on a timely basis, or at all.

If either option is exercised and approved by the NMa, KPN's ownership in Reggefiber would increase from 51% to 60%. As a result, KPN would be required to change its accounting treatment of Reggefiber, and fully consolidate its assets and its liabilities, as well as to accept as liabilities on its consolidated balance sheet Reggefiber's bank loans and those shareholder loans which Reggefiber has borrowed from Reggeborgh. This consolidation would result in KPN adding to its consolidated balance sheet Reggefiber's bank loans, which totaled EUR 376 million as of 31 December 2012 (net of Reggefiber's cash and cash equivalents), as well as require KPN to redeem Reggefiber's shareholder loans from Reggeborgh, requiring an additional payment by KPN at the time of consolidation. As of 31 December 2012, the amount of the Reggefiber's shareholder loans from Reggeborgh was EUR 183 million, and this could be significantly higher at the time of consolidation. The consolidation of Reggefiber's liabilities, or the requirement that KPN borrow funds to redeem Reggefiber's shareholder loans from Reggeborgh, could result in substantial additional leverage, raise KPN's Net Debt/ Adjusted EBITDA ratio and have a negative impact on KPN's credit rating. Reggefiber's total liabilities could be substantially higher at the date of any future consolidation, in light of Reggefiber's negative operating cash flows.

In addition, upon KPN reaching the 60% ownership threshold, Reggeborgh is entitled to put the remaining 40% of its stake in Reggefiber to KPN (the **Put Option**), for an amount totaling either EUR 647 million for a period from three and a half years to five years after the date on which the Call/Put Arrangement has been exercised by either party, or the fair value of the remaining stake in Reggefiber for a period of seven years after the date KPN reaches the 60% ownership threshold, whichever is greater. There is no certainty that KPN will be able to fund from its free cash flow the amount required to be paid under the Put Option. As a result, to achieve full ownership of Reggefiber, KPN may be required to take on significant additional indebtedness.

Currently, the value of the Reggefiber Call/Put Arrangement is held on KPN's balance sheet, where it is valued at fair value and recorded as a derivative financial instrument liability of EUR 278 million as of 31 December 2012. A change in value of KPN's interest in Reggefiber, and consequently in the value of its option to acquire an increased stake in Reggefiber, would be reflected on KPN's income statement as gain or loss under other financial results. If changes in FttH penetration rates, the pace of the planned FttH deployment, actual capital expenditures, investments or regulatory change do not align with current expectations, KPN could be required to recognize significant losses upon revaluation of the Call/Put Arrangement and carry higher balance sheet liabilities. Any such charge could have a material adverse effect on KPN's business, financial condition and results of operations.

***KPN depends on the ability to attract and retain key personnel without whom KPN may not be able to manage its business effectively.***

KPN's operations are currently managed by senior management and key employees. The loss of any of its senior management or key employees could significantly impede KPN's financial plans, product development, network completion, marketing and other plans. In addition, competition for qualified senior management in the telecommunications industry is intense. KPN's growth and success in implementing its business plans largely depends on its continued ability to attract and retain experienced senior management as well as highly skilled employees. KPN cannot assure investors that it will be successful in hiring and retaining such qualified personnel. Furthermore, integration of new senior management would require additional time and resources, which could adversely affect KPN's ability to successfully implement its strategy. If any of KPN's senior management or other key personnel cease employment with KPN, its business, results of operations, financial position and prospects could be harmed.

***KPN operates in a capital-intensive business and may not have sufficient liquidity to fund its capital expenditures and investments.***

KPN requires significant capital expenditures and investments to improve and maintain its networks and add customers, including expenditures for equipment and related labor costs. Generally, advancements in the information and telecommunications industry (the development of faster networks and new products requiring mobile internet access) and the behavior of KPN's customers (for example, accelerated growth in internet usage and expectations of higher speeds) may require it to invest in the capacity of its network at a faster pace than KPN currently anticipates, and at greater additional expense. Moreover, if KPN increases its ownership in its FttH joint venture, Reggefiber, it would be required to include Reggefiber's bank loans on its balance sheet, which totaled EUR 376 million as of 31 December 2012 (net of cash and cash equivalents), as well as redeem Reggefiber's shareholder loans from Reggeborgh, requiring an additional payment by KPN at the time of consolidation. As of 31 December 2012, the amount of the Reggefiber's shareholder loans from Reggeborgh was EUR 183 million, and this could be significantly higher at the time of consolidation. The consolidation of Reggefiber's liabilities, or the requirement that KPN borrow funds to redeem Reggefiber's shareholder loans from Reggeborgh, could result in substantial additional leverage, raise KPN's Net Debt/Adjusted EBITDA ratio and have a negative impact on KPN's credit rating. In addition, part of KPN's swap portfolio contains reset clauses at pre-agreed dates, in order to mitigate counterparty exposure during the life of the swap. These reset clauses may result in early Euro settlement obligations in cash with the swap counterparty for part of the outstanding notional amount of the swap. This contributes to KPN's liquidity risk as these reset clauses could lead to significant cash outflows prior to maturity. See "Operating and Financial Review—Qualitative and quantitative disclosure about market risk—Liquidity risk".

KPN can provide no assurance that its business will generate sufficient cash flows from operations or that future debt and equity financing will be available to it on acceptable terms or in an amount sufficient to enable it to, over the longer term, fund its capital expenditures or investments or renew its debt financing as principal repayments come due. Forces over which KPN has little or no control, such as competition, technological innovation, regulatory changes, the loss of its current distribution partners which could require additional capital expenditure for new stores or distribution channels and general market conditions all impact KPN's operating performance, and therefore the cash it has available to fund these expenditures and service its debt. Furthermore, rating agency action may negatively affect KPN's ability to obtain funds from financial institutions and may increase its financing costs by increasing the interest rates at which it is able to refinance existing debt or incur new debt. In addition, sustained turbulence in the capital markets could further restrict KPN's ability to access additional funding.

If KPN's future cash flows from operations and other capital resources are insufficient, KPN may be unable to fund its strategy, which includes planned capital expenditures, investments, maintenance of its credit rating and sustaining a positive leverage ratio, and as a result, could have a material and adverse effect on KPN's business, results of operations, financial condition and prospects.

***KPN is subject to risks from legal and similar proceedings, particularly relating to KPNQwest and Reggefiber.***

KPN is involved in a number of legal and arbitration proceedings, including relating to KPNQwest and Reggefiber, as more fully described in "Business Overview—Legal Proceedings". Disputes and legal proceedings are subject to many uncertainties, and their outcomes are often difficult to predict. Adverse judgments, particularly relating to KPNQwest or Reggefiber, could result in restrictions or limitations being imposed on KPN or result in a material adverse effect on its results of operations and financial condition.

***Failure of KPN's telecommunications systems or security measures could significantly disrupt its operations, which could negatively affect KPN's reputation, reducing its customer base and resulting in lost revenue.***

KPN's success largely depends on the continued and uninterrupted performance of its information technology, network systems and of certain hardware and datacenters that it manages for its clients. The hardware supporting a large number of critical systems for KPN's network and those of its clients is housed in locations that are geographically close to each other or that could be exposed to similar risks at the same time. As a result, these systems are vulnerable to damage from a variety of sources, including fire, power loss, malicious human acts, telecommunications failures and natural disasters, and the disaster recovery, security, information protection and service continuity protection measures that KPN has undertaken or may in the future undertake, and its monitoring of network performance, may be insufficient to identify problems and prevent losses. Moreover, despite security measures, KPN's servers are potentially vulnerable to physical or electronic break-

ins, computer viruses and similar disruptive problems each of which, in the individual or in the aggregate, could negatively affect KPN's levels of customer satisfaction and reputation. See “—KPN collects and processes customer data as part of its daily business and the leakage of such data may violate laws and regulations which could result in fines, loss of reputation and customer churn and adversely affect KPN's business.”

Moreover, in the event of a power outage or data loss, KPN does not have a backup or alternative supply source for all components of its network. Despite the presence of certain data backup systems and similar precautions KPN has taken, unanticipated problems affecting its systems could cause failures in its information technology systems or disruption in the transmission of signals over KPN's network. Sustained or repeated system failures that interrupt KPN's ability to provide service to its customers or otherwise meet its business obligations in a timely manner would adversely affect KPN's reputation and result in a loss of customers and reputational damage, and may trigger claims for payment of damages or contractual remedies. The occurrence of any of these eventualities could have a material adverse effect on KPN's business, financial condition, results of operations and prospects.

Furthermore, KPN's technical equipment and systems have been and may continue to be subject to occasional malfunctioning due to technical shortcomings in KPN's own network or with other surrounding equipment. KPN might incur liabilities or reputational damages as a result thereof, which could materially and adversely affect its business, results of operations, financial condition and prospects.

In addition, KPN is not insured against war, terrorism (except to a limited extent under its general property insurance) and cyber-risks.

***KPN may experience employee or labor relations problems, which may lead to work stoppages, reputational damage or increased costs.***

Many of KPN's employees are members of unions. Although management believes that KPN's relations with its employees have generally been satisfactory, KPN has occasionally had disputes with unions and its employees, particularly in connection with KPN's ongoing FTE reduction program and its move to outsourcing or offshore certain business functions. In addition, KPN has in place two collective labor agreements in the Netherlands, one of which is due for renewal in June 2013 and the other of which is currently under negotiation for renewal with an effective date of 1 January 2013. KPN's inability to negotiate an acceptable agreement with its unions for either of these agreements could result in strikes or work stoppages by the affected workers and increased operating costs as a result of higher wages or benefits paid. If unionized workers were to engage in a strike or other work stoppage, KPN could experience a significant disruption in operations, reputational damage or higher labor costs, which could have a material adverse effect on KPN's business.

***KPN's pension liability may reduce KPN's cash flows, profitability, financial condition, net assets, distributable reserves and KPN's ability to pay dividends.***

KPN maintains a number of pension plans for its employees, which provide for the payment of retirement benefits and certain disability and survivor benefits. In particular, the majority of KPN's employees in the Netherlands are covered by defined benefit plans, as are certain of KPN's employees in Germany and Belgium. While KPN makes periodic contributions to its defined benefit plans, such contributions are based on certain assumptions imposed by law and therefore the actual amount of future pension obligations may be higher than provided for by KPN. A portion of KPN's pension plans are unfunded and KPN recognizes these liabilities on KPN's consolidated balance sheet as an accrual against future obligations. As of 31 December 2012, KPN had defined benefit obligations in excess of its defined benefit plan assets amounting to EUR 1,555 million based on IFRS pension accounting requirements. This includes EUR 219 million associated with legacy obligations for the US and UK operations of Getronics for which KPN has retained certain pension obligations despite disposing of those businesses. KPN's pension deficit could further increase depending, among other things, on changes in the valuation of publicly-traded debt or equity securities, changes in the applied discount rate, and fluctuations in exchange rates and interest rates. An increase in KPN's defined benefit pension liabilities could have a material adverse effect on its cash flows, financial condition and results of operations.

Should the Dutch actuarial valuation at any time disclose a significant underfunding of KPN's pension fund, KPN could be obliged to make additional contributions into the pension plan in addition to the normal contributions defined in the pension plan regulations. Such contributions may adversely affect KPN's ability to fund its capital expenditures or investments, pay dividends or service debt obligations, and generally have a material adverse effect on KPN's cash flows, financial condition and results of operations. See “—KPN's dividend may remain at current levels or face further reduction going forward.”

***Deteriorating economic conditions or other factors could result in the further impairment of tangible assets, goodwill and other intangible assets, which may adversely affect KPN's financial condition or results of operations.***

In recent years, KPN has recognized impairment of goodwill, tangible and intangible assets related to KPN's Corporate Market segment. Such impairment charges totaled EUR 314 million in the year ended 31 December 2012, relating to goodwill from Corporate Market (previously Getronics), and EUR 298 million in the year ended 31 December 2011, relating to goodwill, tangible and other intangible assets from Corporate Market, in each case, triggered by persistent adverse market conditions in the ICT market, including fierce price pressure.

To the extent economic conditions worsen or other factors cause one or more of KPN's historic acquisitions for which goodwill was recorded to show increasing signs of impairment, KPN may need to record impairment charges relating to certain of its businesses, such as Getronics, E-Plus or Reggefiber, and such charges, while not directly affecting KPN's cash flows, could have a material adverse effect on its results of operations or financial condition. In particular, within Germany, further competitive pressure in the mobile market, resulting in a reduction of the long-term growth rate of the business, could result in impairment of goodwill going forward

***KPN depends on hardware and software suppliers and content suppliers, who may choose to discontinue or be forced to discontinue their services or products, seek to charge prices that are not competitive or choose not to renew contracts with KPN.***

KPN has important relationships with several suppliers of hardware, software, content and related services that KPN uses to operate its fixed and mobile telephony, broadband internet, TV and business telecommunications systems. In certain cases, KPN has made substantial investments in the equipment or software of a particular supplier, making it difficult for KPN to quickly change supply and maintenance relationships in the event that its initial supplier refuses to or is unable to offer KPN favorable prices or ceases to produce equipment or provide the support that KPN requires. Certain of KPN's suppliers in Asia, which may be difficult or costly to replace, may face governmental or regulatory restrictions on imports into the EU. In the event that hardware or software products or related services are defective, it may be difficult or impossible to enforce recourse claims against suppliers, especially if warranties included in contracts with suppliers have expired, are exceeded by those in KPN's contracts with its customers or if the suppliers are insolvent. In addition, there can be no assurances that KPN will be able to obtain the hardware, software, services and content it needs for the operation of its business, in a timely manner, at competitive terms and in adequate amounts.

The success of KPN's business increasingly depends on the quality and variety of the TV and other content it delivers to its customers. As KPN does not produce its own content, it depends on agreements, relationships and cooperation with broadcasters and collective rights associations. If KPN is unable to obtain or retain attractively priced competitive content on its network, demand for its existing and future TV and other content services could decrease, thereby limiting its ability to maintain or increase revenues from these services, which could have an adverse effect on KPN's business, financial condition and results of operations.

***KPN collects and processes customer data as part of its daily business and the leakage of such data may violate laws and regulations which could result in fines, loss of reputation and customer churn and adversely affect KPN's business.***

KPN accumulates, stores and uses data in the ordinary course of its operations that is protected by data protection laws. Although KPN takes precautions to protect customer data in accordance with the applicable privacy requirements of the European Union and of the jurisdictions where it operates, KPN may fail to do so and certain customer data may be leaked or otherwise used inappropriately. For example, in January 2012, as a safety precaution, KPN chose to publicly announce the temporary shut down of its email services after hackers posted usernames, passwords, phone numbers and addresses of more than 500 of KPN's customers after the data was taken from a third party. KPN works with independent and third-party sales agents, service providers and call center agents, and although KPN's contracts with these third parties restrict the use of customer data, KPN can provide no assurances that they will abide by the contractual terms. Violation of data protection laws may result in fines, loss of reputation and customer churn and could have an adverse effect on KPN's business, financial condition and results of operations.

***Risks in relation to outsourcing of services may adversely affect KPN's business and may cause higher costs than initially anticipated.***

Over recent years, KPN has increasingly outsourced or offshored certain of its operations, including the outsourcing of a large part of its back office, network, and IT operations, and may do so with other parts of its operations in the future. KPN may experience an adverse effect on its customer satisfaction if its service partners do not deliver the service quality agreed in the outsourcing contracts. For example, KPN's brands could also be damaged by negative public perception of outsourcing or perception of inadequate customer service, particularly if it increases the role outsourcing or offshoring plays in the provision of certain customer service functions. Furthermore, should any of these arrangements be terminated by either contract party, including as a result of bankruptcy or insolvency by KPN's outsourcing partners, this could result in delays or disruptions to KPN's operations and could result in it incurring additional costs, including if the outsourcing counterparty increases pricing or if KPN is required to locate alternative service providers or in-source previously outsourced services. KPN may also incur higher costs if it decides to or is required by its customers to perform these services in-house, particularly if it must do so on short notice. In addition, it is possible that persons who provide services for KPN on a contractual basis may be recharacterized as KPN's employees, in which case KPN would be required to pay social insurance contributions and tax, on a retroactive basis for such persons, including a potential fine and/or surcharge. The occurrence of any of these eventualities could have a material adverse effect on KPN's business, results of operations, financial condition and prospects.

***KPN's financial results could be adversely affected by changes in foreign currency exchange rates.***

KPN's financial statements are expressed in Euro and KPN's functional currency is the Euro. Moreover, the substantial majority of KPN's revenues and expenses are denominated in Euro. However, KPN is exposed to currency exchange risk, primarily with respect to the pound sterling and the US dollar, from the settlement of international telecommunications traffic and the purchase of goods and equipment. In addition, KPN has borrowed certain amounts in pound sterling and US dollars, and therefore incurs interest expense in those currencies.

In an attempt to reduce the impact of currency fluctuations and the volatility of returns that may result from its currency exposure, KPN attempts to hedge its currency risks on payments mainly with foreign exchange forward contracts, and to hedge its currency risks on bonds with cross-currency swaps for the duration of the bond. There can be no assurance that such hedging will be fully effective or beneficial in protecting KPN from the adverse foreign currency exchange rate movements or that any resets will not result in additional cash outflows before maturity.

***KPN is subject to interest rate risk, which could result in higher interest expense in the future.***

As of 31 December 2012, KPN had 100% of its short- and medium-term interest rate exposures at fixed interest rates, in part from hedges, but may have a mix of financial instruments bearing floating or fixed interest rates in the long-term, and as a result may be subject to risk from movements in interest rates upon refinancing its debt obligations in the future. Interest rates are highly sensitive to many factors, including government monetary policies and domestic and international economic and political conditions, as well as other factors beyond KPN's control. KPN periodically evaluates its mix of fixed and floating interest rate liabilities, and will from time to time engage in swap transactions to hedge its exposure to floating interest rates. There can be no assurance that such hedging will be fully effective or beneficial in protecting KPN from the consequences of higher interest rates.

***KPN does not provision for dismantling of certain elements of its network and any resulting cash outflows are uncertain.***

Although KPN currently records a provision for its future obligations to dismantle and remove certain elements of its network, and to restore the sites on which equipment is located, in certain cases no such provision has been recorded. In particular, KPN may, at the request of the landlord, be required in the future to remove certain cables in the Netherlands, if those cables are determined to have been idle for a continuous period of 10 years. Because it is uncertain whether and when such landlords will request removal of the cables, the date when its cables may be deemed idle and the resulting cash outflows associated with their removal is uncertain. As a result, KPN has no reliable estimate of the impact of such obligations, and no provisions have been made. KPN could face significant additional provisioning requirements related to these obligations in the future.

***KPN has significant deferred tax assets which may not be recoverable.***

As of 31 December 2012, KPN's operations in Germany maintained a deferred tax asset of EUR 1,736 million. KPN determines the value of its deferred tax asset by estimating future taxable income, taking into account various uncertainties in future cash flows and taxable profits. KPN's ability to use these deferred tax assets, and the carrying value of these assets, are dependent upon having future taxable income in Germany during the periods in which KPN is permitted to use its tax loss carry-forwards. If KPN's estimates of its future taxable income and future cash flows in Germany are not accurate, the full value of these deferred tax assets may not be available to reduce KPN's future tax liabilities, and the value of these assets may be subject to impairment. Furthermore, a change of control of either KPN or E-Plus of more than 50% would result in the loss of KPN's deferred tax assets. A partial change in ownership in E-Plus of 25% to 50% would result in a proportional loss of KPN's German deferred tax assets. As a result, a change in control could result in the loss or impairment of KPN's German tax assets.

***KPN is subject to increasing operating costs and inflation risks which may adversely affect its earnings.***

While KPN attempts to increase its subscription fees, revenue for prepaid cards, connection fees, access fees and revenues from sales of goods and services to offset increases in operating costs, there is no assurance that it will be able to do so, particularly in the face of market competition or decreased customer demand. If KPN is unsuccessful in increasing the fees it charges its customers in line with increasing operating costs, or if it is unable to reduce its cost base through its FTE reduction program or other cost control efforts, its operating costs may rise faster than associated revenue, resulting in a material negative impact on its cash flow and net earnings. If inflation were to increase, KPN could be negatively impacted by inflationary increases in wages according to KPN's collective labor agreements with its unions, salaries, benefits and other costs, as well as equipment and component prices, if it were not able to increase its prices in line with such increases.

***Third parties may claim that KPN infringes their intellectual property rights, which could adversely affect KPN's business.***

KPN's current portfolio of intellectual property rights consists of registered trademarks relating to KPN's core brands, and approximately 350 patent families. Of these, approximately 50 patent families are declared essential for the commercial exploitation of telecom communication technology and services, and as such, are essential to KPN's business. Though KPN takes steps to protect its intellectual property rights, there can be no guarantee that third parties will not claim that KPN has infringed or is infringing their intellectual property rights. Moreover, KPN cannot guarantee that a court or other adjudicative body will find any of KPN's intellectual property rights to be valid in the event they are challenged by a third party or that they conform to required technical standards. Furthermore, the fact that KPN has received ownership of, or licenses under, certain intellectual property rights from its contract partners is no guarantee that its activities do not infringe the intellectual property rights of third parties.

The various Dutch, German and Belgian laws relating to intellectual property, the international treaties valid in the Netherlands, Germany and Belgium, and the Dutch, German and Belgian codes of civil procedures, all contain provisions allowing the proprietor of an intellectual property right to request the Dutch, German and Belgian courts to grant various enforcement measures. Examples include (a) measures relating to the gathering and protection of evidence (such as the unilateral appointment by the courts of an expert with a mission to (among others) describe the alleged infringing goods), (b) provisional and precautionary measures (such as a court order to provisionally stop the commercialization of the alleged infringing goods, under a penalty), (c) corrective measures (such as a recall from the channels of commerce) or (d) damages, which could be substantial. In addition, the Dutch, German and Belgian laws also provide for penal sanctions (fines and even imprisonment) for certain specific infringements (e.g., malicious or fraudulent copyright infringement).

If a third party claims that KPN has infringed its intellectual property rights, this may have an adverse effect on its ability to develop, manufacture, store or distribute certain of its products or specific parts thereof. Furthermore, any claims of infringement by a third party, even those without merit, will require administrative handling and follow-up as well as cause distraction, for example investigating and responding to cease and desist letters, and could cause damage to KPN's reputation and the value of its brand, cause KPN to incur substantial defense costs and distract its management and employees from its business. In addition, KPN may be required to seek a license for the use of the infringed intellectual property, which may not be available to it on commercially reasonable terms or at all.



***KPN's business may be adversely affected by actual or perceived health risks and other environmental requirements relating to mobile telecommunications transmission equipment and devices, including the location of antennas.***

Various reports have alleged that there may be health risks associated with the effects of electromagnetic signals from antenna sites, mobile handsets and other mobile telecommunications devices. KPN cannot assure investors that further medical research and studies will not establish a link between electromagnetic signals or radio frequency emissions and these health concerns. The actual or perceived risk of mobile telecommunications devices, press reports about risks or customer litigation relating to such risks could adversely affect the size or growth rate of KPN's customer base and result in decreased mobile usage or increased litigation costs. In addition, these health concerns may cause authorities in the jurisdictions in which KPN operates to impose more onerous regulations on the construction of base stations or other telecommunications network infrastructure. In particular, public concern over actual or perceived health effects related to electromagnetic radiation may result in increased costs related to KPN's networks, which may hinder the completion or increase the cost of network deployment, reduce the coverage of KPN's network and hinder the commercial availability of new services. For example, in Brussels, Belgium, mobile network operators are restricted to three volts per meter output as a result of concern over electromagnetic radiation. Compliance with this regulation has required in the past and may require in the future significant capital expenditure to increase the number of mobile base stations in order to adequately cover an area with the necessary voltage output for mobile service. If actual or perceived health risks were to result in decreased mobile usage, increased customer litigation or more burdensome regulation, KPN's business, financial condition and results of operations could be materially and adversely affected.

KPN is also subject to a variety of laws and regulations relating to land use and the protection of the environment, including those governing the storage, management and disposal of hazardous materials and the clean-up of contaminated sites. KPN could incur substantial costs, including clean-up costs, fines, sanctions and third-party claims for property damage or personal injury, as a result of violations of, or liabilities under, such laws and regulations, which could have a material adverse effect on KPN's business, results of operations and financial condition.

***Disruptions in the credit and equity markets could increase the risk of default by the counterparties to KPN's derivative and other financial instruments, and further restrict the availability of debt financing to KPN.***

Although KPN seeks to manage the credit risks associated with its derivative and other financial instruments, cash investments and undrawn debt facilities, disruptions in credit and equity markets could increase the risk that its counterparties could default on their obligations to KPN. While KPN currently has no specific concerns about the creditworthiness of any counterparty for which it has material credit risk exposures, the current economic conditions and uncertainties in global financial markets have increased the credit risk of KPN's counterparties, and KPN cannot rule out the possibility that one or more of its counterparties could fail or otherwise be unable to meet its obligations to KPN. Any such instance could have a material adverse effect on KPN's cash flows, results of operations, available liquidity or financial condition. Furthermore, it is not possible to predict how economic conditions, sovereign debt concerns and/or adverse regulatory developments could impact the credit markets KPN accesses and, accordingly, KPN's future financial position or results of operations. In this regard, sustained or further tightening of the credit markets could adversely impact KPN's ability to access debt financing on favorable terms, or at all. KPN's high leverage and recent deterioration in credit ratings could also weaken its ability to obtain new debt financing or refinance existing obligations, which may become necessary if KPN's liquidity position does not improve. Weak equity markets could also foreclose KPN's ability to undertake future equity offerings. Sustained turbulence in the debt and equity markets could therefore contribute to KPN's inability to access the financing necessary to improve its liquidity position, thereby materially and adversely affecting its business, results or operations, financial condition and prospects.

***Market perceptions concerning the stability of the Euro could negatively impact KPN's business or KPN's ability to refinance KPN's liabilities.***

Recent economic events affecting the European economies, including the sovereign debt crisis in Greece, Italy, Spain and Portugal, have raised a number of questions regarding the stability and overall standing of the European Monetary Union. The departure or risk of departure from the Euro by one or more Eurozone countries or the abandonment of the Euro as a currency could have major negative effects on KPN's existing contractual relations with its suppliers, and could adversely affect the economy in the Netherlands, Germany and Belgium. In particular, the departure of these countries from the Euro would increase KPN's exposure to changes in currency rates. Any of these developments could have a significant negative impact on KPN's business, financial condition and results of operations.

***One shareholder owns approximately 29.52% of KPN's ordinary shares and thus may be in a position to exercise significant influence over KPN's actions, to the detriment of other shareholders and this shareholder's interest may not be aligned with the Holders of the Securities.***

América Móvil has notified KPN that, at the date of this Prospectus, it directly or indirectly owns 29.52% of KPN's ordinary shares. As a result of its shareholding, América Móvil is able to control a significant portion of the voting rights in KPN. In addition, América Móvil intends to and has reached an agreement with KPN whereby it will have the right to designate two individuals as members of the Supervisory Board (subject to appointment by the General Meeting) and it has entered into a Relationship Agreement with KPN to govern the long-term relationship between both parties. See "General Information—Material contracts—Shareholder commitment letter and relationship agreement". América Móvil, or any other large shareholder or shareholder group, may be in a position to exert significant influence over, or determine the outcome of, matters requiring approval of KPN's shareholders, including but not limited to the approval of the Rights Offering at the annual general meeting to be held on 10 April 2013, appointments to the Supervisory Board and the approval of dividends or major transactions. The interests of América Móvil or any other large shareholder or shareholder group may differ from the interests of other shareholders or the Holders of the Securities. As a result of its substantial interest, América Móvil or any other large shareholder or shareholder group may be able to influence certain decisions without the support of other shareholders, or delay or prevent certain transactions that are in the interests of other shareholders, including without limitation an acquisition or other change in control of KPN's business. The market price of the Securities may decline if América Móvil or any other large shareholder or shareholder group uses its influence in ways that are perceived to be adverse to KPN's financial position.

### **Risks relating to regulatory and legislative matters**

***KPN may fail to obtain or renew its spectrum licenses in the jurisdictions in which it operates, and, in particular, may participate in spectrum auctions in Germany and Belgium in the near future.***

KPN's current principal spectrum licenses have specified terms, some of which are due for renewal in the near term. Upon spectrum license renewal, KPN is often required to pay various licensing fees and satisfy certain other conditions. KPN's ability to renew its spectrum and other licenses and the terms of renewal to which those licenses are subject are determined by a number of factors, some of which are beyond KPN's control, including the prevalent regulatory and political environment at the time of renewal. As a condition for renewal, KPN may also be required to agree to new and more onerous terms and service requirements. The loss of, or failure to renew, any of KPN's spectrum licenses or other concessions, or a renewal on unfavorable terms, could have a material adverse effect on KPN's business, financial condition and results of operations.

Moreover, as KPN expands its network and services it will need to obtain additional licenses. In particular, KPN may participate in frequency allocations (via auction or otherwise) in Germany or Belgium as early as this year, which could result in KPN incurring significant and unexpected capital expenditures and investments. In Germany, although no auction has been announced or decided upon, the telecommunications regulator in Germany (*Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen (BNetzA)*) has indicated that the sum of interest from various parties exceeds the available spectrum, and that the advantages of an early auction outweigh the disadvantages. These frequency allocations may require KPN to incur significantly greater capital expenditure or investment than planned. For example, KPN obtained a combination of 120MHz of frequency licenses in the Dutch spectrum auction in the fourth quarter of 2012 for EUR 1.35 billion, which was significantly greater than expected. See "—Mobile licensing" in "Regulation".

Additional licenses may also need to be obtained if KPN expands its services into new product areas, and such licenses may be subject to auction or otherwise prove expensive or require significant cash outlays, or have certain onerous terms and conditions, such as requirements related to coverage and pricing, with which KPN may not have previously had to comply. If KPN is unable to obtain such licenses within the expected timeframe, at a commercially acceptable cost, or at all, or if the licenses subject KPN to onerous conditions, it could have a material adverse effect on KPN's business, financial condition and results of operations.

In addition, the terms of certain of KPN's licenses and concessions require KPN to meet certain conditions established by the laws and regulatory regimes of each jurisdiction in which it operates, including, for example, meeting minimum quality, service and coverage standards. If KPN fails or is unable to comply with the conditions on its licenses or with the legal and regulatory regime requirements of the applicable jurisdiction more generally, KPN may be subject to fines and/or other administrative actions or may have one or more of its licenses or concessions suspended or revoked. The suspension or revocation of any of KPN's licenses or concessions could have a material adverse effect on KPN's business, financial condition and results of operations.

***KPN is subject to monitoring and regulation by regulatory bodies in the jurisdictions in which it operates, which may increase its costs and otherwise adversely affect its business.***

Most of KPN's network activities are monitored by a national regulatory authority (NRA) in each EU Member State, including the *Onafhankelijke Post en Telecommunicatie Autoriteit (OPTA)* in the Netherlands, BNetzA in Germany, the Belgian Institute for Postal Services and Telecommunications (BIPT) in Belgium and the European Commission generally. Such governmental regulation and supervision, as well as future changes in laws, regulations or government policy (or in the interpretation of existing laws or regulations) that affect KPN, its competitors or its industry, strongly influence how it operates and will operate its various businesses. Adverse regulatory developments could expose its business to a number of risks as well as limit growth, curtail revenues and impact KPN's service offerings, lead to increased operating expenses and higher levels of capital expenditure or investment. In addition, regulation may restrict KPN's operations and subject KPN to further competitive pressure, including pricing restrictions, interconnection and other access obligations, obligations to protect customer interests, and restrictions or controls on content. Furthermore, KPN's competitors often engage in litigation to challenge certain regulatory decisions which impact their and KPN's businesses, and there is a risk that the results of such litigation could alter KPN's or its competitors' current regulatory environment such that KPN's business or results of operating would be negatively impacted. Moreover, there is a risk of non-compliance associated with the complexity of regulation. Failure to comply with current or future regulation could expose KPN's business to various sanctions, including fines.

Regulation of KPN's services includes and may include price controls, service quality standards requirements to protect customers' interests and to carry specified programming, requirements to grant network access to competitors and content providers and programming content restrictions, among others. In particular, KPN is or may become subject to:

- rules regarding licensing, authorizations, declarations, frequency allocations and other regulatory permits, certificates and notices;
- rules regarding the interconnection of its network with those of other network operators;
- requirements that a network operator carry certain TV channels (the "must carry" obligation);
- rules relating to privacy, data protection, consumer protection and e-commerce;
- protection of minors;
- the disclosure of personal data of customers committing certain severe criminal acts to the appropriate authorities;
- rules in relation to ISPs;
- approval of acquisitions, including, for example, of RoutIT or the increase of KPN's ownership in Reggefiber;
- rules regarding the fair, reasonable and non-discriminatory treatment of broadcasters; and
- other requirements covering a variety of operational areas such as environmental protection, wiretapping, data retention and technical standards.

Furthermore, KPN's ability to introduce new products and services may also be affected if it does not accurately predict how existing or future laws, regulations or policies would apply to such products and services, which could prevent KPN from realizing a return on its investment in their development. Complying with existing regulations is burdensome, and future changes may increase KPN's operational and administrative expenses and limit its revenues, which in turn could have a material adverse effect on its business, financial condition and results of operations.

***KPN's revenues may decline as a result of decreases in fixed and mobile termination rates.***

In the Netherlands, Germany and Belgium, the fees for access and interconnection that fixed and mobile operators charge for calls terminating on their respective networks are determined ex ante by the relevant regulatory authority in accordance with EU law. In recent years, NRAs in the Netherlands, Germany and Belgium have taken action to significantly reduce these termination rates. In particular MTRs, which have been reduced in line with 2009 recommendations from the European Commission, as described in greater detail in "Regulation", have been reduced the most significantly. Because MTRs are a component of KPN's revenues (for calls that terminate on KPN's networks) and of KPN's access and interconnection expenses (for calls that

terminate on the network of other network operators), the decrease in fixed termination rates (**FTRs**) and MTRs has had and will continue to have a direct impact on KPN's revenues and other income and costs, and a consequent impact on KPN's profitability. For example, regulatory changes to permissible MTR and roaming charges had an impact on revenues of EUR 134 million and EBITDA of EUR 64 million in the year ended 31 December 2012 and revenues of EUR 486 million and EBITDA of EUR 203 million in the year ended 31 December 2011, including offsetting cost reduction benefits. The impact of declining MTRs on KPN's profitability has been particularly pronounced in Germany and Belgium, where KPN generally does not offer fixed-line telephony products as a significant portion of its business which could benefit from declining MTRs. In the Netherlands, OPTA is preparing a new decision for mid 2013 regarding termination rates, which may impact KPN's business and which may result in further reductions to the MTR and FTR fees KPN may charge for the termination of calls carried on its network. A further reduction in FTRs and MTRs could decrease KPN's revenues and profit margins in the future, which could have a material adverse effect on KPN's business, financial condition and results of operations.

***KPN may be subject to increased costs or pressure on its revenues from changing regulation for international roaming charges.***

Roaming charges, or fees charged for calls initiated outside the subscriber's home country, are subject to increasingly stringent fee caps for voice, SMS and data tariffs in the wholesale and retail customer markets throughout the EU. See "Regulation—The EU regulatory framework for electronic communications—Roaming on mobile networks". As a result, the roaming charges KPN may charge its wholesale customers for voice, SMS and data roaming are expected to decline until the end of July 2014, and after that date, retail roaming prices for voice, SMS and data will also be subject to price caps until (at least) July 2017. In addition, beginning in July 2014, retail roaming services will be required to be "decoupled" from other service offerings, and as a result KPN will be required to allow its customers to obtain roaming services from KPN's existing or new competitors in each market, who may charge lower roaming fees and thereby win customers from KPN for roaming or other services. The unbundling of roaming services will also require network operators such as KPN to provide access to their network to foreign operators who wish to provide roaming services in the territories covered by those operators.

The price regulation on roaming charges and other price caps may be reduced further by future regulation, and the roaming services or the extent of network access that KPN is required to provide to its competitors could be extended. Such regulatory change may increase pressure on KPN's revenues and could materially and adversely affect KPN's business, financial condition, results of operations and prospects.

***KPN has been found in the past, and in the future may be found, to have significant market power in the markets in which it operates, the regulation of which may adversely affect its business.***

The European Regulatory Framework for Electronic Communications Networks and Services provides a foundation to impose measures on entities deemed to have significant market power in any of the markets in which they operate. KPN has been designated as having significant market power in the call termination markets on its individual fixed and mobile networks in the Netherlands, Germany and Belgium, resulting in regulation of FTRs and MTRs on those networks. Furthermore, KPN has been designated as having significant market power in several of its fixed (wholesale) markets in the Netherlands by OPTA. See "Regulation—The Netherlands—Significant market power and market analysis". Regulatory changes in relation the evaluation of which companies have significant market power in certain markets are ongoing and could adversely affect KPN's competitive position and margins in the future. For example, OPTA is currently implementing its latest round of market analysis in the Netherlands, which may result in changes to tariffs in those markets, in some cases retroactively for wholesale. As a result, there is a risk that KPN could be found to have significant market power in one or more additional markets in which it operates in the future. In addition, should NRAs in any one of the Netherlands, Germany or Belgium opt to extend findings of significant market power into new markets, and if KPN were to be deemed to have significant market power in such a market, such additional regulatory restrictions could have a material adverse effect on KPN's business, financial condition and results of operations.

A finding that KPN has significant market power in a given market subjects it to heightened regulatory monitoring and review, pricing regulation and could require KPN to provide other service providers access to its network for purposes of providing competing services at regulated prices, as well as impose other restrictions on how it operates its networks and markets its services. Furthermore, if competition authorities in a given jurisdiction were to view KPN's significant market power as being relevant to a finding of market dominance, KPN may not be able to successfully expand its business by means of mergers or acquisitions in markets in

which it is found to have significant market power or would obtain significant market power as the result of a given merger or acquisition. In addition, in 2013 the EU is expected to provide regulatory guidance in relation to next generation access (NGA) networks, which may include guidelines for wholesale price regulation on traditional copper and NGA networks of operators with significant market power. This guidance may consequently have an impact on KPN's fixed line broadband internet products in the Netherlands, and KPN cannot currently predict or estimate what, if any, aspects of KPN's business might be impacted by this guidance.

Because a finding of significant market power impacts how KPN is permitted to operate its network, price and market its products any finding that KPN has significant market power in one or more of the markets in which KPN operates could have a material adverse effect on its business, financial condition and results of operations.

***KPN's operations, facilities, products and employees are subject to a wide range of health and safety regulations and concerns, and as a result, KPN may be subject to material liabilities.***

KPN is subject to certain environmental, health and safety laws and regulations that affect KPN's operations, facilities, products and employees in each of the jurisdictions in which KPN operates. There is a risk that KPN may have to incur expenditures to cover environmental and health liabilities to maintain compliance with current or future environmental, health and safety laws and regulations or to undertake any necessary remediation.

In addition, certain of KPN's employees or contractors may be required to work under extreme or dangerous conditions (for example, heights or weather) or in extreme or dangerous locations. KPN is subject to potentially material liabilities, including those related to personal injuries or property damage, which may result from working under extreme or dangerous conditions or in extreme or dangerous locations.

***Adverse decisions of tax authorities or changes in tax treaties, laws, rules or interpretations could have a material adverse effect on KPN's results of operations and cash flow.***

The tax laws and regulations in the Netherlands, Germany and Belgium may be subject to change and there may be changes in interpretation and enforcement of tax law. As a result, KPN may face increases in taxes payable if tax rates increase, or if tax laws and regulations are modified by the competent authorities in an adverse manner. Moreover, in certain jurisdictions, such as Belgium, KPN's operations are taxed at the local and municipal level. Local governments in Belgium increasingly tax mobile network operations, including based on number of mobile base stations, as a source of revenue, and an increase in tax or an increase in the number of jurisdictions taxing KPN's operations could have a material adverse effect on KPN's business, financial condition and results of operations.

In addition, the Dutch tax authorities periodically examine KPN's subsidiaries. KPN regularly considers the likelihood of assessments and has established tax allowances which represent management's best estimate of the potential assessments. The resolution of any of these tax matters could differ from the amount reserved, which could have a material adverse effect on KPN's cash flows, business, financial condition and results of operations for any reporting period.

#### **Risks related to the Securities generally**

***The Issuer has not received confirmation from the relevant authorities in the Netherlands regarding the deductibility of interest payments made by KPN on the Securities, the EUR 1,100 million capital securities and the GBP 400 million capital securities issued on 14 March 2013 or the absence of a withholding tax requirement. If interest under the Securities is not deductible, or if there is a requirement for KPN to withhold tax on interest payments, KPN will be subject to higher interest expense, and, if such non-deductibility or withholding were a result of a change in law, regulation or interpretation thereof, the Securities could be subject to a Tax Deduction Event or a Withholding Tax Event, either of which could result in a voluntary redemption of the Securities by KPN. KPN's ability to refinance such a redemption of the Securities, the EUR 1,100 million capital securities and the GBP 400 million capital securities cannot be assured.***

Under the terms of the Securities, a Tax Deduction Event would occur if KPN would not be entitled to claim a deduction in respect of computing its tax liabilities in the Netherlands, or such entitlement is materially

reduced, and a Withholding Tax Event would occur if KPN would be required to gross-up the interest payments to holders of the Securities as a result of a requirement to withhold tax on the interest payments, in either case, if such non-deductibility or withholding were a result of a change in law, regulation or interpretation thereof. See “—The Securities will be subject to optional redemption by KPN including upon the occurrence of Special Events, a Change of Control Event or an Equity Offering Linked Call Event and the EUR Capital Securities and the GBP Capital Securities include substantially similar provisions.” for a description of KPN’s right to redeem the Securities on the occurrence of a Tax Deduction Event or a Withholding Tax Event. KPN’s inability to deduct interest paid on the Securities from its taxable income would lower its profits, and the requirement to withhold and consequently gross-up its interest payments would increase KPN’s interest expense, also contributing to lower profits. Moreover, the higher debt service costs on the Securities resulting from the requirement to gross-up the interest payments to holders of the Securities as a result of a requirement to withhold tax may also lead to an adverse change in rating agency treatment which may or may not also result in a Rating Event.

KPN has sought advance clearance from the relevant authorities in the Netherlands, requesting confirmation of the deductibility of interest and the absence of withholding tax. As of the date of this Prospectus, no such clearance has been received from the relevant authorities in the Netherlands in response to this request. The relevant authorities in the Netherlands may decline to provide clearance or other form of guidance at all, or may return an unfavorable ruling which completely or partially denies KPN the right to deduct its interest payments on the Securities from its taxable income, or requires KPN to withhold interest on these payments, or both. A Tax Deduction Event and a Withholding Tax Event may only occur in circumstances where KPN cannot avoid the same by taking measures reasonably available to it. Such measures may include effecting a substitution of the Issuer of the Securities in accordance with Condition 13. See “—The Securities are subject to modification of certain Conditions, waiver of certain terms and substitution of KPN” below. There can be no assurance that KPN would be able to take any such measures or, if it could, that such measures would be effective to avoid the occurrence of a Tax Deduction Event or Withholding Tax Event. If, as a result of an unfavorable ruling, or for other reasons, KPN chooses to invoke its right to replace its obligations under the Securities with those of a Substituted Obligor according to the terms and conditions of the Securities, there is no assurance that the Securities would receive more favorable treatment from the relevant authorities in the Netherlands regarding the deductibility of interest payments or the requirement to withhold tax on such payments. See “—The Securities are subject to modification of certain Conditions, waiver of certain terms and substitution of KPN.”

As of the date of this Prospectus, no confirmation has been received from the relevant authorities in the Netherlands regarding the deductibility of interest and the absence of withholding tax. KPN intends not to withhold tax on its interest payments and intends, based on its understanding of both the relevant Dutch tax laws and the past practice of the Dutch tax authorities, to deduct interest paid on the Securities from its taxable income for purposes of calculating its income tax liability starting with the financial year ending on 31 December 2013. If the relevant authorities in the Netherlands perform an audit or review of KPN’s tax returns for that financial year or any subsequent years, and challenge or otherwise bar these deductions or retroactively require withholding, KPN could, if such challenge or ban was the result of a change in law or regulation or application or interpretation thereof, at that time face a Tax Deduction Event or a Withholding Tax Event as well as facing potential back taxes, fines, penalties, charges and interest on the amounts owed to the government.

Even if the relevant authorities in the Netherlands, in the future, confirm the deductibility of interest and the absence of withholding tax in response to KPN’s request, a Tax Deduction Event or Withholding Tax Event may still occur as a result of a change in, or amendment to, the laws or regulations of the Netherlands or any political subdivision or any authority thereof having the power to tax, or any change in the application or official interpretation of such laws or regulations.

If KPN experiences a Tax Deduction Event or a Withholding Tax Event, and decides to exercise its optional right to redeem the Securities, it may not have adequate cash resources, or be able to obtain financing to fund the redemption of the Securities on commercially acceptable terms, or at all. If additional funding to finance a redemption of the Securities is not available on commercially attractive terms, or at all, KPN may be required to significantly alter its strategy or curtail its future capital expenditure and investment plans, and its liquidity position could be significantly adversely affected. The decision to redeem the Securities could also adversely impact the success of the proposed Rights Offering. See “—Factors that may affect KPN’s ability to fulfil its obligations under or in connection with the Securities—If the proposed Rights Offering is not approved by the shareholders of KPN, or does not ultimately raise sufficient capital, KPN would likely need to seek alternative means of raising additional capital, which may not be successful and its liquidity position may be significantly adversely affected.” Even if capital market funding is available to KPN to fund any such redemption of the Securities, such funding may only be available in the form of debt, requiring KPN to incur substantial additional

leverage. This would, in turn, have an adverse impact on KPN's Net Debt/Adjusted EBITDA ratio and contribute to potential rating downgrades and higher financing costs for KPN's other debt instruments. Moreover, upon the occurrence of a Tax Deduction Event or a Withholding Tax Event, if KPN decides not to exercise its optional right to redeem the Securities, or if it is unable to do so at commercially reasonable cost of financing, it would face substantially higher interest expenses, higher income tax liabilities and reduced profits.

Furthermore, the EUR 1,100 million capital securities issued by KPN on 14 March 2013 (the **EUR Capital Securities**) and the GBP 400 million capital securities issued by KPN on 14 March 2013 (the **GBP Capital Securities**) contain substantially similar terms as the Securities, including, *inter alia*, a Tax Deduction Event and a Withholding Tax Event. KPN has sought and, as of the date of this Prospectus, not yet received, advance clearance in respect of those securities in a similar fashion as described herein for the Securities. Therefore, any event that leads to the occurrence of a Tax Deduction Event, a Withholding Tax Event, a request to withhold tax on interest payments or the non-deductibility of the interest payments in respect of the Securities, as described herein, will be magnified by a similar occurrence in respect of the EUR Capital Securities and the GBP Capital Securities.

***The Securities may not be a suitable investment for all investors.***

Each potential investor in any Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Securities and be familiar with the behaviour of the relevant financial markets and of any financial variable which might have an impact on the return on the Securities; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Securities are complex financial instruments and such instruments may be purchased by potential investors as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities unless it has the expertise (either alone or with a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of the Securities and the impact this investment will have on the potential investor's overall investment portfolio.

***The Securities are long-dated securities; Holders of the Securities may be required to bear the financial risks of an investment in the Securities for a long period.***

The Securities will be long-dated securities. See "Terms and Conditions of the Securities—Redemption". Therefore, prospective investors should be aware that they may be required to bear the financial risks of an investment in the Securities for a long period and may not recover their investment in the foreseeable future.

***The Securities will be subject to optional redemption by KPN including upon the occurrence of Special Events, a Change of Control Event or an Equity Offering Linked Call Event and the EUR Capital Securities and the GBP Capital Securities include substantially similar provisions.***

The Securities will be redeemable, at the option of KPN, in whole but not in part on the First Reset Date, on 28 March 2028 and on the next succeeding Reset Date, and thereafter on each Interest Payment Date at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

In addition, upon the occurrence of a Rating Event, a Substantial Repurchase Event, a Tax Deduction Event, a Withholding Tax Event, a Change of Control Event or an Equity Offering Linked Call Event (each as defined

in the Conditions and as more fully described in Condition 6), KPN shall have the option to redeem, in whole but not in part, the Securities at the prices set out therein, in each case together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. In relation to a Tax Deduction Event or a Withholding Tax Event, KPN has the right to determine whether in its view such an event has occurred, and the Trustee will be entitled to rely upon that determination by KPN, as a result of which holders of the Securities will not be entitled to appeal if KPN chooses to exercise its optional redemption right upon the occurrence of such an event.

In the case of a Change of Control Event and an Equity Offering Linked Call Event, if KPN does not elect to redeem the Securities in accordance with the Conditions, the then prevailing Interest Rate (as defined in the Conditions), and each subsequent Interest Rate otherwise determined in accordance with Condition 4, on the Securities shall be increased by 5 per cent. per annum with effect from (and including) the date on which the Change of Control Event occurred or in the case of an Equity Offering Linked Call Event, on the date falling 6 months after the Issue Date of the Securities.

A Substantial Repurchase Event shall be deemed to occur if KPN repurchases and cancels or redeems Securities in respect of 90 per cent. or more in the principal amount of the Securities initially issued, as more fully described in the Conditions.

An Equity Offering Linked Call Event shall be deemed to have occurred and be continuing if by 28 September 2013 KPN has not completed a Compliant Equity Offering or it announces its decision not to pursue a Compliant Equity Offering, as more fully described in the Conditions.

During any period when KPN may elect to redeem the Securities, the market value of the Securities generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

KPN may be expected to redeem the Securities when its cost of borrowing is lower than the interest payable on them. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest payable on the Securities being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Furthermore, the EUR Capital Securities and the GBP Capital Securities will be subject to similar optional redemption features and, where applicable, interest rate increases as the Securities. In particular, any equity offering linked call event associated with securities other than the Securities would occur in advance of the Equity Linked Call Event as the six-month period triggering any such event will occur in respect of the EUR Capital Securities and the GBP Capital Securities before it occurs in respect of the Securities. As a result, KPN may be less likely or unable to effect an optional redemption of the Securities upon the occurrence of an Equity Linked Call Event as it will have just done so in respect of the EUR Capital Securities and the GBP Capital Securities.

***KPN may not be able to redeem the Securities after a Change of Control Event.***

At or around the Issue Date, KPN intends to undertake to holders of its Relevant Securities (as defined below) that following the occurrence of a Change of Control Event in respect of which KPN intends to deliver a notice exercising its right to redeem the Securities under Condition 6(f), it will do so only after making a tender offer, directly or indirectly, to all holders of Relevant Securities to repurchase such securities at their respective aggregate nominal amounts together with any interest accrued until the day of completion of the repurchase. As a consequence, Holders should be aware that there may not be sufficient funds to redeem the Securities after the repurchase of the Relevant Securities.

**Relevant Securities** means any current or future indebtedness of KPN to Senior Creditors (as defined in Condition 3(a)) in the form of, or represented or evidenced by bonds, notes, debentures or other similar securities or instruments (or a guarantee thereof) which benefits from a solicited rating from an external rating agency recognised by EU or US regulations, and which does not include protection for the holders thereof in the event of a change of control of KPN (however defined).

***The interest rate on the Securities will reset on the First Reset Date and on every Reset Date thereafter, which can be expected to affect the interest payment on such Securities and the market value of the Securities.***

While the Securities will earn interest at a fixed rate until (but excluding) the First Reset Date, the current market interest rate on the capital markets (the **market interest rate**) typically changes on a daily basis. Since



the initial fixed rate of interest for the Securities will be reset on the First Reset Date (as set out in the Conditions) and on each subsequent Reset Date, the interest payment on such Securities will also change. Holders should be aware that movements in these market interest rates can adversely affect the price of the Securities and can lead to losses for the Holders if they sell the Securities.

Holders of Securities are exposed to the risk of fluctuating interest rate levels and uncertain interest income as the reset rates could affect the market value of an investment in the Securities.

***KPN's obligations under the Securities are subordinated to certain other claims and obligations.***

KPN's obligations under the Securities will be unsecured and subordinated as follows. In the event of a Winding-up (as defined in the Conditions) of KPN, the claims of the Holders will rank (i) in priority to any distributions in respect of any ordinary shares in the capital of KPN, (ii) *pari passu* with all Parity Obligations (as defined in the Conditions) and (iii) junior to the rights and claims of Senior Creditors (as defined in the Conditions), so that in the event of a Winding-up, amounts due and payable in respect of the Securities shall be paid by KPN only after all of the Senior Creditors have been reimbursed or paid in full and the Holders irrevocably waive their right to be treated equally with all such creditors in such circumstances. See "Terms and Conditions of the Securities—Status" and "Terms and Conditions of the Securities—Subordination".

By virtue of such subordination, payments to a Holder will, in the events described in the Conditions, only be made after all obligations of KPN resulting from higher ranking claims have been satisfied. A Holder may, therefore, recover less than the holders of unsubordinated or other subordinated liabilities of KPN.

Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by KPN in respect of, or arising under or in connection with, the Securities and each Holder shall, by virtue of his holding, be deemed to have waived all such rights of set-off, compensation or retention.

Although subordinated debt securities may pay a higher rate of interest than comparable debt securities which are not subordinated, there is a real risk that an investor in subordinated securities such as the Securities will lose all or some of his investment should KPN become insolvent.

***Dutch insolvency laws may not be as favourable to holders of the Securities as those of another jurisdiction with which you may be familiar.***

There are two primary insolvency regimes under Dutch law. The first, moratorium of payments (*surseance van betaling*), is intended to facilitate the reorganisation of a debtor's indebtedness and enable the debtor to continue as a going-concern. The second, bankruptcy (*faillissement*), is primarily designed to liquidate and distribute the proceeds of the assets of a debtor to its creditors. Both insolvency regimes are set forth in the Dutch Bankruptcy Act (*faillissementswet*). The consequences of both proceedings are roughly equal from the perspective of a creditor, with creditors being treated on a *pari passu* basis subject to exceptions. A general description of the principles of both insolvency regimes is set forth below.

Under Dutch law secured creditors (and in case of suspension of payment also preferential creditors (including tax and social security authorities)) may enforce their rights against assets of the company to satisfy their claims as if there were no insolvency proceedings. A recovery under Dutch law could, therefore, involve a sale of assets that does not reflect the going-concern value of the debtor. Consequently, a Holder's potential recovery could be reduced in Dutch insolvency proceedings.

Any pending executions of judgments against the debtor will be suspended by operation of law when suspension of payments is granted and terminate by operation of law when bankruptcy is declared. In addition, all attachments on the debtor's assets will cease to have effect upon the suspension of payments having become definitive, a composition having been ratified by the court or the declaration of bankruptcy (as the case may be) subject to the ability of the court to set an earlier date for such termination.

In a suspension of payments and bankruptcy, a composition (*akkoord*) may be offered to creditors. A composition will be binding on all unsecured and non-preferential creditors if it is (i) approved by a simple majority of the creditors being present or represented at the creditors' meeting, representing at least 50 per cent of the amount of the claims that are admitted for voting purposes, and (ii) subsequently ratified (*gehomologeerd*) by the Dutch courts. Consequently, Dutch insolvency laws could preclude or inhibit the ability of the Holders to effect a restructuring and could reduce the recovery of a Holder.

Claims against a company subject to Dutch insolvency proceedings will have to be verified in the insolvency proceedings in order to be entitled to vote and, in a bankruptcy liquidation, to be entitled to distributions. “Verification” under Dutch law means, in the case of suspension of payments, that the treatment of a disputed claim for voting purposes is determined and, in the case of a bankruptcy, that the value of the claim is determined and whether and to what extent it will be admitted in the insolvency proceedings. The valuation of claims that would not otherwise have been payable at the time of the proceedings may be based on a net present value analysis. Unless secured by a pledge or a mortgage, interest accruing after the date on which insolvency proceedings are opened cannot be verified. Where interest accrues after the date of opening of the proceedings, it can be admitted on a provisional basis.

The existence, value and ranking of any claims submitted by the Holders may be challenged in the Dutch insolvency proceedings. Generally, in a creditors’ meeting (*verificatievergadering*), the receiver in bankruptcy, the administrator in suspension of payments proceedings, the insolvent debtor and all verified creditors may dispute the verification of claims of other creditors. Creditors whose claims or value thereof are disputed in the creditors’ meeting may be referred to separate court proceedings (*renvooiprocedure*) in bankruptcy, while in suspension of payments the court will decide how a disputed claim will be treated for voting purposes. These situations could cause the Holders to recover less than the principal amount of their Securities. Renvooi procedures could also cause payments to the holders of Securities to be delayed compared to holders of undisputed claims.

The Dutch Bankruptcy Act does not in itself recognize the concept of classes of creditors. Remaining amounts, if any, after satisfaction of the secured and the preferential creditors are distributed among the unsecured non-preferential creditors, who will be satisfied on a pro rata basis. Contractual subordination may to a certain extent be given effect in Dutch insolvency proceedings, with the actual effect largely depending on the way such subordination is construed.

Secured creditors may enforce their rights against assets of the debtor to satisfy their claims under a Dutch bankruptcy as if there is no bankruptcy. As in moratorium of payments proceedings, the court may order a “cooling down period” for a maximum of four months during which enforcement actions by secured creditors are barred unless such creditors have obtained leave for enforcement from the supervisory judge. Further, a receiver in bankruptcy can force a secured creditor to enforce its security interest within a reasonable period of time, failing which the receiver will be entitled to sell the secured assets, if any, and the secured creditor will have to share in the bankruptcy costs. Excess proceeds of enforcement must be returned to the bankrupt estate; they may not be set-off against an unsecured claim of the secured creditor in the bankruptcy. Such set-off is allowed prior to the bankruptcy, although a set-off prior to bankruptcy may be subject to clawback in the case of fraudulent conveyance or bad faith in obtaining the claim used for set-off.

Under Dutch law, a legal act performed by a person (including, without limitation, an agreement pursuant to which it guarantees the performance of the obligations of a third party or agrees to provide or provides security for any of its or a third party’s obligations, enters into additional agreements benefiting from existing security and any other legal act having a similar effect) can be challenged in an insolvency proceeding or otherwise and may be nullified by any of its creditors or its receiver in bankruptcy, if (a) it performed such act without an obligation to do so (*onverplicht*), (b) the creditor concerned or, in the case of its bankruptcy, any creditor was prejudiced as a consequence of the act, and (c) at the time the act was performed both it and (unless the act was for no consideration (*om niet*)) the party with or towards which it acted, knew or should have known that one or more of its creditors (existing or future) would be prejudiced. In addition, in the case of a person’s bankruptcy, the receiver in bankruptcy may nullify its performance of any due and payable obligation (including (without limitation) an obligation under a guarantee or to provide security for any of its or a third party’s obligations) if (i) the recipient of the payment or performance knew, at the time of the payment or performance, that a request for bankruptcy had been filed, or (ii) the performance of the obligation was the result of a consultation between the debtor and the payee with a view to give preference to the latter over the debtor’s other creditors.

***There is no limitation on issuing senior or pari passu securities.***

The Conditions will not limit the amount of the liabilities ranking senior to, or *pari passu* with, the Securities which may be incurred or assumed by KPN from time to time, whether before or after the Issue Date. The incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders on a Winding-up of KPN and/or may increase the likelihood of a deferral of interest payments under the Securities.

***KPN has the right to defer interest payments on the Securities.***

KPN may, at its discretion, elect to defer all or part of any payment of interest on the Securities. See “Terms and Conditions of the Securities—Optional Interest Deferral”. While the deferral of payment of interest continues, KPN is not prohibited from making payments on any instrument ranking senior to the Securities and in such event, the Holders are not entitled to claim immediate payment of interest so deferred. While the deferral of payment of interest continues, the Holders are not entitled to claim immediate payment of interest so deferred either if KPN makes payments on instruments ranking *pari passu* with or junior to the Securities where KPN is obliged under the terms of such instruments to make such payments.

Any such deferral of interest payment shall not constitute a default for any purpose unless such payment is required in accordance with Condition 5(c).

Any deferral of interest payments will likely have an adverse effect on the market price of the Securities. In addition, as a result of the interest deferral provision of the Securities, the market price of the Securities may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in KPN’s financial condition.

The Securities may not be redeemed unless and until all outstanding Arrears of Interest are satisfied in full, on or prior to the date set for the relevant redemption.

***The Securities contain limited Events of Default and remedies.***

The only event of default in the Conditions is if a default is made by KPN for a period of 14 days or more in the payment of any principal or 21 days or more in the payment of any interest, in each case in respect of the Securities and which is due.

Therefore, it will only be possible for the Holders to enforce claims for payment of principal or interest of the Securities when the same are due.

In addition, in the event of a Winding-up (except for the purposes of a merger, reconstruction or amalgamation the terms of which have previously been approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Holders), although the Securities will become immediately due and payable, the claims of Holders will be subordinated to the claims of holders of all Senior Obligations as further described in Condition 3(a). Accordingly, the claims of holders of all Senior Obligations will first have to be satisfied in any Winding-up or analogous proceedings before the Holders may expect to obtain any recovery in respect of their Securities and prior thereto Holders will have only limited ability to influence the conduct of such Winding-up or analogous proceedings.

***The Securities are subject to modification of certain Conditions, waiver of certain terms and substitution of KPN.***

The Conditions will contain provisions for calling meetings of Holders to consider matters affecting their interests generally. These provisions will permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meetings and Holders who voted in a manner contrary to the majority.

The Conditions and the Trust Deed will also provide that the Trustee may, without the consent of Holders, agree to (i) any modification of the Conditions or of any other provisions of the Trust Deed or the Agency Agreement which is, in each case, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, (ii) any other modification to (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach by KPN of, any of the Conditions or of the provisions of the Trust Deed or the Agency Agreement which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Holders (which will not include, for the avoidance of doubt, any provision entitling the Holders to institute proceedings for the winding-up of KPN which is more extensive than those set out in Condition 10), or (iii) the substitution on a subordinated basis equivalent to that referred to in Conditions 2 and 3 of certain other entities in place of KPN (or any previous Substituted Obligor (as defined in Condition 13)) as a new principal debtor under the Trust Deed and the Securities, provided, *inter alia*, the Trustee is satisfied that the interests of Holders will not be materially prejudiced by the substitution. The EUR Capital Securities and the GBP Capital Securities contain substantially similar provisions. If KPN chooses to substitute another entity or entities in place

of KPN according to the terms and conditions of the Securities, the EUR Capital Securities and the GBP Capital Securities there is no assurance that the Securities, the EUR Capital Securities and/or the GBP Capital Securities would receive more favorable treatment from the relevant authorities in the Netherlands regarding the deductibility of interest payments or the requirement to withhold tax on such payments. As a result, any Tax Deduction Event or a Withholding Tax Event in effect may remain in effect upon the replacement of KPN by a Substituted Obligor, and KPN may consequently choose to redeem the Securities even if a Substituted Obligor is put in place. Furthermore, there can be no guarantee that any such substitution will improve, or not negatively impact, the tax position of any individual holder of the Securities and such a holder may have no recourse if KPN chooses to make any such substitution.

***Investors may be subject to tax consequences as a result of the EU Savings Directive.***

Under EU Council Directive 2003/48/EC on the taxation of savings income (the **Directive** or **Savings Directive**), each Member State is required to provide to the tax authorities of another Member State details of payments of interest (and similar income) paid by a person within its jurisdiction to (or for the benefit of) or for an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system or through a non-EU country which has adopted similar measures and has opted for a withholding system, or through certain dependent or associated territories which have adopted similar measures and which have opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to the Directive, neither KPN nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Security as a result of the imposition of such withholding tax. KPN is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to the Directive.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

***Change of law may affect the terms and conditions, and other matters related to the Securities.***

The Securities will be governed by English law and, in respect of Condition 3 only, Dutch law. No assurance can be given as to the impact of any possible judicial decision or change to English law or, as the case may be, Dutch law or any administrative practice thereof after the Issue Date.

***The liquidity of Securities may be limited in certain circumstances as a result of minimum specified denominations.***

The denominations of the Securities are U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. Therefore, it is possible that the Securities may be traded in amounts in excess of U.S.\$200,000 that are not integral multiples of U.S.\$200,000. In such a case, a Holder who, as a result of trading such amounts, holds a principal amount of less than U.S.\$200,000 would need to purchase a principal amount of Securities such that it holds an amount equal to one or more denominations. Holders should be aware that Securities which have a denomination that is not an integral multiple of U.S.\$200,000 may be illiquid and difficult to trade.

**Risks related to the market generally**

***There is no active trading market for the Securities, and if a market does develop, it may be volatile.***

Although application will be made to admit the Securities to trading on Euronext Amsterdam, the Securities may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly

the case for securities that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been prepared to meet the investment requirements of limited categories of investors. These types of securities generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of the Securities.

***Payment of principal and interest on the Securities is subject to exchange rate risks and exchange controls.***

KPN will pay principal and interest on the Securities in dollars. This presents certain risks relating to currency or currency unit conversions if an investor's financial activities are denominated principally in a currency or a currency unit (the **Investor's Currency**) other than dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to dollars would decrease (1) the Investor's Currency equivalent yield on the Securities, (2) the Investor's Currency equivalent value of the principal payable on the Securities and (3) the Investor's Currency equivalent market value of the Securities.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

***Interest rate risks may affect the value of an investment in the Securities.***

Investment in the Securities involves the risk that subsequent changes in market interest rates may adversely affect the value of the Securities. Fluctuations in interest rates can affect the market values of, and corresponding levels of capital gains or losses on, fixed rate securities. During periods of rising interest rates, the prices of fixed rate securities, such as the Securities, tend to fall and gains are reduced or losses incurred upon their sale. Therefore, investment in the Securities involves the risk that changes in market interest rates may adversely affect the value of the Securities. Interest rate resets may result in a decline of yield.

## IMPORTANT INFORMATION

### Presentation of financial and other information

This Prospectus includes or incorporates by reference the audited consolidated financial statements (including the notes and auditor's report) of the Group as of and for the years ended 31 December 2010, 2011 and 2012 (the **Consolidated Financial Statements**). The Consolidated Financial Statements have been prepared in accordance with IFRS and with Part 9 of Book 2 of the Dutch Civil Code.

The audits of KPN's historical financial information for the years ended and as of 31 December 2010, 2011 and 2012 and the related notes thereto which have been prepared in accordance with IFRS and are incorporated by reference in this Prospectus as set out in "Documents Incorporated by Reference" were performed in accordance with Dutch law, including the Dutch Standards on Auditing.

None of the financial information used or incorporated by reference in this Prospectus has been audited in accordance with auditing standards of the United States Public Company Accounting Oversight Board. The financial information included or incorporated by reference in this Prospectus is not intended to comply with the reporting requirements of the United States Securities and Exchange Commission (the **SEC**). Compliance with such requirements would require the modification or exclusion of certain financial measures and the presentation of certain other information not included herein.

Until 31 December 2011, KPN divided its business into the following: The Netherlands (comprising the Consumer, Business, Wholesale & Operations, iBasis and Corporate Market operating segments), Mobile International (comprising the Germany, Belgium and Rest of World operating segments) and other activities. Beginning with its results from the first three months of 2012, KPN began publishing its financial and operating results in an adjusted reporting format following the implementation of its new management executive structure, effective from 1 January 2012. The new structure was implemented to enable more direct control of the operational activities and ensure closer alignment with market dynamics.

The main changes in KPN's reporting format were the following:

- Splitting its previous Consumer segment within The Netherlands into two new operating segments, Consumer Residential and Consumer Mobile;
- Combining the Dutch IT Operations (IT NL) and Wholesale & Operations operating segments into the NetCo operating segment;
- Allocating the Telfort business (previously included in the Consumer operating segment) among the Consumer Residential, Consumer Mobile, Business and NetCo operating segments; and
- Moving iBasis out of The Netherlands reporting segment.

As a result, KPN currently divides its business operations into the following: The Netherlands, Mobile International, iBasis and Other. The Netherlands comprises the Consumer Residential, Consumer Mobile, Business, NetCo and Corporate Market segments. Mobile International is divided among the Germany, Belgium and Rest of World segments.

The new reporting format had an impact on a segment level only, not on KPN's consolidated reporting at a Group level.

### Non-IFRS financial measures

The financial information included in this Prospectus is not intended to comply with SEC reporting requirements. Compliance with such requirements would require the modification or exclusion of certain financial measures, including EBITDA, Adjusted EBITDA, Net Debt, Free Cash Flow, Underlying Revenue and Underlying EBITDA.

- KPN defines **EBITDA** as operating profit before depreciation and impairments of property, plant and equipment and amortization and impairments of intangible assets. EBITDA is comprised of external revenues, other income and inter-division revenues between operating segments.
- KPN defines **Adjusted EBITDA**, which is used solely for the purpose of calculating its Net Debt/Adjusted EBITDA ratio, as the Group's 12 month rolling total EBITDA excluding book gains, release of pension provisions and restructuring costs, when over an aggregate of EUR 20 million.

- KPN defines **Net Debt**, which is used solely for the purpose of calculating its Net Debt/Adjusted EBITDA ratio, as the nominal value of interest bearing financial liabilities excluding derivatives, representing the repayment obligations in Euro, less cash and cash equivalents (including cash classified as held for sale).
- KPN defines **Free Cash Flow** as cash flow from operating activities plus proceeds from real estate, minus capital expenditures (being expenditures on property, plant and equipment, and software) excluding tax recapture payments from E-Plus.
- KPN defines **Underlying Revenue** as revenue adjusted for changes in the composition of the Group from acquisitions and disposals in the period, incidentals and the impact of regulatory changes to MTR tariffs and roaming charges.
- KPN defines **Underlying EBITDA** as EBITDA adjusted for changes in the composition of the Group from acquisitions and disposals in the period, incidentals and the impact of regulatory changes to MTR and roaming charges.

Adjusted EBITDA, Underlying Revenue and Underlying EBITDA have been adjusted for certain income (expenses) to remove the effects of certain charges or releases that KPN believes are not indicative of its underlying operating performance. These charges and releases relate primarily to substantial impacts from acquisitions, disposals or regulatory changes, as well as accounting changes, and the reversal and recognition of provisions for redundancy and restructuring costs. Some of these types of costs or revenues may be of a recurring nature, but KPN does not adjust for any other items that it believes to occur in the normal course of business.

The above non-IFRS financial measures are not a measure of financial performance under IFRS, should not be considered an alternative to cash flow from operating activities, or operating profit, or any other IFRS measure, and may not be comparable to similarly titled measures of other companies, because the above non-IFRS financial measures are not uniformly defined and other companies may calculate them in a different manner than KPN does, limiting their usefulness as comparative measures. In particular, the definitions of Underlying Revenue and Underlying EBITDA are specific to KPN's business and reflect certain adjustments to reported figures relating to the Group's recent operational history, and which may not be experienced on a similar basis, or at all, going forward. In addition, Underlying Revenue and Underlying EBITDA can be significantly affected by matters beyond KPN's control, such as the impact of regulatory changes. Accordingly, undue reliance should not be placed on any of the non-IFRS financial measures contained in this Prospectus and they should not be considered in isolation from, or as a substitute for, the analysis of KPN's results of operations and financial condition under IFRS. The above non-IFRS financial measures are not audited and are calculated using financial information extracted from the Consolidated Financial Statements incorporated by reference to this Prospectus.

### ***Key performance indicators and other metrics***

The key performance indicators and other metrics included in this Prospectus and described below are derived from management estimates, are not part of KPN's financial statements or financial accounting records and have not been audited or otherwise reviewed by outside auditors, consultants or experts. KPN's use or computation of these terms may not be comparable to the use or computation of similarly titled measures reported by other companies in the telecommunications industry. Any or all of these terms should not be considered in isolation or as an alternative measure of performance under IFRS.

### ***Regulatory impact***

KPN defines "regulatory impact" as the mandated decrease in MTRs and roaming charges. This regulatory impact is calculated for a given year by taking into account the impact of reductions in MTRs tariffs and roaming charges, and adjusting previous year revenues and EBITDA for these reductions, using previous year volumes, as if the new lower tariffs would have been applicable in the previous year.

### ***Service revenues (Consumer Mobile)***

KPN defines "service revenues (Consumer Mobile)" as the retail and wholesale subscription fees from voice, SMS/MMS and mobile data, handset lease and insurance; revenues from incoming voice, SMS/MMS and mobile data; revenues from outgoing voice, SMS/MMS and mobile data; and revenues from roaming and net content, minus service discounts for the specified period.

#### *Service revenues (Business)*

KPN defines “service revenues (Business)” as the subscription fees for voice, SMS/MMS and mobile data; handset lease and insurance; revenues from incoming and outgoing voice, SMS/MMS and mobile data; revenues from roaming and net content; and M2M revenues for the specified period.

#### *Service revenues (Germany)*

KPN defines “service revenues (Germany)” as the retail and wholesale subscription fees from voice, SMS/MMS and mobile data; handset options; revenues from incoming and outgoing voice, SMS/MMS and mobile data; revenues from roaming, net content and M2M, minus service discounts for the specified period.

#### *Service revenues (Belgium)*

KPN defines “service revenues (Belgium)” as the retail and wholesale subscription fees from voice, SMS/MMS and mobile data; revenues from incoming and outgoing voice, SMS/MMS and mobile data; revenues from roaming, net content and M2M, minus service discounts for the specified period.

#### *Wireless retail customers*

KPN defines “wireless retail customers” as the total number of Consumer Mobile’s retail subscribers (postpaid and prepaid) other than through wholesale parties connected to KPN’s mobile network as of the end of the specified period.

#### *Wireless wholesale customers*

KPN defines “wireless wholesale customers” as the total number of subscribers (postpaid and prepaid) based on the number of activated SIM cards purchased by KPN’s wholesale customers, with the exception of full MVNOs (wholesale customers that have their own IT systems as well as certain other network elements), as of the end of the specified period.

#### *ARPU wireless blended (Consumer Mobile)*

KPN defines “ARPU wireless blended (Consumer Mobile)” as the average service revenues per month per subscriber. ARPU wireless blended for the Consumer Mobile segment is calculated as the service revenues for the specified period divided by the sum of the month-end average subscriber base (postpaid and prepaid retail and wholesale end-user subscribers) for months of that period.

#### *ARPU wireless blended (Business)*

KPN defines “ARPU wireless blended (Business)” as the average service revenues per month per subscriber. ARPU wireless blended for the Business segment is calculated as the service revenues for the specified period divided by the sum of the month-end average subscriber base (postpaid and M2M) for months of that period.

#### *ARPU wireless blended (Germany)*

KPN defines “ARPU wireless blended (Germany)” as the average service revenue per month per subscriber. ARPU wireless blended for the Germany segment is calculated as the service revenues for the specified period divided by the sum of the month-end average subscriber base (postpaid, prepaid and M2M) for months of that period.

#### *ARPU wireless blended (Belgium)*

KPN defines “ARPU wireless blended (Belgium)” as the average service revenue per month per subscriber. ARPU wireless blended for the Belgium segment is calculated as the service revenues for the specified period divided by the sum of the month-end average subscriber base (retail and wholesale end-user subscribers for postpaid and prepaid) for months of that period.

#### *Voice customers*

KPN defines “voice customers” as the total number of traditional voice subscribers (PSTN/ISDN) and VoIP subscribers (copper and fiber) across all brands within the Consumer Residential segment in the Netherlands, excluding the Business segment’s small office and home office customers, as of the end of the specified period.



#### *Broadband internet customers*

KPN defines “broadband internet customers” as the total number of subscribers with an activated broadband internet (copper and fiber) connection within the Consumer Residential segment in the Netherlands, excluding the Business segment’s small office and home office customers, as of the end of the specified period.

#### *TV customers*

KPN defines “TV customers” as the total number of subscribers with active subscriptions for KPN’s TV services within the Consumer Residential segment in the Netherlands, including interactive, digital and analogue over copper or fiber as of the end of the specified period.

#### *FttH activated*

KPN defines “FttH activated” as the total number of activated fiber subscribers across brands within the Consumer Residential segment in the Netherlands as of the end of the specified period.

#### *ARPU per customer (Consumer Residential)*

KPN defines “ARPU per customer” as the total service revenues of all products, including fixed line telephony, broadband internet and TV, divided by total average number of subscribers, based on total number of access lines, across brands within the Consumer Residential segment in the Netherlands for the specified period.

#### *Access lines voice*

KPN defines “access lines voice” as 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.

#### *Business DSL*

KPN defines “business DSL” as the total number of DSL connections provided to KPN’s Business segment as of the end of the specified period.

#### *Connections VPN*

KPN defines “connections VPN” as the total number of E-VPN and IP-VPN connections for external and internal customers, including tailor made solutions for large or corporate clients and internal wholesale customers (where revenues are recognized by the Business segment), but excluding external wholesale customers (where revenues are recognized by the NetCo segment), as of the end of the specified period.

#### *Wireless customers (Business)*

KPN defines “wireless customers (Business)” as the total number of subscribers (postpaid and M2M) connected to KPN’s mobile network as of the end of the specified period.

#### *Wireless customers (Germany)*

KPN defines “wireless customers (Germany)” as the total number of retail subscribers and customers of E-Plus’s wholesale subscribers (in both cases, including postpaid, prepaid and M2M) connected to E-Plus’s mobile network as of the end of the specified period.

#### *Wireless customers (Belgium)*

KPN defines “wireless customers (Belgium)” as the total number of retail subscribers and customers of KPN Group Belgium’s wholesale subscribers (in both cases, including postpaid and prepaid) connected to KPN Group Belgium’s mobile network as of the end of the specified period.

#### *Net adds—postpaid (Germany)*

KPN defines “net adds—postpaid (Germany)” as the total of newly registered postpaid subscribers in a given period, including M2M, minus the number of postpaid subscribers who cancelled their subscriptions, plus all migrations in from prepaid and migrations from wholesale, minus migrations out to prepaid and migrations out to wholesale for the specified period.

#### *Net adds—postpaid (Belgium)*

KPN defines “net adds—postpaid (Belgium)” as the total of newly registered postpaid subscribers in a given period, minus the number of postpaid subscribers who cancelled their subscriptions, plus all migrations in from prepaid and migrations from wholesale, minus migrations out to prepaid and migrations out to wholesale for the specified period.

#### *Net adds—prepaid (Germany)*

KPN defines “net adds—prepaid (Germany)” as the total of newly registered prepaid subscribers in a given period, minus the number of prepaid subscribers who cancelled their subscriptions, plus all migrations in from postpaid and migrations from wholesale, minus migrations out to postpaid and migrations out to wholesale for the specified period.

#### *Net adds—prepaid (Belgium)*

KPN defines “net adds—prepaid” as the total of newly registered prepaid subscribers in a given period, minus the number of prepaid subscribers who cancelled their subscriptions, plus all migrations in from postpaid and migrations from wholesale, minus migrations out to postpaid and migrations out to wholesale for the specified period.

#### *Minutes international*

KPN defines “minutes international” as the total number of voice minutes sold by iBasis to its carrier customers for the period.

#### *Average revenue per minute*

KPN defines “average revenue per minute” as minutes international divided by total revenue generated for the sales of minutes to carrier customers by iBasis for the period.

### **Forward-looking statements**

Certain statements contained in this Prospectus that are not historical facts are “forward-looking statements”. This Prospectus contains forward-looking statements which are based on KPN’s beliefs and projections and on information currently available to KPN. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond KPN’s control and all of which are based on KPN’s current beliefs and expectations about future events. Forward-looking statements are typically identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “will”, “could”, “should”, “intends”, “estimates”, “plans”, “assumes”, “anticipates”, “annualized”, “goal”, “target” or “aim” or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy that involve risks and uncertainties.

Forward-looking statements involve inherent risks and uncertainties and speak only as of the date they are made. KPN undertakes no duty to and will not necessarily update any of the forward-looking statements in light of new information or future events, except to the extent required by applicable law. A number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement as a result of risks and uncertainties facing KPN and its subsidiaries. Such forward-looking statements are based on current beliefs, assumptions, expectations, estimates and projections of the directors and management of KPN, public statements by KPN, present and future business strategies and the environment in which KPN will operate in the future. By their nature, they are subject to known and unknown risks and uncertainties, which could cause KPN’s actual results and future events to differ materially from those implied or expressed by forward-looking statements. KPN believes that these risks and uncertainties include, but are not limited to, those described under “Risk Factors” “Use of Proceeds”, “Business Overview” and includes, among others, statements relating to:

- the approval of the Rights Offering at the annual general meeting and successful consummation of the Rights Offering;
- the nature of the competitive environment in which KPN operates;
- KPN’s strategy, outlook and growth prospects, including its operational and financial targets;
- the macro-economic outlook in general and, in particular, economic conditions in the Netherlands, Germany and Belgium;

- KPN's ability to obtain or renew, as well as the cost of, its spectrum licenses in the jurisdictions in which it operates, and, in particular, if it participates in spectrum auctions in Germany and Belgium;
- the regulatory environments in the Netherlands, Germany and Belgium, particularly with regard to the regulation of tariffs and fee within the telecommunications industry;
- technological change, alternative forms of communication, and evolving consumer preferences on a timely basis;
- KPN's ability to limit customer churn in its customer base;
- the need to continually upgrade networks, equipment and systems, and to either renew existing licenses or purchase new licenses;
- the strength and visibility of KPN's various brands and the failure to promote and reinforce customer trust in its brands;
- the success of KPN's deployment of FttH through its joint venture, Reggefiber;
- the outcome of pending or threatened litigation, such as KPNQwest and Reggefiber;
- the availability, terms and deployment of capital, particularly in view of rating agency action;
- KPN's pension liability;
- general economic trends and trends in the information, communications and entertainment industries, including any resulting impairment charges;
- the availability of hardware, software and attractive programming content for KPN's TV services at reasonable costs;
- costs and risks associated with outsourcing;
- exchange rate fluctuations;
- changes in floating interest rates;
- asset retirement obligations relating to dismantling and removing certain elements of KPN's network;
- inability to take advantage of deferred tax assets;
- KPN's ability to maintain or increase rates to its customers or to pass through increased costs to its customers;
- concerns over health risks associated with the use of wireless telecommunications transmission equipment and other health and safety risks related to radio frequency emissions;
- KPN's ability to maintain and enforce its intellectual property rights;
- disruptions in the credit and equity markets or default by the counterparties to KPN's derivative and other financial instruments;
- clearance from the relevant authorities in the Netherlands regarding tax treatment of the Securities, the EUR Capital Securities and the GBP Capital Securities; and
- other factors discussed in this Prospectus.

Should one or more of these risks or uncertainties materialize, or should any assumptions underlying forward-looking statements prove to be incorrect, KPN's actual results could differ materially from those expressed or implied by forward-looking statements. Additional risks not known to KPN or that KPN does not currently consider material could also cause the events and trends discussed in this Prospectus not to occur, and the estimates, illustrations and projections of financial performance not to be realized. Prospective investors should read "Risk Factors" and "Operating and Financial Review" for a discussion of additional risks.

Prospective investors are cautioned that forward-looking statements speak only as of the date of this Prospectus. Except as required by applicable law, KPN does not undertake, and it expressly disclaims, any duty to revise any forward-looking statement in this Prospectus, be it as a result of new information, future events or otherwise.

### **Market and industry data**

All references in this Prospectus to market share, market data and industry statistics consist of estimates compiled by information from competitors and from internal systems within KPN's business. Industry

publications, reports and analyses used by KPN to generate such estimates, including the Telecompaper reports dated 16 November 2012 and 7 January 2013 (the **Telecompaper Reports**) with respect of total service revenues for various telecommunications markets in the Netherlands, generally state that their information is obtained from sources they believe to be reliable but that the accuracy and completeness of such information is not guaranteed and not audited and that the projections they contain are based on a number of significant assumptions. In addition, certain data has been derived or extracted from publicly available information, including Eurostat and the IMF. Where third-party information has been used in this Prospectus, the source of such information has been identified.

In this Prospectus, KPN makes certain specific statements regarding its competitive position and market share in various operating segments, and by certain product groups. Specifically:

- In the Consumer Mobile and Business segments, KPN estimates its combined mobile service market share in the Netherlands based on its own service revenues across those segments, as a percentage of market service revenues across those segments as presented in the Telecompaper Reports;
- In the Consumer Residential segment, KPN estimates its TV market share in the Netherlands based on number of subscribers, as a percentage of total TV subscribers in the Netherlands as presented in the Telecompaper Reports;
- In the Consumer Residential segment, KPN estimates its broadband internet market share in the Netherlands based on number of subscribers, as a percentage of total broadband internet subscribers in the Netherlands as presented in the Telecompaper Reports;
- In Germany, KPN estimates its mobile market share based on its service revenues in the fourth quarter of 2012 and subscribers as of 31 December 2012, as a percentage of market service revenues in the third quarter of 2012 and subscribers as of 30 September 2012, calculated from the public disclosure of the other mobile network operators in the mobile market in Germany; and
- In Belgium, KPN estimates its mobile market share based on its service revenues in the fourth quarter of 2012 and subscribers as of 31 December 2012, as a percentage of market service revenues in the third quarter of 2012 and subscribers as of 30 September 2012, calculated from the public disclosure of the other mobile network operators in the mobile market in Belgium.

KPN believes these statements to be true based on market data and industry statistics which are in the public domain, but KPN has not independently verified the information. KPN cannot guarantee that a third party using different methods to assemble, analyze or compute market data or public disclosure from competitors would obtain or generate the same results. In addition, KPN's competitors may define their markets and their own relative positions in these markets differently than KPN does, and may also define various components of their business and operating results, such as service revenues, in a manner which makes such figures non-comparable with KPN's service revenues.

The information in this Prospectus that has been sourced from third parties has been accurately reproduced and, as far as KPN is aware and able to ascertain from the information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Although KPN believes these sources are reliable, as KPN does not have access to the information, methodology and other bases for such information, KPN has not independently verified the information.

## **Glossary**

Terms used in this Prospectus are set forth to assist investors in the "Glossary" beginning on page 185.

## OVERVIEW

*The following overview refers to certain provisions of the Terms and Conditions of the Securities and is qualified by the more detailed information contained elsewhere in this Prospectus. Capitalised terms used herein have the meaning given to them in “Terms and Conditions of the Securities”.*

<b>Issuer</b>	Koninklijke KPN N.V.
<b>Trustee</b>	Citicorp Trustee Company Limited
<b>Principal Paying Agent, Agent Bank and Transfer Agent</b>	Citibank, N.A., London Branch
<b>Registrar</b>	Citigroup Global Markets Deutschland AG
<b>Issue Size</b>	U.S.\$600,000,000
<b>Issue Date</b>	28 March 2013
<b>Maturity</b>	The Securities will be long-dated securities redeemable on 28 March 2073.
<b>Interest/Step-up</b>	<p>The Securities bear interest on their principal amount at the applicable Interest Rate from (and including) the Issue Date. Subject as described in “Optional Interest Deferral”, interest shall be payable on the Securities semi-annually in arrear on the relevant Interest Payment Dates in each year.</p>

The Securities will bear interest:

- (i) from (and including) the Issue Date to (but excluding) 28 March 2023 (the **First Reset Date**) at a rate of 7.00 per cent. per annum, payable semi-annually in arrear on 28 March and 28 September in each year. The first payment of interest, to be made on 28 September 2013, will be in respect of the period from (and including) the Issue Date to (but excluding) 28 September 2013 and will amount to U.S.\$35.00 per U.S.\$1,000 in principal amount of the Securities;
- (ii) from (and including) 28 March 2023 to (but excluding) 28 March 2043 the Securities will bear interest at a rate per annum which shall be 5.21 per cent. above the dollar 10 year Swap Rate for the relevant Reset Period payable semi-annually in arrear on 28 March and 28 September in each year; and
- (iii) (from (and including) 28 March 2043 to (but excluding) 28 March 2073, the Securities will bear interest at a rate per annum which shall be 5.96 per cent. above the dollar 10 year Swap Rate for the relevant Reset Period payable semi-annually in arrear on 28 March and 28 September in each year,

all as more particularly described in “Terms and Conditions of the Securities—Interest Payments”.

If an Equity Offering Linked Call Event occurs and the Issuer does not elect to redeem the Securities on or before the date falling 6 months after the Issue Date of the Securities, the then prevailing interest rate per annum (and each subsequent interest rate per annum) in respect of the Securities shall be increased by 5 per cent. per annum with effect from (and including) the date falling 6 months after the Issue Date of the Securities.

If a Change of Control Event occurs and the Issuer does not elect to redeem the Securities, the then prevailing interest rate per annum (and

each subsequent interest rate per annum) in respect of the Securities shall be increased by 5 per cent. with effect from (and including) the date on which the Change of Control Event occurred.

**Status**

The Securities constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves.

**Subordination**

In the event of a Winding-up of the Issuer, the claims of the Holders will rank:

- (i) in priority to any distributions in respect of any ordinary shares in the capital of the Issuer (**Junior Securities** or **Shares**);
- (ii) *pari passu* with all Parity Obligations; and
- (iii) junior to the rights and claims of Senior Creditors,

so that in the event of a Winding-up, amounts due and payable in respect of the Securities shall be paid by the Issuer only after all of the Senior Creditors have been reimbursed or paid in full and the Holders irrevocably waive their right to be treated equally with all such creditors in such circumstances.

As used herein:

**Parity Obligations** means:

- (i) the preference shares or, if sub-divided in classes, the most junior class of preference share capital of the Issuer, if any, and any other obligations of the Issuer which rank, or are expressed to rank, *pari passu* with the Securities or such preference shares; and
- (ii) any obligations of any subsidiaries of the Issuer benefiting from a guarantee or support agreement entered into by the Issuer which ranks, or is expressed to rank, *pari passu* with the Securities;

**Senior Creditors** means:

- (i) all unsubordinated creditors, present and future, of the Issuer and all subordinated creditors of the Issuer other than those whose claims (whether only in the event of a Winding-up or otherwise) rank, or are expressed to rank, *pari passu* with or junior to the claims of the Holders of the Securities; and
- (ii) if the Issuer has outstanding preference shares divided into classes with different rankings on a Winding-up, all (if any) classes of such preference shares other than the most junior class; and

**Winding-up** means a situation where:

- (i) an order is made or a decree or resolution is passed for the winding-up, liquidation or dissolution of the Issuer; or
- (ii) a trustee (*curator*) is appointed by the competent District Court in the Netherlands in the event of bankruptcy (*faillissement*) affecting the whole or a substantial part of the undertaking or assets of the Issuer and such appointment is not discharged within 30 days.

See “Risk Factors—Risks related to the Securities generally—Limited Events of Default and remedies”.

## **Optional Interest Deferral**

The Issuer may, at its discretion, elect to defer all or part of any Interest Payment (a **Deferred Interest Payment**) which is otherwise scheduled to be paid on an Interest Payment Date by giving a Deferral Notice of such election to the Holders. Subject as described in “Mandatory Settlement of Arrears of Interest”, if the Issuer elects not to make all or part of any Interest Payment on an Interest Payment Date, then it will not have any obligation to pay such interest on the relevant Interest Payment Date and any such non-payment of interest will not constitute an Event of Default of the Issuer or any other breach of its obligations under the Securities or for any other purpose.

Any Deferred Interest Payment (or part thereof) shall itself bear interest (such further interest together with the Deferred Interest Payment, being **Arrears of Interest**), at the Interest Rate prevailing from time to time, from (and including) the date on which (but for such deferral) the Deferred Interest Payment would otherwise have been due to be made to (but excluding) the relevant Optional Deferred Interest Settlement Date or, as appropriate, such other date on which such Deferred Interest Payment is paid in accordance with Condition 5(c), in each case such further interest being compounded on each Interest Payment Date.

Non-payment of Arrears of Interest shall not constitute a default by the Issuer under the Securities or for any other purpose, unless such payment is required in accordance with Condition 5(c).

## **Optional Settlement of Arrears of Interest**

Arrears of Interest may be satisfied at the option of the Issuer in whole or in part at any time (the **Optional Deferred Interest Settlement Date**) following delivery of a notice to such effect given by the Issuer to the Holders informing them of its election to so satisfy such Arrears of Interest (or part thereof) and specifying the relevant Optional Deferred Interest Settlement Date.

## **Mandatory Settlement of Arrears of Interest**

The Issuer may give a notice as described in “Optional Interest Deferral” with regard to any amount which would otherwise be due on an Interest Payment Date in its sole discretion and for any reason.

Notwithstanding the above and the provisions of “Optional Interest Deferral”, the Issuer shall pay any outstanding Arrears of Interest, in whole but not in part, on the first occurring Mandatory Settlement Date following the Interest Payment Date on which an Interest Payment was deferred.

## **Optional Redemption**

The Issuer may redeem all, but not some only, of the Securities on the First Reset Date, on 28 March 2028 and on the next succeeding Reset Date, and thereafter on each Interest Payment Date at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

## **Special Event Redemption**

If a Special Event has occurred and is continuing, then the Issuer may redeem (at its option) at any time all, but not some only, of the Securities at:

- (i) in the case of a Rating Event, a Tax Deduction Event or a Withholding Tax Event, where the relevant date fixed for redemption falls prior to the First Reset Date, 101 per cent. of their principal amount;
- (ii) in the case of a Rating Event, a Tax Deduction Event or a Withholding Tax Event where the relevant date fixed for redemption falls on or after the First Reset Date, their principal amount; or

(iii) in the case of a Substantial Repurchase Event at any time, their principal amount,

in each case together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

#### **Equity Offering-Linked Redemption**

If an Equity Offering Linked Call Event has occurred and is continuing, the Issuer may elect to redeem all, but not some only, of the Securities at 101 per cent. of their principal amount, together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest, on or before the date falling 6 months after the Issue Date of the Securities.

#### **Change of Control**

If a Change of Control Event has occurred and is continuing, the Issuer may elect to redeem all, but not some only, of the Securities at any time at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

*At or around the Issue Date, the Issuer intends to undertake with and for the benefit of all holders of its Relevant Securities (as defined below) that, for so long as any of the Securities is outstanding, following the occurrence of a Change of Control Event in respect of which it intends to deliver a notice exercising its right to redeem the Securities under Condition 6(f), it will do so only after making a tender offer, directly or indirectly, to all holders of the Relevant Securities to repurchase their respective Relevant Securities at their respective aggregate nominal amounts together with any interest accrued until the day of completion of the repurchase. The Issuer will undertake to make such tender offer in such a way as to ensure that the repurchase of any such Relevant Securities tendered to it will be effected prior to any redemption of the Securities in accordance with Condition 6(f).*

***Relevant Securities** means any current or future indebtedness of the Issuer to Senior Creditors (as defined in Condition 3(a)) in the form of, or represented or evidenced by bonds, notes, debentures or other similar securities or instruments (or a guarantee thereof) which benefits from a solicited rating from an external rating agency recognised by EU or US regulations, and which does not include protection for the holders thereof in the event of a change of control of the Issuer (however defined).*

#### **Event of Default**

If a default is made by the Issuer for a period of 14 days or more in the payment of any principal or 21 days or more in the payment of any interest, and which is due, then the Issuer shall without notice from the Trustee be deemed to be in default under the Trust Deed, the Securities, and the Trustee at its sole discretion may, or shall, if so requested by an Extraordinary Resolution of the Holders of the Securities or in writing by the Holders of at least one-quarter in principal amount of the Securities, subject in each case to its being indemnified and/or secured and/or prefunded to its satisfaction, institute proceedings for the winding-up of the Issuer and/or prove in the winding-up of the Issuer and/or claim in the liquidation of the Issuer for such payment.

In the event of a Winding-up (except for the purposes of a merger, reconstruction or amalgamation the terms of which have previously been approved by an Extraordinary Resolution (as defined in the



Trust Deed) of the Holders), the Securities will become immediately due and payable at their outstanding principal amount, together with interest accrued thereon, including any Arrears of Interest, up to (but excluding) the redemption date, subject to the ranking provided in “Overview—Subordination” above.

**Additional Amounts**

Payments in respect of the Securities shall be made free and clear of, and without withholding or deduction for, or on account of, taxes of the Netherlands, unless such withholding or deduction is required by law. In the event that any such withholding or deduction is made, additional amounts may be payable by the Issuer, subject to certain exceptions as are more fully described under “Terms and Conditions of the Securities—Taxation”.

**Substitution of the Issuer**

Provided the Trustee is satisfied that the interests of the relevant Holders will not be materially prejudiced, the Trustee may, without the consent of the Holders, agree to the substitution on a subordinated basis equivalent to that referred to in Conditions 2 and 3 of certain other entities in place of the Issuer as a new principal debtor under the Securities. See “Terms and Conditions of the Securities—Meetings of Holders, Modification, Waiver and Substitution”.

**Replacement Intention**

*Unless the rating assigned by S&P to the Issuer is at least “BBB-” (or such similar nomenclature then used by S&P) and the Issuer is comfortable that such rating would not fall below this level as a result of such redemption or repurchase the Issuer intends (without thereby assuming a legal obligation), during the period from and including the issue date of the Securities to but excluding the Reset Date falling on 28 March 2043, in the event of:*

- (i) an early redemption of the Securities; or*
- (ii) a repurchase of the Securities of more than (a) 10 per cent. of the aggregate principal amount of the Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the Securities originally issued in any period of 10 consecutive years,*

*that it will redeem or repurchase such Securities only to the extent that such part of the aggregate principal amount of the Securities to be redeemed or repurchased as was characterised as equity credit by S&P at the time of their issuance to apply to the Securities after redemption of the Securities upon the occurrence of an Equity Offering Linked Call Event no longer is available to the Issuer (but taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities) does not exceed such part of the net proceeds which is received by the Issuer or any subsidiary of the Issuer during the 360-day period prior to the date of such redemption or repurchase from the sale or issuance by the Issuer or any subsidiary of the Issuer to third party purchasers (other than subsidiaries of the Issuer) of securities as is characterised by S&P, at the time of sale or issuance, as equity credit. This is a statement of the Issuer’s intention as at the date of this Prospectus and does not impose any legal obligations on the Issuer. Accordingly, this statement does not form part of the Conditions.*

**Form**

The Securities will be in registered form in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

The Rule 144A Securities will be represented by beneficial interests in the Restricted Global Certificate, which will be deposited with a custodian for DTC, and registered in the name of Cede & Co., as nominee for DTC. The Regulation S Securities will be represented by beneficial interests in the Unrestricted Global Certificate, which also will be deposited with a custodian for DTC, and registered in the name of Cede & Co., as nominee for DTC. Except in limited circumstances, certificates for Securities will not be issued in exchange for beneficial interests in the Global Certificates. See “Terms and Conditions of the Securities—Forms, Denomination and Title—Transfer”.

Interests in the Rule 144A Securities will be subject to certain restrictions on transfer. See “Summary of Provisions Relating to the Securities while in Global Form” and “Selling and Transfer Restrictions”. Interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants.

<b>Denominations</b>	U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.
<b>Listing and Admission to Trading</b>	Applications will be made for the Securities to be admitted to trading on Euronext Amsterdam.
<b>Governing Law</b>	English law save for certain provisions relating to subordination which shall be governed by Dutch law.
<b>Ratings</b>	The Securities are expected to be rated BB by S&P, Ba1 by Moody’s and BB by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. As of the date of this Prospectus, each Rating Agency is a credit rating agency established in the European Union and is registered under Regulation (EC) No 1060/2009 (as amended). As such each Rating Agency is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.
<b>Use of Proceeds</b>	KPN intends to use the net proceeds of the Offering, together with the net proceeds of the EUR Capital Securities and the GBP Capital Securities (together, the <b>EUR/GBP Offering</b> and such capital securities, the <b>Capital Securities</b> ), as well as the net proceeds of the proposed Rights Offering, primarily to strengthen its capital structure. See “Use of Proceeds”.
<b>Selling Restrictions</b>	The United States, the United Kingdom, Hong Kong, Japan and Singapore. See “Subscription and Sale”.
<b>Risk Factors</b>	Prospective investors should carefully consider the information set out in “Risk Factors” in conjunction with the other information contained or incorporated by reference in this Prospectus.
<b>ISIN</b>	US50048VAA89 in respect of the Restricted Global Certificate and USN4297BBC74 in respect of the Unrestricted Global Certificate.
<b>Common Code</b>	086527723 in respect of the Restricted Global Certificate and 086527685 in respect of the Unrestricted Global Certificate.
<b>CUSIP</b>	50048V AA8 in respect of the Restricted Global Certificate and N4297B BC7 in respect of the Unrestricted Global Certificate.

## TERMS AND CONDITIONS OF THE SECURITIES

*The following, subject to alteration prior to 28 March 2013 and except for paragraphs in italics, are the terms and conditions of the Securities which will be endorsed on the Certificates issued in respect of the Securities.*

The issue of the U.S.\$600,000,000 capital securities due 28 March 2073 (the **Securities**, which expression shall, unless the context otherwise requires, include any further securities issued pursuant to Condition 17 and forming a single series with the Securities) of Koninklijke KPN N.V. (the **Issuer**) was authorised by a resolution of the board of management of the Issuer passed on 14 December 2012 and a resolution of the supervisory board of the Issuer passed on 14 December 2012. The Securities are constituted by a trust deed (the **Trust Deed**) dated 28 March 2013 between the Issuer and Citicorp Trustee Company Limited (the **Trustee**, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Holders (as defined in Condition 1(a)). These terms and conditions (as amended from time to time) (the **Conditions**) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Certificates (as defined in Condition 1(a)). Copies of (i) the Trust Deed; and (ii) the agency agreement (the **Agency Agreement**) dated 28 March 2013 relating to the Securities between the Issuer, Citigroup Global Markets Deutschland AG as registrar (the **Registrar**, which expression shall include any successor thereto), Citibank, N.A., London Branch as initial principal paying agent (the **Principal Paying Agent**, which expression shall include any successor thereto, and the expression **Paying Agents** shall include the Principal Paying Agent and all persons for the time being the paying agent under the Agency Agreement), as agent bank (the **Agent Bank**, which expression includes any successor thereto) and as transfer agent (the **Transfer Agent**, which expression shall include any successor thereto and the expression Transfer Agent shall include the Registrar and all persons for the time being a transfer agent under the Agency Agreement) and the Trustee are available for inspection during usual business hours at the principal office of the Trustee (presently at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom) and at the specified offices of each of the Agents. The Holders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

### 1 Form, Denomination, Title and Transfer

#### (a) Form, Denomination and Title

The Securities are issued in the specified denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

The Securities are represented by registered certificates (**Certificates**) and, save as provided in Condition 1(b), each Certificate shall represent the entire holding of Securities by the same Holder. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Holders which the Issuer will procure to be kept by the Registrar (the **Register**).

Title to the Securities shall pass by registration in the Register. Except as ordered by a court of competent jurisdiction or as required by law, the Holder (as defined below) of any Security shall be deemed to be and may be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate representing it or the theft or loss of such Certificate) and no person shall be liable for so treating the Holder.

In these Conditions, **Holder** means the person in whose name a Security is registered.

*The Securities are not issuable in bearer form.*

#### (b) Transfer

- (i) **Transfer:** One or more Securities may, subject to Condition 1(b)(iv), be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Securities to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Securities represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part

transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Securities to a person who is already a Holder, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Securities and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Holder upon request.

*For a description of the procedures for transferring title to book-entry interests in the Securities, see “Book-Entry and Clearance Systems”.*

- (ii) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Condition 1(b)(i) shall be made available for delivery within five business days of receipt of a duly completed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer or Certificate shall have been made or, at the option of the Holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the Holder entitled to the new Certificate to such address as may be so specified, unless such Holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/ or such insurance as it may specify. In this Condition 1(b)(ii), **business day** means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

*Except for the limited circumstances described herein (see “Summary of the provisions relating to the Securities while in Global Form”), owners of interests in the Securities will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Securities are subject to compliance by the transferor and the transferee with the certification procedures described above and in the Agency Agreement, and, in the case of Restricted Securities, compliance with the Securities Act Legend.*

- (iii) **Transfer or Exercise Free of Charge:** Certificates, on transfer or exercise of an option, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (iv) **Closed Periods:** No Holder may require the transfer of a Security to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Security, (ii) during the period of 15 days prior to (and including) any date on which Securities may be called for redemption by the Issuer at its option pursuant to Conditions 6(b) to 6(g), (iii) after any such Security has been called for redemption, or (iv) during the period of seven days ending on (and including) any Record Date (as defined in Condition 9(a)(ii)).

## 2 Status

The Securities constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of the Holders are subordinated as described in Condition 3.

## 3 Subordination

### (a) General

In the event of a Winding-up of the Issuer, the claims of the Holders (as provided in Condition 10(f)) will rank:

- (i) in priority to any distributions in respect of any ordinary shares in the capital of the Issuer (**Junior Securities**);
- (ii) *pari passu* with all Parity Obligations; and
- (iii) junior to the rights and claims of Senior Creditors,

so that in the event of a Winding-up, amounts due and payable in respect of the Securities shall be paid by the Issuer only after all of the Senior Creditors have been reimbursed or paid in full and the Holders irrevocably waive their right to be treated equally with all such Senior Creditors in such circumstances.

As used herein:

**Parity Obligations** means:

- (i) the preference shares or, if sub-divided in classes, the most junior class of preference share capital of the Issuer, if any, and any other obligations of the Issuer which rank, or are expressed to rank, *pari passu* with the Securities or such preference shares; and
- (ii) any obligations of any subsidiaries of the Issuer benefiting from a guarantee or support agreement entered into by the Issuer which ranks, or is expressed to rank, *pari passu* with the Securities;

For the avoidance of doubt, Parity Obligations include the Issuer's €1,100,000,000 capital securities (ISIN: XS0903872355) and the Issuer's £400,000,000 capital securities (ISIN: XS0903872603);

**Senior Creditors** means

- (i) all unsubordinated creditors, present and future, of the Issuer and all subordinated creditors of the Issuer other than those whose claims (whether only in the event of a Winding-up or otherwise) rank, or are expressed to rank, *pari passu* with or junior to the claims of the Holders of the Securities; and
- (ii) if the Issuer has outstanding preference shares divided into classes with different rankings on a Winding-up, all (if any) classes of such preference shares other than the most junior class.

**(b) Set-off**

Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with the Securities and each Holder shall, by virtue of his holding of any Security, be deemed to have waived all such rights of set-off, compensation or retention.

**4 Interest Payments**

**(a) Interest Rate**

The Securities bear interest on their principal amount at the applicable Interest Rate from (and including) 28 March 2013 (the **Issue Date**) in accordance with the provisions of this Condition 4.

Subject to Condition 5, interest shall be payable on the Securities semi-annually in arrear on each Interest Payment Date as provided in this Condition 4.

**(b) Interest Accrual**

The Securities will cease to bear interest from (and including) the date of redemption thereof pursuant to the relevant paragraph of Condition 6 unless, upon surrender of the Certificate representing such Security, payment of all amounts due in respect of the Securities is not made, in which event interest shall continue to accrue in respect of unpaid amounts on the Securities, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date.

Save as provided in Condition 4(c), where it is necessary to calculate an amount of interest in respect of any Security for a period which is less than a complete Interest Period, the relevant day-count fraction will be determined on the basis of a 360-day year of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed in that month on the basis of a month of 30 days.

Interest in respect of any Security shall be calculated per U.S.\$1,000 in principal amount thereof (the **Calculation Amount**). The amount of interest payable per Calculation Amount for any period shall, save as provided in Condition 4(c), be equal to the product of the relevant Interest Rate, the Calculation Amount and the day count-fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards). The amount of interest payable in respect of each Security shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the denomination of such Security without any further rounding.

(c) **First Fixed Interest Rate**

For each Interest Period ending on or before the First Reset Date, the Securities bear interest at the rate of 7.00 per cent. per annum (the **First Fixed Interest Rate**), payable semi-annually in arrear in equal instalments of U.S.\$35.00 per Calculation Amount on the relevant Interest Payment Dates.

(d) **Subsequent Fixed Interest Rates**

For each Interest Period which commences on or after the First Reset Date, the Securities bear interest at the relevant Subsequent Fixed Interest Rate. Such interest shall be payable semi-annually in arrear on the relevant Interest Payment Dates in each year and shall be calculated, except as provided in Condition 4(i) below, as follows:

$$\text{Subsequent Fixed Interest Rate} = 10 \text{ year Swap Rate} + \text{Margin}$$

all as determined by the Agent Bank and where,

**10 year Swap Rate** means the semi-annual mid-swap rate as displayed on Reuters screen “ISDAFIX3” as at 11:00 a.m. (London time) (the **Reset Screen Page**) on the first Business Day of the relevant Reset Period (the **Reset Interest Determination Date**);

In the event that the 10 year Swap Rate does not appear on the Reset Screen Page on the Reset Interest Determination Date, the 10 year Swap Rate will be the Reset Reference Bank Rate on such Reset Interest Determination Date;

**Reset Reference Bank Rate** means the percentage rate determined on the basis of the 10 year Swap Rate Quotations provided by five leading swap dealers in the interbank market acting in each case through its principal London office (the **Reset Reference Banks**) to the Agent Bank at approximately 11:00 a.m. (London time), on such Reset Interest Determination Date. If at least three quotations are provided, the 10 year Swap Rate will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest);

The **10 year Swap Rate Quotations** means, in respect of each Interest Period falling within a Reset Period, the arithmetic mean of the bid and offered rates for the semi-annual fixed leg (calculated on a 30/360 day-count basis) of a fixed-for-floating U.S. dollar interest rate swap which (i) has a term of 10 years commencing on the relevant Reset Interest Determination Date, (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market, and (iii) has a floating leg based on the 3-month LIBOR rate (calculated on an Actual/360 day count basis) and;

**Margin** means in respect of (i) each Reset Period which falls in the period commencing on 28 March 2023 and ending on (but excluding) 28 March 2043, 5.21 per cent.; and (ii) each Reset Period which falls on or after 28 March 2043, 5.96 per cent.

The Subsequent Fixed Interest Rate shall be determined as provided above in respect of each Reset Period and, as so determined, such rate shall apply to each Interest Period falling within that Reset Period.

(e) **Determination of Subsequent Fixed Interest Rates**

The Agent Bank will, as soon as practicable after 11.00 hours (London time) on each Reset Interest Determination Date, determine the Subsequent Fixed Interest Rate in respect of each Interest Period falling within the relevant Reset Period.

(f) **Publication of Subsequent Fixed Interest Rates**

The Issuer shall cause notice of each Subsequent Fixed Interest Rate determined in accordance with this Condition 4 in respect of each relevant Interest Period to be given to the Trustee, the Paying

Agents, any stock exchange on which the Securities are for the time being listed or admitted to trading and, in accordance with Condition 16, the Holders, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

**(g) Agent Bank and Reset Reference Banks**

With effect from the First Reset Date, the Issuer will maintain an Agent Bank and five Reset Reference Banks where the Interest Rate is to be calculated by reference to them. The name of the initial Agent Bank and its initial specified office is set out at the end of these Conditions.

The Issuer may, with the prior written approval of the Trustee, from time to time replace the Agent Bank or any Reset Reference Bank with another leading financial institution in London. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or fails duly to determine a Subsequent Fixed Interest Rate in respect of any Interest Period as provided in Condition 4(d), the Issuer shall forthwith appoint another leading financial institution in London approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

**(h) Determinations of Agent Bank Binding**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 by the Agent Bank shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent Bank, the Trustee, the Paying Agents and all Holders and (in the absence as aforesaid) no liability to the Holders or the Issuer shall attach to the Agent Bank in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

**(i) Step-up after Change of Control**

Notwithstanding any other provision of this Condition 4, if the Issuer does not elect to redeem the Securities in accordance with Condition 6(f) following the occurrence of a Change of Control Event, the then prevailing Interest Rate, and each subsequent Interest Rate otherwise determined in accordance with the provisions of this Condition 4 (including, if applicable, Condition 4(j)), on the Securities shall be increased by 5 per cent. with effect from (and including) the date on which the Change of Control Event occurred.

**(j) Step-up in connection with Equity Offering**

Notwithstanding any other provision of this Condition 4, if an Equity Offering Linked Call Event has occurred and is continuing, and the Issuer has not on or before the date falling 6 months after the Issue Date given notice of its election to redeem the Securities, the then prevailing Interest Rate (and each subsequent Interest Rate otherwise determined in accordance with the provisions of this Condition 4 (including, if applicable, Condition 4(i))) shall be increased by 5 per cent. with effect from (and including) the date falling 6 months after the Issue Date.

**5 Optional Interest Deferral**

**(a) Deferral of Payments**

Notwithstanding the provisions of Condition 4(a), the Issuer may, at its discretion, elect to defer all or part of any Interest Payment (a **Deferred Interest Payment**) which is otherwise scheduled to be paid on an Interest Payment Date by giving notice (a **Deferral Notice**) of such election to the Holders in accordance with Condition 16, the Trustee and the Principal Paying Agent not more than 14 nor less than 7 Business Days prior to the relevant Interest Payment Date. Subject to Condition 5(c), if the Issuer elects not to make all or part of any Interest Payment on an Interest Payment Date, then it will not have any obligation to pay such interest on the relevant Interest Payment Date and any such non-payment of interest will not constitute an Event of Default or any other breach of its obligations under the Securities or for any other purpose.

**(b) Optional Settlement**

Arrears of Interest (as defined below) may be satisfied at the option of the Issuer in whole or in part at any time (the **Optional Deferred Interest Settlement Date**) following delivery of a notice to such

effect given by the Issuer to the Holders in accordance with Condition 16, the Trustee and the Principal Paying Agent not more than 14 nor less than 7 Business Days prior to the relevant Optional Deferred Interest Settlement Date informing them of its election to so satisfy such Arrears of Interest (or part thereof) and specifying the relevant Optional Deferred Interest Settlement Date.

Any Deferred Interest Payment shall itself bear interest (such further interest together with the Deferred Interest Payment, being **Arrears of Interest**), at the Interest Rate applicable to the Securities from time to time, from (and including) the date on which (but for such deferral) the Deferred Interest Payment would otherwise have been due to be made to (but excluding) the relevant Optional Deferred Interest Settlement Date or, as appropriate, such other date on which such Deferred Interest Payment is paid in accordance with Condition 5(c), in each case such further interest being compounded on each Interest Payment Date.

Non-payment of Arrears of Interest shall not constitute a default by the Issuer under the Securities or for any other purpose, unless such payment is required in accordance with Condition 5(c).

**(c) Mandatory Settlement**

Notwithstanding the provisions of Condition 5(a), the Issuer shall pay any outstanding Arrears of Interest, in whole but not in part, on the first occurring Mandatory Settlement Date following the Interest Payment Date on which a Deferred Interest Payment first arose.

**6 Redemption**

**(a) Final Redemption**

Unless previously redeemed, or purchased and cancelled, and subject to the provisions of Condition 3(a) and without prejudice to the provisions of Condition 12, the Securities will be redeemed at their principal amount on 28 March 2073 (the **Maturity Date**), together with any accrued and unpaid interest up to (but excluding) the Maturity Date and any outstanding Arrears of Interest. The Securities may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

**(b) Issuer's Call Option**

The Issuer may, by giving not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the Holders (which notice shall be irrevocable), redeem all, but not some only, of the Securities on the First Reset Date, on 28 March 2028 or on the first following Reset Date, or thereafter on each Interest Payment Date, in each case at their principal amount, together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

**(c) Redemption for Taxation Reasons**

If, immediately prior to the giving of the notice referred to below, a Tax Deduction Event or a Withholding Tax Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the Holders (which notice shall be irrevocable) and subject to Condition 7, redeem in accordance with these Conditions at any time all, but not some only, of the Securities at (i) 101 per cent. of their principal amount (where such redemption occurs prior to the First Reset Date) or (ii) their principal amount (where such redemption occurs on or after the First Reset Date), together, in each case, with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

**(d) Redemption for Rating Reasons**

If, immediately prior to the giving of the notice referred to below, a Rating Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the Holders (which notice shall be irrevocable) and subject to Condition 7, redeem in accordance with these Conditions all, but not some only, of the Securities at any time at (i) 101 per cent. of their principal amount (where



such redemption occurs prior to the First Reset Date) or (ii) their principal amount (where such redemption occurs on or after the First Reset Date), together, in each case, with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

**(e) Redemption for Substantial Repurchase**

If, immediately prior to the giving of the notice referred to below, a Substantial Repurchase Event has occurred, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the Holders (which notice shall be irrevocable) and subject to Condition 7, redeem in accordance with these Conditions all, but not some only, of the Securities at any time at their principal amount, together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

**(f) Redemption for Change of Control**

If, immediately prior to the giving of the notice referred to below, a Change of Control Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the Holders (which notice shall be irrevocable) and subject to Condition 7, redeem in accordance with these Conditions all, but not some only, of the Securities at any time at their principal amount, together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

*At or around the Issue Date, the Issuer intends to undertake with and for the benefit of all holders of its Relevant Securities (as defined below) that, for so long as any of the Securities is outstanding, following the occurrence of a Change of Control Event in respect of which it intends to deliver a notice exercising its right to redeem the Securities in accordance with this Condition 6(f) it will do so only after making a tender offer, directly or indirectly, to all holders of the Relevant Securities to repurchase their respective securities at their respective aggregate nominal amounts together with any interest accrued until the day of completion of the repurchase. The Issuer will undertake to make such tender offer in such a way as to ensure that the repurchase of any such Relevant Securities tendered to it will be effected prior to any redemption of the Securities in accordance with this Condition 6(f).*

*Relevant Securities means any current or future indebtedness of the Issuer to Senior Creditors (as defined in Condition 3(a)) in the form of, or represented or evidenced by bonds, notes, debentures or other similar securities or instruments (or a guarantee thereof) which benefits from a solicited rating from an external rating agency recognised by EU or US regulations, and which does not include protection for the holders thereof in the event of a change of control of the Issuer (however defined).*

**(g) Redemption for Equity Offering Linked Call Event**

If an Equity Offering Linked Call Event has occurred and is continuing, the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the Holders (which notice shall be irrevocable), redeem all, but not some only, of the Securities at 101 per cent. of their principal amount, together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

As used herein:

**Compliant Equity Offering** means a capital raise by the Issuer by means of issuing ordinary shares of the Issuer and/or any Mandatory Convertible Debt Securities which raises gross proceeds at least equal to all or substantially all of the Equity Offering Target Proceeds Amount;

an **Equity Offering Linked Call Event** shall be deemed to have occurred and be continuing if by 28 September 2013 the Issuer has not completed a Compliant Equity Offering or it announces its decision not to pursue a Compliant Equity Offering;

**Equity Offering Target Proceeds Amount** means €3bn;

**Mandatory Convertible Debt Securities** means securities issued by the Issuer or by another entity and guaranteed by the Issuer which provide for their mandatory conversion into ordinary shares of the Issuer and which on issue receive 100 per cent. equity treatment from a Rating Agency; and

**substantially all**, as used in this Condition 6(g), shall mean a number which is not less than €2.5 bn of the Equity Offering Target Proceeds Amount.

*Unless the rating assigned by S&P to the Issuer is at least “BBB-” (or such similar nomenclature then used by S&P) and the Issuer is comfortable that such rating would not fall below this level as a result of such redemption or repurchase, the Issuer intends (without thereby assuming a legal obligation), during the period from and including the issue date of the Securities to but excluding the Reset Date falling on 28 March 2043, in the event of:*

- (i) an early redemption of the Securities, or*
- (ii) a repurchase of the Securities of more than (a) 10 per cent. of the aggregate principal amount of the Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the Securities originally issued in any period of 10 consecutive years,*

*that it will redeem or repurchase such Securities only to the extent that such part of the aggregate principal amount of the Securities to be redeemed or repurchased as was characterised as equity credit by S&P at the time of their issuance to apply to the Securities after redemption of the Securities upon the occurrence of an Equity Offering Linked Call Event no longer is available to the Issuer (but taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities) does not exceed such part of the net proceeds which is received by the Issuer or any subsidiary of the Issuer during the 360-day period prior to the date of such redemption or repurchase from the sale or issuance by the Issuer or any subsidiary of the Issuer to third party purchasers (other than subsidiaries of the Issuer) of securities as is characterised by S&P, at the time of sale or issuance, as equity credit. This is a statement of the Issuer’s intention as at the date of this Prospectus and does not impose any legal obligations on the Issuer. Accordingly, this statement does not form part of the relevant Conditions.*

## **7 Preconditions to Special Event Redemption, Change of Control Event Redemption and Equity Offering Linked Call Event**

Prior to the publication of any notice of redemption pursuant to Condition 6 (other than redemption pursuant to Condition 6(b)), the Issuer shall deliver to the Trustee a certificate signed by two managing directors of the Issuer stating that the relevant requirement or circumstance giving rise to the right to redeem is satisfied, and where the relevant Special Event or, as the case may be, Change of Control Event or Equity Offering Linked Call Event, requires measures reasonably available to the Issuer to be taken, the relevant Special Event or, as the case may be, Change of Control Event or Equity Offering Linked Call Event, cannot be avoided by the Issuer taking such measures. In relation to a redemption pursuant to Condition 6(c), such certificate shall also include a copy of an opinion of an independent nationally recognised law firm or other tax adviser experienced in such matters that a Tax Deduction Event or Withholding Tax Event has occurred.

The Trustee may rely absolutely upon and shall be entitled to accept such certificate without any liability to any person for so doing and without any further inquiry as sufficient evidence of the satisfaction of the conditions precedent set out in such paragraphs in which event it shall be conclusive and binding on the Holders.

Any redemption of the Securities in accordance with Condition 6(b), 6(c), 6(d), 6(e), 6(f) or 6(g) shall be conditional on all outstanding Arrears of Interest being paid in full in accordance with the provisions of Condition 5 on or prior to the date thereof, together with any accrued and unpaid interest up to (but excluding) such redemption date.

The Trustee is under no obligation to ascertain whether any Special Event or Change of Control Event or Change of Control or Equity Offering Linked Call Event or any event which could lead to the occurrence of, or could constitute, any such Special Event, Change of Control Event or Change of Control or Equity Offering Linked Call Event, has occurred and, until it shall have actual knowledge or express notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no such Special Event, Change of Control Event or Change of Control or Equity Offering Linked Call Event or such other event has occurred.

## **8 Purchases and Cancellation**

### **(a) Purchases**

The Issuer or any of its subsidiaries may at any time purchase or procure others to purchase beneficially for its account Securities in any manner and at any price. The Securities so purchased,

while held by or on behalf of the Issuer, shall not entitle the Holder to vote at any meetings of the Holders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders or for the purposes of Condition 13.

**(b) Cancellation**

All Securities redeemed by the Issuer pursuant to Condition 6 will forthwith be cancelled. All Securities purchased by the Issuer or any of its subsidiaries may be held, reissued, resold or, at the option of the Issuer, the Certificate in respect thereof may be surrendered to the Registrar for cancellation. Securities in respect of which the relevant Certificate is so surrendered, shall be cancelled forthwith. Any Securities so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Securities shall be discharged.

**9 Payments**

**(a) Method of Payment**

- (i) Payments of principal shall be made (subject to presentation of the relevant Certificates at the specified office of any Paying Agent or, if no further payment falls to be made in respect of the Securities represented by such Certificates, presentation and surrender of the relevant Certificates at the specified office of the Registrar) in the manner provided in paragraph (ii) below.
- (ii) Interest on each Security shall be paid to the person shown on the Register at the close of business on the business day before the due date for payment thereof (the **Record Date**). Payments of interest on each Security shall be made in U.S. dollars by cheque drawn on a bank and mailed to the Holder (or to the first named of joint holders) of such Security at its address appearing in the Register. Upon application by the Holder to the specified office of the Registrar or any Paying Agent before the Record Date, such payment of interest may be made by transfer to an account in U.S. dollars maintained by the payee with a bank that processes payment in U.S. dollars.
- (iii) If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.

**(b) Payments Subject to Fiscal Laws**

Without prejudice to the terms of Condition 11, all payments made in accordance with these Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses shall be charged to the Holders in respect of such payments.

**(c) Payment Initiation**

Where payment is to be made by transfer to an account in U.S. dollars, payment instructions (for value the due date, or if that is not a Business Day, for value the first following day which is a Business Day) will be initiated, and, where payment is to be made by cheque, the cheque will be mailed on the last day on which the Principal Paying Agent is open for business preceding the due date for payment or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of any Paying Agent or of the Registrar, on a day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.

**(d) Appointment of Agents**

The Principal Paying Agent, the Registrar, the Transfer Agents and the Agent Bank initially appointed by the Issuer and their respective specified offices are listed below. The Principal Paying Agent, the Registrar, the Transfer Agents and the Agent Bank act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Holder. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, the Registrar, any Transfer Agent or the Agent Bank and to appoint additional or other Transfer Agents or Agent Banks provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) one or more Agent Banks where the Conditions so require, and (v) such other agents as may be required by any other stock exchange on which the Bonds may be listed, in each case, as approved by the Trustee. If any of the Agent Bank or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or

calculation or otherwise fails to perform its duties under these Conditions or the Agency Agreement (as the case may be), the Issuer shall appoint, on terms acceptable to the Trustee, an independent financial institution with the appropriate expertise acceptable to the Trustee to act as such in its place. All calculations and determinations made by the Agent Bank or the Principal Paying Agent in relation to the Securities shall (save in the case of manifest error) be final and binding on the Issuer, the Trustee, the Paying Agents and the Holders.

Notice of any such change or any change of any specified office shall promptly be given to the Holders in accordance with Condition 16.

**(e) Delay in Payment**

Holders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Security if the due date is not a Business Day, if the Holder is late in surrendering or cannot surrender its Certificate (if required to do so) or if a cheque mailed in accordance with Condition 9(a)(ii) arrives after the due date for payment.

**(f) Payments on Business Days**

If any date for payment in respect of any Security is not a business day, the Holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 9, **business day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in New York and in the place in which the specified office of the relevant Paying Agent is located, and in the case of presentation of a Certificate, in the place in which the Certificate is presented.

**10 Event of Default**

**(a) Proceedings**

If a default is made by the Issuer for a period of 14 days or more in the payment of any principal or 21 days or more in the payment of any interest, in each case in respect of the Securities and which is due (an **Event of Default**), then the Issuer shall without notice from the Trustee be deemed to be in default under the Trust Deed and the Securities and the Trustee at its sole discretion may, notwithstanding the provisions of Condition 10(b) but subject to Condition 10(c), institute proceedings for the winding-up of the Issuer and/or prove in the winding-up of the Issuer and/or claim in the liquidation of the Issuer for such payment and/or give notice to the Issuer that the Securities are, and they shall immediately thereby become, due and payable at their principal amount together with any accrued and unpaid interest up to (but excluding) such date and any outstanding Arrears of Interest.

**(b) Enforcement**

The Trustee may at its discretion (subject to Condition 10(c)) and without further notice institute such proceedings or take such steps or actions against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed or the Securities but in no event shall the Issuer, by virtue of the institution of any such proceedings, steps or actions, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

**(c) Entitlement of Trustee**

The Trustee shall not be bound to take any of the actions referred to in Condition 10(a) or 10(b) above against the Issuer to enforce the terms of the Trust Deed or the Securities or any other action or step under or pursuant to the Trust Deed or the Conditions unless (i) it shall have been so requested by an Extraordinary Resolution of the Holders or in writing by the Holders of at least one-quarter in principal amount of the Securities then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

**(d) Right of Holders**

No Holder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up or claim in the liquidation of the Issuer or to prove in such winding-up unless the Trustee,

having become so bound to proceed or being able to prove in such winding-up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Holder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 10.

**(e) Extent of Holders' remedy**

No remedy against the Issuer, other than as referred to in this Condition 10, shall be available to the Trustee or the Holders, whether for the recovery of amounts owing in respect of the Securities or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Securities or under the Trust Deed.

**(f) Winding-up**

In the event of a Winding-up (except for the purposes of a merger, reconstruction or amalgamation the terms of which have previously been approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Holders), the Securities will become immediately due and payable at their outstanding principal amount, together with interest accrued thereon, including any Arrears of Interest, subject to the ranking provided in Condition 3.

## **11 Taxation**

All payments of principal, premium and interest by or on behalf of the Issuer in respect of the Securities shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed, levied, collected, withheld or assessed by or within the Netherlands or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts (**Additional Amounts**) as shall result in receipt by the Holders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable with respect to any Security:

- (a) **Other connection:** to, or to a third party on behalf of, a Holder who is liable to such Taxes in respect of such Security by reason of his having some connection with the Netherlands other than a mere holding of such Security; or
- (b) **Surrender more than 30 days after the Relevant Date:** in respect of which the Certificate representing it is surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder thereof would have been entitled to such Additional Amounts on surrendering the Certificate representing it for payment on the thirtieth day; or
- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to or for an individual or a certain other person and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

References in these Conditions to principal, premium, Interest Payments, Deferred Interest Payments, Arrears of Interest and/or any other amount in respect of interest shall be deemed to include any Additional Amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

## **12 Prescription**

Claims against the Issuer for payment in respect of Securities shall be prescribed and become void unless made within a period of 10 years in the case of principal and five years in the case of interest from the Relevant Date in respect of them.

## **13 Meetings of Holders, Modification, Waiver and Substitution**

The Trust Deed contains provisions for convening meetings of Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be

convened by Holders holding not less than 10 per cent. in principal amount of the Securities for the time being outstanding.

The quorum at any such meeting for passing an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in principal amount of the Securities for the time being outstanding, or at any adjourned meeting two or more persons being or representing Holders whatever the principal amount of the Securities so held or represented, except that at any meeting the business of which includes the modification of certain of these Conditions (including, *inter alia*, the provisions regarding subordination referred to in Condition 3, the terms concerning currency and due dates for payment of principal, any applicable premium or Interest Payments in respect of the Securities and reducing or cancelling the principal amount of any Securities, any applicable premium or the Interest Rate) and certain other provisions of the Trust Deed as set out in the Trust Deed, the quorum shall be two or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Securities for the time being outstanding.

An Extraordinary Resolution passed at any meeting of Holders will be binding on all Holders, whether or not they are present at the meeting.

The Trust Deed provides that (i) a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Securities outstanding (a **Written Resolution**), or (ii) where the Securities are held on or behalf of a clearing system or clearing systems, approval of a resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communication systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 90 per cent. in principal amount of the Securities outstanding (**Electronic Consent**), shall, in each case, for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders duly convened and held. Such a Written Resolution and/or Electronic Consent will be binding on all Holders whether or not they participated in such Written Resolution and/or Electronic Consent. A Written Resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders.

The Trustee may agree, without the consent of the Holders, to (i) any modification of these Conditions or of any other provisions of the Trust Deed or the Agency Agreement which is in each case following, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification to (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach by the Issuer of any of these Conditions or of the provisions of the Trust Deed or the Agency Agreement which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Holders (which will not include, for the avoidance of doubt, any provision entitling the Holders to institute proceedings for the winding-up of the Issuer which is more extensive than those set out in Condition 10). Any such modification, authorisation or waiver shall be binding on the Holders and such modification shall be notified to the Holders as soon as practicable.

The Trust Deed contains provisions permitting the Trustee to agree, subject to the Trustee being satisfied that the interests of the Holders will not be materially prejudiced by the substitution and to such amendment of the Trust Deed and such other conditions as the Trustee may require but without the consent of the Holders, to the substitution on a subordinated basis equivalent to that referred to in Conditions 2 and 3 of certain other entities (any such entity, a **Substituted Obligor**) in place of the Issuer (or any previous Substituted Obligor under this Condition) as a new principal debtor under the Trust Deed and the Securities.

In connection with any proposed substitution as aforesaid and in connection with the exercise of its trusts, powers, authorities and discretions (including but not limited to those referred to in this Condition 13), the Trustee shall have regard to the general interests of the Holders as a class but shall not have regard to the consequences of such substitution or such exercise for individual Holders. In connection with any substitution or such exercise as aforesaid, no Holder shall be entitled to claim, whether from the Issuer, the Substituted Obligor or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or any such exercise upon any individual Holders except to the extent already provided in Condition 11 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Any such modification, waiver, authorisation or substitution shall be binding on all Holders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the Holders in accordance with Condition 16 as soon as practicable thereafter.

## **14 Replacement of the Certificates**

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Holders, on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, inter alia, that if the allegedly lost, stolen or destroyed Certificate is subsequently surrendered for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of the Securities represented by it) and otherwise as the Issuer may require. Mutilated or defaced Certificates must be surrendered before any replacement Certificates will be issued.

## **15 Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of, and/or provision of security and/or prefunding for, the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit. The Trustee may rely without liability to Holders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Holders.

## **16 Notices**

Notices to Holders will be valid if mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the Holders shall also be published in the English language in a daily newspaper having general circulation in the Netherlands (which is expected to be *Het Financieele Dagblad*) or, if in the opinion of the Trustee such publication shall not be practicable, in another leading daily English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

## **17 Further Issues**

The Issuer may from time to time without the consent of the Holders create and issue further Securities ranking *pari passu* in all respects (or in all respects save for the date from which interest thereon accrues and the amount of the first payment of interest on such further Securities) and so that such further issue shall be consolidated and form a single series with the outstanding Securities. Any such Securities shall be constituted by a deed supplemental to the Trust Deed.

## **18 Governing Law and Jurisdiction**

### **(a) Governing Law**

The Trust Deed and the Securities and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, the laws of England save for the provisions contained in Condition 3(a) which shall be governed by the laws of the Netherlands.

### **(b) Jurisdiction**

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Securities and accordingly any legal action or proceedings arising out of or in connection with the Securities (**Proceedings**) may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This Condition is for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) **Agent for Service of Process**

The Issuer irrevocably appoints Law Debenture Corporate Services Limited of Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom as its agent in England to receive service of process in any Proceedings in England based on any of the Securities. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

**19 Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Securities by virtue of the Contracts (Rights of Third Parties) Act 1999.

**20 Definitions**

In these Conditions:

**Additional Amounts** has the meaning given to it in Condition 11;

**Agency Agreement** has the meaning given to it in the preamble to these Conditions;

**Agent Bank** has the meaning given to it in the preamble to these Conditions;

**Agents** means the Paying Agents, the Registrar and the Transfer Agent;

**Arrears of Interest** has the meaning given to it in Condition 5(b);

**Business Day** means a day, other than a Saturday, Sunday or public holiday, on which commercial banks and foreign exchange markets are open for general business in New York and London;

**Calculation Amount** has the meaning given to it in Condition 4(b);

**Certificate** has the meaning given to it in Condition 1(a);

a **Change of Control Event** shall be deemed to have occurred if there occurs a Change of Control and within the Change of Control Period a Rating Downgrade in respect of that Change of Control occurs.

For the purposes of the definition of a Change of Control Event:

a **Change of Control** shall be deemed to have occurred at each time (whether or not approved by the board of management or the supervisory board of the Issuer) that any person or persons (**Relevant Person(s)**) acting in concert or any person or persons acting on behalf of any such Relevant Person(s), directly or indirectly acquire(s) or come(s) to own (A) more than 50 per cent. of the issued ordinary share capital of the Issuer or (B) such number of the shares in the capital of the Issuer carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of shareholders of the Issuer.

**Change of Control Period** means the period ending 90 days after the occurrence of the Change of Control.

a **Rating Downgrade** shall be deemed to have occurred in respect of a Change of Control (i) if within the Change of Control Period any rating previously assigned to the Issuer by any two Rating Agencies (if three Rating Agencies have assigned a rating to the Issuer) or by any Rating Agency (if only one or two Rating Agencies have assigned a rating to the Issuer) is (x) withdrawn or (y) changed from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or (z) (if the rating assigned to the Issuer by any two Rating Agencies shall be below an investment grade rating (as described above)) lowered one full rating category (from BB+/Ba1 to BB/Ba2 or such similar lower or equivalent rating), or (ii) if at the time of the Change of Control there is no rating assigned to the Issuer and no Rating Agency assigns during the Change of Control Period an investment grade credit rating (as described above) to the Issuer (unless the Issuer is unable to obtain such a rating within such period having used all reasonable endeavours to do so and such failure is unconnected with the occurrence of the Change of Control) provided, in each case, that a Rating Downgrade otherwise arising by virtue of a particular change in rating, or failure to obtain an investment grade rating (as described above) shall be deemed not to have occurred in respect of a particular Change of Control if the Rating Agency making the change in or withdrawing the rating, or failing to award an investment grade rating (as described above), to which this definition would otherwise apply does not announce publicly or confirm in writing to the Issuer that the withdrawal, reduction or such failure was the result, in whole or part, of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable Change of Control.

**Compliant Equity Offering** has the meaning given to it in Condition 6(g);



a **Compulsory Arrears of Interest Settlement Event** shall have occurred if:

- (i) a dividend (either interim or final), other distribution or payment was validly resolved on, declared, paid or made in respect of (a) ordinary shares of the Issuer, (b) any equity accounted obligations of the Issuer which rank or are expressed to rank *pari passu* with the ordinary shares of the Issuer or (c) any equity accounted obligations of any subsidiaries of the Issuer benefiting from a guarantee or support agreement entered into by the Issuer which rank, or are expressed to rank, *pari passu* with the ordinary shares of the Issuer, except where (x) such dividend, other distribution or payment was required to be resolved on, declared, paid or made in respect of any stock option plans or employees' share schemes of the Issuer or (y) the Issuer is obliged under the terms of such securities to make such dividend, distribution or other payment; or
- (ii) a dividend (either interim or final), other distribution or payment was validly resolved on, declared, paid or made in respect of any Parity Obligations of the Issuer, except where such dividend, distribution or payment was required to be declared, paid or made under the terms of such Parity Obligations of the Issuer; or
- (iii) the Issuer, or any subsidiary of the Issuer, has repurchased or otherwise acquired (a) any ordinary shares of the Issuer, (b) any equity accounted obligations of the Issuer which rank or are expressed to rank *pari passu* with the ordinary shares of the Issuer or (c) any equity accounted obligations of any subsidiaries of the Issuer benefiting from a guarantee or support agreement entered into by the Issuer which rank, or are expressed to rank, *pari passu* with the ordinary shares of the Issuer, except where (x) such repurchase or acquisition was undertaken in respect of any stock option plans or employees' share schemes of the Issuer or (y) the Issuer is obliged under the terms of such securities to make such repurchase or acquisition; or
- (iv) the Issuer, or any subsidiary of the Issuer, has redeemed, repurchased or otherwise acquired any Parity Obligations of the Issuer, except where (x) such redemption, repurchase or acquisition is effected as a public cash tender offer or public exchange offer at a purchase price per security which is below its par value or (y) the Issuer, or any subsidiary of the Issuer, is obliged under the terms of such securities to make such redemption, repurchase or acquisition;

**Conditions** means these terms and conditions of the Securities, as amended from time to time;

**Deferral Notice** has the meaning given to it in Condition 5(a);

**Deferred Interest Payment** has the meaning given to it in Condition 5(a);

**Equity Offering Target Proceeds Amount** has the meaning given to it in Condition 6(g);

**Equity Offering Linked Call Event** has the meaning given to it in Condition 6(g);

**Event of Default** has the meaning given to it in Condition 10(a);

**First Fixed Interest Rate** has the meaning given to it in Condition 4(c);

**First Reset Date** means 28 March 2023;

**Holder** has the meaning given to it in the preamble to these Conditions;

**Interest Payment** means, in respect of an interest payment on an Interest Payment Date, the amount of interest payable in respect of the relevant Security for the relevant Interest Period in accordance with Condition 4;

**Interest Payment Date** means 28 March and 28 September in each year, commencing on (and including) 28 September 2013;

**Interest Period** means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

**Interest Rate** means the First Fixed Interest Rate and/or each Subsequent Fixed Interest Rate, as the case may be;

**Issue Date** has the meaning given to it in Condition 4(a);

**Issuer** means Koninklijke KPN N.V.;

**Junior Securities** has the meaning given to it in Condition 3(a);

**Mandatory Settlement Date** means the earlier of:

- (i) the date on which a Compulsory Arrears of Interest Settlement Event occurs; or

- (ii) an Interest Payment Date in respect of which the Issuer has not elected to defer in whole payment of the relevant scheduled Interest Payment; or
- (iii) the date on which the Securities are redeemed or repaid in accordance with Condition 6 or Condition 10 or repurchased (whether by the Issuer or any subsidiary of the Issuer) in accordance with Condition 8;

**Maturity Date** has the meaning given to it in Condition 6(a);

**Optional Deferred Interest Settlement Date** has the meaning given to it in Condition 5(b);

**Parity Obligations** has the meaning given to it in Condition 3(a);

**Principal Paying Agent** has the meaning given to it in the preamble to these Conditions;

**Proceedings** has the meaning given to it in Condition 19(b);

**Rating Agency** means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or any of its subsidiaries or affiliates including Standard & Poor's Credit Market Services France S.A. and their successors or Moody's Investors Service, Inc. or any of its subsidiaries or affiliates including Moody's Investors Service España S.A. and their successors or Fitch Ratings Limited or any of its subsidiaries or affiliates and their successors or any rating agency of equivalent international standing substituted for any of them (or any permitted substitute of them) by the Issuer or specified by the Issuer from time to time with the prior written approval of the Trustee (such approval not to be unreasonably withheld or delayed having regard to the interests of the Holders);

a **Rating Event** shall be deemed to occur if the Issuer has received, and confirmed in writing to the Trustee that it has so received, confirmation from any Rating Agency of a change in its assessment criteria such that the Securities will no longer be eligible for the same, or a higher amount of, "equity credit" (or such other nomenclature that the Rating Agency may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) as was attributed to the Securities at:

- (iv) the Issue Date; or
- (v) any later date on which the Securities were attributed a higher amount of "equity credit" compared to the amount of "equity credit" attributed to them on the Issue Date;

**Record Date** has the meaning given to it in Condition 9(a)(ii);

**Relevant Date** means (i) in respect of any payment other than a sum to be paid by the Issuer in a winding-up or administration of the Issuer, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the Relevant Date means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Holders in accordance with Condition 16, and (ii) in respect of a sum to be paid by the Issuer in a winding-up or administration of the Issuer, the date which is one day prior to the date on which an order is made or a resolution is passed for the winding-up or, in the case of an administration, one day prior to the date on which any dividend is distributed;

**Relevant Securities** has the meaning given to it in Condition 6(f);

**Register** has the meaning given to it in Condition 1(a);

**Registrar** has the meaning given to it in the preamble to these Conditions;

**Reset Date** means the First Reset Date and each date falling on the tenth anniversary of the First Reset Date;

**Reset Period** means the period from one Reset Date to the next following Reset Date;

**Reset Reference Banks** means five major banks in the interbank market in London (acting in each case through its principal London office) as selected by the Agent Bank, after consultation with the Issuer;

**Securities** has the meaning given to it in the preamble to these Conditions;

**Senior Creditors** has the meaning given to it in Condition 3(a);

**Special Event** means any of a Rating Event, a Substantial Repurchase Event, a Tax Deduction Event or a Withholding Tax Event or any combination of the foregoing;

**Subsequent Fixed Interest Rate** has the meaning given to it in Condition 4(d);

**Substantial Repurchase Event** shall be deemed to occur if prior to the giving of the relevant notice of redemption the Issuer repurchases (and effects corresponding cancellations) or redeems Securities in respect of 90 per cent. or more in the principal amount of the Securities initially issued (which shall for this purpose include any further Securities issued pursuant to Condition 17);

**substantially all** has the meaning given to it in Condition 6(g);

a **Tax Deduction Event** shall be deemed to have occurred if as a result of a Tax Law Change, in respect of the Issuer's obligation to make any Interest Payment on the next following Interest Payment Date, the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the Netherlands, or such entitlement is materially reduced, and the Issuer cannot avoid the foregoing in connection with the Securities by taking measures reasonably available to it;

**Tax Law Change** means a change in, or amendment to, the laws or regulations of the Netherlands or any political subdivision or any authority thereof or therein having the power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 28 March 2013;

**Taxes** has the meaning given to it in Condition 11;

**Trust Deed** has the meaning given to it in the preamble to these Conditions;

**Trustee** has the meaning given to it in the preamble to these Conditions;

**U.S. dollars, U.S.\$ or cent** means the lawful currency of the United States of America;

**Winding-up** means a situation where (i) an order is made or a decree or resolution is passed for the winding-up, liquidation or dissolution of the Issuer or (ii) a trustee (*curator*) is appointed by the competent District Court in the Netherlands in the event of bankruptcy (*faillissement*) affecting the whole or a substantial part of the undertaking or assets of the Issuer and such appointment is not discharged within 30 days; and

a **Withholding Tax Event** shall be deemed to occur if as a result of a Tax Law Change, in making any payments on the Securities, the Issuer has paid or will or would on the next Interest Payment Date be required to pay Additional Amounts on the Securities and the Issuer cannot avoid the foregoing in connection with the Securities by taking measures reasonably available to it.

## SUMMARY OF PROVISIONS RELATING TO THE SECURITIES WHILE IN GLOBAL FORM

### 1 Initial Issue of Certificates

Upon the initial deposit of a Global Certificate in respect of, and registration of, the Securities in the name of a nominee for DTC and delivery of the relevant Global Certificate to the custodian for DTC, DTC will credit each participant with a nominal amount of Securities equal to the nominal amount thereof for which it has subscribed and paid.

### 2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of DTC or any other clearing system (**Alternative Clearing System**) as the holder of a Security represented by a Global Certificate must look solely to DTC or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of DTC or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Securities for so long as the Securities are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the holder of the Global Certificate in respect of each amount so paid.

### 3 Exchange

The following will apply in respect of transfers of Securities held in DTC or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Securities within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Securities may be withdrawn from the relevant clearing system.

Transfers of the holding of Securities represented by the Global Certificate pursuant to Condition 1(b) may only be made:

- (i) in whole but not in part, if such Securities are held on behalf of a Custodian for DTC and if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to that Global Certificate or DTC ceases to be a “clearing agency” registered under the Exchange Act or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; or
- (ii) in whole or in part, with the Issuer’s consent,

provided that, in the case of any transfer pursuant to (i) above, the relevant Registered Holder has given the relevant Registrar not less than 30 days’ notice at its specified office of the Registered Holder’s intention to effect such transfer. Certificates issued in exchange for a beneficial interest in a Restricted Global Certificate shall bear the legend applicable to such Securities as set out in “Subscription and Sale—Selling and Transfer Restrictions”.

### 4 Amendment to Conditions

The Global Certificate contains provisions that apply to the Securities that it represents, some of which modify the effect of the terms and conditions of the Securities set out in this Prospectus. The following is a summary of certain of those provisions:

#### (a) Payments

All payments in respect of Securities represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

#### (b) Meetings

For the purposes of any meeting of Holders, the holder of the Securities represented by the Global Certificate shall (unless the Global Certificate represents only one Security) be treated as two

persons for the purposes of any quorum requirements of a meeting of Holders and as being entitled to one vote in respect of each integral currency unit of the currency of the Securities.

**(c) Trustee's Powers**

In considering the interests of Holders while the Global Certificate is held on behalf of, or registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Securities represented by the Global Certificate.

## BOOK-ENTRY AND CLEARANCE SYSTEM

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC currently in effect. The information in this section concerning DTC has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer nor any Manager takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of DTC are advised to confirm the continued applicability of the rules, regulations and procedures of such facilities. None of the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Securities held through the facilities of DTC or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

### **Book-Entry Systems**

#### ***DTC***

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a “banking organisation” within the meaning of the New York Banking Law, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants deposit with DTC. DTC also facilitates the settlement among its participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in participants’ accounts. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly.

### **Registration and Form**

Book-entry interests in the Securities held through DTC will be represented by the Restricted Global Certificate(s) or the Unrestricted Global Certificate(s), as the case may be, registered in the name of Cede & Co., as nominee for DTC, and held by a custodian for DTC. As necessary, the Registrar will adjust the amounts of Securities on the Register for the accounts of DTC to reflect the amounts of Securities held through DTC. Beneficial ownership of book-entry interests in the Securities will be held through financial institutions as direct and indirect participants DTC. So long as Cede & Co., as nominee of DTC, is the registered owner of a Global Certificate, Cede & Co. for all purposes will be considered the sole holder of the Global Certificate.

The aggregate holdings of book-entry interests in the Securities in DTC will be reflected in the book-entry accounts of each such institution. DTC and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the Securities will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the Securities. The Registrar will be responsible for maintaining a record of the aggregate holdings of Securities registered in the name of a nominee for DTC and/or, if individual Certificates are issued in the limited circumstances described under “Summary of Provisions Relating to the Securities while in Global Form—Exchange”, holders of Securities represented by those individual Certificates.

### **Clearing and Settlement Procedures**

#### ***Initial Settlement***

Upon their original issue, the Securities will be in global form represented by the two Global Certificates. Interests in the Securities will be in uncertified book-entry form. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the Securities through DTC will follow the delivery practices applicable to securities eligible for DTC’s Same Day Funds Settlement system. DTC participants’ securities accounts will be credited with book-entry interests in the Securities following confirmation of receipt of payment to the Issuer on the closing date.

#### ***Secondary Market Trading***

Secondary market trades in the Securities will be settled by transfer of title to book-entry interests in DTC. Title to such book-entry interests will pass by registration of the transfer within the records of DTC in accordance with its respective procedures. Book-entry interests in the Securities may be transferred within DTC in accordance with procedures established for this purpose by DTC.

### ***Exchanges Between the Global Certificates***

Beneficial interests in the Unrestricted Global Certificate may be exchanged for beneficial interests in the Restricted Global Certificate only if such exchange occurs in connection with a transfer of the Securities pursuant to Rule 144A and the transferor first delivers to the Transfer Agent a written certificate to the effect that the Securities are being transferred to a person who the transferor reasonably believes to be a QIB, purchasing for its own account or the account of a QIB and in accordance with all applicable securities laws of the States of the United States and other jurisdictions.

Beneficial interests in the Restricted Global Certificate may be transferred to a person who takes delivery in the form of an interest in the unrestricted Global Certificate only if the transferor first delivers to the Transfer Agent a written certificate to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S.

Transfers involving an exchange of a beneficial interest in one of the Global Certificates for a beneficial interest in another Global Certificate will be effected in DTC by means of an instruction originated by the Transfer Agent through the DTC Deposit/Withdraw at Custodian system. Accordingly, in connection with any such transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the Global Certificate representing the beneficial interest that is transferred and a corresponding increase in the principal amount of the other Global Certificate. Any beneficial interest in one of the Global Certificates that is transferred to a person who takes delivery in the form of an interest in the other Global Certificate will, upon transfer, cease to be an interest in such Global Certificate and will become an interest in the other Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Certificate for so long as it remains such an interest.

### ***Methods of Receiving Payments on the Securities***

Principal of, premium, if any, and interest on Securities held in global form will be payable at the corporate trust office or agency of the Paying Agent in London. All payments on the Securities will be made by transfer of immediately available funds to an account of the holder of the Securities in accordance with instructions given by the holder. The Issuer has been informed by DTC that, with respect to any payment of principal, or premium, interest or other amounts, if any, on a Global Certificate, DTC's practice is to credit direct participants' accounts on the applicable payment date with payments in amounts proportionate to their respective beneficial interests in the Securities represented by the Global Certificate as shown on the records of DTC, unless DTC has reason to believe that it will not receive payment on such payment date. Payments by direct or indirect participants to owners of beneficial interests in the Securities represented by the Global Certificates held through such direct or indirect participants will be the responsibility of such direct or indirect participants, as is now the case with securities held for the accounts of customers registered in "street name".

### **General**

DTC is not under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time. None of the Issuer, the Principal Paying Agent, the Transfer Agent, the Registrar or any of their agents will have any responsibility for the performance by DTC or its respective participants of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

## USE OF PROCEEDS

KPN intends to use the net proceeds of the Offering, together with the net proceeds of the recent EUR/GBP Offering, as well as the net proceeds of the proposed Rights Offering, primarily to strengthen its capital structure. The net proceeds of such issuances are intended to be used as follows:

- to repay the drawings under its Credit Facility which had been utilized to partially fund the EUR 1,352 million payment for spectrum in the Netherlands in January 2013;
- to directly or indirectly repay KPN's bond redemptions, including EUR 540 million due in March 2013, EUR 545 million due in September 2013, EUR 750 million due in February 2014 and EUR 650 million due in May 2014;
- to accelerate certain investments in the jurisdictions in which KPN operates, as well as the consolidation of Reggefiber; and
- to the extent KPN has net proceeds remaining, for general corporate purposes.

See also "Risk Factors—Factors that may affect KPN's ability to fulfil its obligations under or in connection with the Securities—If the proposed Rights Offering is not approved by the shareholders of the Issuer, the Issuer would likely need to seek alternative means of raising additional capital, which may not be successful and its liquidity position may be significantly adversely affected."



## CAPITALIZATION AND INDEBTEDNESS

The following table sets out KPN's capitalization and indebtedness as of 31 December 2012, and as adjusted to reflect both the net proceeds of the EUR/GBP Offering and the Offering as if both the EUR/GBP Offering and the Offering would have been completed on such date. This table should be read in conjunction with the "Operating and Financial Review" of this Prospectus and the Consolidated Financial Statements for the year ended 31 December 2012 and the notes thereto incorporated by reference into this Prospectus.

The table below has been prepared for illustrative purposes only and, because of its nature, does not provide an accurate representation of the Group's capitalization following completion of the Offering. The table below does not take into account the proceeds from the issue of the proposed Rights Offering.

	As of 31 December 2012	As of 31 December 2012
	Historical EUR in millions (unaudited)	As adjusted
<b>CAPITALIZATION</b>		
Guaranteed/secured current debt	—	—
Unguaranteed/secured current debt <sup>(1)</sup>	99	99
Unguaranteed/unsecured current debt <sup>(2)</sup>	1,428	1,428
<b>Total current debt</b>	<b>1,527</b>	<b>1,527</b>
Guaranteed/secured non-current debt	—	—
Unguaranteed/secured non-current debt <sup>(1)</sup>	157	157
Unguaranteed/unsecured non-current debt <sup>(3)(4)</sup>	12,212	13,128
<b>Total non-current debt</b>	<b>12,369</b>	<b>13,285</b>
<b>Total indebtedness</b>	<b>13,896</b>	<b>14,812</b>
Share capital	344	344
Share premium	6,717	6,717
Legal reserves	—	—
Other reserves	(361)	(361)
Retained earnings	(4,290)	(4,290)
Non-voting equity securities <sup>(5)</sup>	—	(1,088)
<b>Equity attributable to equity holders</b>	<b>2,410</b>	<b>3,498</b>
<b>Total capitalization</b>	<b>16,306</b>	<b>18,310</b>
<b>NET FINANCIAL INDEBTEDNESS</b>		
A. Cash <sup>(3)(4)(6)</sup>	883	2,887
B. Cash equivalents	403	403
C. Cash classified as held for sale	4	4
<b>D. Liquidity (A+B+C)</b>	<b>1,290</b>	<b>3,294</b>
<b>E. Current financial receivable</b>	<b>1</b>	<b>1</b>
F. Current bank debt and bank overdraft <sup>(2)</sup>	343	343
G. Bonds outstanding (carrying value)	1,084	1,084
H. Current portion of financial lease obligations	99	99
I. Other current financial debt	1	1
<b>J. Current financial debt (F+G+H+I)</b>	<b>1,527</b>	<b>1,527</b>
<b>K. Net current financial indebtedness (J – E – D)</b>	<b>236</b>	<b>(1,768)</b>
L. Non-current bank loans	—	—
M. Bonds outstanding (carrying value) <sup>(3)(4)</sup>	12,163	13,079
N. Financial lease obligations	157	157
O. Other non-current loans	49	49
<b>P. Non-current financial indebtedness (L+M+N+O)</b>	<b>12,369</b>	<b>13,285</b>
<b>Q. Net financial indebtedness (K+P)</b>	<b>12,605</b>	<b>11,517</b>

<sup>(1)</sup> Unguaranteed/secured debt as of 31 December 2012 is entirely comprised of a EUR 99 million current portion and a EUR 157 million non-current portion of financial lease obligations. The underlying assets are primarily buildings leased back by KPN and mobile handsets in Germany.

- (2) Unguaranteed/unsecured current debt and current bank debt and bank overdraft as of 31 December 2012 did not include the impact of drawings under the Credit Facility to fund KPN's payment for the Dutch spectrum auction (as its payment occurred in January 2013). When including the impact of these drawings under the Credit Facility, unguaranteed/unsecured current debt and current bank debt and bank overdraft as of 31 December 2012 would have been EUR 1,352 million higher.
- (3) The net proceeds of the GBP 400 million in Sterling Securities have been converted to Euros at a rate of £1.00 = €1.150422.
- (4) The net proceeds of the USD 600 million in Securities have been converted to Euros at a rate of \$1.00 = €0.775495.
- (5) Non-voting equity securities as adjusted for the Offering includes the net proceeds received from the Euro Securities, plus a EUR 2 million tax deduction.
- (6) Includes the net proceeds of EUR 1,086 million received from the EUR Securities and EUR 454 million received from the GBP Securities, and net proceeds of EUR 462 million received from the Securities.

For a further discussion of certain commitments and contingencies please see Note 31 to the 2012 Consolidated Financial Statements incorporated by reference herein. In addition, for information on the impact on KPN's financial statements of the amendment of IAS 19 'Employee benefits', which became effective in amended form as IAS19R on 1 January 2013, see "Operating and Financial Review—Recent accounting pronouncements".

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth KPN's consolidated statement of income, consolidated statement of financial position, condensed consolidated statement of cash flows and certain other financial data for the periods indicated. The selected consolidated financial information set out below is a summary only. It may not contain all of the information that is important to prospective investors and, accordingly, should be read in conjunction with "Capitalization and Indebtedness", "Use of Proceeds", "Operating and Financial Review", and the Consolidated Financial Statements, the notes thereto and the auditors' reports incorporated by reference. Please also see "Important Information—Presentation of Financial and Other Information" for further details on the consolidated financial included below.

KPN's consolidated financial information presented as of and for the years ended 31 December 2012, 2011 and 2010 set forth below were extracted without material adjustment from its audited consolidated financial statements for the years ended 31 December 2012, 2011, and 2010, prepared in accordance with IFRS and incorporated by reference. The following tables also include certain non-IFRS financial data for the periods indicated.

### Selected Consolidated Statement of Income

	Year ended 31 December		
	2012	2011	2010
	(EUR in millions)		
Revenues	12,409	13,022	13,324
Other income	299	141	74
<b>Total revenues and other income</b>	<b>12,708</b>	<b>13,163</b>	<b>13,398</b>
Own work capitalized	(113)	(116)	(101)
Cost of materials	901	1,005	911
Work contracted out and other expenses	4,545	4,503	4,560
Employee benefits	1,911	1,874	1,932
Depreciation, amortization and impairments	2,708	2,589	2,226
Other operating expenses	936	759	620
<b>Total operating expenses</b>	<b>10,888</b>	<b>10,614</b>	<b>10,148</b>
<b>Operating profit</b>	<b>1,820</b>	<b>2,549</b>	<b>3,250</b>
Finance income	39	32	19
Finance costs	(732)	(690)	(860)
Other financial results	(151)	(96)	(75)
<b>Financial income and expenses</b>	<b>(844)</b>	<b>(754)</b>	<b>(916)</b>
Share of the loss of associates and joint ventures	(13)	(24)	(31)
<b>Profit before income tax</b>	<b>963</b>	<b>1,771</b>	<b>2,303</b>
Income taxes	(270)	(222)	(508)
<b>Profit for the year</b>	<b>693</b>	<b>1,549</b>	<b>1,795</b>
Profit attributable to non-controlling interests	2	—	3
<b>Profit attributable to equity holders</b>	<b>691</b>	<b>1,549</b>	<b>1,792</b>

## Selected Consolidated Statement of Financial Position

	As of 31 December		
	2012	2011	2010
	(EUR in millions)		
<b>Assets</b>			
Non-current assets			
Goodwill	5,157	5,575	5,733
Licenses	2,191	2,495	2,818
Software	838	852	819
Other intangibles	272	290	385
<b>Total intangible assets</b>	<b>8,458</b>	<b>9,212</b>	<b>9,755</b>
Land and buildings	671	705	875
Plant and equipment	6,573	5,704	5,619
Other tangible non-current assets	94	116	130
Assets under construction	557	1,008	890
<b>Total property, plant and equipment</b>	<b>7,895</b>	<b>7,533</b>	<b>7,514</b>
Investments in associates and joint ventures	326	261	284
Loans to associates and joint ventures	227	127	33
Available-for-sale financial assets	35	48	53
Derivative financial instruments	233	169	17
Deferred income tax assets	1,822	1,831	1,918
Trade and other receivables	291	261	236
<b>Total non-current assets</b>	<b>19,287</b>	<b>19,442</b>	<b>19,810</b>
Current assets			
Inventories	111	123	153
Trade and other receivables	1,696	1,607	1,867
Income tax receivables	5	1	27
Cash and cash equivalents	1,286	990	823
<b>Total current assets</b>	<b>3,098</b>	<b>2,721</b>	<b>2,870</b>
<b>Non-current assets and disposal groups held for sale</b>	<b>28</b>	<b>224</b>	<b>57</b>
<b>Total Assets</b>	<b>22,413</b>	<b>22,387</b>	<b>22,737</b>
Group equity			
Share capital	344	344	377
Share premium	6,717	6,717	8,184
Other reserves	(361)	(127)	(709)
Retained earnings	(4,290)	(4,004)	(4,352)
<b>Equity attributable to equity holders</b>	<b>2,410</b>	<b>2,930</b>	<b>3,500</b>
Non-controlling interests	51	—	—
<b>Total Group equity</b>	<b>2,461</b>	<b>2,930</b>	<b>3,500</b>
Non-current liabilities			
Borrowings	12,369	11,641	11,359
Derivative and financial instruments	458	229	250
Deferred income tax liabilities	440	793	956
Provisions for retirement benefit obligations	314	441	608
Provision for other liabilities and charges	387	397	404
Other payables and deferred income	122	155	225
<b>Total non-current liabilities</b>	<b>14,090</b>	<b>13,656</b>	<b>13,802</b>
Current liabilities			
Trade and other payables	3,857	3,804	3,982
Borrowings	1,527	1,458	1,178
Derivative financial instruments	16	—	1
Income tax payables	270	218	152
Provision for other liabilities and charges	186	129	106
<b>Total current liabilities</b>	<b>5,856</b>	<b>5,609</b>	<b>5,419</b>
<b>Liabilities directly associated with non-current assets and disposal groups classified as held for sale</b>	<b>6</b>	<b>192</b>	<b>16</b>
<b>Total Equity and Liabilities</b>	<b>22,413</b>	<b>22,387</b>	<b>22,737</b>

## Selected Condensed Consolidated Statement of Cash Flows

	Year ended 31 December		
	2012	2011	2010
	(EUR in millions)		
Net cash flow provided by operating activities . . . . .	3,007	4,003	3,808
Net cash flow from/(used in) investing activities . . . . .	(2,133)	(1,986)	(2,149)
Net cash flow used in financing activities . . . . .	(876)	(1,748)	(3,634)
<b>Changes in cash and cash equivalents . . . . .</b>	<b>(2)</b>	<b>269</b>	<b>(1,975)</b>
Exchange rate differences . . . . .	(1)	(1)	5
<b>Net cash and cash equivalents at the end of the year . . . . .</b>	<b>947</b>	<b>950</b>	<b>682</b>
<b>Cash and cash equivalents<sup>(1)</sup> . . . . .</b>	<b>1,286</b>	<b>990</b>	<b>823</b>

<sup>(1)</sup> Cash and cash equivalents includes bank overdrafts.

## Non-IFRS Financial Information

This Prospectus includes certain financial measures that are not measures defined by IFRS. See “Important Information—Presentation of Financial and Other Information”. The tables below present these non-IFRS measures for KPN for the periods presented.

The reconciliation of KPN’s operating profit to EBITDA, and the calculation of KPN’s EBITDA margin, is as follows:

	Year ended 31 December		
	2012	2011	2010
	(EUR in millions, except percentages)		
Operating profit . . . . .	1,820	2,549	3,250
Depreciation, amortization and impairments . . . . .	2,708	2,589	2,226
<b>EBITDA<sup>(1)</sup> (unaudited) . . . . .</b>	<b>4,528</b>	<b>5,138</b>	<b>5,476</b>
EBITDA margin <sup>(2)</sup> (unaudited) . . . . .	35.6%	39.0%	40.9%

<sup>(1)</sup> KPN defines EBITDA as operating profit plus depreciation, amortization and impairments. KPN’s use of EBITDA, calculated as presented in the table above, may not be comparable to similarly titled measures used by other companies. EBITDA is comprised of external revenues, other income and inter-division revenues between operating segments. KPN’s definition of EBITDA should not be considered in isolation or as a substitute for analysis of KPN’s results as reported under IFRS.

<sup>(2)</sup> KPN defines EBITDA margin as EBITDA as a proportion of KPN’s total revenues and other income.

## Non-IFRS Financial Information, continued

The following table presents KPN's consolidated revenues and other income, by operating segments and on a reported as well as an underlying basis, for the year ended 31 December 2012 as compared to the year ended 31 December 2011:

Revenues and other income	2012 Reported	Result M&A <sup>(1)</sup> (unaudited)	Other incidentals <sup>(2)</sup> (unaudited)	2012 Underlying <sup>(3)</sup> (unaudited)	2011 Reported (EUR in millions)	Regulation <sup>(4)</sup> (unaudited)	Result M&A <sup>(1)</sup> (unaudited)	Other incidentals <sup>(2)</sup> (unaudited)	2011 Underlying <sup>(3)</sup> (unaudited)
Germany	3,404	—	119	3,285	3,243	(14)	—	—	3,229
Belgium	804	—	—	804	781	(37)	—	—	744
Rest of World	247	—	36	211	302	—	—	10	292
Other (including eliminations)	(84)	—	—	(84)	(118)	—	—	—	(118)
<b>Mobile International</b>	<b>4,371</b>	<b>—</b>	<b>155</b>	<b>4,216</b>	<b>4,208</b>	<b>(51)</b>	<b>—</b>	<b>10</b>	<b>4,147</b>
Consumer Mobile	1,707	—	7	1,700	1,900	(42)	—	—	1,858
Consumer Residential	1,852	15	—	1,837	1,903	—	—	11	1,892
Business	2,352	12	—	2,340	2,433	(24)	—	10	2,399
NetCo	2,621	39	96	2,486	2,780	(17)	—	119	2,644
Other (including eliminations)	(2,087)	—	—	(2,087)	(2,252)	—	—	—	(2,252)
<b>Dutch Telco business</b>	<b>6,445</b>	<b>66</b>	<b>103</b>	<b>6,276</b>	<b>6,764</b>	<b>(83)</b>	<b>—</b>	<b>140</b>	<b>6,541</b>
Corporate Market (Getronics)	1,405	—	2	1,403	1,811	—	362	5	1,444
Other gains/losses, eliminations	(318)	—	—	(318)	(316)	—	—	—	(316)
<b>The Netherlands</b>	<b>7,532</b>	<b>66</b>	<b>105</b>	<b>7,361</b>	<b>8,259</b>	<b>(83)</b>	<b>362</b>	<b>145</b>	<b>7,669</b>
iBasis	1,035	—	—	1,035	977	—	—	—	977
<b>Other activities</b>	<b>76</b>	<b>—</b>	<b>—</b>	<b>76</b>	<b>62</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>62</b>
<b>Intercompany revenues</b>	<b>(306)</b>	<b>—</b>	<b>—</b>	<b>(306)</b>	<b>(343)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(343)</b>
<b>Revenues and other income</b>	<b>12,708</b>	<b>66</b>	<b>260</b>	<b>12,382</b>	<b>13,163</b>	<b>(134)</b>	<b>362</b>	<b>155</b>	<b>12,512</b>

(1) Reflects the impact of acquisitions and disposals by adjusting revenues (i) for the acquisitions in the year by adjusting the current year's revenues for the revenues of the acquired entity in the current year and (ii) for disposals in the year by adjusting the previous years' revenue for the revenues of the disposed entity during the previous year.

(2) To the extent these relate to previous years and impact revenues, incidentals are non-recurring items including primarily gains from disposal of subsidiaries or other assets (e.g., including mobile tower sales) as well as changes in accounting estimates (e.g., caused by a change in recognition of discounts, one off fees), and one-offs (e.g., release of provision/accruals when exceeding EUR 5 million).

(3) KPN defines underlying revenue as revenues adjusted for changes in the composition of the Group from acquisitions and disposals in the period, incidentals and the impact of regulatory changes to MTR tariffs and roaming charges.

(4) KPN determines the impact of regulation by taking into account the impact of reductions in MTR tariffs and roaming charges. The impact is presented by applying those reduced rates to the previous year, using previous year volumes, as if the new tariffs would have been applicable in the previous year.

The following table presents KPN's consolidated EBITDA, by operating segments and on a reported as well as an underlying basis, for the year ended 31 December 2012 as compared to the year ended 31 December 2011:

EBITDA <sup>(1)</sup>	2012	2012	2012	2012	2011	2011	2011	2011	2011		
	Reported	Result M&A <sup>(2)</sup> (unaudited)	Other incidentals <sup>(3)</sup> (unaudited)	Restructuring <sup>(4)</sup> (unaudited)	Underlying <sup>(5)</sup> (unaudited)	Reported	Regulation <sup>(6)</sup> (unaudited)	Result M&A <sup>(2)</sup> (unaudited)	Other incidentals <sup>(3)</sup> (unaudited)	Restructuring <sup>(4)</sup> (unaudited)	Underlying <sup>(5)</sup> (unaudited)
	(EUR in millions)										
Germany	1,290	—	119	(39)	1,210	1,354	(7)	—	—	—	1,347
Belgium	272	—	—	—	272	273	(22)	—	5	(2)	248
Rest of World	(25)	—	(2)	(2)	(21)	8	—	—	10	(3)	1
Other (including eliminations)	(1)	—	—	—	1	1	—	—	—	—	1
<b>Mobile International</b>	<b>1,536</b>	<b>—</b>	<b>117</b>	<b>(41)</b>	<b>1,460</b>	<b>1,636</b>	<b>(29)</b>	<b>—</b>	<b>15</b>	<b>(5)</b>	<b>1,597</b>
Consumer Mobile	510	—	7	(2)	505	550	(17)	—	—	(1)	534
Consumer Residential	367	(3)	—	(27)	397	497	—	—	11	(4)	490
Business	758	4	—	(27)	781	786	(17)	—	10	(3)	762
NetCo	1,461	—	110	(42)	1,393	1,705	(1)	—	119	(9)	1,594
Other (including eliminations)	(18)	—	—	(3)	(15)	(17)	—	—	—	(3)	(14)
<b>Dutch Telco business</b>	<b>3,078</b>	<b>1</b>	<b>117</b>	<b>(101)</b>	<b>3,061</b>	<b>3,521</b>	<b>(35)</b>	<b>—</b>	<b>140</b>	<b>(20)</b>	<b>3,366</b>
Corporate Market (Getronics)	57	—	3	(13)	67	6	—	12	(15)	(96)	105
Other gains/losses, eliminations	—	—	—	—	—	1	—	—	—	—	1
<b>The Netherlands</b>	<b>3,135</b>	<b>1</b>	<b>120</b>	<b>(114)</b>	<b>3,128</b>	<b>3,528</b>	<b>(35)</b>	<b>12</b>	<b>125</b>	<b>(116)</b>	<b>3,472</b>
iBasis	30	—	—	—	30	31	—	—	—	—	31
<b>Other activities</b>	<b>(173)</b>	<b>—</b>	<b>—</b>	<b>(18)</b>	<b>(155)</b>	<b>(57)</b>	<b>—</b>	<b>—</b>	<b>10</b>	<b>(9)</b>	<b>(58)</b>
<b>EBITDA</b>	<b>4,528</b>	<b>1</b>	<b>237</b>	<b>(173)</b>	<b>4,463</b>	<b>5,138</b>	<b>(64)</b>	<b>12</b>	<b>150</b>	<b>(130)</b>	<b>5,042</b>

(1) EBITDA is comprised of external revenues, other income and inter-division revenues for each segment. See Note 34 to the 2012 and 2011 consolidated financial statements incorporated by reference herein.

(2) Reflects the impact of acquisitions and disposals by adjusting EBITDA for (i) the acquisitions in the year by adjusting the current year's EBITDA for the EBITDA of the acquired entity in the current year and (ii) for disposals in the year by adjusting the previous years' EBITDA for the EBITDA of the disposed entity during the previous year.

(3) To the extent these relate to previous years and impact EBITDA, incidentals are non-recurring items including primarily gains from disposal of subsidiaries or other assets (e.g., including mobile tower sales) as well as changes in accounting estimates (e.g., caused by a change in recognition of discounts, one off fees), and one-offs (e.g., release of provision/accruals when exceeding EUR 5 million).

(4) Reflects adjustment for one-off operating expenses, mainly relating to redundancy expenses from KPN's FTE reduction program but also including costs associated with termination payments on existing rental agreements resulting from restructuring related to the FTE reduction program.

(5) KPN defines underlying EBITDA as EBITDA adjusted for changes in the composition of the Group from acquisitions and disposals in the period, incidentals and the impact of regulatory changes to MTR tariffs and roaming charges.

(6) KPN determines the impact of regulation by taking into account the impact of reductions in MTR tariffs and roaming charges. The impact is presented by applying those reduced rates to the previous year, using previous year volumes, as if the new tariffs would have been applicable in the previous year.

## Non-IFRS Financial Information, continued

The following table presents KPN's consolidated revenues and other income, by operating segments and on a reported as well as an underlying basis, for the year ended 31 December 2011 as compared to the year ended 31 December 2010:

Revenues and other income	2011		2011		2010		2010		2010	
	Reported	Underlying <sup>(3)</sup> (unaudited)	Result M&A <sup>(1)</sup> (unaudited)	Other incidentals <sup>(2)</sup> (unaudited)	Reported (unaudited) (EUR in millions)	Regulation <sup>(4)</sup> (unaudited)	Result M&A <sup>(1)</sup> (unaudited)	Other incidentals <sup>(2)</sup> (unaudited)	Underlying <sup>(3)</sup> (unaudited)	
Germany	3,243	3,229	14	—	3,241	(226)	—	—	3,015	
Belgium	781	781	—	—	785	(60)	10	4	711	
Rest of World	302	292	—	10	241	—	—	—	241	
Other (including eliminations)	(118)	(118)	—	—	(108)	—	—	—	(108)	
<b>Mobile International</b>	<b>4,208</b>	<b>4,184</b>	<b>14</b>	<b>10</b>	<b>4,159</b>	<b>(286)</b>	<b>10</b>	<b>4</b>	<b>3,859</b>	
Consumer Mobile	1,900	1,900	—	—	2,023	(101)	—	—	1,922	
Consumer Residential	1,903	1,892	—	11	1,969	—	—	—	1,969	
Business	2,433	2,385	47	1	2,516	(68)	—	16	2,432	
NetCo	2,780	2,657	4	119	2,882	(44)	—	52	2,786	
Other (including eliminations)	(2,252)	(2,252)	—	—	(2,372)	13	15	—	(2,374)	
<b>Dutch Telco business</b>	<b>6,764</b>	<b>6,582</b>	<b>51</b>	<b>131</b>	<b>7,018</b>	<b>(200)</b>	<b>15</b>	<b>68</b>	<b>6,735</b>	
Corporate Market (Getronics)	1,811	1,806	—	5	1,860	—	25	3	1,832	
Other gains/losses, eliminations	(316)	(316)	—	—	(287)	—	—	8	(295)	
<b>The Netherlands</b>	<b>8,259</b>	<b>8,072</b>	<b>51</b>	<b>136</b>	<b>8,591</b>	<b>(200)</b>	<b>40</b>	<b>79</b>	<b>8,272</b>	
iBasis	977	977	—	—	912	—	—	—	912	
<b>Other activities</b>	<b>62</b>	<b>76</b>	<b>(14)</b>	<b>—</b>	<b>81</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>81</b>	
<b>Intercompany revenues</b>	<b>(343)</b>	<b>(343)</b>	<b>—</b>	<b>—</b>	<b>(345)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(345)</b>	
<b>Revenues and other income</b>	<b>13,163</b>	<b>12,966</b>	<b>51</b>	<b>146</b>	<b>13,398</b>	<b>(486)</b>	<b>50</b>	<b>83</b>	<b>12,779</b>	

(1) Reflects the impact of acquisitions and disposals by adjusting revenues (i) for the acquisitions in the year by adjusting the current year's revenues for the revenues of the acquired entity in the current year and (ii) for disposals in the year by adjusting the previous years' revenue for the revenues of the disposed entity during the previous year.

(2) To the extent these relate to previous years and impact revenues, incidentals are non-recurring items including primarily gains from disposal of subsidiaries or other assets (e.g., including mobile tower sales) as well as changes in accounting estimates (e.g., caused by a change in recognition of discounts, one off fees), and one-offs (e.g., release of provision/accruals when exceeding EUR 5 million).

(3) KPN defines underlying revenue as revenues adjusted for changes in the composition of the Group from acquisitions and disposals in the period, incidentals and the impact of regulatory changes to MTR tariffs and roaming charges.

(4) KPN determines the impact of regulation by taking into account the impact of reductions in MTR tariffs and roaming charges. The impact is presented by applying those reduced rates to the previous year, using previous year volumes, as if the new tariffs would have been applicable in the previous year.



The following table presents KPN's consolidated EBITDA, by operating segments and on a reported as well as an underlying basis, for the year ended 31 December 2011 as compared to the year ended 31 December 2010:

EBITDA <sup>(1)</sup>	2011	Result	Other	2010	2010	Regulation <sup>(6)</sup>	Result	Other	2010
	Reported	M&A <sup>(2)</sup> (unaudited)	incidental <sup>(3)</sup> (unaudited)	Underlying <sup>(5)</sup> (unaudited)	Reported (unaudited) (EUR in millions)	(unaudited)	M&A <sup>(2)</sup> (unaudited)	incidental <sup>(3)</sup> (unaudited)	Underlying <sup>(5)</sup> (unaudited)
Germany	1,354	—	—	1,354	1,373	(116)	—	8	1,251
Belgium	273	—	5	270	271	(35)	2	15	219
Rest of World	8	—	10	1	(22)	—	—	—	(22)
Other (including eliminations)	1	—	—	1	—	—	—	—	—
<b>Mobile International</b>	<b>1,636</b>	<b>—</b>	<b>15</b>	<b>1,626</b>	<b>1,622</b>	<b>(151)</b>	<b>2</b>	<b>23</b>	<b>1,448</b>
Consumer Mobile	550	—	—	551	659	(37)	—	—	627
Consumer Residential	497	—	11	489	471	—	—	6	465
Business	786	7	1	781	836	(13)	—	15	808
NetCo	1,705	2	119	1,593	1,751	(2)	—	52	1,696
Other (including eliminations)	(17)	—	—	(14)	(14)	—	—	—	(14)
<b>Dutch Telco business</b>	<b>3,521</b>	<b>9</b>	<b>131</b>	<b>3,400</b>	<b>3,703</b>	<b>(52)</b>	<b>—</b>	<b>67</b>	<b>3,582</b>
Corporate Market (Getronics)	6	—	(15)	117	158	—	5	8	149
Other gains/losses, eliminations	1	—	—	1	(2)	—	—	6	(8)
<b>The Netherlands</b>	<b>3,528</b>	<b>9</b>	<b>116</b>	<b>3,518</b>	<b>3,859</b>	<b>(52)</b>	<b>5</b>	<b>81</b>	<b>3,723</b>
iBasis	31	—	—	31	32	—	—	—	32
<b>Other activities</b>	<b>(57)</b>	<b>—</b>	<b>17</b>	<b>(64)</b>	<b>(37)</b>	<b>—</b>	<b>—</b>	<b>8</b>	<b>(50)</b>
<b>EBITDA</b>	<b>5,138</b>	<b>9</b>	<b>148</b>	<b>5,111</b>	<b>5,476</b>	<b>(203)</b>	<b>7</b>	<b>112</b>	<b>5,153</b>

(1) EBITDA is comprised of external revenues, other income and inter-division revenues for each segment. See Note 34 to the 2011 consolidated financial statements and Note 34 to the 2010 consolidated financial statements, each as incorporated by reference herein.

(2) Reflects the impact of acquisitions and disposals by adjusting EBITDA for (i) the acquisitions in the year by adjusting the current year's EBITDA for the EBITDA of the acquired entity in the current year and (ii) for disposals in the year by adjusting the previous years' EBITDA for the EBITDA of the disposed entity during the previous year.

(3) To the extent these relate to previous years and impact EBITDA, incidentals are non-recurring items including primarily gains from disposal of subsidiaries or other assets (e.g., including mobile tower sales) as well as changes in accounting estimates (e.g., caused by a change in recognition of discounts, one off fees), and one-offs (e.g., release of provision/accruals when exceeding EUR 5 million).

(4) Reflects adjustment for one-off operating expenses, mainly relating to redundancy expenses from KPN's FTE reduction program but also including costs associated with termination payments on existing rental agreements resulting from restructuring related to the FTE reduction program.

(5) KPN defines underlying EBITDA as EBITDA adjusted for changes in the composition of the Group from acquisitions and disposals in the period, incidentals and the impact of regulatory changes to MTR tariffs and roaming charges.

(6) KPN determines the impact of regulation by taking into account the impact of reductions in MTR tariffs and roaming charges. The impact is presented by applying those reduced rates to the previous year, using previous year volumes, as if the new tariffs would have been applicable in the previous year.

## OPERATING AND FINANCIAL REVIEW

The following is a discussion and analysis of KPN's financial condition and results of operations based on KPN's consolidated statement of income, consolidated statement of financial position, consolidated statement of cash flows and certain other operational and financial data for the periods indicated. KPN's consolidated financial information presented as of and for the years ended 31 December 2012, 2011 and 2010 set forth below were extracted without material adjustment from its audited consolidated financial statements for the years ended 31 December 2012, 2011, and 2010 prepared in accordance with IFRS and incorporated by reference. Operational data has been derived from management estimates, is not part of KPN's financial statements or financial reporting systems, and has not been audited.

Investors should read the following in conjunction with the rest of this Prospectus, including the "Capitalization and Indebtedness", "Use of Proceeds", "Selected Consolidated Financial Information" and the Consolidated Financial Statements, the notes thereto and the auditors' reports incorporated by reference. Investors should also review the information in the section "Important Information—Presentation of Financial and Other Information" for further details on the consolidated financial and operating information included below.

This discussion and analysis contains forward-looking statements that are subject to known and unknown risks and uncertainties. KPN's actual results and the timing of events could differ materially from those expressed or implied by such forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Prospectus, particularly under the headings "Forward-Looking Statements" and "Risk Factors". KPN does not undertake any obligation to revise or publicly release the results of any revision to these forward-looking statements.

### Overview

KPN is the leading telecommunications and ICT provider in the Netherlands, offering fixed and mobile telephony, broadband internet and TV to retail customers. 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 Germany and Belgium, KPN pursues a challenger strategy and offers mobile telephony products and services to retail customers through E-Plus and KPN Group Belgium, respectively. KPN also provides wholesale network services to third parties and operates an IP-based infrastructure for international wholesale customers through iBasis.

In the Netherlands, KPN operates fixed and mobile networks, and as the incumbent telecommunications provider is the only operator of fixed copper infrastructure with nationwide coverage in the Netherlands. KPN is also deploying in the Netherlands an FttH network through its joint venture, Reggefiber, and an FttO network, which it owns and operates directly, to further strengthen its fixed network strategy and support its retail and business offerings. In addition, KPN recently acquired 15 blocks of frequency licenses in the 800MHz, 900MHz, 1800MHz, 2.1GHz and 2.6GHz bands for a total of 120MHz of frequency licenses for 17 years in the spectrum auction in the Netherlands. This spectrum package enables KPN to continue its existing 2G and 3G services, and introduce new services, such as 4G LTE, which is intended to support its market leading position in the Dutch market.

As of 31 December 2012, KPN served 36.7 million mobile customers and had 3.9 million fixed line voice connections, 2.9 million broadband internet connections and 1.8 million TV connections. With 26,156 FTEs working for the Group as of 31 December 2012, KPN reported full-year revenues and other income of EUR 12,708 million and EBITDA of EUR 4,528 million for the year ended 31 December 2012.

### Material factors affecting results of operations and financial performance

#### *Economic conditions*

Many European countries, including the Netherlands, Germany and Belgium, have experienced an economic slowdown, which has included a general contraction in consumer spending resulting from, among other factors, reduced consumer confidence, falling gross domestic product, rising unemployment rates and uncertainty in the macro-economic environment. According to the OECD, the macro-economic outlook in KPN's geographical markets remains relatively weak, with projected 2013 GDP growth of 0.2%, 0.6% and 0.5% in the Netherlands, Germany and Belgium, respectively. Weakness in the Dutch, German or Belgian economies, and in particular low GDP growth and increasing levels of unemployment, directly impact the spending patterns of both consumers, in terms of the products they subscribe for and their usage levels, and also of businesses which will postpone or cancel upgrades to their network usage during periods of economic uncertainty.

KPN operates in the telecommunications sector, for which underlying customer demand has proven to be less cyclical than other aspects of consumer spending during the ongoing global financial and economic crisis. In addition, the economies of the Netherlands and Germany, in particular, have also proven to be relatively resilient through the recent economic crisis, as compared to other European economies. However, both KPN's business and corporate customers are nevertheless significantly affected by weak general economic conditions and consumer spending. In the context of a weak macro-economic environment, the Dutch business telecommunications market has experienced declining demand for telecommunications services and weaker demand for ICT services as IT budgets among businesses remain under pressure. Business customers are increasingly focusing on flat fee packages and integrated solutions, as opposed to individual services. These trends have resulted in price pressure as contracts are often renewed at lower prices. Within Corporate Market (previously Getronics), persistent continued adverse market conditions in the ICT market, including fierce price pressure, resulted in impairment of goodwill relating to Getronics in the amount of EUR 314 million in 2012, in addition to impairment of goodwill, tangible and other intangible assets relating to Getronics of EUR 298 million in 2011. Within Germany, further competitive pressure in the mobile market, resulting in a reduction of the long-term growth rate of the business, could result in an impairment of goodwill going forward.

The general macro-economic environment has also had an adverse impact on consumer spending, including on telecommunications services and products. KPN has observed that consumers often spend less on an incremental basis, such as by placing fewer calls, sending fewer SMS messages, replacing traditional voice and SMS traffic with free-to-use OTT applications, changing their tariff plans to prepaid from postpaid, migrating to SIM-only plans, or opting for flat rate or lower tariff price plans. In poor economic conditions, consumers have delayed and are likely to continue to delay the replacement of their existing handsets (thereby reducing KPN's mobile revenues and, correspondingly, its subscriber acquisition and retention costs), or be more likely to disconnect or cancel their services. Adverse economic conditions have thereby had a direct negative impact on KPN's number of wireless, TV and broadband customers as well as revenues, margins and ARPU in its segments with direct consumer exposure, specifically Consumer Mobile, Consumer Residential, Germany and Belgium. As a result of the impact on KPN's business and corporate customers of adverse economic conditions and lower consumer spending, KPN's Business and Corporate market segments have also been indirectly impacted, as has NetCo as a result of lower traffic volumes. In addition, KPN's business and corporate customers are also affected by general economic conditions and consumer spending, and the economic environment has prompted business customers to postpone or cancel upgrades to their network usage. An extended recession, or public perception of declining economic conditions, could continue to substantially decrease IT budgets among KPN's business customers, which would in turn adversely affect KPN's revenues in its Business and Corporate Market segments.

Generally, weak economic conditions may also continue to weigh on the growth prospects of the telecommunications market in the Netherlands, Germany and Belgium, and in particular on the level of services revenues, ARPU and number of subscribers and, in particular, on the volume, price level and ARPU of business subscribers.

### ***Bundling of products and services***

The fixed-line telephony and broadband internet markets, in particular in the Netherlands but also to a lesser extent in Belgium, are characterized by a broadband internet market featuring high customer penetration rates, and a declining fixed-line telephony market as customers increasingly migrate their communications towards VoIP and mobile and data services. For these reasons, and due to growing customer demand, telecommunication service providers, including KPN, particularly in the Netherlands, Germany and Belgium, are focusing on bundled offerings of multiple products, which allow for differentiation based on quality and value of service provided, in addition to price and discounts. In addition, bundled offerings generally drive and support telephony and broadband internet products and reduce customer churn as compared with individually sold products and services. KPN believes that an integrated mobile and fixed service offering that provides quality and reliability superior to its competitors will enable it to sell additional as well as premium versions of existing services, such as bundled mobile and fixed services to retail customers, while also reducing churn because customers often prefer bundled products due to the convenience and cost savings that are available when acquiring fixed-line telephony, broadband internet and television services from a single provider for one price.

KPN currently offers its retail customers in the Netherlands fixed-line telephony, broadband internet and television on a stand-alone basis and in the form of dual-play or triple-play packages. KPN's product bundles typically offer customers a discount to the aggregate price compared to stand-alone products, which KPN believes makes the proposition attractive for customers. In January 2013, KPN introduced "KPN Compleet", a first step towards offering quadruple-play services. As a further step, KPN plans to introduce an integrated

quadruple-play offering, with integrated billing, client management system and customer service. In Germany and Belgium, unlike many of its competitors, KPN generally does not offer extensive bundled offerings to customers, except in conjunction with its recent introduction of a triple play package in Belgium, and as a result, may be exposed to higher rates of churn than its competitors in those countries.

Within Consumer Residential, revenue generating units (RGUs) will increase in line with the proportion of subscribers who choose bundled products, and KPN expects that ARPU will also increase as the proportion of bundled products increases. KPN believes its IPTV offering in particular has driven and will continue to drive the take up of its product bundles, contributing to an increase in RGUs per customer in the Consumer Residential segment to 2.07 at 31 December 2012 as compared to 1.92 at 31 December 2011. The growth in IPTV as well as other value-added services, such as video-on-demand, have also contributed to higher content costs, and KPN expects this trend to continue.

Going forward, KPN anticipates greater demand for bundled product offerings from its customers, and therefore plans to continue to attract customers by developing and marketing a range of potential bundled offerings. KPN believes customers with only a single product or service present significant opportunities to sell additional as well as premium versions of existing services, such as bundled mobile and fixed services in the Netherlands and, to a lesser extent, Belgium as a result of its recently introduced triple-play offering. KPN also believes that its ability to attract customers in such markets will depend on its ability to offer more attractive bundled offerings than its competitors, many of whom are pursuing similar strategies in a very competitive environment.

### ***Pricing and competition***

KPN operates in a very challenging environment in the telecommunications market in the Netherlands, Germany and Belgium and is subject to significant competition for all its products and services in the fixed-line and mobile telecommunications markets, along with ICT solutions for business customers. In light of this competition, overall prices for most products and services offered to customers in the telecommunications markets in the Netherlands, Belgium and Germany have steadily decreased over the years, especially in mobile voice and SMS markets. As a result, KPN faces a mobile market in which price pressure and threats to market share and ARPU have been increasing, resulting in declining total revenues in recent years as KPN has, in certain segments, reduced prices in order to defend its market share. The fixed-line telephony and broadband internet markets in the Netherlands are characterized by a broadband internet market featuring high customer penetration rates with limited growth potential, and a declining fixed-line telephony market as customers increasingly migrate their communication patterns towards VoIP and mobile and data services.

Within KPN's mobile businesses in the Netherlands, Germany and Belgium, retail and business customers increasingly prefer mobile data access over traditional voice and SMS as a result of new technologies maturing and the introduction of new OTT applications such as Skype, Google Talk, FaceTime and WhatsApp, which allow users to substitute mobile data for traditional voice and SMS communications, at times featuring better quality VOIP services compared to traditional networks. These applications are accessible via smartphones, tablets and computers, and allow their users to have access to potentially unlimited messaging and voice services over the internet, bypassing more expensive traditional voice and messaging services such as SMS which have historically been a source of significant revenues for fixed and mobile network operators, including KPN. Mobile internet availability has become more widespread as more devices are introduced which can access the internet via Wi-Fi connections, contributing further to the popularity of data-driven communications. The growing share of smartphones, tablets and computers in the geographies in which KPN operates also contributes to an increasing number of customers using OTT applications and internet data services in place of traditional voice or SMS communications. Within the Business segment, this trend is resulting in an increasing proportion of M2M traffic, which generates significantly lower margins than traditional voice or SMS.

As a result of the above, as use of voice and SMS has declined relative to other forms of communication, mobile data providers, including KPN, have had a difficult time earning sufficient revenues from the increased data volumes to offset the decline in revenues from traditional voice and SMS services. KPN charges lower rates for internet data usage as compared to per-minute or per SMS fees, and may also offer its services through flat fee packages which tend to generate lower ARPUs as compared to traditional per-minute or per-SMS tariffs. These trends towards data being used as a substitute for voice and SMS has thereby contributed to the decline in KPN's wireless service revenues in the Netherlands, and a slowdown of revenue growth in Mobile International, particularly in Germany and, to a lesser extent, in Belgium. See "Risk Factors—As a result of the increasing substitution of data services in place of traditional voice and SMS communications, KPN's traditional voice and

SMS markets are decreasing significantly and are expected to continue to decrease due to increasing competition from alternative modes of telecommunication.”

In response to the overall pricing environment, and in an effort to meet customer expectations, support its mobile ARPU and reduce customer churn, KPN regularly adjusts its tariff plans to tailor its offerings and pricing to existing and emerging trends in customer behavior. The range of tariff structures within KPN’s mobile businesses, including tiered data tariffs and various postpaid options and prepaid bundled services, allow customers to opt for voice and SMS add-ons depending on their needs, giving them a flexibility which has negatively impacted ARPU levels as fewer customers pay for out-of-bundle volumes they will not use. In an effort to offset the decline in out-of-bundle spending, KPN has recently introduced flat fee propositions featuring higher subscription fees and lower volume-based prices, resulting in a higher proportion of committed ARPU.

Within Consumer Residential, KPN’s revenues have been driven by price increases as well as by the number of IPTV subscribers as a proportion of total television subscribers. IPTV, which is an important driver behind take up of triple-play packages, also features higher ARPU than other TV products, and the growth in IPTV customers was one of the primary drivers of the increase in blended TV ARPU, which increased to EUR 13 for the year ended 31 December 2012 from EUR 11 for the year ended 31 December 2011. In 2012, KPN’s Telfort and XS4All brands started to offer IPTV products in the Netherlands in addition to the KPN brand, expanding the potential for distribution of IPTV.

KPN’s pricing policy across all its segments, and the prices it is able to charge for its services, are key drivers of ARPU in KPN’s various operating segments. ARPU is driven by prices for KPN’s services, traffic volume, subscriber mix, and revenues from access and interconnection fees for incoming calls and messages. During the period under review, ARPU within KPN’s fixed line businesses has remained generally stable, whereas in its various mobile businesses (both Consumer Mobile and Business within the Netherlands, and also in Germany and Belgium), its ARPU has declined. The decline in KPN’s mobile ARPUs has been largely a result of a decrease in voice ARPU (attributable to both decreasing MTRs and general price erosion on voice and SMS pricing), partly offset by an increase in mobile data volumes.

In light of the challenging market environment across all its operating segments, and the resulting competitive and pricing pressures, if KPN is to maintain and increase profitability it must also seek to substantially reduce its costs in line with the decline in revenues. In order to maintain its competitive position and defend its market share in its various segments in pursuit of KPN’s strategy and in support of its outlook, KPN has also incurred substantial costs in the periods under review relating to investments in its networks, marketing efforts and brand-building, setting up new shops and generally enhancing its distribution capabilities and improving customer service, among other activities. Maintaining these costs at the same or higher level as previous years has resulted in KPN’s operating profit margin declining from 24.2% in the year ended 31 December 2010 to 19.3% in the year ended 31 December 2011 and 14.3% in the year ended 31 December 2012. For similar reasons, KPN’s EBITDA margins have declined from 40.9% in the year ended 31 December 2010 to 39.0% in the year ended 31 December 2011 and 35.6% in the year ended 31 December 2012.

### ***Customer base***

One of KPN’s primary revenue drivers is its number of customers, which is important to its efforts to increase revenues, grow market share, and increase RGUs. Within its mobile businesses Consumer Mobile, Business, Germany and Belgium, KPN uses net adds to measure growth in its customer base, and within its fixed line telephony and broadband internet services within Consumer Residential and Business, KPN uses the number of access lines and subscribers. Although changes to the size of its customer base have varied across KPN’s operating segments during the periods under review, a growing customer base generally contributes to growing revenues, and can offset negative revenue impacts from declining ARPUs. Within KPN’s existing customer base, changes in the mix of customers also has had and will continue to have an impact on KPN’s financial results. In particular, post-paid mobile customers tend to generate significantly higher ARPU, and experience lower rates of customer churn, as compared to pre-paid customers, in part because they are more likely to own smartphones and therefore be larger consumers of mobile data. Among post-paid customers, the increase in SIM-only plans has contributed to lower ARPU in Consumer Mobile as well as in Germany and Belgium. A higher proportion of SIM-only customers may also contribute to lower subscriber acquisition and retention costs due to the absence of handset expenses for these customers, though these decreased costs may be offset in part by higher expenses as other customers opt for more expensive smartphones. Across both its mobile and fixed line businesses in the Netherlands, the introduction of triple play bundles and eventually quadruple-play offerings are also expected to be increasingly important contributors to growth in KPN’s customer base, as described above.

The rate of customer churn refers to the frequency with which KPN's customers disconnect from its services, generally in favor of competitors. KPN's churn rates are impacted by the attractiveness of its offers and pricing, the subscriber experience and perception of the brand, the perceived quality of its network (including its mobile network coverage) and the perceived quality of its services (including customer service and satisfaction levels), all as compared to its existing competitors and new entrants. Initiatives to address high churn rates may, and in the periods under review have, lead to increased costs, particularly subscriber acquisition and retention costs as KPN undertakes efforts to retain customers. In the periods under review, KPN's traditional voice, SMS and fixed line telephony products have experienced relatively high customer churn rates as compared to previous historical experience, whereas its bundled and data-focused products have experienced lower churn rates.

### ***Regulation***

KPN has been designated by regulators as having significant market power in certain markets in the Netherlands, Germany and Belgium. As a result, the applicable NRAs are required to impose obligations on KPN relating to, among other things, access and use of specific network facilities, non-discrimination, transparency or the level of tariffs at the regulated wholesale or retail markets. In the Netherlands, KPN is designated by OPTA as having significant market power in various markets: the markets for voice call termination on its individual mobile and fixed networks, the markets for unbundled access to its copper, FttH and FttO networks, the market for high-quality wholesale broadband access (**WBA**) and wholesale leased lines, wholesale markets for fixed telephony and the retail markets for two or more simultaneous calls. In Germany and Belgium, KPN has been designated as having significant market power in the call termination market on its individual mobile networks. As a result of these designations in all three of its operating jurisdictions, KPN is subject to regulation with regard to significant aspects of its revenues and costs.

KPN receives revenues in the form of access and interconnection fees from other network operators for voice calls and messages terminated on KPN's networks, and is required to pay access and interconnection fees to other network operators for calls terminated on their networks, in each case both domestic and international. These access and interconnection fees are based on set termination rates for both fixed line calls (FTRs) and mobile communications (MTRs). In recent years, NRAs in the Netherlands, Germany and Belgium have taken action to significantly reduce these termination rates. In particular MTRs, which have been reduced in line with 2009 recommendations from the European Commission (as described in greater detail in "Regulation") have been reduced the most significantly. Decreasing MTRs has a dual effect on KPN's operations by decreasing the revenues received from other operators for calls on its network while also decreasing inter-connection costs, shown as part of its work contracted out and other expenses line item on its consolidated income statement, as its payments to other operators decrease. Because MTRs have historically been a significant component of both KPN's revenues (for calls that terminate on KPN's networks) and of KPN's access and interconnection expenses (for calls that terminate on the network of other network operators), the decrease in MTRs in particular has had and will continue to have a direct impact on KPN's revenues and other income and costs, and a consequent impact on KPN's profitability. The impact of declining MTRs on KPN's profitability has been particularly pronounced in Germany and Belgium, where KPN does not offer fixed-line telephony products which could benefit in part from declining MTRs.

MTRs are generally expected to continue to decrease going forward, albeit at a slower pace than historically experienced given the degree of decreases to date, particularly in Germany and Belgium. In the Netherlands, OPTA is preparing a new decision on MTR rates for mid 2013, a draft of which decision is expected in early 2013 for national consultation. This decision may impact KPN's business and could result in further reductions to the termination fees KPN may charge other network operators for the termination of calls carried on its network, and decrease KPN's mobile revenues in the Netherlands. See "Risk Factors—KPN's revenues may decline as a result of decreases in fixed and mobile termination rates".

KPN also receives and pays roaming fees, which are fees charged by a host network for calls initiated on a network that is outside the subscriber's home country. Such roaming fees are subject to increasingly stringent fee caps for voice, SMS and data tariffs in the wholesale and retail customer markets throughout the EU. See "Regulation—The EU regulatory framework for electronic communications—Roaming on mobile networks". As a result, the roaming charges KPN may charge its wholesale customers for voice, SMS and data roaming are subject to price caps and are expected to continue to decline. See "Risk Factors—KPN may be subject to increased costs or pressure on its revenues from changing regulation for international roaming charges." Because roaming fees have historically been a significant component of both KPN's revenues (for calls made by visitors to the Netherlands, Germany or Belgium using KPN's mobile network) and of KPN's access and interconnection expenses (for calls made by KPN's subscribers who are abroad and have to rely on other network operators for

execution of their calls), the decrease in roaming charges has also had and will continue to have a direct impact on KPN's revenues and other income and costs, and a consequent impact on KPN's profitability.

The mandated decreases in MTRs and roaming charges, referred to throughout this section as the "regulatory impact" on revenues, have had and will continue to have a direct impact on KPN's revenues and other income and costs, and a consequent impact on KPN's profitability. This regulatory impact is calculated by taking into account the impact of reductions in MTR tariffs and roaming charges, and applying those reduced rates to the previous year, using previous year volumes, as if the new lower tariffs would have been applicable in the previous year. Regulatory changes to permissible MTR and roaming charges had an impact on revenues of EUR 134 million in the year ended 31 December 2012 and EUR 486 million in the year ended 31 December 2011, and had an impact on EBITDA of EUR 64 million in the year ended 31 December 2012 and EUR 203 million in the year ended 31 December 2011, in each case net of offsetting cost reduction benefits. The impact of declining MTRs on KPN's profitability has been particularly pronounced in Germany and Belgium, where KPN generally does not offer fixed-line telephony products as a significant portion of its business which could benefit from declining MTRs. Additional regulatory requirements or further tariff regulation could result in new obligations being imposed on network operators such as KPN, which could result in lower revenues or increased operational and administrative expenses.

### ***Capital expenditures and investments in network***

KPN's ability to provide fixed and mobile telephony, broadband internet and TV to retail customers as well as telecommunications and ICT solutions to business customers depends in large part on its ability to provide attractive and competitive product offerings to its customers by upgrading and maintaining its fixed and mobile networks. Moreover, with the growing penetration of smartphones and the increasing demand for data services, upgrading and maintaining KPN's networks is key to the provision of services to its customers and to KPN's ability to implement its strategy. Perception of network quality and speed are important factors in KPN's ability to be able to attract and retain its customers, and therefore minimize churn by offering the best products and services to its customers.

In the Netherlands, as part of its strategy, KPN has invested heavily in network infrastructure, and plans to continue to do so. KPN will continue to invest in next generation access networks, as it believes that they are core assets to sustain market leadership in the future. In support of its mobile network in the Netherlands, in the fourth quarter of 2012, KPN won the right to acquire 15 blocks of frequency licenses which are valid for 17 years in the 800MHz, 900MHz, 1800MHz, 2.1GHz and 2.6GHz bands for a total of 120MHz of frequency licenses in the spectrum auction. The cost of the licenses amounted to EUR 1.35 billion and was paid on 9 January 2013. This spectrum package will enable KPN to continue its existing 2G and 3G services, and introduce new services, such as 4G LTE. Going forward, KPN expects to incur substantial additional depreciation and amortization charges over the next 17 years resulting from this investment in its spectrum, totaling EUR 74 million in 2013 and EUR 80 million in 2014. Within the Netherlands fixed line services market, KPN is in the process of upgrading its copper network and deploying a fiber optic network (FttH), through its joint venture with Reggefiber, for which KPN is likely to incur significant capital expenditures going forward. See "—Liquidity and capital resources—Off-balance sheet arrangements—Reggefiber" below. The improved quality of the broadband internet network will allow KPN to become a stronger player in areas such as TV where it is currently the number two player in the Dutch market, and where it has increased its market share over the last three years.

In Germany, E-Plus expects to continue its accelerated mobile broadband roll-out, as a means of improving its reputation for network quality and reducing customer churn. In particular, E-Plus is improving its IP-backhaul (an improved system for linking its core network to its network of base stations), dual-carrier and HSPA+ by mid-2013, and expects to begin deploying 4G LTE in Germany in 2013 or 2014. These upgrades will improve the quality of E-Plus's network, expand its reach and improve mobile data transmission. This is intended to allow E-Plus to monetize the increasing preference in the retail customer market for mobile data over voice and SMS.

In Belgium, KPN will continue to accelerate its mobile broadband internet deployment, including its 4G network based on LTE technology, as a means of reducing churn by differentiating itself from competitors based on reputation for network speed and quality. KPN Group Belgium expects to accelerate its HSPA+ roll out in 2013 and its 4G LTE roll out in the second half of 2013, with the aim to have the majority of the country covered by 4G LTE in 2014.

The upgrade and maintenance of KPN's fixed and mobile networks has a direct impact on the level of capital expenditures and investments it incurs each year. See “—Liquidity and capital resources—Capital expenditures and investments” below.

Going forward, KPN may face frequency allocations (via auction or otherwise) in Germany or Belgium as early as this year, which could result in KPN incurring significant and unplanned capital expenditures and investments. See “Risk Factors—KPN may fail to obtain or renew its spectrum licenses in the jurisdictions in which it operates, and, in particular, may participate in spectrum auctions in Germany and Belgium in the near future.”

### ***FTE reduction program***

As part of KPN's strategy, in 2011 a FTE reduction program was announced to further lower the cost base in the Netherlands. The FTE reduction program was announced with the stated intention to reduce KPN's headcount by 4,000 – 5,000 FTE, which was approximately 20 – 25% of KPN's workforce in the Netherlands at that time. The FTE reduction program in the Netherlands is being implemented through a combination of redundancies, intended to delay and simplify its organizational model, and outsourcing and off-shoring certain back-office activities, with the goal of maximizing efficiency while focusing on quality improvements within customer processes. In addition, in late 2012, E-Plus announced a restructuring program, including both an acceleration of FTE reductions and a reduction in the number of shops in highly penetrated regions. Changes to KPN's total FTEs resulting from acquisitions or disposals of subsidiary businesses, including Getronics International, are not counted towards KPN's FTE reduction totals.

Since the start of the FTE reduction program in the Netherlands in 2011, a total of EUR 257 million in restructuring costs, including costs recognized for redundant facilities, have been recorded as other operating expenses on KPN's consolidated income statement, relating to a reduction of approximately 2,800 FTEs in the Netherlands, of which a reduction of approximately 1,900 FTEs had occurred by 31 December 2012. In 2012 alone, KPN reduced net FTEs in the Netherlands by approximately 1,550, which includes an increase of approximately 350 FTEs from the acquisitions of the Reggefiber ISPs, Reggefiber Wholesale and RoutIT in 2012.

KPN expects to finalize its FTE reduction program by the end of 2013, and as a result anticipates continuing charges to other operating expenses relating to these FTE reductions in 2013, partly offset by lower employee benefit expenses due to the accelerated FTE reduction program.

### **Description of key income statement line items**

The primary elements of KPN's consolidated income statement are set out below:

#### ***Revenues and other income***

Revenues are presented net of discounts, and include:

- From the Consumer Mobile, Germany, Belgium and Rest of World segments: (1) mobile service revenues (consisting of revenues from ingoing and outgoing voice calls, subscription fees, non-voice messaging including SMS, MMS and data services for handsets, mobile broadband wireless internet access through a laptop, tablet or dongle, and handset lease payments), visitor roaming revenues, access and interconnection fees paid to KPN and revenues from wholesale customers including MVNOs charged for their use of KPN's network, (2) equipment revenue, which is largely handset sales and, to a lesser extent, accessories (3) non-recurring charges such as activation and other fees, and (4) other mobile services revenues, which mainly include transit revenues (calls issued from another operator and which are destined to someone who is not KPN's subscriber) and income from administration and penalties.
- From the Consumer Residential segment: (1) broadband internet subscription revenue (DSL, FttH), and value-added services, such as security packages, (2) telephony revenue from subscription and (PSTN, ISDN) and usage fees (PSTN, ISDN, VoIP), (3) TV revenue representing subscription payments for KPN's various TV offerings and value added services such as Video on Demand, and (4) revenue from other sources, primarily comprising connection fees and other initial fees such as the sale of products. KPN reports revenue from its triple-play bundles within Consumer Residential as TV, broadband internet subscription revenue and telephony revenues, on a pro rata basis in proportion to the subscription fees of each product charged on a standalone basis. Quadruple play revenues will be based on packages per segment, with discounts split between the Consumer Mobile and Consumer Residential segments.



- From the Business segment: (1) revenues from voice (PSTN/ISDN/VoIP) and internet wireline services to business subscribers (2) wireless voice and data services including M2M services to business subscribers, and (3) fixed data services (traditional data services and Virtual Private Network services) provided both nationally and internationally supplied via fiber or high speed copper connections.
- From the NetCo segment: external revenues from wholesale line rental (**WLR**), WBA, main distribution frame and wholesale fiber (internal revenues from the Consumer Mobile, Consumer Residential, Business and Corporate Market segments are a significant source of NetCo's revenues, but are not presented or discussed in this Prospectus, which presents only external revenues on a consolidated basis).
- From the Corporate Market segment: revenues from workspace management, data center management, including infrastructure and capacity management, as well as connectivity services, consultancy services and other ICT services, secure managed devices, private Cloud and service aggregation services.
- From the iBasis segment: revenues from international voice traffic (VoIP) as well as mobile data and roaming services.

Other income principally comprises gains on the sale of property, plant and equipment, which includes proceeds of sale from sale and leaseback transactions, principally of mobile towers, and other gains, which mainly included the sale of subsidiaries.

### ***Cost of materials***

Cost of materials primarily include:

- costs associated with hardware procurement, such as SIM cards, end-user equipment, such as mobile phone handsets which are sold and related accessories;
- other material and logistics costs relating to the sale of other products, such as hardware (within Corporate Market and NetCo), telephones and routers, and materials used to connect subscribers to KPN's network that do not meet the criteria for capitalization; and
- inventory-related expenses, including write-downs (and reversals of write-downs).

The total amount of cost of materials recognized as an expense during the period is closely related to the recognition of revenue during a given period. KPN recognizes expenses in its consolidated income statement as they are incurred.

KPN's subscriber acquisition and retention costs are partly included within cost of materials, specifically with regard to handset costs. The cost of a handset, whether an individual sale or a multiple element sale with a subscription, is expensed as cost of materials when the handset is sold. For handsets which are leased out to customers and consequently not sold, KPN's costs are capitalized and depreciated over the expected life of the handset, taking into account its residual value.

### ***Work contracted out and other expenses***

Work contracted out and other expenses include:

- interconnection costs relating to costs incurred when connecting subscribers to other mobile networks;
- wages, sales commissions, social security, employees' termination benefits and costs for temporary workers;
- commissions or other fees paid to dealers;
- cost related to content for TV or other products;
- customer service and administrative outsourcing;
- hardware and IT maintenance;
- equipment and premise lease expenses (including for towers in sale and lease back transactions); and
- energy costs.

KPN's subscriber acquisition and retention costs (SAC/SRC) are partly included within work contracted out and other expenses, specifically with regard to dealer fees, which are in some cases treated as reductions in revenues. Dealer fees come in various forms, including fees paid to dealers upon new customer acquisition, retention fees for maintaining customers, ARPU-based fees, and revenue share fees.

### ***Employee benefits***

Employee benefits principally comprise salaries and wages, including expenses associated with long-term incentive and short-term incentive programs, pension charges, social security contributions of full-time employees.

### ***Depreciation, amortization and impairments***

Depreciation, amortization and impairments relate to goodwill, intangible assets (including licensees) and property, plant and equipment, including software development costs and customer-driven equipment (such as IPTV set-top boxes, modems and handsets). Handset depreciation commenced in 2012, with the introduction of the handset lease proposition in the Netherlands. In Germany, a handset financial lease model was introduced in April 2012, which also resulted in handset depreciation at that time.

### ***Other operating expenses***

Other operating expenses primarily comprise restructuring provisions relating to FTE reduction and termination payments on existing rental agreements resulting from restructuring, as well as marketing and promotional expenditures, other cost of personnel, advisory fees paid, charges related to claims and litigation provisions, provisions for bad debts and losses on the sale of subsidiaries.

### ***Financial income and expense***

Financial income and expenses comprise interest expense associated with borrowings and income, and gains and losses associated with financial instruments used for hedging or other financial instruments, including changes in the carrying value of the Reggefiber call/put arrangement.

### ***Income taxes***

Income taxes comprise current and deferred income tax expense or benefits, including corporate income tax and trade tax as well as withholding taxes. Within the Netherlands, a certain proportion of KPN's taxable profits are subject to tax under innovation tax facilities. These are facilities under Dutch corporate income tax law whereby profits attributable to innovation are taxed at an effective rate of 5%. KPN reached an agreement in 2011 with the Dutch tax authorities regarding the application of the innovation tax facilities, which had retroactive impact to 1 January 2007. Under the terms of this agreement, KPN received a one-off benefit from the Dutch tax authorities in the amount of EUR 118 million in 2011, mainly reflecting retroactive innovation tax benefits for the period 2007 to 2010. Going forward, KPN's effective tax rate in the Netherlands has been reduced from the statutory tax rate of 25% to approximately 20% as a result of application of the innovation tax facilities.

## Consolidated results of operations

The following table presents the consolidated statement of income for KPN for the periods presented.

	Year ended 31 December		
	2012	2011	2010
	(EUR in millions)		
Revenues	12,409	13,022	13,324
Other income	299	141	74
<b>Total revenues and other income</b>	<b>12,708</b>	<b>13,163</b>	<b>13,398</b>
Own work capitalized	(113)	(116)	(101)
Cost of materials	901	1,005	911
Work contracted out and other expenses	4,545	4,503	4,560
Employee benefits	1,911	1,874	1,932
Depreciation, amortization and impairments	2,708	2,589	2,226
Other operating expenses	936	759	620
<b>Total operating expenses</b>	<b>10,888</b>	<b>10,614</b>	<b>10,148</b>
<b>Operating profit</b>	<b>1,820</b>	<b>2,549</b>	<b>3,250</b>
Finance income	39	32	19
Finance costs	(732)	(690)	(860)
Other financial results	(151)	(96)	(75)
<b>Financial income and expenses</b>	<b>(844)</b>	<b>(754)</b>	<b>(916)</b>
Share of the loss of associates and joint ventures	(13)	(24)	(31)
<b>Profit before income tax</b>	<b>963</b>	<b>1,771</b>	<b>2,303</b>
Income taxes	(270)	(222)	(508)
<b>Profit for the year</b>	<b>693</b>	<b>1,549</b>	<b>1,795</b>
Profit attributable to non-controlling interests	2	—	3
Profit attributable to equity holders	691	1,549	1,792

The reconciliation of KPN's operating profit to EBITDA, and the calculation of KPN's EBITDA margin, is as follows:

	Year ended 31 December		
	2012	2011	2010
	(EUR in millions, except percentages)		
Operating profit	1,820	2,549	3,250
Depreciation, amortization and impairments	2,708	2,589	2,226
<b>EBITDA<sup>(1)</sup></b>	<b>4,528</b>	<b>5,138</b>	<b>5,476</b>
EBITDA margin <sup>(2)</sup>	35.6%	39.0%	40.9%

(1) KPN defines EBITDA as operating profit plus depreciation, amortization and impairments. KPN's use of EBITDA, calculated as presented in the table above, may not be comparable to similarly titled measures used by other companies. KPN's definition of EBITDA should not be considered in isolation or as a substitute for analysis of KPN's results as reported under IFRS.

(2) KPN defines EBITDA margin as EBITDA as a proportion of KPN's total revenues and other income.

## Group level comparison of year ended 31 December 2012 and 31 December 2011

### Revenues and other income

Total revenues and other income decreased by EUR 455 million, or 3.5%, to EUR 12,708 million in the year ended 31 December 2012 from EUR 13,163 million in the year ended 31 December 2011. This decrease was due primarily to the sale of Getronics International in May 2012 as part of KPN's strategic decision to focus on its core markets, as well as declining revenues across all segments in the Netherlands, partly offset by Germany, Belgium and iBasis, each of which had increased revenues. A continued difficult market environment was the primary reason for the revenue decline in the Netherlands. All of KPN's segments in the Netherlands remained exposed to lower traffic volumes, especially Consumer Mobile. In Germany, revenue growth slowed in the fourth quarter as a result of increased price competition.

The net negative impact of disposals on Group revenues was EUR 296 million in 2012, due primarily to the sale of Getronics International but also due to loss of revenues in disposed businesses, particularly the disposals of KPN Spain in the Rest of World segment and the sale of SNT Inkasso in Germany. The negative impact of disposals on Group revenues in 2012 was partly offset by revenues from acquired businesses in 2012, in particular the acquisition of five ISPs from Reggeborgh and Reggefiber. The regulatory impact on revenues of changes to permissible MTR tariffs and roaming charges in the year ended 31 December 2012 was EUR 134 million.

The decrease in total revenues and other income was partly offset by other income being significantly higher in 2012, at EUR 299 million as compared to EUR 141 million in other income in 2011. Other income in 2012 of EUR 299 million primarily comprised one-off gains totaling EUR 259 million, most notably from a EUR 103 million gain on the sale of mobile towers in Germany and a EUR 96 million gain on the sale of mobile towers in NetCo in the Netherlands, the sale of KPN Spain in the Rest of World segment for a gain of EUR 36 million, the sale of SNT Inkasso in Germany for a gain of EUR 16 million, and the sale of Getronics International within Corporate Market for a gain of EUR 8 million. By comparison, other income in 2011 was EUR 141 million, and included the sale and leaseback of mobile towers in NetCo in the Netherlands of EUR 100 million, the sale of various buildings for EUR 22 million and the sale of KPN France for a gain of EUR 10 million.

#### *Cost of materials*

Cost of materials decreased by EUR 104 million, or 10.3%, to EUR 901 million in the year ended 31 December 2012 from EUR 1,005 million in the year ended 31 December 2011. This decrease was due primarily to the introduction of a handset leasing option in the Netherlands in April 2012, resulting in a reduction of cost of materials as the cost of handsets were instead recognized as capital expenditures. In addition, cost of materials also decreased due to the sale of Getronics International. The decrease was partly offset by EUR 45 million in higher cost of materials in the Business segment, due to higher smartphone sales, as well as EUR 35 million in increased handset costs from selling more handsets, in particular more expensive smartphones, in Germany in the fourth quarter of 2012.

#### *Work contracted out and other expenses*

Work contracted out and other expenses increased by EUR 42 million, or 0.9%, to EUR 4,545 million in the year ended 31 December 2012 from EUR 4,503 million in the year ended 31 December 2011. This increase was due primarily to EUR 72 million in higher interconnection costs at iBasis as a result of higher revenues, EUR 72 million in higher interconnection costs and increased commercial activities in Germany. Furthermore, work contracted out at NetCo increased by EUR 70 million in 2012 as compared to 2011 as a result of costs associated with ITNS (the active network operator purchased from Reggefiber in 2012), a larger FttH installed base and higher operating lease payments related to the sale and leaseback of mobile towers. Consumer Residential also experienced higher content related expenses.

The increase in work contracted out and other expenses in 2012 was partly offset by a EUR 16 million impact of the sale of Getronics International, and by EUR 88 million lower interconnection costs, which decreased in proportion to diminished revenues and lower dealer commissions following the introduction of the handset leasing option in the Netherlands in Consumer Mobile.

#### *Employee benefits*

Employee benefits increased by EUR 37 million, or 2.0%, to EUR 1,911 million in the year ended 31 December 2012 from EUR 1,874 million in the year ended 31 December 2011. This increase was due primarily to a substantial increase in pension charges, from EUR 125 million in 2011 to EUR 226 million in 2012, resulting principally from EUR 73 million in higher actuarial losses relating to legacy UK and US pension funds and EUR 28 million partly from such losses in the Netherlands. See “—Recent accounting pronouncements—IAS19R” below.

The increase in employee benefits was partly offset by a decrease in salary and wage expenses from EUR 1,558 million in 2011 to EUR 1,478 million in 2011. The decrease in salary and wage expenses was largely due to a EUR 212 million reduction from the sale of Getronics International, and EUR 15 million from headcount reductions under the FTE reduction program at Corporate Market, partly offset by higher salaries and increased FTEs at NetCo, Residential and Business market, following the acquisitions of five ISPs from Reggeborgh and

Reggefiber in 2012 as well as the acquisition of ITNS, and RoutIT. Furthermore, salary and wage expenses also increased due to growth in total FTEs in Germany and the absence of incentive scheme releases in 2012 which had lowered employee benefit costs in 2011.

#### *Depreciation, amortization and impairments*

Depreciation, amortization and impairments increased by EUR 119 million, or 4.6%, to EUR 2,708 million in the year ended 31 December 2012 from EUR 2,589 million in the year ended 31 December 2011. This increase was due primarily to a one-off EUR 74 million depreciation charge in Germany relating to a re-categorization of assets from assets under construction (of which most related to prior periods) to property, plant and equipment as well as to higher depreciation from handsets leased to customers in Germany of EUR 25 million. Depreciation, amortization and impairments also included impairment of goodwill relating to Getronics within Corporate Market, amounting to EUR 314 million in 2012, as a result of persistent continued adverse market conditions in the ICT market, including fierce price pressure. This was slightly higher than the impairment charges related to Getronics within Corporate Market in 2011, which totaled EUR 298 million in impairment of tangible assets, goodwill and other intangible assets. In addition, in the Netherlands depreciation charges increased starting in April 2012 as a result of customer driven investments (particularly as a result of the start of the handset lease option as well as IPTV set-top boxes and modems) totaling EUR 64 million, partly offset by EUR 40 million lower depreciation resulting from the extension of the economic life of fiber assets. The sale of Getronics International upon disposal also resulted in EUR 45 million decrease in depreciation charges in 2012.

#### *Other operating expenses*

Other operating expenses increased by EUR 177 million, or 23.3%, to EUR 936 million in the year ended 31 December 2012 from EUR 759 million in the year ended 31 December 2011. This increase was due primarily to a EUR 43 million increase in restructuring charges related to the FTE reduction program, which amounted to EUR 173 million in 2012 compared to EUR 130 million in 2011. The increase in other operating expenses was also due to marketing costs which were EUR 91 million higher in 2012, particularly relating to E-plus and Consumer Mobile, relating to, among other things, launches of new propositions. Furthermore, other operating expenses in 2012 included EUR 27 million provision related to Ortel and a EUR 11 million loss on disposal of Ortel Switzerland and Ortel Spain.

#### *Financial income and expenses*

Financial expenses increased by EUR 90 million, or 11.9%, to an expense of EUR 844 million in the year ended 31 December 2012 from an expense of EUR 754 million in the year ended 31 December 2011. This increase in net financial expenses was due primarily to a EUR 45 million increase in the charge under other financial results relating to adjustment of the value of the Reggefiber Call/Put Arrangement, which was driven by the fact that the increase in Reggefiber's enterprise value did not equal the movement in the guaranteed value of Reggefiber that is embedded in the options. Financial expenses were also higher in 2012 as a result of EUR 40 million in fair value movements on interest rate swaps for which no hedge accounting is applied and EUR 31 million of higher accrued bond interest. Partly offsetting the increase in financial expenses in 2012 was the impact of ineffective US dollar fair value hedges, which resulted in an expense of EUR 36 million in 2011 compared to zero in 2012.

#### *Income taxes*

Income taxes increased by EUR 48 million, or 21.6%, to EUR 270 million in the year ended 31 December 2012 from EUR 222 million in the year ended 31 December 2011. This increase was due primarily to lower benefit from innovation tax facilities in 2012 as compared to 2011. 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, which KPN reached with Dutch tax authorities in 2011, had retroactive effect from 1 January 2007. Under the terms of this agreement, KPN received a one-off benefit from the Dutch tax authorities in the amount of EUR 118 million in 2011, mainly reflecting retroactive innovation tax benefits for the period 2007 to 2010.

The effective income tax rate for the Group for the year ended 31 December 2012 was 27.6%, compared to 12.4% in the year ended 31 December 2011 (or 19.7% when adjusted to exclude the one-off benefits in 2011 of innovation tax from 2007-2010). KPN expects the effective income tax rate for the Group to be approximately

20% in the years 2013 – 2015. The higher effective tax rate in 2012 compared to the expected 20% going forward is mainly due to the non-deductible goodwill impairment of Corporate Market in 2012, revaluation of the Reggefiber Call/Put Arrangement and pension expenses in 2012 for the legacy UK and US pension funds, partly offset by an increase in the deferred tax asset position at E-Plus related to prior years.

#### *EBITDA*

EBITDA decreased by EUR 610 million, or 11.9 %, to EUR 4,528 million in the year ended 31 December 2012 from EUR 5,138 million in the year ended 31 December 2011. The decrease was due to lower revenue in the Netherlands, a continued decline in high margin traditional services and higher FttH activation costs in the Consumer Residential and NetCo segments. EBITDA also declined in part due to a negative impact from restructuring of EUR 173 million in 2012, compared to EUR 130 million in 2011, and a regulatory impact of EUR 64 million in 2012. Furthermore, pension costs were EUR 101 million higher in 2012, of which EUR 73 million related to actuarial losses at the Getronics UK and US pension funds and EUR 28 million related to the Netherlands.

Partly offsetting the decline in EBITDA was a net positive impact of EUR 99 million, mainly related to sale of mobile towers in the Netherlands and Germany.

#### *Segment level comparison of year ended 31 December 2012 and 31 December 2011*

##### *Revenues and other income*

The following table presents KPN's external revenues and other income for the periods presented by its current reporting and operating segments.

	<b>Year ended 31 December</b>	
	<b>2012</b>	<b>2011</b>
	<b>(EUR in millions)</b>	
Revenues		
Consumer Mobile . . . . .	1,611	1,770
Consumer Residential . . . . .	1,730	1,774
Business . . . . .	2,253	2,321
NetCo . . . . .	582	577
Corporate Market . . . . .	<u>1,185</u>	<u>1,606</u>
<b>The Netherlands</b> . . . . .	<b>7,361</b>	<b>8,047</b>
<b>iBasis</b> . . . . .	<b>820</b>	<b>750</b>
Germany . . . . .	3,173	3,147
Belgium . . . . .	768	722
Rest of World . . . . .	<u>214</u>	<u>292</u>
<b>Mobile International</b> . . . . .	<b>4,155</b>	<b>4,161</b>
Other activities . . . . .	<u>73</u>	<u>64</u>
<b>Total revenues</b> . . . . .	<b>12,409</b>	<b>13,022</b>
Other income . . . . .	<u>299</u>	<u>141</u>
<b>Total revenues and other income</b> . . . . .	<b>12,708</b>	<b>13,163</b>

Consumer Mobile revenue decreased by EUR 159 million, or 9.0%, to EUR 1,611 million in the year ended 31 December 2012 from EUR 1,770 million in the year ended 31 December 2011. This decrease was due primarily to a EUR 42 million regulatory impact, as well as to competitive market conditions and changing customer behavior, including fewer customers paying for out-of-bundle voice, SMS or data volume, resulting in lower traffic volumes, which has in turn led to declining ARPU. The decrease in Consumer Mobile's revenue was partly offset by higher committed revenues, resulting from the introduction of new mobile propositions. The percentage of committed ARPU improved to approximately 67% in the fourth quarter of 2012, up approximately 5% compared to the fourth quarter of 2011, due to a higher share of retail postpaid customers who are now on the new flat fee tariff package.

Consumer Residential revenue decreased by EUR 44 million, or 2.5%, to EUR 1,730 million in the year ended 31 December 2012 from EUR 1,774 million in the year ended 31 December 2011. This decrease was due primarily to continued decline of traditional voice services, as traditional voice access lines declined to

1.1 million as of 31 December 2012 from 1.4 million as of 31 December 2011. The decrease in Consumer Residential's revenue was partly offset by higher FttH revenues as the number of FttH activations increased, and also due to higher IPTV sales, in part due to increasing sales of triple-play packages. In addition, broadband internet customers increased in the fourth quarter of 2012, and 2012 was the first time since 2008 that KPN had a net line gain instead of a net line loss. Triple-play subscriptions increased from approximately 658,000 at 31 December 2011 to approximately 979,000 at 31 December 2012.

Business revenue decreased by EUR 68 million, or 2.9%, to EUR 2,253 million in the year ended 31 December 2012 from EUR 2,321 million in the year ended 31 December 2011. This decrease was due primarily to a EUR 24 million regulatory impact, as well as to a continued decline in traditional services, lower traffic and price pressure. Traditional wireline services within the Business segment showed a decline in both access lines and traffic volumes, leading to a 1.6% decline in revenues in 2012, partly offset by the introduction of flat fee propositions featuring higher subscription fees and lower volume based prices. Despite growth in its wireless customer base, from 2.1 million as of 31 December 2011 to 2.3 million as of 31 December 2012, the Business segment's service revenues declined by 1.0% in 2012, from EUR 1,012 million in 2011 to EUR 996 million in 2012. ARPU within the Business segment was lower in 2012, at EUR 37 as compared to EUR 42 in 2011, caused by regulatory impact, declining traffic, the higher proportion of M2M traffic and trend towards the substitution of voice for data. Partly offsetting the decline in Business revenue in 2012 was the improved performance of the challenger brand Telfort to Business in 2012.

NetCo revenue increased by EUR 5 million, or 0.9%, to EUR 582 million in the year ended 31 December 2012 from EUR 577 million in the year ended 31 December 2011. NetCo's wholesale revenue remained fairly stable in 2012 compared to 2011, as a result of the number of wholesale lines in 2012 compared to 2011 remaining largely unchanged.

Corporate Market revenue decreased by EUR 421 million, or 26.2%, to EUR 1,185 million in the year ended 31 December 2012 from EUR 1,606 million in the year ended 31 December 2011. This decrease was due primarily to the sale of Getronics International, part of Corporate Market, as of 1 May 2012, and also resulted from continued price pressure due to overcapacity in the market and postponement of large investments by clients.

iBasis revenue increased by EUR 70 million, or 9.3%, to EUR 820 million in the year ended 31 December 2012 from EUR 750 million in the year ended 31 December 2011. Notwithstanding pressure on per-minute prices, the average revenues per minute earned by iBasis for traffic, as expressed in Euros, increased in 2012, mainly due to favorable currency translation effects from US dollars into Euro. This increase was due also attributable to minutes of customer traffic increasing to 26.2 billion minutes in 2012, an increase of 2.3% compared to 2011.

Germany revenue increased by EUR 26 million, or 0.8%, to EUR 3,173 million in the year ended 31 December 2012 from EUR 3,147 million in the year ended 31 December 2011. This increase was due primarily to continued growth of customers at the MEIN BASE proposition, new propositions and the focus on data in the postpaid segment. Although service revenue growth was significantly higher in the first half of 2012, service revenue growth slowed in the second half of 2012 as a result of increased price competition and customers increasingly opting for cheaper tariff plans, leading to lower postpaid ARPU of EUR 21 in 2012 compared to EUR 23 in 2011. Revenue in Germany was also affected by a negative EUR 14 million regulatory impact.

Belgium revenue increased by EUR 46 million, or 6.4%, to EUR 768 million in the year ended 31 December 2012 from EUR 722 million in the year ended 31 December 2011. This increase was due primarily to improved service revenue driven by business-to-business, wholesale and data sales as market share and ARPU increased. The increase in revenue in Belgium in 2012 was partly offset by regulatory impact of EUR 37 million.

Rest of World revenue decreased by EUR 78 million, or 26.7%, to EUR 214 million in the year ended 31 December 2012 from EUR 292 million in the year ended 31 December 2011. This decrease was due primarily to intense competition, particularly for products aimed at ethnic communities in the various countries where Ortel products were sold, and the 2011 disposal of KPN France, which accounted for EUR 14 million in revenue in 2011.

## EBITDA

The following table presents KPN's EBITDA and EBITDA margins for the periods presented by its current reporting and operating segments.

	Year ended 31 December 2012		Year ended 31 December 2011	
	(EUR in millions)	(%)	(EUR in millions)	(%)
<b>EBITDA<sup>(1)</sup> and EBITDA margin</b>				
Consumer Mobile	510	29.9	550	28.9
Consumer Residential	367	19.8	497	26.1
Business	758	32.2	786	32.3
NetCo	1,461	55.7	1,705	61.3
Corporate Market	57	3.6	6	0.3
Other (including eliminations)	(18)	1.2	(16)	0.5
<b>The Netherlands</b>	<b>3,135</b>	<b>41.5</b>	<b>3,528</b>	<b>42.7</b>
<b>iBasis</b>	<b>30</b>	<b>2.9</b>	<b>31</b>	<b>3.2</b>
Germany	1,290	37.9	1,354	41.8
Belgium	272	33.8	273	35.0
Rest of World	(25)	(10.1)	8	2.6
<b>Mobile International</b>	<b>1,536</b>	<b>35.1</b>	<b>1,636</b>	<b>38.9</b>
Other activities	(173)	(226.3)	(57)	(91.9)
<b>Total EBITDA</b>	<b>4,528</b>		<b>5,138</b>	

<sup>(1)</sup> EBITDA in the table above is comprised of external revenues, other income and inter-division revenues for each segment. See Note 34 to the 2012 and 2011 consolidated financial statements incorporated by reference herein.

Consumer Mobile EBITDA decreased by EUR 40 million, or 7.3%, to EUR 510 million in the year ended 31 December 2012 from EUR 550 million in the year ended 31 December 2011. The decrease was primarily due to a EUR 37 million regulatory impact, as well as to cost reductions not being sufficient to mitigate the impact from changing customer behavior and price pressure due to competition. Consumer Mobile's EBITDA margin increased in 2012 to 29.9%, compared to 28.9% in 2011. The higher EBITDA margin was the result of a lower cost of materials and lower work contracted out (in the form of lower dealer commissions related to handset costs) following the introduction of the handset lease propositions in the Netherlands, whereby the costs are capitalized and depreciated instead of expensed. Partly offsetting the higher EBITDA margins were higher costs relating to promotion of new propositions, the expansion of number of shops and certain customer service improvements.

Consumer Residential EBITDA decreased by EUR 130 million, or 26.2%, to EUR 367 million in the year ended 31 December 2012 from EUR 497 million in the year ended 31 December 2011. The decrease was primarily due to higher marketing and sales costs driven by growth in the number of FttH activations, higher content costs and a continued decline in higher margin traditional services, resulting in an EBITDA margin decline to 19.8% in 2012 as compared to 26.1% in 2011. EBITDA in 2012 was also EUR 23 million negatively impacted by higher restructuring charges from the FTE reduction plan compared to 2011. Also contributing to the decrease, in 2011 EBITDA had been positively impacted by a change in accounting related to connection fees, which was not repeated in 2012.

Business EBITDA decreased by EUR 28 million, or 3.6%, to EUR 758 million in the year ended 31 December 2012 from EUR 786 million in the year ended 31 December 2011. The decrease was primarily due to the negative impact of EUR 24 million in higher restructuring charges from the FTE reduction plan in 2012 compared to 2011. Furthermore, the decrease was also due to lower revenues and other income in light of continued migration from traditional to IP based services, with lower prices and margins. Business EBITDA margin remained stable at 32.2% in 2012 compared to 32.3% in 2011.

NetCo EBITDA decreased by EUR 244 million, or 14.3%, to EUR 1,461 million in the year ended 31 December 2012 from EUR 1,705 million in the year ended 31 December 2011. The decrease was primarily due to lower revenues driven by trends discussed previously in the Consumer and Business segments in the Netherlands. Furthermore, expenses increased following the acquisition of ITNS, the active network operator purchased from Reggefiber in 2012, as well as higher costs related to increased FttH activations and higher rental



costs for mobile tower sites. Furthermore, EBITDA was EUR 33 million negatively impacted by higher restructuring charges from the FTE reduction plan in 2012 compared to 2011. These additional expenses resulted in NetCo's EBITDA margin declining to 55.7% in 2012 compared to 61.3% in 2011.

Corporate Market EBITDA increased by EUR 51 million, or 850%, to EUR 57 million in the year ended 31 December 2012 from EUR 6 million in the year ended 31 December 2011. The increase was primarily due to restructuring costs in 2012 which were EUR 83 million lower than in 2011, due to substantially greater FTE reduction impact in 2011. The increase in EBITDA in 2012 was also due to the fact that a book loss of EUR 30 million related to the revaluing of assets to the lower of cost or market value of Getronics International was recorded in 2011, and due to lower personnel costs in 2012 due to the accelerated FTE reduction program. The increase in EBITDA was partly offset by lower revenues and continuous pressure on margins in 2012.

iBasis EBITDA decreased by EUR 1 million, or 3.3%, to EUR 30 million in the year ended 31 December 2012 from EUR 31 million in the year ended 31 December 2011. The decrease was primarily due to increased price and margin pressure in the international voice market.

Germany EBITDA decreased by EUR 64 million, or 4.7%, to EUR 1,290 million in the year ended 31 December 2012 from EUR 1,354 million in the year ended 31 December 2011. The decrease was primarily due to higher commercial investments to support the introduction of new customer propositions, increased marketing expenditures and increased subscriber acquisition costs to support the growth in postpaid net adds. The decrease in EBITDA was notwithstanding the positive impact from the sale of mobile towers in 2012 of EUR 103 million. Increased expenses in 2012 also included operating lease charges related to the handsets. Also contributing to the decrease, EUR 39 million was recorded related to restructuring charges from the FTE reduction plan in 2012, compared to no such charges in 2011. As a result, Germany's EBITDA margin decreased from 41.8% in 2011 to 37.9% in 2012.

Belgium EBITDA was largely stable, declining by EUR 1 million, or 0.4%, to EUR 272 million in the year ended 31 December 2012 from EUR 273 million in the year ended 31 December 2011. The decrease was primarily due to a regulatory impact of EUR 22 million, offset by growth in service revenue. In line with the higher service revenue, traffic costs and subscriber acquisition costs increased in 2012. The Belgium EBITDA margin during 2012 therefore decreased to 33.8% as compared to 35.0% in 2011.

Rest of World EBITDA decreased by EUR 33 million to negative EUR 25 million in the year ended 31 December 2012 from EUR 8 million in the year ended 31 December 2011. The decrease was primarily due to the increased competition in the ethnic markets, resulting in significant price pressure and negative EBITDA margins at Ortel. In addition, in 2012 various one off expenses were recorded, these included a restructuring charge from the FTE reduction plan, as well as a loss on disposal of Ortel Switzerland and Ortel Spain and various other provisions. Also contributing to the decrease, was the 2011 disposal of KPN France gain on sale for EBITDA of EUR 10 million in 2011. The decrease in EBITDA was partly offset by the EUR 36 million gain on the sale of KPN Spain.

### ***Comparison of year ended 31 December 2011 and 31 December 2010***

#### ***Revenues and other income***

Total revenues and other income decreased by EUR 235 million, or 1.8%, to EUR 13,163 million in the year ended 31 December 2011 from EUR 13,398 million in the year ended 31 December 2010. This decrease was due primarily to a decline in all segments within the Netherlands, partly offset by improved results in Rest of World and iBasis. The regulatory impact on revenues of changes to permissible MTR tariffs and roaming charges in the year ended 31 December 2011 was EUR 486 million.

Other income in 2011 of EUR 141 million primarily comprised one-off gains, most notably on the sale of mobile towers in NetCo in the Netherlands of EUR 100 million, the sale of various buildings for EUR 22 million and the sale of KPN France for a gain of EUR 10 million. Other income in 2010 of EUR 74 million, by comparison, mainly related to the sale of mobile towers in NetCo in the Netherlands of EUR 37 million.

#### ***Cost of materials***

Cost of materials increased by EUR 94 million, or 10.3%, to EUR 1,005 million in the year ended 31 December 2011 from EUR 911 million in the year ended 31 December 2010. This increase was due primarily to EUR 47 million higher cost of materials at Consumer Mobile and a EUR 41 million higher cost of materials at Business Market, mainly due in both cases to increased smartphone sales.

#### *Work contracted out and other expenses*

Work contracted out and other expenses decreased by EUR 57 million, or 1.3%, to EUR 4,503 million in the year ended 31 December 2011 from EUR 4,560 million in the year ended 31 December 2010. This decrease was due primarily to lower traffic costs and dealer fees at Consumer Mobile for handset costs (which were EUR 105 million lower in 2011), lower mobile and fixed traffic costs in the Business segment (which were EUR 34 million lower in 2011), both of which resulted in lower traffic expenses at NetCo (which were EUR 53 million lower in 2011). IT costs also declined EUR 10 million along with a further EUR 10 million decline in network organization expenses in 2011. Partly offsetting the above decreases were increased traffic costs within iBasis of EUR 106 million and within Mobile International of EUR 33 million, as well as higher FttH activation costs within Consumer Residential of EUR 16 million.

#### *Employee benefits*

Employee benefits decreased by EUR 58 million, or 3.0%, to EUR 1,874 million in the year ended 31 December 2011 from EUR 1,932 million in the year ended 31 December 2010. This decrease was due primarily to lower salary and wage expenses at Corporate Market resulting from restructuring under the FTE reduction program as well as the revaluation in the cost of management incentive schemes in 2011 in view of KPN's performance, resulting in EUR 32 million of the decrease as compared to 2010. These decrease in employee benefits was partly offset by increased employee benefits at E Plus resulting from headcount growth.

#### *Depreciation, amortization and impairments*

Depreciation, amortization and impairments increased by EUR 363 million, or 16.3%, to EUR 2,589 million in the year ended 31 December 2011 from EUR 2,226 million in the year ended 31 December 2010. This increase was due primarily to the impairment of Corporate Market (Getronics) of EUR 154 million relating to goodwill, EUR 116 million relating to property, plant and equipment and EUR 28 million relating to intangible assets for the year ended 31 December 2011. Also contributing to higher depreciation, amortization and impairments, in 2011 the amortization of spectrum licenses and software increased by EUR 79 million compared to 2010. Furthermore, depreciation in the Consumer Residential segment was also higher in 2011, as a result of increased customer driven investments (particularly IPTV set-top boxes and modems). Partly offsetting the increase in 2011, the amortization of software in 2010 included a one-off write off of a platform no longer in use, and consequently amortization of software was correspondingly lower in 2011.

#### *Other operating expenses*

Other operating expenses increased by EUR 139 million, or 22.4%, to EUR 759 million in the year ended 31 December 2011 from EUR 620 million in the year ended 31 December 2010. This increase was due primarily to EUR 130 million of restructuring costs, primarily related to EUR 96 million in Corporate Market (Getronics) and an additional EUR 20 million across the Dutch Telco business, primarily related to FTE reductions, as well as the book loss of EUR 30 million in 2011 related to the held for sale classification of Getronics International caused by the revaluation of its assets at a lower market price. These additional costs were partly offset by lower marketing expenditures in 2011 compared to 2010.

#### *Financial income and expenses*

Financial income and expenses decreased by EUR 162 million, or 17.7%, to an expense of EUR 754 million in the year ended 31 December 2011 from an expense of EUR 916 million in the year ended 31 December 2010. This decrease was due primarily to the costs related to KPN's tender offer and new issuance in September 2010, in which KPN repurchased EUR 1,340 million of its 2011, 2012 and 2013 Eurobonds with the proceeds from a new EUR 1,000 million Eurobond. This tender offer accounted for EUR 97 million of the decrease in financial expenses in 2011. Interest expenses also decreased significantly due to lower average gross debt in 2011 as compared to 2010. Partly offsetting the decrease in financial expenses, in the year ended 31 December 2011, KPN recorded a EUR 55 million, compared to EUR 46 million in 2010, charge under other financial results relating to adjustment of value of its Reggefiber Call/Put Arrangement, resulting from the fact that the increase in the business enterprise value did not equal the guaranteed return on invested capital embedded in the options and the adjustment for the time value of money.

#### *Income taxes*

Income taxes decreased by EUR 286 million, or 56.3%, to EUR 222 million in the year ended 31 December 2011 from EUR 508 million in the year ended 31 December 2010. This decrease was due primarily to a one-off

benefit of EUR 118 million related to application of the innovation tax facilities under the agreement with the Dutch tax authorities reached in 2011 with regard to the years 2007 to 2010, lower profit before tax and the reassessment of the valuation of the deferred tax asset in E-Plus, which led to an increase the value of the deferred tax asset, as reflected in income taxes on the income statement in 2011.

The effective tax rate for the Group in the year ended 31 December 2011, corrected for the one-off innovation tax benefit for the years 2007 to 2010, amounted to 18.9%, compared to 21.8% in the year ended 31 December 2010.

#### *EBITDA*

EBITDA decreased by EUR 338 million, or 6.2%, to EUR 5,138 million in the year ended 31 December 2011 from EUR 5,476 million in the year ended 31 December 2010. EBITDA was negatively affected by regulatory impact of EUR 203 million, a negative impact from restructuring of EUR 130 million mainly at Corporate Market (Getronics) and a loss of EUR 30 million resulting from the reclassification of Getronics International to held for sale. Partly offsetting the decrease in EBITDA was a book gain of EUR 100 million from the sale of mobile towers in NetCo in the Netherlands and a net positive impact of EUR 36 million, relating to releases of provisions, mainly employee benefit related (specifically Long Term Incentive bonus accruals).

#### *Segment level comparison of year ended 31 December 2011 and 31 December 2010*

##### *Revenues and other income*

The following table presents KPN's external revenues and other income for the periods presented by the reporting and operating segments that were in place until 31 December 2011. See "Important Information—Presentation of financial and other information". The discussion which follows is conducted on the basis of KPN's current reporting and operating segments.

	<b>Year ended 31 December</b>	
	<b>2011</b>	<b>2010</b>
	<b>(EUR in millions)</b>	
<b>Revenues</b>		
Consumer .....	3,601	3,775
Business .....	2,163	2,189
Wholesale and Operations .....	579	627
iBasis .....	750	719
Corporate Market .....	1,705	1,796
<b>The Netherlands</b> .....	<b>8,797</b>	<b>9,106</b>
Germany .....	3,144	3,151
Belgium .....	722	725
Rest of World .....	295	261
<b>Mobile International</b> .....	<b>4,161</b>	<b>4,137</b>
Other income .....	141	74
<b>Total revenues and other income</b> .....	<b>13,163</b>	<b>13,398</b>

The following table presents KPN's revenues and other income for the periods presented by its current reporting and operating segments.

	Year ended 31 December	
	2011	2010
	(EUR in millions)	
<b>Revenues</b>		
Consumer Mobile	1,770	1,896
Consumer Residential	1,774	1,814
Business	2,321	2,386
NetCo	577	626
Corporate Market	1,606	1,690
Other (including eliminations)	(1)	1
<b>The Netherlands</b>	<b>8,047</b>	<b>8,413</b>
<b>iBasis</b>	<b>750</b>	<b>719</b>
Germany	3,147	3,151
Belgium	722	725
Rest of World	292	235
<b>Mobile International</b>	<b>4,161</b>	<b>4,111</b>
Other activities	64	81
Other income	141	74
<b>Total revenues and other income</b>	<b>13,163</b>	<b>13,398</b>

Consumer Mobile revenue decreased by EUR 126 million, or 6.6%, to EUR 1,770 million in the year ended 31 December 2011 from EUR 1,896 million in the year ended 31 December 2010. This decrease was due primarily to changing customer behavior as data usage continued to rise due to the increased usage of communication apps. Both outgoing SMS and voice minutes per customer decreased, as did prepaid revenues, and as a result, blended ARPU decreased 5.0% to EUR 19. KPN's wireless retail customer base also declined to 5.5 million as at 31 December 2011, compared to 5.6 million in the year ended 31 December 2010, and its wireless wholesale customer base declined to 2.2 million as at 31 December 2011, compared to 2.4 million in the year ended 31 December 2010. Mobile wholesale revenues were also adversely affected by increased competition in certain ethnic communities and the loss of customers from certain MVNOs migrating to other networks, largely offset by sustained growth at other MVNOs such as Simyo.

Consumer Residential revenue decreased by EUR 40 million, or 2.2%, to EUR 1,774 million in the year ended 31 December 2011 from EUR 1,814 million in the year ended 31 December 2010. This decrease was due primarily to declining voice revenues. KPN's broadband market share remained under pressure from customer churn in the single- and dual-play market in the areas served by KPN's copper network, due to competition on speed from cable providers. The decrease in Consumer Residential revenues was partly offset by successful growth in the triple-play segment and FttH areas and the strong growth in IPTV, resulting in a 22.0% increase in TV ARPU during 2011. As a result of this growth, full-year net line loss for the year ended 31 December 2011 was in line with the year ended 31 December 2010 mainly due to increased FttH activations.

Business revenue decreased by EUR 65 million, or 2.7%, to EUR 2,321 million in the year ended 31 December 2011 from EUR 2,386 million in the year ended 31 December 2010. This decrease was primarily due to pressure on traditional wireline services, competition for wireless voice services and regulatory impact of EUR 68 million, partially offset by an increase in mobile data customer base and usage. As a result, ARPU decreased to EUR 42 for the year ended 31 December 2011 as compared to EUR 46 for the year ended 31 December 2010. Partly offsetting decreased revenues in the Business segment was the acquisition of Atlantic Telecom, which earned revenue in 2011 of EUR 50 million.

NetCo revenue decreased by EUR 49 million, or 7.8%, to EUR 577 million in the year ended 31 December 2011 from EUR 626 million in the year ended 31 December 2010. This decrease was due primarily to a negative regulatory impact of EUR 44 million and a decline in wholesale revenues due to the purchase of Atlantic Telecom (which resulted in revenues from Atlantic Telecom being accounted for as internal revenues for 2011, and therefore not presented in total consolidated revenues). The decrease was partly offset by an increase in wholesale lines (fiber and MDF access/WBA).

Corporate Market revenue decreased by EUR 84 million, or 5.0%, to EUR 1,606 million in the year ended 31 December 2011 from EUR 1,690 million in the year ended 31 December 2010. This decrease was primarily due to challenging market conditions, price pressure and clients postponing investments primarily in the Netherlands.

iBasis revenue increased by EUR 31 million, or 4.3%, to EUR 750 million in the year ended 31 December 2011 from EUR 719 million in the year ended 31 December 2010. This increase was due primarily to growth in minutes of customer traffic as minutes sold increased 6.2% from 25.6 billion in the year ended 31 December 2011 as compared to 24.1 billion the year ended 31 December 2010. This increase in revenue was partly offset by unfavorable currency effects resulting from iBasis US dollar revenues as translated into Euros, given the weakening of the US dollar.

Germany revenue decreased by EUR 4 million, or 0.1%, to EUR 3,147 million in the year ended 31 December 2011 from EUR 3,151 million in the year ended 31 December 2010. This decrease was due primarily to regulatory impact of EUR 226 million, largely offset by service revenue growth, driven by the Mein BASE proposition and growth in pre-paid customers driven by wholesale partnerships. E-Plus's postpaid net adds increased 424,000 and prepaid net adds increased 1.9 million in the year ended 31 December 2011 as compared to the year ended 31 December 2010, or 41% and 64%, respectively.

Belgium revenue decreased by EUR 3 million, or 0.4%, to EUR 722 million in the year ended 31 December 2011 from EUR 725 million in the year ended 31 December 2010. This decrease was due primarily to regulatory impact of EUR 60 million, and to the divestment of the B2B and Carrier businesses in 2010. Largely offsetting the decrease in revenue was higher service revenues, the good performance of the simplified BASE proposition, take-up of flat-fee data bundles and an increased number of shops.

Rest of World revenue increased by EUR 57 million, or 24.3%, to EUR 292 million in the year ended 31 December 2011 from EUR 235 million in the year ended 31 December 2010. This increase was due primarily to growth by Ortel Mobile in new markets and gain from the sale of KPN France.

#### EBITDA

The following table presents KPN's EBITDA and EBITDA margins for the periods presented by its current reporting and operating segments.

	Year ended 31 December 2011		Year ended 31 December 2010	
	(EUR in millions)	(%)	(EUR in millions)	(%)
<b>EBITDA<sup>(1)</sup> and EBITDA margin</b>				
Consumer Mobile	550	28.9	659	32.6
Consumer Residential	497	26.1	471	23.9
Business	786	32.3	836	33.2
NetCo	1,705	61.3	1,751	60.8
Corporate Market	6	0.3	158	8.5
Other (including eliminations)	(16)	0.5	(16)	1.3
<b>The Netherlands</b>	<b>3,528</b>	<b>42.7</b>	<b>3,859</b>	<b>44.9</b>
<b>iBasis</b>	<b>31</b>	<b>3.2</b>	<b>32</b>	<b>3.5</b>
Germany	1,354	41.8	1,373	42.4
Belgium	273	35.0	271	34.5
Rest of World	8	2.6	(22)	(9.1)
<b>Mobile International</b>	<b>1,636</b>	<b>38.9</b>	<b>1,622</b>	<b>39.0</b>
Other activities	(57)	16.6	(37)	10.7
<b>Total EBITDA</b>	<b>5,138</b>		<b>5,476</b>	

(1) EBITDA on a segment basis in the table above is comprised of external revenues, other income and inter-division revenues for each segment. See Note 34 to the 2011 consolidated financial statements and Note 34 to the 2010 consolidated financial statements, each as incorporated by reference herein.

Consumer Mobile EBITDA decreased by EUR 109 million, or 16.5%, to EUR 550 million in the year ended 31 December 2011 from EUR 659 million in the year ended 31 December 2010. The EBITDA margin decreased from 32.6% to 28.9%. The decrease in EBITDA was primarily due to regulatory impact of EUR 37 million, as well as changing customer behavior and cost pressure following higher cost of material and dealer commissions due to increased smart phone sales, which was slightly offset by cost reduction efforts.

Consumer Residential EBITDA increased by EUR 26 million, or 5.5%, to EUR 497 million in the year ended 31 December 2011 from EUR 471 million in the year ended 31 December 2010. The EBITDA margin increased from 23.9% to 26.1%. The increase in EBITDA was primarily due a focus on cost reduction, and was also positively impacted by a change in accounting related to connection fees.

Business EBITDA decreased by EUR 50 million, or 6.0%, to EUR 786 million in the year ended 31 December 2011 from EUR 836 million in the year ended 31 December 2010. The EBITDA margin decreased slightly from 33.2% to 32.3%. The decrease in EBITDA was primarily due to regulatory impact of EUR 13 million, and increased customer acquisition costs as a result of increased smartphone sales in 2011. Furthermore, in 2010 EBITDA was positively impacted by EUR 13 million from the sale of certain assets, which was not repeated in 2011.

NetCo EBITDA decreased by EUR 46 million, or 2.6%, to EUR 1,705 million in the year ended 31 December 2011 from EUR 1,751 million in the year ended 31 December 2010. However, the EBITDA margin improved slightly from 60.8% to 61.3%. The decrease in EBITDA was primarily due to declining traffic, higher costs relating to FttH activations and higher rental payments for mobile tower sites, which was partly offset by cost reductions (driven by the decline in FTEs and operational efficiency improvements), and the sale of mobile towers and real estate in 2011 for EUR 120 million, as compared to EUR 37 million from such sales in 2010. Furthermore in 2010, EBITDA was positively impacted by a release of deferred connection fees, which was not repeated in 2011.

Corporate Market EBITDA decreased by EUR 152 million, or 96.2%, to EUR 6 million in the year ended 31 December 2011 from EUR 158 million in the year ended 31 December 2010. The EBITDA margin decreased from 8.5% to 0.3%. The decrease in EBITDA was due to lower revenues and pressure on margins as a result of difficult market conditions. In 2011 EBITDA included restructuring costs amounting to EUR 96 million. Furthermore EBITDA in 2011 was negatively impacted in the amount of EUR 30 million by measurement of the assets and liabilities of Getronics International classified as held for sale at the lower of the carrying amount and the fair value.

iBasis EBITDA remained fairly stable at EUR 31 million in the year ended 31 December 2011 compared to EUR 32 million in the year ended 31 December 2010. The EBITDA margin declined slightly from 3.5% to 3.2%. The slight decrease in EBITDA was primarily due to increased pricing and margin pressure in the international voice market, which was largely offset by reduced operating expenditures.

Germany EBITDA decreased by EUR 19 million, or 1.4%, to EUR 1,354 million in the year ended 31 December 2011 from EUR 1,373 million in the year ended 31 December 2010. EBITDA margin remained strong at 41.8% compared to 42.4% due to targeted marketing activities and cost efficiencies combined with investments in customer growth. The decrease in EBITDA was primarily due to regulatory impact of EUR 116 million, which was largely offset by strong postpaid net add growth, as well as growth in prepaid net adds. Furthermore in 2010, EBITDA was positively impacted by the release of onerous rental provisions of EUR 8 million which were not repeated in 2011.

Belgium EBITDA increased by EUR 2 million, or 0.7%, to EUR 273 million in the year ended 31 December 2011 from EUR 271 million in the year ended 31 December 2010. The EBITDA margin also remained stable 35.0% compared to 34.5%. The increase in EBITDA was primarily due to increased net adds and a focus on cost reduction, which was largely offset by regulatory impact of EUR 35 million.

Rest of World EBITDA increased by EUR 30 million to EUR 8 million in the year ended 31 December 2011 from negative EUR 22 million in the year ended 31 December 2010. This increase was primarily due to improved profitability of KPN Spain as well as the sale of KPN France, which offset the investments in growth by Ortel Mobile in its new markets.

## Liquidity and capital resources

KPN's business has required, and will continue to require, liquidity to fund capital expenditures, investment requirements (including in relation to spectrum licenses, investments in networks and in support of its strategy) and to meet its debt service requirements. KPN finances its operations through cash flow from operations and a combination of unsecured bonds, financial leases and, from time to time, borrowings under revolving credit facilities as well as proceeds from the issuance of equity capital. In particular, as a means of strengthening its capital structure, KPN has recently undertaken the EUR/GBP Offering and has proposed to undertake the Rights Offering, which is conditional upon a Shareholder vote in the Annual General Meeting scheduled to be held on 10 April 2013. See "Risk Factors—If the proposed Rights Offering is not approved by the shareholders of the Issuer, the Issuer would likely need to seek alternative means of raising additional capital, which may not be successful and its liquidity position may be adversely affected."

KPN maintains cash and cash equivalents to fund the day-to-day requirements of its business. KPN holds cash primarily in Euro.

KPN's ability to generate cash from its operations will depend on its future operating performance, which is in turn dependent on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond its control.

As of 31 December 2012, KPN had EUR 1,286 million in cash and cash equivalents, and had bonds outstanding with nominal values of EUR 9,860 million of Euro-denominated bonds, GBP 1,775 million of sterling-denominated bonds (swapped to EUR 2,056 million nominal value) and USD 1,000 million of US dollar-denominated bonds (swapped to EUR 756 million nominal value). The Euro- and sterling-denominated bonds were issued under KPN's Global Medium Term Note program. In addition, KPN has a private placement (*Namenschuldverschreibung*) outstanding with a nominal value of EUR 50 million.

On 14 March 2013, KPN issued EUR 1,100 million of Euro-denominated perpetual capital securities and GBP 400 million of pound sterling-denominated long-dated capital securities (swapped to EUR 460 million nominal value). See "General Information—Material contracts—Capital Securities".

Apart from EUR 50 million of privately placed bonds, all of KPN's bonds (including the Capital Securities) are listed on Euronext Amsterdam.

In addition to its bond portfolio, as of 31 December 2012, KPN had available an unsecured multi-currency syndicated revolving credit facility (the **Credit Facility**) of up to EUR 2.0 billion, which was undrawn as of 31 December 2012, a EUR 500 million standby liquidity facility which was undrawn as of 31 December 2012 and was cancelled upon the issuance of the Capital Securities, and four uncommitted overdraft facilities for EUR 50 million each, which were undrawn as of 31 December 2012. As of the date of this Prospectus, the Credit Facility is undrawn.

KPN has exercised its first of two options to extend the Credit Facility for one year, and as a result, the Credit Facility terminates on 6 July 2017. The Credit facility may be further extended an additional year, subject to lenders consent. The overdraft facilities may be cancelled at any time and do not have a specified maturity date.

See "General Information—Material contracts—Syndicated revolving credit agreement, standby liquidity facility and uncommitted overdraft facilities".

KPN manages cash and liquidity on a group level via its centralized Treasury department. Most of the cash balances are available on a group level using cash pooling and zero-balancing cash management structures. Excess cash at subsidiaries that are not part of the cash pooling structures is transferred to group Treasury on a quarterly basis. Cash balances held outside such cash pooling arrangements fluctuate from time to time. As of 31 December 2012, cash balances held in KPN's subsidiaries and outside such cash pooling arrangements amounted to EUR 365 million.

## Overview of indebtedness

KPN's historic Net Debt to Adjusted EBITDA ratio is presented below:

	As of and for the year ended 31 December		
	2012	2011	2010
	(EUR in millions, except ratios)		
Net Debt <sup>(1)</sup> . . . . .	12,033	11,728	11,775
Adjusted EBITDA <sup>(2)</sup> . . . . .	4,403	5,127	5,401
Net Debt/ Adjusted EBITDA ratio . . . . .	2.7x	2.3x	2.2x

- (1) KPN defines Net Debt, which is used solely for the purpose of calculating its Net Debt/Adjusted EBITDA ratio, as the nominal value of interest bearing financial liabilities excluding derivatives, representing the repayment obligations in Euro, less cash and cash equivalents (including cash classified as held for sale). The following table reconciles total borrowings (carrying values, excluding derivatives) to Net Debt for the periods indicated.

	Year ended 31 December		
	2012	2011	2010
	(EUR in millions)		
Total borrowings (carrying values, excluding derivatives) . . . . .	13,896	13,099	12,537
Difference between carrying value and nominal value . . . . .	(573)	(345)	78
<b>Total borrowings (nominal values) . . . . .</b>	<b>13,323</b>	<b>12,754</b>	<b>12,615</b>
Cash and cash equivalents (including cash classified as held for sale) . . . . .	1,290	1,026	840
<b>Net Debt . . . . .</b>	<b>12,033</b>	<b>11,728</b>	<b>11,775</b>

- (2) KPN defines Adjusted EBITDA, which is used solely for the purpose of calculating its Net Debt/Adjusted EBITDA ratio, as Group 12 month rolling total EBITDA excluding book gains, release of pension provisions and restructuring costs, when over an aggregate of EUR 20 million. The following table reconciles EBITDA to Adjusted EBITDA for the periods indicated.

	Year ended 31 December		
	2012	2011	2010
	(EUR in millions)		
EBITDA . . . . .	4,528	5,138	5,476
Restructuring costs . . . . .	173	130	1
Other Income . . . . .	(298)	(141)	(74)
<b>Adjusted EBITDA . . . . .</b>	<b>4,403</b>	<b>5,127</b>	<b>5,401</b>

KPN's actual Net Debt to Adjusted EBITDA ratio as of 31 December 2012 did not include the impact from the Dutch spectrum auction (payment for which was made in January 2013). When including the impact from the spectrum auction payment of EUR 1,352 million, KPN's Net Debt to EBITDA would have been approximately 0.3x higher than the actual ratio, or 3.0x. In addition to the impact from the Dutch spectrum auction, if the impact of Reggefiber consolidation is also applied to KPN's actual Net Debt to Adjusted EBITDA ratio as of 31 December 2012, it would have been approximately 0.5x higher (in total) than the actual ratio, or 3.2x. This Reggefiber consolidation impact takes into account the maximum payments under the Call/Put Arrangement, the impact of the redemption of the Reggeborgh shareholder loans and the consolidation of Reggefiber's bank loans as of 31 December 2012 onto KPN's consolidated balance sheet, and does not take into account the cost of the Put Option.

## Outstanding indebtedness

As of 31 December 2012, KPN's total non-current and current debt, which represents the combined book value of the Group's debt, was EUR 13,896 million. This consisted of EUR 13,247 million of bonds (by carrying value), EUR 343 million of bank overdraft facilities under cash pool arrangements, EUR 256 million of financial lease obligations, and EUR 50 million of other debt.



An overview of KPN's outstanding bonds as of 31 December 2012 is presented in the table below:

		Remaining nominal value	IFRS carrying value		
	Currency	(EUR in millions)		Coupon <sup>(1)</sup>	Maturity
EUR 850 million maturing Mar-13	EUR	540	539	4.500%	18-Mar-13
EUR 850 million maturing Sep-13	EUR	545	545	6.250%	16-Sep-13
EUR 750 million maturing Feb-14	EUR	750	748	6.250%	04-Feb-14
EUR 650 million maturing May-14	EUR	650	648	4.750%	29-May-14
EUR 1,000 million maturing Jun-15	EUR	1,000	997	4.000%	22-Jun-15
EUR 925 million maturing Jan-16	EUR	925	924	6.500%	15-Jan-16
GBP 275 million maturing Mar-16	GBP	328	336	4.887%	18-Mar-16
EUR 1,000 million maturing Jan-17	EUR	1,000	998	4.750%	17-Jan-17
EUR 750 million maturing Feb-19	EUR	750	743	7.500%	04-Feb-19
GBP 250 million maturing May-19	GBP	290	301	5.123%	29-May-19
EUR 1,000 million maturing Sep-20	EUR	1,000	1,072	2.741%	21-Sep-20
EUR 750 million maturing Feb-21	EUR	750	745	3.250%	01-Feb-21
EUR 500 million maturing Oct-21	EUR	500	544	3.297%	04-Oct-21
EUR 750 million maturing Mar-22	EUR	750	747	4.250%	01-Mar-22
EUR 700 million maturing Sep-24	EUR	700	757	4.347%	30-Sep-24
GBP 400 million maturing Nov-26	GBP	467	486	5.022%	18-Nov-26
GBP 850 million maturing Sep-29	GBP	971	1,029	5.975%	17-Sep-29
USD 1,000 million maturing Oct-30	USD	756	1,088	8.557%	01-Oct-30
<b>Total bonds outstanding</b>		<b>12,672</b>	<b>13,247</b>		

<sup>(1)</sup> Coupon represents either the contractual coupon (for fixed rate tranches) or the synthetic fixed rate for 2013 resulting from an interest rate swaps.

In addition, in July 2011, KPN entered into the EUR 2.0 billion Credit Facility with a tenor of five years, plus two one-year extension options, to replace its previous EUR 1.5 billion revolving credit facility, which extended the maturity profile of the revolving credit facility from August 2013 to July 2016. The Credit Facility was originally provided by a group of fourteen original lenders. On 22 June 2012, the maturity date of the Credit Facility was extended by one year to 6 July 2017 by exercising the first of two one-year extension options. KPN has a second extension option which can be exercised in July 2013, subject to lender consent. Interest under the Credit Facility is the aggregate of LIBOR, or in relation to drawings in Euro, EURIBOR, and the applicable margin. The margin is determined according to a credit ratings grid based on the average of KPN's two highest credit ratings, which currently corresponds to 0.65% per annum.

Neither the Credit Facility, nor the notes issued under KPN's Global Medium Term Note program, contain any financial covenants. However, the Credit Facility and Global Medium Term Note program do include a restriction 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. Notes issued under KPN's Global Medium Term Note program after 1 January 2006 contain change of control clauses, which may require KPN 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.

KPN's finance costs for the year ended 31 December 2012 were EUR 732 million, compared to EUR 690 million in the year ended 31 December 2011 and EUR 860 million in the year ended 31 December 2010.

### Maturity analysis

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

	Maturity analysis on borrowings (EUR in millions)						2018 and subsequent years	Total
	2013	2014	2015	2016	2017			
Bonds and loans <sup>(1)</sup>	1,085	1,400	1,000	1,262	1,000	7,096	<b>12,843</b>	
Interest on bonds and loans	671	625	547	507	428	2,677	<b>5,455</b>	
Financial lease obligations	99	65	12	11	9	60	<b>256</b>	
Other debt <sup>(2)</sup>	345 <sup>(3)</sup>	161 <sup>(4)</sup>	0	0	0	647 <sup>(5)</sup>	<b>1,153</b>	
Derivatives inflow (incl. interest)	(240)	(240)	(237)	(573)	(217)	(4,628)	<b>(6,135)</b>	
Derivatives outflow (incl. interest)	207	200	184	510	165	4,281	<b>5,547</b>	
Trade and other payables and accrued expenses	2,593	0	0	0	0	0	<b>2,593</b>	
<b>Total</b>	<b>4,760</b>	<b>2,211</b>	<b>1,506</b>	<b>1,717</b>	<b>1,385</b>	<b>10,133</b>	<b>21,712</b>	

- (1) Does not include principal or interest payments on the Credit Facility, the standby liquidity facility or uncommitted overdraft facilities, none of which were drawn at 31 December 2012.
- (2) Other includes repayments on bank overdraft facilities and the maximum cash payouts under the Reggefiber Call/Put Arrangement. The timing of any such payments with regard to the Call/Put Arrangement as shown above is indicative only, as the actual timing of exercise of the call or put options are uncertain. See “—Off-balance sheet arrangements—Reggefiber”.
- (3) Represents repayments on bank overdraft facilities, used by KPN for working capital management under cash pooling arrangements, which were outstanding as of 31 December 2012.
- (4) Represents the maximum amount payable by KPN upon either party exercising its option under the Call/Put Arrangement for KPN to acquire an additional 9% stake in Reggefiber, which is not expected before the second half of 2014.
- (5) Represents KPN's estimate of the earliest date it would be required to pay for Reggeborgh's Put Option to sell its remaining 40% stake of Reggefiber to KPN. The EUR 647 million amount is the amount KPN will be required to pay if this is greater than the market value of the 40% stake at the exercise date. See “General Information—Material contracts—Reggefiber joint venture”. Upon consolidation, KPN would be required to add Reggefiber's shareholder loans from Reggeborgh, requiring an additional payment by KPN. As of 31 December 2012, the amount of the Reggefiber's shareholder loans from Reggeborgh was EUR 183 million, and this could be significantly higher at the time of consolidation.

### Credit rating

Following the results of the Dutch spectrum auction, KPN was downgraded by Fitch from BBB to BBB- with a stable outlook on 17 December 2012. Following the announcement of KPN's preliminary 2012 results, on 5 February 2013, Moody's confirmed KPN's Baa2/Baa3 senior unsecured rating and confirmed its Prime-2 short-term debt rating on 6 February 2013, with a negative outlook on all ratings. On 8 February 2013, S&P downgraded KPN's long- and short-term ratings to BBB-/A-3 from BBB/A-2, with a stable outlook. Fitch, Moody's and S&P are established in the European Community and, as of the date of this Prospectus, are registered as credit rating agencies in accordance with the Regulation (EC) no 1060/2009 of the European Parliament and of the Council of 16 September 2009 on Credit Rating Agencies.

## Cash flows

The following table summarizes the principal components of KPN's consolidated cash flows for the periods presented.

	Year ended 31 December		
	2012	2011	2010
	(EUR in millions)		
Net cash flow provided by operating activities	3,007	4,003	3,808
Net cash flow from/(used in) investing activities	(2,133)	(1,986)	(2,149)
Net cash flow used in financing activities	(876)	(1,748)	(3,634)
<b>Changes in cash and cash equivalents</b>	<b>(2)</b>	<b>269</b>	<b>(1,975)</b>
Exchange rate differences	(1)	(1)	5
<b>Net cash and cash equivalents at the end of the period</b>	<b>947</b>	<b>950</b>	<b>682</b>
<b>Cash and cash equivalents<sup>(1)</sup></b>	<b>1,286</b>	<b>990</b>	<b>823</b>

<sup>(1)</sup> Cash and cash equivalents includes bank overdrafts.

### Net cash flow provided by operating activities

Net cash flow provided by operating activities consists of EBITDA, as adjusted for the cash impact of share-based compensation, other income, change in provisions (excluding deferred taxes), change in working capital, received dividends from associates and joint ventures, taxes paid and interest paid.

Net cash flow provided by operating activities decreased by EUR 996 million, or 25%, to EUR 3,007 million in the year ended 31 December 2012 from EUR 4,003 million in the year ended 31 December 2011. This decrease was primarily the result of lower EBITDA, higher tax payments as result of one-off innovation tax facilities in 2011, which related to prior years, and a higher negative change in working capital as compared to 2011.

Net cash flow provided by operating activities increased by EUR 195 million, or 5.1%, to EUR 4,003 million in the year ended 31 December 2011 from EUR 3,808 million in the year ended 31 December 2010. This increase was primarily the result of receipt of payments in respect of the settlement of innovation tax liabilities in the Netherlands in 2011, less negative change in provisions (mainly due to higher additions to the restructuring provisions in respect of future FTE reductions) and lower interest payments due to a lower total indebtedness level in 2011 and a final bond coupon payment in 2010. The increase in net cash flow provided by operating activities in 2011 was partly offset by lower EBITDA.

### Net cash from/(used in) investing activities

Net cash flow used in investing activities consists of acquisitions and disposals of subsidiaries, associates and joint ventures, investments in intangible assets (excluding software), disposals of intangibles, investments and disposals in property, plant & equipment and software, disposals of real estate and other changes and disposals. See “—Capital expenditures and investments” below.

Net cash flow used in investing activities increased by EUR 147 million, or 7.4%, to an outflow of EUR 2,133 million in the year ended 31 December 2012 compared to an outflow of EUR 1,986 million in the year ended 31 December 2011. This increase was primarily the result of the acquisition of Reggefiber Wholesale and various ISPs from Reggefiber and Reggeborgh for EUR 173 million. The increase in Net cash flow used in investing activities in 2012 was also partly due to EUR 99 million in payments related to the acquisition of 10% of Reggefiber shares, partly offset by cash inflow from the sale of mobile towers in Germany of EUR 401 million and in NetCo of EUR 112 million in the Netherlands. Also contributing to the increase in net cash flow used in investing activities in 2012, Consumer Mobile in the Netherlands began to offer handset lease options to customers in April 2012, resulting in handsets being capitalized for the year ended 31 December 2012, rather than accounting for them as an expense as had been the case for the year ended 31 December 2011. Partly offsetting the increase in net cash flow used in investing activities in 2012, KPN disposed of SNT Inkasso in Germany for EUR 22 million, KPN Spain for EUR 24 million, and various other disposals including Getronics International for EUR 36 million.

Net cash flow used in investing activities decreased by EUR 163 million, or 7.6%, to an outflow of EUR 1,986 million in the year ended 31 December 2011 compared to an outflow of EUR 2,149 million in the year ended 31 December 2010. This decrease was the result of acquisition of licenses for additional spectrum in

Germany in 2010 of EUR 284 million, and lower cash payments for the acquisition of subsidiaries, associates and joint ventures in 2011 of EUR 83 million, partly offset by higher capital expenditures in 2011 due to accelerated high speed data network roll-out in Germany and Belgium and, in the Netherlands, due to continued upgrades of KPN's mobile and fixed networks of EUR 140 million, increased costs for customer-driven equipment (such as IPTV set-top boxes and modems) and expansion of the distribution footprint through new stores.

#### *Net cash flow used in financing activities*

Net cash flow used in financing activities mainly consists of share repurchases, share repurchases for option plans, dividends paid, exercised options, proceeds from borrowings, repayments from borrowings and settlement of derivatives, other changes in interest-bearing current liabilities and repayments of financial lease obligations.

Net cash flow used in financing activities decreased by EUR 872 million, or 50%, to an outflow of EUR 876 million in the year ended 31 December 2012 compared to an outflow of EUR 1,784 million in the year ended 31 December 2011. This decrease in outflow was primarily the result of ending the share repurchase program in 2012 and a lower dividend payment in 2012, partly offset by decreased proceeds from borrowings as a result of lower levels of borrowing on the Credit Facility.

Net cash flow used in financing activities decreased by EUR 1,886 million, or 52%, to an outflow of EUR 1,748 million in the year ended 31 December 2011 compared to an outflow of EUR 3,634 million in the year ended 31 December 2010. This decrease was primarily the result of a tender offer in which KPN repurchased EUR 1,347 million of Eurobonds during 2010, while the outflow in 2011 was partly offset by drawings under the Credit Facility.

#### **Free Cash Flow**

KPN defines Free Cash Flow as cash flow from operating activities plus proceeds from real estate, minus capital expenditures (being expenditures on property, plant and equipment, and software), excluding tax recapture payments from E-Plus.

The following table reconciles KPN's cash flow from operations to its free cash flow for the periods presented:

	Year ended 31 December		
	2012	2011	2010
	(EUR in millions)		
Cash flow from operations . . . . .	3,007	4,003	3,808
Capital expenditures (PP&E and software) . . . . .	(2,209)	(2,047)	(1,809)
Proceeds from real estate disposals . . . . .	519	156	84
Tax recapture payments from E-plus <sup>(1)</sup> . . . . .	335	337	345
<b>Free cash flow</b> . . . . .	<b>1,652</b>	<b>2,449</b>	<b>2,428</b>

<sup>(1)</sup> Tax recapture payments from E-plus consists of cash tax payments to the tax authorities in the Netherlands relating to deductions for past losses from E-Plus. These tax recapture payments are expected to complete during 2013.

Free cash flow decreased by EUR 797 million, or 32.5%, to EUR 1,652 million in the year ended 31 December 2012 from EUR 2,449 million in the year ended 31 December 2011. The primary reason for the decline in free cash flow in 2012 was the EUR 610 million reduction in EBITDA. Also contributing to the decline were EUR 255 million in higher tax payments in 2012, due largely to the fact that 2012 included only EUR 26 million related to innovation tax benefits, compared to EUR 316 million in 2011, which also included tax receipts from other tax facilities. The remainder of the decrease in free cash flow in 2012 resulted from capital expenditures which were EUR 162 million higher in 2012 and a higher negative change in working capital as compared to 2011 resulting from reduced levels of current liabilities at the end of 2012. The decrease in free cash flow was partly offset by EUR 363 million in higher proceeds related to disposals of real estate (specifically from the sale of mobile towers in Germany and in NetCo in the Netherlands) and a less negative change in provisions (mainly due to higher additions to restructuring and pension provisions as opposed to restructuring and payments made in 2012 compared to 2011).

Free cash flow increased by EUR 21 million, or 0.9%, to EUR 2,449 million in the year ended 31 December 2011 from EUR 2,428 million in the year ended 31 December 2010. Free cash flow in 2011 included a one-off benefit of EUR 316 million related to an agreement reached between KPN and the Dutch tax authorities with regard to the application of innovation tax facilities, primarily for the period from 2007 – 2010, and which also included tax receipts from other tax facilities. Free cash flow in 2011 also included EUR 156 million related to disposals of real estate (specifically from the sale of mobile towers in NetCo in the Netherlands). Largely offsetting these contributions to free cash flow in 2011 were lower EBITDA in 2011, which was EUR 338 million lower than in 2010, and higher capital expenditures of EUR 238 million in 2011.

### *Capital expenditures and investments*

The following table shows KPN's historical capital expenditures and investments, defined as being cash expenditures on property, plant and equipment, and software, and investments in intangible assets, excluding software, for the periods presented.

	Year ended 31 December		
	2012	2011	2010
	(EUR in millions)		
Property, Plant and Equipment (including software) . . . . .	2,209	2,047	1,809
Intangible Assets (excluding software) . . . . .	54	27	337
<b>Capital expenditures and investments . . . . .</b>	<b>2,263</b>	<b>2,074</b>	<b>2,146</b>

KPN's historical capital expenditure has related primarily to the purchase of property and equipment, including expansion of its fixed-line (copper and fiber) and mobile networks (2G, 3G and initial rollout of 4G LTE), maintenance of its existing networks and infrastructure and investments in end-user equipment. KPN's capital expenditures and investments have been primarily driven by its network innovation strategy, including investments in its FttH and VDSL-based network for wireline services, new equipment for its core mobile network and spectrum auction prices. KPN's roll-out of its FttH is being executed through its joint venture, Reggefiber Group B.V. See "Business Overview—NetCo".

KPN's historical investments have related primarily to purchase of intangible assets such as the acquisition of new and extension of existing spectrum licenses. In the fourth quarter of 2012, KPN won the right to acquire 15 blocks of frequency licenses for EUR 1.35 billion in the Dutch spectrum auction. Payment for the frequency licenses took place in January 2013 and is not included in the 2012 investment. Investments in spectrum are classified as intangible assets, which excludes expenditures for software and does not include investments in financial assets.

KPN will continue to invest in its services and infrastructure in order to maintain and strengthen its competitive position in line with its strategy. In the near term, KPN expects capital expenditures and investments in 2013 to be below EUR 2.3 billion, and total planned capital expenditures and investments for the period 2013-2015 to be below EUR 7 billion. See "Risk Factors—KPN operates in a capital-intensive business and may not have sufficient liquidity to fund its required capital expenditures and investments." Projected capital expenditures and investments for 2013 and for the period 2013-2015 do not include the payment of EUR 1.35 billion for frequencies in the Dutch spectrum auction paid in January 2013, or the costs of any other potential frequency auction in Germany or Belgium. With regard to Reggefiber, projected capital expenditures and investments for the period 2013-2015 includes estimated Reggefiber capital expenditures upon consolidation of Reggefiber, which is not expected before the second half of 2014, but does not include any projected costs to KPN of the Reggefiber Call/Put Arrangement permitting either KPN to acquire, or Reggeborgh to require KPN to acquire, an additional 9% stake in Reggefiber, or Reggeborgh's subsequent right to put the remainder of Reggefiber to KPN. See "Risk Factors—KPN's deployment of FttH is dependent upon its joint venture, Reggefiber, and increasing KPN's ownership in the joint venture through the Call/Put Arrangement would require KPN to fully consolidate Reggefiber's assets and liabilities on KPN's consolidated balance sheet."

### *Year ended 31 December 2012*

Capital expenditures and investments for the year ended 31 December 2012 amounted to EUR 2,263 million, of which EUR 2,209 million related to investments in property, plant and equipment and EUR 54 million related to investments in intangible assets. The increase in 2012 as compared to 2011 was mainly the result of customer-driven expenditures in the Netherlands, in particular to capitalization of handsets as a result of the new handset lease option which began to be offered to customers in April 2012, whereas in 2011

handset costs in the Netherlands were accounted for as cost of materials on the consolidated income statement. Increased customer-driven capital expenditures in 2012 also included IPTV set-top boxes for TV customers. Higher mobile network-related capital expenditures also contributed to the increase, in preparation for LTE and modernization in the Netherlands, accelerated mobile broadband roll out in Germany and Belgium, and IT expenditures in Germany as part of a multi-year project to replace the IT platform in E-Plus. The increase was partly offset by procurement savings and lower handset costs.

#### *Year ended 31 December 2011*

Capital expenditures and investments for the year ended 31 December 2011 amounted to EUR 2,074 million, of which EUR 2,047 million related to investments in property, plant and equipment and EUR 27 million related to investments in intangible assets. This represented a decrease in capital expenditures for the year ended 31 December 2011 compared to the year ended 31 December 2010 as result of the acquisition of licenses for additional spectrum in Germany in 2010 partly offset by higher capital expenditures due to accelerated high speed data network roll-out in Germany and Belgium and increased Capex in Dutch Telco. At Dutch Telco the increase related to continued upgrades of the mobile and fixed networks, investments in the wireline propositions, increased spend on customer premises equipment and expansion of the distribution footprint.

#### *Year ended 31 December 2010*

Capital expenditures and investments for the year ended 31 December 2010 amounted to EUR 2,146 million, of which EUR 1,809 million related to investments in property, plant and equipment and EUR 337 million related to investments in intangible assets.

#### ***Off-balance sheet arrangements***

KPN has not entered into and is not a party to any off-balance sheet arrangements. KPN has certain long-term financial commitments, as set out below under “Contractual Obligations and Commercial Commitments”, and also has certain arrangements in place which may have a future impact on its total liabilities, as discussed below.

#### *Reggefiber*

In November 2012, upon achieving one million homes connected to the Reggefiber FttH network, the first call option under the amended Reggefiber joint venture arrangements vested, and KPN exercised its call option to acquire an additional 10% of the shares in Reggefiber, increasing its share to 51%. As of 31 December 2012, the book value of KPN’s 51% share in Reggefiber amounted to EUR 293 million, including EUR 131 million of goodwill.

Under the terms of the joint venture agreement with Reggeborgh, KPN is party to the Call/Put Arrangement, which grants KPN a call option to purchase an additional 9% stake in Reggefiber from Reggeborgh, and grants Reggeborgh an option to put an additional 9% stake to KPN, of which both options will vest on the earlier of 1 January 2014 or upon achievement of 1.5 million homes connected, and can be exercised thereafter, subject to regulatory approval by the NMa. See “General Information—Material contracts—Reggefiber joint venture.” If either party exercised its option under the Call/Put Arrangement, KPN would be required to pay between EUR 116 to EUR 161 million to acquire an additional 9% stake in Reggefiber, depending on the reduction of average per home FttH activation capital expenditure at the time of payment as compared to prior periods.

Upon acquiring this additional 9% stake in Reggefiber, KPN’s stake in Reggefiber would increase to 60%, prompting full control and therefore consolidation of Reggefiber’s assets and liabilities on KPN’s consolidated balance sheet. This consolidation would result in KPN adding to its consolidated balance sheet Reggefiber’s bank loans, which totaled EUR 376 million as of 31 December 2012 (net of Reggefiber’s cash and cash equivalents), as well as require KPN to redeem Reggefiber’s shareholder loans from Reggeborgh, requiring an additional payment by KPN at the time of consolidation. As of 31 December 2012, the amount of the Reggefiber’s shareholder loans from Reggeborgh was EUR 183 million, and this could be significantly higher at the time of consolidation. The consolidation of Reggefiber’s liabilities, or the requirement that KPN borrow funds to redeem Reggefiber’s shareholder loans from Reggeborgh, could result in substantial additional leverage, raise KPN’s Net Debt/Adjusted EBITDA ratio and have a negative impact on KPN’s credit rating. Reggefiber’s total liabilities could be substantially higher at the date of any future consolidation, in light of Reggefiber’s negative operating cash flows.

The Call/Put Arrangement is valued at fair value as a derivative financial instrument on KPN's consolidated balance sheet, recorded as a liability. The amount of this liability was EUR 278 million as of 31 December 2012. Any change in the fair value of the Call/Put Arrangement during a given period—for example, as a result of the business performance of Reggefiber in terms of the number of homes connected or its price structure, the approval of the NMa for the exercise of both the call and put options, or various other factors including prevailing discount rates—is recorded in KPN's consolidated statement of income as a gain or loss under other financial results. In the year ended 31 December 2012, KPN recorded a EUR 100 million charge under other financial results relating to adjustment of value of the Call/Put Arrangement.

In addition, the joint venture agreement provides that, upon KPN having reached the 60% ownership threshold, Reggeborgh will immediately be able to exercise the Put Option. The Put Option will be effective for seven years from the date KPN reaches the 60% ownership threshold. The price KPN will be required to pay for the remaining 40% stake of Reggefiber, upon Reggeborgh's exercise of the Put Option, will be the market value of those shares during the entire seven years. However, during the period commencing three and a half years after the date on which the Call/Put Arrangement has been exercised by either party, and ending five years after the Call/Put Arrangement has been exercised, Reggeborgh also has the option to require KPN to pay it a fixed amount of EUR 647 million for the remaining 40%.

#### *Asset retirement obligations*

KPN currently records a provision for its future obligations to dismantle and remove certain elements of its network, and to restore the sites on which equipment is located. As of 31 December 2012, KPN had recorded a provision of EUR 303 million against such estimated future obligations, mainly related to KPN's remaining towers in Germany as well as in the Netherlands and Belgium.

#### *Defined benefit obligations*

In 2009, KPN and the KPN pension funds in the Netherlands reached an agreement regarding maintenance of a 105% coverage ratio of the assets to liabilities of KPN's defined benefit plans in the Netherlands. As a result of this agreement, KPN agreed to make additional payments to its pension funds in the Netherlands up to a maximum of EUR 390 million until 31 December 2013. At the end of each quarter, the coverage ratio is determined. If the ratio is below 105% on that date, a recovery payment of EUR 19 million needs to be paid by KPN to the funds on the first day of the second following quarter. In 2012, KPN made a payment EUR 100 million related to pension recovery payments, of which EUR 19 million was due in the first quarter of 2013 but was prepaid in 2012.

As of 31 December 2012, the average coverage ratio of KPN's pension funds in the Netherlands was 104%, just below the minimum requirement of 105%, as compared to 101% as of 31 December 2011. Based on the coverage ratio at the end of 2012, a pension recovery payment of EUR 19 million is required in the second quarter of 2013.





good-faith assessments of its future performance for which its management believes there is a reasonable basis. Estimates and judgments used in the determination of reported results are continuously evaluated.

Assumptions, estimates and judgments are based on historical experience and on various other factors that the Board of Management believes to be reasonable in the circumstances. Actual results may differ from these estimates under different assumptions or conditions. KPN has discussed the development and selection of these critical accounting policies and estimates with its independent auditors and the following assumptions, estimates and judgments are considered important to understand KPN's financial position. KPN's significant accounting policies are set out in the notes to its consolidated financial statements incorporated by reference.

#### *Deferred tax assets for loss carry forwards*

KPN recognizes deferred tax assets for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future cash flows and taxable profits together with future tax planning strategies. Deferred tax assets are recognized only when, according to management estimates, their realization is considered probable.

As of 31 December 2012, KPN's operations in Germany maintained a deferred tax asset of EUR 1,736 million. KPN's ability to use these deferred tax assets, and the carrying value of these assets, are dependent upon having future taxable income in Germany during the periods in which KPN is permitted to use its tax loss carry-forwards. See "Risk Factors—KPN has significant deferred tax assets which may not be recoverable."

#### *Value of cash generating units for goodwill impairment*

KPN determines whether goodwill needs to be impaired at least on an annual basis. This requires an estimation of the "value in use" or "fair value less cost to sell" of the cash-generating units to which the goodwill is allocated. Estimating the valuation of these cash-generating units requires management to make an estimate of the expected future cash flows from the cash-generating units, as well as EBITDA margins, capital expenditures and long-term growth, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. KPN takes into account market participants for its fair value less cost to sell valuation.

#### *Tangible asset impairment*

When impairment of fixed assets is identified, a value adjustment is recognized and charged to the income statement for the period as depreciation, amortization and impairments. The determination of the need to recognize an impairment loss requires KPN to make estimates and judgments regarding, among other topics, the causes of the possible impairment and the time and the expected amount thereof. Likewise, factors such as technological obsolescence, the suspension of certain services and other changes in circumstances that create the need to assess possible impairment are taken into account.

#### *Depreciation rates for copper and fiber networks*

The accounting treatment of investment in property, plant and equipment, in particular the value of KPN's copper and fiber networks, means that estimates must be made to determine their useful lives for the purposes of depreciation or amortization. The determination of useful lives requires estimates regarding expected technological evolution and alternative uses of the assets. Assumptions regarding the technological environment and its future development imply a significant degree of judgment, as the time and the nature of future technological changes are difficult to predict. As of 1 January 2012, the depreciation period for fiber networks was extended from 20 to 30 years, resulting in EUR 40 million lower depreciation in the year ended 31 December 2012 as compared to 2011.

#### *Value of the Reggefiber call/put arrangement*

KPN values its Reggefiber call/put arrangement at fair value as a derivative financial instrument of EUR 278 million as of 31 December 2012, which is recorded as a liability on KPN's consolidated balance sheet. The fair value of financial instruments such as the Reggefiber call/put arrangement that are not traded in an active market is determined by using valuation techniques which require KPN to make certain assumptions and judgments regarding the business performance of Reggefiber in terms of the number of homes connected and its

price structure, the approval of the NMa for the exercise of both the call and put options, or various other factors including discount rates. Any significant change in these assumptions and judgments would result in revised valuation of this derivative financial instrument, which would be reflected in KPN's consolidated income statement under other financial results. If, for example, Reggefiber's FttH network had experienced a 5% lower expected penetration rate (in terms of the number of homes connected to the network) in 2012, the value of KPN's derivative liability relating to the call/put arrangement, and the resulting charge to the income statement under other financial results, would have been approximately EUR 62 million higher.

#### *Retirement benefit obligations and periodic pension costs*

The calculation of provisions for retirement benefit obligations, along with the related net periodic benefit costs for the periods presented, requires KPN to estimate, among other things, expected return on assets, expected salary increases, future benefit levels and appropriate discount rates. Due to the long-term nature of these plans, such estimates are subject to considerable uncertainties and may require adjustments in future periods, which can affect future liabilities and expenses.

#### *Retirement obligations for cables*

KPN may be required in the future to remove certain installed cables at the request of individual landlords in the Netherlands, if those cables are determined to have been idle for a continuous period of 10 years. 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 in accordance with IFRS.

### **Recent accounting pronouncements**

#### ***IAS19R***

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

- elimination of the corridor approach, in which actuarial gains and losses for plans with active participants are not reflected on the Consolidated Statement of Income or Consolidated Statement of Financial Position, but instead are amortized over the remaining service years, and recognition of all actuarial gains and losses in Other Comprehensive Income as they occur;
- immediate recognition of all past service costs, and
- replacement of interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

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

#### *Consolidated balance sheet impact*

IAS 19R will be applied in KPN's interim 2013 financial statements, with a restatement of comparative 2012 numbers. As of 1 January 2013, all unrecognized cumulative actuarial losses and past service costs will be recognized at once, which will reduce equity attributable to equity holders by EUR 1,127 million (net of tax). The comparative restatement impact of IAS19R on KPN's shareholders' equity as of 1 January 2012 is a reduction of EUR 657 million (net of tax).

Also from 1 January 2013, under IAS 19R, the pension provision in KPN's consolidated balance sheet is determined by the funded status (defined benefit obligation less the fair value of plan assets) of the pension plans. KPN's pension provision in its consolidated balance sheet will therefore increase by EUR 1,380 million and its deferred tax assets will increase by EUR 253 million.

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

### *Consolidated income statement impact*

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

In addition to the change in IAS19R, KPN has decided to present the net interest cost related to the pension liability and plan assets as other financial results as of 1 January 2013.

### *Consolidated impact on other comprehensive income and total comprehensive income*

The effect on KPN's other comprehensive income and total comprehensive income in 2012 would have been a decrease of EUR 470 million.

## **Qualitative and quantitative disclosure about market risk**

KPN is exposed to various market risks, including interest rate, credit, liquidity and foreign exchange rate risks associated with KPN's underlying assets, liabilities, forecast transactions and firm commitments. KPN's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial position and performance. KPN's Treasury is responsible for managing exposure to market risk that arises in connection with operations and financial activities, including interest rate, credit, liquidity and foreign exchange rate risks.

Furthermore, KPN is exposed to liquidity risks relating to its credit risks and market risks or a weakening of its business or financial market disturbances.

The following sections discuss KPN's significant exposures to market risk. The following discussions do not address other risks that KPN faces in the normal course of business, including country risk and legal risk.

### ***Interest rate risk***

KPN manages its net exposure to interest rate risk through the proportion of fixed rate financial debt and variable rate financial debt in its total financial debt portfolio. To manage this mix, KPN may enter into interest rate swap agreements, in which it exchanges periodic payments based on a notional amount and agreed upon fixed and variable interest rates and into forward contracts, in which it exchanges fixed amounts of foreign currency and fixed amounts of Euro.

Financial liabilities issued at floating rates expose KPN to cash-flow interest rate risk, while financial liabilities issued at fixed rates expose KPN to fair value interest rate risk. To manage the exposure to changes in interest rates and to lower the overall costs of financing, KPN generally uses interest rate swaps to exchange the interest rate exposure on a portion of the indebtedness from a floating interest rate to a fixed interest rate or from a fixed interest rate to a floating interest rate, as applicable.

As a result of its combination of its fixed rate indebtedness and its interest rate swaps, KPN had 100% of its short- and medium term borrowings at fixed interest rates as of 31 December 2012.

### ***Credit risk***

Credit risk is the risk of financial loss arising from counterparty's inability to repay or service debt in accordance with the contractual terms. Credit risk includes both the direct risk of default and the risk of a deterioration of creditworthiness, as well as concentration risks. KPN considers that it has a limited exposure to concentrations of credit risk with respect to trade accounts receivable due to its large and diverse customer base (including a large number of retail customers, and a broad range of business customers). The maximum value of KPN's credit risk on these financial assets is equal to their recognized net book value.

KPN considers managing commercial credit risk as crucial to its risk management policy. KPN believes it has appropriate credit policies, procedures and authorization guidelines in place to manage and monitor credit risk.

KPN seeks to minimize credit risk through a preventative credit check process that ensures that all customers requesting new products and services or changes to existing services are reliable and solvent. 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 new customers, KPN requests third party credit management reports. In addition, KPN keeps track of the payment performance of customers. If customers fail to meet set criteria, any payment issues have to be solved before a new transaction with this customer will be entered into. KPN also seeks to minimize credit risk by preferring contracts that provide for the use of automatic payment methods with the aim of reducing the underlying credit risk. This control is carried out at the time of customer acceptance through the use of internal and external information.

KPN additionally exercises timely pre- and post-subscriber acquisition measures for the purpose of credit collection such as the following:

- attribution of a rating to new customers through the credit check (to anticipate default payment, different measures may be implemented: deposits or advanced payments can be required to customers, limitation to prepaid offers, etc.);
- encouraging use of direct debit for its customers in the Netherlands;
- sending reminders to customer;
- employing measures for the collection of overdue receivables, separated by strategy, portfolio and customer profiles (penalties, reconnection letter with an option for a new contract, sell overdue receivables to collection agencies etc.); and
- measuring and monitoring debt collection status through KPN's internal reporting tools.

The following table provides the aging analysis of past due trade receivables for the periods presented.

	Year ended 31 December		
	2012	2011	2010
	(EUR in millions)		
Past due 0 – 30 days . . . . .	156	171	188
Past due 31 – 60 days . . . . .	42	35	49
Past due 61 – 90 days . . . . .	30	39	35
Past due 91 – 180 days . . . . .	125	104	82
Past due 181 – 270 days . . . . .	8	13	20
Past due 271 – 360 days . . . . .	8	8	13
Past due more than one year . . . . .	32	58	27
<b>Total past due trade receivables<sup>(1)</sup></b> . . . . .	<b>401</b>	<b>428</b>	<b>414</b>

<sup>(1)</sup> Total past due trade receivables are presented net of provisions. For additional information regarding provisioning, see Note 15 to the 2012 and 2011 consolidated financial statements incorporated by reference herein.

Credit risk relating to cash and cash equivalents, derivative financial instruments and financial deposits and money market funds arises from the risk that the counterparty becomes insolvent and, accordingly, is unable to return the deposited funds or execute the obligations under the derivative transactions as a result of the insolvency. To mitigate this risk, wherever possible KPN conducts transactions and deposits funds with investment-grade rated financial institutions and monitors and limits the concentration of its transactions with any single party. Where KPN has entered into foreign currency derivatives, all trades have been conducted with KPN Treasury.

### **Liquidity risk**

KPN's liquidity risk arises mostly in connection with cash flows generated and used in financing activities, and particularly by servicing debt, in terms of both interest and capital, and from all of KPN's payment obligations that result from its business activities. KPN's liquidity management policy involves minimizing the available cash on a daily basis, with an annual review of reimbursement capacity within the Group. In general, KPN manages its liquidity risk by monitoring its cash flow and rolling liquidity reserve forecast in order to ensure that it has sufficient committed facilities to meet its liquidity needs.

In addition, part of KPN's derivatives portfolio contains reset clauses at pre-agreed dates, in order to mitigate counterparty exposure during the life of the swap. These reset clauses may result in early Euro

settlement obligations in cash with the swap counterparty for part of the outstanding notional amount of the swap. This could lead to significant cash outflows or inflows before maturity, with an impact on KPN's liquidity. In order to mitigate any liquidity risks, the reset clauses of these derivatives are spread over different points in time. The derivatives that have reset clauses had a net liability of EUR 76 million as of 31 December 2012, but this cannot be used as reliable indicator for actual future cash inflows or outflows.

### ***Foreign exchange risk***

KPN's financial reporting currency is the Euro. KPN prepares its financial statements, including those of its subsidiaries, in Euro and therefore its consolidated financial statements are not exposed to foreign exchange translation risks. However, KPN is exposed to foreign exchange transaction risks in certain respects.

As KPN operates primarily in the Netherlands, Germany and Belgium, its foreign exchange transaction risks are limited and only arise in relation to KPN's business relationships with suppliers or business partners in countries that use currencies other than the Euro. The primary foreign currencies that KPN uses are the US dollar and pound sterling. In order to limit exchange risks from transactions with suppliers and business partners in countries that use currencies other than the Euro, KPN uses forward contracts to reduce the impact of currency fluctuations on such transactions. In addition, KPN funds its business in part through capital market debt instruments denominated in Euros, pounds sterling and US dollars. KPN uses derivative instruments to hedge the currency risks on these debt instruments.

The contract value of KPN's foreign currency contracts at the balance sheet dates 31 December 2012, 2011 and 2010 amounted to EUR 72 million, EUR 62 million and EUR 44 million, respectively. At the balance sheet dates 31 December 2012, 2011 and 2010 derivative financial instrument liability amounted to EUR 241 million, EUR 57 million and EUR 234 million, respectively.

## BUSINESS OVERVIEW

### General information

Koninklijke KPN N.V. is a public company (*naamloze vennootschap*) and was incorporated under Dutch law by a notarial deed dated 1 January 1989. KPN has its statutory seat in The Hague, the Netherlands, with its registered office at Maanplein 55, 2516 CK, The Hague, the Netherlands. KPN is registered with the Trade Register in The Hague (*Kamer van Koophandel Den Haag*), the Netherlands, under number 02045200. The telephone number of KPN is +31 (0)70 343 43 43. KPN trades under the name KPN. The Articles of Association were most recently amended on 13 September 2012.

KPN's corporate objects, as set out in article 4 of the Articles of Association, are to participate in and to manage other enterprises and companies, among such, companies that operate in the field of the transmitting, storing and converting of information, as well as to manage and dispose of information, to manage and finance subsidiaries, group companies, dependent companies and participations, among which to guarantee the debts of those companies and participations, and further to engage in any activity which may be related or conducive to the aforementioned objects.

KPN is the leading telecommunications and ICT provider in the Netherlands, offering fixed and mobile telephony, broadband internet and TV to retail customers. 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 Germany and Belgium, KPN pursues a challenger strategy and offers mobile telephony products and services to retail customers through E-Plus and KPN Group Belgium, respectively. KPN also provides wholesale network services to third parties and operates an IP-based infrastructure for international wholesale customers through iBasis.

KPN markets a large portfolio of quality products to meet the needs of different customer groups that are differentiated by price, product and service. KPN believes this allows customers to select the brand and tariff plans that suits them best. For example, customers in the Netherlands can choose from, among others, KPN's high quality KPN brand, its youth focused Hi brand, its no-frills Telfort brand and its premium XS4ALL brand. In the Netherlands, Germany and Belgium, KPN also offers mobile telephony services online through its Simyo brand, and markets to various distinct communities through its own brands and a variety of MVNOs and branded resellers. BASE is KPN's principal mobile telephony brand in Belgium and Germany. KPN offers business customers a wide range of ICT services, whether they are a locally based small or medium enterprise business or a multinational corporation. KPN offers these services to the Dutch and international business community through the KPN, Telfort and XS4ALL brands. In addition, KPN offers telecommunication infrastructure and wholesale services to MVNOs, branded resellers (mobile) and ISPs (fixed line). Wholesale customers such as JIM mobile, Allo RTL, Aldi-Talk, Albert Heijn and Lebara pay for access to KPN's mobile networks in the Netherlands, Germany and Belgium and Tele2, T-Mobile and Vodafone pay to use its fixed networks in the Netherlands in order to provide services to their customers.

In the Netherlands, KPN operates fixed and mobile networks, and as the incumbent telecommunications provider is the only operator of fixed copper infrastructure with nationwide coverage in the Netherlands. KPN is also deploying in the Netherlands an FttH network through its joint venture, Reggefiber, and an FttO network, which it owns and operates directly, to further strengthen its fixed network strategy and support its retail and business offerings. In addition, KPN recently acquired 15 blocks of frequency licenses in the 800MHz, 900MHz, 1800MHz, 2.1GHz and 2.6GHz bands for a total of 120MHz of frequency licenses for 17 years in the spectrum auction in the Netherlands. This spectrum package enables KPN to continue its existing 2G and 3G services, and introduce new services, such as 4G LTE, which is intended to support its market leading position in the Dutch market.

As of 31 December 2012, KPN served 36.7 million mobile customers and had 3.9 million fixed line voice connections, 2.9 million broadband internet connections and 1.8 million TV connections. With 26,156 FTEs working for the Group as of 31 December 2012, KPN reported full-year revenues and other income of EUR 12,708 million and EBITDA of EUR 4,528 million for the year ended 31 December 2012.

## **Competitive strengths**

KPN believes that it has a number of key strengths that position it favorably in the European telecom landscape. They include:

### ***Operating in some of the strongest regions in Europe from a macroeconomic perspective***

92% of KPN's revenues and substantially all of its EBITDA in 2012 were generated from its operations in the Netherlands, where it is the incumbent telecom operator; Germany, where it is the third largest mobile operator by subscribers; and Belgium, where it is the third largest mobile operator by subscribers. In Germany, KPN also is the market leader in regions such as North Rhine-Westphalia and Berlin which, together with the Netherlands and Belgium, are among the strongest regions in Europe, from a macroeconomic perspective.

The comparative economic strength of the regions in which KPN operates is illustrated by 2011 GDP per capita figures of USD 42,023 in the Netherlands, USD 38,077 in Germany and USD 37,780 in Belgium. These are 24%, 13% and 12%, respectively, above the Euro area average of USD 33,795 in the same year (*Source: IMF*). KPN believes high per capita incomes both underpin the absolute level of demand for telecoms services and also result in consumer demand for these services being less sensitive to volatility in economic conditions when compared to other Euro areas. The markets for KPN's services are also supported by relatively low unemployment rates of 5.6% in the Netherlands, 5.4% in Germany and 7.4% in Belgium, which are well below the Euro area average of 11.8% (*Source: Eurostat as of November 2012*).

The comparatively favorable economic performance of the Netherlands and Germany and the medium term prospects for these economies are supported by relatively healthy public finances. The Netherlands had a debt-to-GDP ratio of 68% in the second quarter of 2012, as compared to a Euro area average of 90%. Germany's debt to GDP ratio at 83% in the same period was also below the regional average and is on a stable trajectory given a relatively low public sector deficit and continued economic resilience (*Source: Eurostat as of October 2012*). Both countries have an AAA credit rating.

### ***Integrated network telecommunications provider with a leading position in the domestic Dutch telecoms market***

KPN operates as the incumbent integrated telecoms provider in the Netherlands, with a long-term leading position in both the fixed line and mobile segments of the market. As of the end of December 2012, KPN estimates its mobile market share in the Netherlands was approximately 45% by service revenues in its combined retail and business mobile markets, approximately 41% by number of subscribers in the fixed-line broadband internet market and approximately 23% by number of subscribers in the TV market.

KPN is increasing its efforts to invest in its businesses to reinforce its market leadership position. In the fixed-line business KPN has seen a turnaround in its broadband internet customer base, with positive net adds in the fourth quarter of 2012 for the first time since 2005. It has also seen strong growth in share in TV market share, up 7% from 16% as of 31 March 2011), driven primarily by strong organic growth and the acquisition of five ISPs and an active network operator from Reggeborgh and Reggefiber in 2012.

KPN believes that its ability to maintain a leading position in the Dutch telecoms market, in the face of competitive pressure, reflects the underlying strength of its customer proposition and the strength of its multiple well-respected brands (including KPN, Hi, Telfort, XS4ALL and Simyo) which cater to a broad set of market segments.

KPN's focus on customer service has translated into improving overall customer satisfaction in the Netherlands as evidenced by surveys prepared for KPN by external research providers showing a good performance and upward trajectory on customer satisfaction metrics such as Net Promoter Scores.

### ***Successful challenger strategy that has enabled strong growth and profitability in the German and Belgian mobile businesses***

KPN has successfully employed a challenger strategy in the German and Belgian mobile markets to achieve a significant increase in market share over the last decade. Revenues of E-Plus in Germany increased at a CAGR of 1.6% from 2007 to 2012, from EUR 2,933 million to EUR 3,173 million. EBITDA in Germany increased from EUR 1,113 million in 2007 to EUR 1,290 million in 2012. In Belgium, revenues grew at a CAGR of 5.5% from 2007 to 2012, from EUR 587 million to EUR 768 million. EBITDA in Belgium increased from EUR 230 million in 2007 to EUR 272 million in 2012.

KPN has developed a solid market share position as the number three player in both the German and the Belgian mobile market (by number of subscribers), serving a combined total of over 27 million customers in these regions.

A central part of the challenger strategy has been KPN's focus on segments of the market where it sees the strongest opportunities to differentiate itself from its competitors. This has involved targeting particular geographic regions and market segments through the use of a multi-brand strategy to develop marketing propositions targeted for particular groups. Within its target segments, KPN believes that it often holds a leading position. For instance, KPN believes that it holds the largest share in the prepaid segment across Germany and that it is the leading provider in the postpaid market in several regions, such as Berlin and Cologne in Germany and Brussels in Belgium.

KPN's challenger strategy has also focused on maintaining cost discipline, including concentrating on segments of the market where opportunities for deploying marketing spend and capital expenditure have appeared to be less costly than in other regions or market segments. This has helped to deliver attractive margins historically.

### ***High quality network infrastructure, well positioned to serve evolving market needs***

KPN has a strong network infrastructure and has plans to further develop its networks to be among the best placed players to meet the growing demand for data services.

In the Netherlands, KPN believes it already has the most balanced spectrum allocation and the highest quality mobile infrastructure. KPN's positioning in this respect has been enhanced by the acquisition of spectrum in the Dutch spectrum auction in December 2012. KPN intends to consolidate its leadership position further by being the first in the market to deploy a 4G LTE network to handle higher data capacity and speeds. KPN has already begun the roll-out of its 4G LTE network, which is expected to cover 50% of the Dutch population by mid 2013 and to provide nationwide coverage in the second half of 2014.

Within the Dutch broadband internet market, KPN is in the process of upgrading its copper network and deploying a fiber optic network (FttH), through its joint venture with Reggefiber. At the end of 2012, KPN's co-owned FttH network covered approximately 18% of Dutch households and, in combination with its upgraded VDSL network, gave approximately 70% of Dutch households the ability to receive broadband internet access with speed of at least 40Mbps. KPN believes that the improved quality of the broadband internet network will allow it to become a stronger player in areas such as TV where it is currently the number two player in the Dutch market, and where it has significantly increased its market share over the last three years.

In Germany and Belgium, KPN is also investing significantly in its network to support the next phase of development of its mobile business. It is continuing to expand its HSPA+ network in Germany and is also starting to roll out its 4G LTE networks in Belgium with the aim cover the majority of Belgium in 2014. KPN believes that this will underpin its strategy of growing revenues in data and expanding its presence in regions within these markets where KPN has lower market share.

### ***Positioned to benefit from the roll-out of new service propositions***

KPN is continuing to adjust its customer offerings and believes it is well positioned to create service propositions that will take advantage of key trends in the market.

In the Dutch market, as the only player owning both fixed-line and mobile networks, KPN believes that it is uniquely positioned to benefit from the trend towards fixed-mobile convergence, whereby a single provider offers multiple services in a package allowing cross-selling of services to the existing customer base. In January 2013, KPN introduced "KPN Compleet", a first step towards offering quadruple-play products combining mobile, fixed-line, broadband internet and TV for its customers in the Netherlands. KPN believes customers acquiring multiple services in a single package tend to have lower churn, and KPN expects its planned roll-out of quadruple-play services will positively impact its customer retention cost.

In addition, the roll-out of KPN's FttH network will allow it to offer differentiated internet and TV services. These are expected to increasingly take advantage of superior features of the FttH network (as compared to cable) including its ability to handle simultaneous uploading and downloading and to support greater interactivity, as well as its ability to support high data transfer speeds even when the overall level of local data traffic in a neighborhood is at its peak.



In mobile operations, in the Netherlands and internationally, the development of 4G LTE networks will allow KPN to offer more competitive data services. In addition, KPN will continue to develop its multi-brand strategy by offering new and improved overall customer propositions tailored for individual customer segments.

### ***Experienced management team***

KPN's management has considerable expertise in the telecommunications sector, including extensive experience developed within KPN itself.

KPN believes that the experience of its management has enabled it to develop products and services that have broad customer appeal, while managing its operations with a strong focus on cost discipline and profitability.

KPN's CEO, Eelco Blok has 30 years of experience at KPN or its predecessor companies, having joined in 1983. He has served on the Board of Management for a total of seven years and has had roles within many of its individual business units prior to becoming CEO. At various points he has held responsibility for the Fixed division, for the Business Market, Wholesale & Operations and Getronics division, and for Mobile International and iBasis.

KPN's CFO, Eric Hageman, has more than eight years of experience in executive finance positions and group management positions. He is a member of the Board of Management, formerly acted as CFO of Mobile International, has been the CEO of KPN Group Belgium, and has played an important role in the development of the Group's strategic plan. He joined KPN in 2005.

Thorsten Dirks, CEO of KPN Mobile International, is a member of the Board of Management. He has worked in the telecom industry since graduating from university and has extensive sector expertise including 17 years of experience at E-Plus. He was appointed a member of the Board of Management of E-Plus in 2001, becoming Chairman in 2007, and has served as CEO of KPN Mobile International since 2011.

On 8 February 2013, the Supervisory Board announced its intention to appoint Joost Farwerck to KPN's Board of Management and he is expected to be appointed at the annual General Meeting on 10 April 2013. He has over 18 years of experience at KPN, including managing the Wholesale division, heading Network Operations and his current role as CEO of The Netherlands.

### **Strategy**

KPN's strategy is based on three fundamental elements:

#### ***Strengthening KPN's leading market positions in the Netherlands by further transforming it into an integrated access provider***

KPN intends to reinforce its position in the Dutch market by offering a full range of fixed and mobile services that deliver the best connectivity to its customers, independent of location and device, in the most intuitive and customer-friendly way. KPN's strategy is to develop high-value fixed and mobile offerings, including through bundled pricing packages, which it believes will provide enhanced choice and convenience for retail and business customers, thereby improving customer loyalty, reducing churn and limiting margin erosion.

In its Consumer Mobile segment, KPN aims to maintain its leading market position. It is the first operator in the Netherlands to have launched 4G LTE services. 4G LTE enables it to offer fast connectivity for mobile data services. KPN seeks to offer differentiated propositions to its customers, and has started the roll-out of its "KPN Compleet" package as a first step to providing a fully integrated quadruple-play offering, involving a converged package of mobile, fixed line, broadband internet and TV services.

In its Consumer Residential segment, KPN's goal is to achieve an appropriate balance between profitability and market share. KPN believes that it has made significant progress in improving its TV and content proposition, and aims to continue to expand its product portfolio and packages with innovative, value-added services, in particular through enhanced TV functionality, improved user interfaces, interactivity, connectivity through multiple devices and better content. KPN will also continue to implement a regional approach to sales and marketing, as it seeks to improve its delivery and customer support.

In KPN's Business segment, its goal is to maintain its market leadership. It intends to further develop and simplify its integrated offerings, combining high quality fixed and mobile access services with value-added services for businesses such as workspace services (i.e., services to assist customers to work at any location), cloud services and online backup services. KPN will also continue to develop specific products and services for key sectors such as healthcare, local government, financial services and education. KPN will also continue to develop its challenger brands such as Telfort, which target specific segments within the business market.

KPN has invested heavily in its network infrastructure in the Netherlands, and plans to continue to do so, in order to offer the best products and services to its customers. KPN is continuously improving the speed and quality of its fixed and mobile networks. For example, it has ongoing programs to increase the broadband internet speeds of its fixed access lines. At the end of 2012, KPN offered approximately 70% of Dutch households broadband internet access with speed of at least 40Mbps. KPN will continue to invest in next generation access networks, as it believes that they are core assets to sustain market leadership in the future. In fixed line services, KPN plans to continue with upgrades of its copper network and expects to expand its FttH footprint through its Reggefiber joint venture; in mobile, KPN started the roll-out of the next generation 4G LTE mobile technology across the Netherlands in January 2013, and expects to have covered approximately 50% of the Dutch population by mid-2013 and to offer nationwide coverage in the second half of 2014.

KPN will remain focused on providing best in class customer service. It is seeking to improve customer satisfaction metrics (e.g., Net Promoter Scores) in order to drive loyalty and reduce churn of the existing customer base. As it rolls-out its converged offerings, KPN believes that integrating client management and other customer service elements across all elements of the offerings will increase customer convenience and lead to higher customer satisfaction.

#### ***Growing in Germany and Belgium by executing on the next phase of KPN's challenger strategy***

KPN believes that it has considerable opportunities to grow its German and Belgian operations. At the core of its strategy in these markets is the accelerated roll-out of mobile broadband internet services, with a continued focus on investing in mobile broadband backhaul and HSPA+ network roll-out as a priority in Germany. In addition, KPN intends to begin rolling out 4G LTE in Belgium in either 2013 or 2014, with the aim to have 4G LTE available to the majority of Belgium in 2014, and also expects to begin deploying 4G LTE in Germany in either 2013 or 2014 in line with customer demand.

In Germany, KPN's data-centric challenger strategy is built around the following: increasing the revenues generated by mobile data by fostering data usage enabled by investments in network quality; expanding its position in the postpaid market where it believes there will be a greater demand for mobile data than in the prepaid market; expanding in those German regions where it believes it has lower market share; increasing its addressable market by expanding the relevance of its brands to a greater number of customer segments in the market; and further investing in online sales channels across all its brands.

In Belgium, KPN positions itself as a mobile-centric challenger, complementing its mobile offering with fixed services. It will seek to differentiate its mobile data services on speed by accelerating the roll-out of high-speed dual carrier HSPA+ and 4G LTE, with the aim to have nationwide coverage of 4G LTE by the second half of 2014, and on content by increased tariff options and content services, such as Spotify. In addition, KPN seeks to expand its mobile services in those Belgian regions where it believes it has low market share. KPN will also challenge the fixed-line telecommunications market where it sees opportunity to provide fixed-mobile services.

#### ***Simplifying its organizational structure and product and brand portfolio to further optimize its cost structure***

As KPN seeks to become a fully integrated access provider in the Netherlands, it will aim to progress its implementation of a lean operating model. Its focus is not only on simplifying its organizational structure and processes, but also on developing a clear portfolio of services offered to its retail and business customers.

In its German and Belgian businesses, KPN plans to continue to develop its lean and low cost operating model. Across all its segments, KPN is seeking to optimize its brand portfolio, and simplify its service portfolio, processes and organizational structure. KPN also intends to increase its use of online sales channels and to optimize its network and IT cost structures through enhanced outsourcing partnerships with leading vendors.

## History

KPN traces its history back to 1852 when the Dutch government began constructing and operating telegraph lines. Koninklijke PTT Nederland N.V. (**PTT**) was formed after combining postal services in 1886 and telephone service in 1897, and remained government operated until its privatization in 1989.

In 1998, PTT's postal, logistics, and express mail services were separated from its telecommunications activities. The separation and sale of PTT's mail, express and logistics business operations to TNT Post Group was completed in 1998, and PTT's name was changed to Koninklijke KPN N.V.

Since 1990, KPN has increased its role as an internet service provider (**ISP**) in the Netherlands, including with the acquisition of XS4ALL in 1998, making it the country's largest ISP. KPN also acquired E-Plus and KPN Group Belgium, mobile network operators in Germany and Belgium in 2000 and 2002, respectively. KPN purchased Telfort, a Dutch mobile network operator in 2005, Nozema, a Dutch broadcast services company, in 2006, and Tiscali, SpA's Dutch operations in 2007. Also in 2007, KPN acquired Tele2/Versatel, a Belgian voice, broadband internet and data service provider, and Getronics, a worldwide ICT services company based in the Netherlands. In addition, between 2007 and 2009 KPN purchased iBasis, a provider of wholesale international IP telephony services. In 2010, KPN acquired the remaining shares in Ortel Mobile, after making an initial investment in 2008.

In 2008, KPN invested in a 41% stake in the Reggefiber joint venture, which specializes in construction and operation of FttH networks. In 2012, KPN increased its stake in Reggefiber to 51% to strengthen its commitment to FttH and also acquired five fiber service providers and an active network operator from Reggeborgh and Reggefiber.

KPN's current Chief Executive Officer, Eelco Blok, was appointed in April 2011. In November 2011, Thorsten Dirks was appointed to the Board of Management, and is also Chairman of the Board of Management of E-Plus. Eric Hageman was appointed Chief Financial Officer for KPN in September 2012 after acting as interim Chief Financial Officer since January 2012.

On 8 February 2013, the Supervisory Board announced its intention to appoint Joost Farwerck to KPN's Board of Management and he is expected to be appointed at the annual General Meeting on 10 April 2013.

In connection with KPN's strategy of focusing on its core markets and brands, KPN announced the divestment of KPN France in 2011 and KPN Spain in 2012. This eliminated its Rest of World mobile segment and, along with its sale of Getronics International in May 2012, enabled KPN to focus on its core markets.

In June 2012, América Móvil increased its share ownership in KPN, which is now approximately 29.52%. Its stated reason for this was to diversify geographically with its first significant investment in the European market. See "Major Shareholders and Related Party Transactions".

## Operations

KPN historically divided its business into two groups: The Netherlands and Mobile International. On 1 January 2012, KPN implemented a new structure, which included splitting its previous Consumer segment within The Netherlands into two new segments, Consumer Mobile (mobile telephony and mobile internet) and Consumer Residential (broadband internet, TV and fixed telephony) and moving iBasis out of The Netherlands segment. In addition, KPN combined the Dutch IT Operations (IT NL) and Wholesale & Operations segments into the NetCo segment and split the activities associated with Telfort (which were previously included in the Consumer segment) among Consumer Mobile, Consumer Residential and Business.

As a result, KPN currently divides its business operations into The Netherlands, Mobile International and iBasis. The Netherlands comprises the Consumer Residential, Consumer Mobile, Business, NetCo and Corporate Market segments. Mobile International is divided between the Germany and Belgium segments.

### The Netherlands

#### *Consumer Mobile*

Consumer Mobile provides retail customers in the Netherlands mobile telecommunications services, offering postpaid and prepaid products targeted at multiple market segments through multiple brands. KPN supports its Consumer Mobile offering with its high quality mobile network. KPN's 4G LTE proposition became commercially available from 4 February of this year, making it the first provider of 4G LTE in the Netherlands.

As of 31 December 2012, KPN served approximately 7.6 million mobile services customers (3.5 million postpaid and 4.1 prepaid), of whom 5.2 million were KPN's direct customers and 2.4 million were customers who had access to KPN's network via its mobile wholesale partners and other distributors targeting various market segments.

In order to continue to develop its high-quality mobile network, KPN has begun to roll out its 4G LTE network through KPN's NetCo segment. 4G LTE provides significantly higher speeds that are up to ten times higher than are currently available on a 2G network based on GSM and a 3G network based on UMTS/HSPA+ technology. KPN recently paid EUR 1.35 billion to acquire 15 blocks of frequency licenses in the 800MHz, 900MHz, 1800MHz, 2.1GHz and 2.6GHz bands for a total of 120MHz in the recently completed spectrum auction in the Netherlands, which enables KPN to continue its existing 2G and 3G services, and introduce new services, such as 4G LTE. See “—Infrastructure & Network—Mobile Infrastructure—The Netherlands”.

For the year ended 31 December 2012, Consumer Mobile generated EUR 1,707 million in revenue, or 13.4% of total Group revenue, and EUR 510 million of EBITDA, or 11.3% of total Group EBITDA.

The table below summarizes Consumer Mobile's change in certain of its key operating metrics, including: service revenues, wireless retail and wholesale customers and ARPU wireless blended during the period under review.

	For the year ended and as of 31 December		
	2012	2011 (unaudited)	2010
Service revenues (EUR million) <sup>(1)</sup> . . . . .	1,556	1,726	1,984
Year-on-year change (%) . . . . .	(9.8)	(13.0)	
Wireless retail customers (thousands) <sup>(2)</sup> . . . . .	5,177	5,450	5,599
Year-on-year change (%) . . . . .	(5.1)	(2.7)	
Wireless wholesale customers (thousands) <sup>(3)</sup> . . . . .	2,402	2,213	2,434
Year-on-year change (%) . . . . .	8.5	(9.1)	
ARPU wireless blended (EUR) <sup>(4)</sup> . . . . .	17	19	20
Year-on-year change (%) . . . . .	(10.5)	(5.0)	

(1) Service revenues for the Consumer Mobile segment include retail and wholesale subscription fees from voice, SMS/MMS and mobile data, handset lease and insurance; revenues from incoming voice, SMS/MMS and mobile data; revenues from outgoing voice, SMS/MMS and mobile data; and revenues from roaming and net content, minus service discounts for the specified period. As of 1 January 2012, Telfort Zakelijk moved from Consumer Mobile retail to Business mobile. 2011 service revenues for Consumer Mobile has been adjusted for the impact of these moves, which resulted in a decrease of EUR 51 million. 2010 service revenues for Consumer Mobile has not been restated for these moves.

(2) Wireless retail customers for the Consumer Mobile segment is the total number of subscribers (postpaid and prepaid) other than those of wholesale customers connected to KPN's mobile network as of the end of the specified period. As of 1 January 2012, Simyo moved from Consumer Mobile wholesale to Consumer Mobile retail and Telfort Zakelijk moved from Consumer Mobile retail to Business mobile. 2011 wireless retail subscribers for Consumer Mobile has been adjusted for the impact of these moves, which resulted in an increase in 116,000 customers. 2010 wireless retail subscribers for Consumer Mobile has not been restated for these moves.

(3) Wireless wholesale customers for the Consumer Mobile segment is the total number of subscribers (postpaid and prepaid) based on the number of activated SIM cards purchased by KPN's wholesale customers, with the exception of full MVNOs (wholesale customers that have their own IT systems as well as certain other network elements), as of the end of the specified period. As of 1 January 2012, Simyo moved from Consumer Mobile wholesale to Consumer Mobile retail. 2011 wireless wholesale customers for Consumer Mobile has been adjusted for the impact of these moves, which resulted in a decrease of 265,000 customers. 2010 wireless wholesale customers for Consumer Mobile has not been restated for these moves.

(4) ARPU wireless blended for the Consumer Mobile segment is the average service revenues per month per subscriber. ARPU wireless blended for the Consumer Mobile segment is calculated as the service revenues for the specified period divided by the sum of the month-end average subscriber base (postpaid and prepaid retail and wholesale end-user subscribers) for months of that period. As of 1 January 2012, Telfort Zakelijk moved from Consumer Mobile retail to Business Mobile. 2011 ARPU for Consumer Mobile has been adjusted for the impact of these moves, which resulted in a decrease of EUR 1. 2010 ARPU has not been restated for these moves.

### *Products and services*

Consumer Mobile provides mobile data, voice and SMS services throughout the Netherlands on a postpaid basis, in which customers are generally billed monthly according to their use of services and portfolio in the prior month, and on a prepaid basis, in which customers purchase credit for use of services in advance. KPN's customers can choose between a large variety of tariff plans providing for different base fees and prices per service unit, in addition to different flat fee and capped packages for mobile data, voice, SMS and value added services. For example, in response to the rise in mobile data usage and the increasing use of messaging applications, KPN introduced new mobile subscriptions offering a combination of voice minutes, SMS and mobile data with speeds of up to 14.4Mbps, each combination differentiated by volume, data speed and access to its Wi-Fi hotspots. Consumer Mobile also provides data usage applications for the KPN and Hi brands that enable customers to monitor their data usage.

In January 2013, KPN introduced "KPN Compleet", a first step towards offering quadruple-play services. KPN's existing triple-play and mobile customers, with subscriptions that started before 1 January 2013, can benefit from certain value added services, such as 45 additional TV channels, free unlimited calls between the family members and doubling of voice, SMS and data allowances within a mobile subscription. As a next step towards fixed-mobile convergence, KPN intends to make "KPN Compleet" accessible for all its fixed and mobile customers in the Netherlands. As a further step, KPN plans to introduce a fully integrated quadruple-play offering, with integrated client management system and customer service.

KPN offers customers different options to acquire mobile handsets, as it believes handset choice is a key factor in mobile operator selection. KPN provides customers the choice of leasing the handset or purchasing the handset from KPN or a third party.

In addition, KPN has introduced a variety of customer service initiatives to increase customer satisfaction and reduce churn. These initiatives include providing mobile application billing, value added services including content such as Spotify, online self-service and increasing the number of multi-brand stores and XL stores, which offer KPN brand products and provide enhanced customer service. KPN also provides service desks open 24-hours-a-day, 7-days-a-week.

### *Market environment and competition*

KPN operates in a challenging environment in the mobile telecommunications market in the Netherlands. Increased competition on the basis of both price and quality from traditional competitors, together with regulatory obligations to reduce MTRs and roaming charges, changing customer behavior as well as a slow macro-economy, have contributed to the overall decline in service revenues and ARPU, and these declines are expected to continue. The market is highly competitive and changing, with increasing customer preference for mobile data access over traditional voice and SMS as a result of new technologies maturing and the introduction of new applications such as OTT, which allow users to substitute mobile data for traditional voice and SMS communications.

KPN's two main competitors in the mobile telecommunications market in the Netherlands are Vodafone and T-Mobile, both of which also bought spectrum in the recent spectrum auction in the Netherlands. Along with KPN, Vodafone purchased spectrum in the 800MHz band, which is the preferred frequency in terms of coverage to provide 4G LTE services. T-Mobile can also provide 4G LTE service through its 1800MHz frequency, and therefore may emerge as a competitor in 4G LTE service as well. Tele2, which provides telephony (including mobile as an MVNO), TV and broadband internet to the Dutch market, also bought spectrum in the 800MHz band capable of 4G LTE use and is expected to become the fourth mobile network operator sometime in the foreseeable future. Cable operators, such as UPC and Ziggo, may also seek to develop converged mobile propositions that make use of their own infrastructure in and around homes, offices and public hotspots, complemented by a third party radio access network at other locations in the Netherlands.

Based on data provided by Telecompaper, KPN estimates that its mobile market share (by service revenue, which includes revenues from retail, wholesale and business customers) in the Netherlands was approximately 46% for the year ended 31 December 2011 and approximately 45% for the year ended 31 December 2012.

### *Strategy*

Taking into consideration the market environment and its focus on achieving the right balance between profitability and market share, KPN's long term strategic objective is a minimum total mobile market share in the Netherlands of approximately 40%.

Specifically, KPN is focused on:

- *Integrated Mobile and Fixed Services:* KPN believes that it has the opportunity to distinguish itself from the competition and improve its customer experience by combining its high quality mobile infrastructure with its nationwide fixed network in the Netherlands. As a first step towards offering quadruple-play services, KPN has begun to introduce “KPN Compleet” to certain fixed line and mobile customers and as a further step plans to introduce a fully integrated quadruple-play offering. KPN believes an integrated mobile and fixed services offering will improve its customer experience and enable it to cross-sell and up-sell bundled mobile and fixed services, while also reducing churn.
- *4G LTE Leadership:* KPN launched its 4G LTE proposition on 4 February, making it the first to offer 4G LTE in the Netherlands. KPN aims to offer 4G LTE to approximately 50% of the Dutch population by mid-2013 and to provide nationwide coverage in the second half of 2014. 4G LTE improves the customer experience by providing significantly higher speeds and better indoor coverage than 3G. KPN believes that 4G LTE will further contribute to a better customer experience and the integration of a high quality mobile network with its nationwide fixed network. It also will seek to up-sell customers to higher data bundles via its 4G LTE proposition.
- *Improved Customer Service:* KPN is committed to improving customer service by providing high quality products and services, including by expanding the number of XL stores, which offer KPN brand products and providing enhanced customer service, along with call centers that include specialist agents to increase customer satisfaction and have service desks open 24-hours-a-day, 7-days-a-week.
- *Strong Sales Channels:* KPN will continue to leverage its sales channels by strengthening its retail distribution footprint, focusing on online sales for KPN, Hi, Telfort and Simyo, as well as alternative distribution channels such as social media, and by increasing the value its channels provide, such as by offering customers alternative financing options for mobile handsets. KPN believes its high network quality and multiple brands, combined with a retail and online distribution network aimed at different customer segments, should continue to reduce churn and drive customer acquisition.

#### *Marketing and sales*

KPN markets its mobile communication services in the Netherlands under four principal brands: its high quality brand (KPN), its youth brand (Hi), its no frills brand (Telfort) and online through Simyo. The KPN brand covers the middle and high end of the market, particularly for families, with a variety of tariff plans. The Hi brand focuses on younger customers by providing packages for mobile data usage and by using alternative communication media, such as Hi Society, which is Hi’s social networking site, used to market the Hi brand to younger customers. The Telfort brand focuses on value for individual and small business customers, offering different tariff packages and free calls after 10 minutes. Simyo, KPN’s online brand, provides SIM cards for mobile phones online, with and without subscription.

KPN markets mobile data, voice and SMS services to customers on a prepaid and postpaid basis through each of its brands. KPN primarily markets its prepaid mobile data, voice and SMS under its Telfort and Simyo brands, and its postpaid mobile data, voice and SMS under its KPN and Hi brands.

KPN carries out various general and customized marketing campaigns for its Consumer Mobile segment. Advertising is conducted in all core media in the Netherlands. Regional marketing activities such as outdoor advertising and local promotional events are tailored to the local target groups and competitive situation. The roll-out of KPN’s 4G LTE network is accompanied by national and regional product campaigns through all communication channels, such as TV, billboard and print media advertising, which focus on 4G LTE-capable smartphones, tablets and high-speed mobile data transmission on KPN’s 4G LTE network. Significant marketing activity is also focused on KPN’s existing customer base to increase customer satisfaction and reduce churn.

KPN offers its retail products in its branded KPN, Hi, Telfort and XL stores and through alternative and online distribution channels. As of 31 December 2012, KPN operated 112 KPN brand, 72 Hi brand and 52 Telfort brand mobile telecommunication stores in the Netherlands. KPN increased its direct sales and service by expanding the number of its stores in the Netherlands from 239 as of 31 December 2011 to 260 as of 31 December 2012. KPN has increased the number of its stores in the Netherlands to reduce dependence on dealers and increase the profitability of its retail sales channels. This expansion includes new formats for stores such as multi-brand stores and XL, which offer KPN brand products and provide enhanced customer service. Additionally, call centers include specialist agents to increase customer satisfaction and have service desks open 24-hours-a-day, 7-days-a-week.

KPN also sells its mobile offerings through various online websites for each brand. KPN uses various methods to drive online traffic towards its online portal, including via social media applications such as Facebook, search-engine marketing and through affiliates.

### **Consumer Residential**

Consumer Residential provides a broad range of communication and information products and services to retail customers in the Netherlands, including fixed-line telephony, broadband internet and TV. KPN offers fixed-line telephony, broadband internet and TV on a stand-alone basis and multiplay/triple-play packages, which include all three products. In 2012, KPN strengthened its commitment to FttH (which allows improved transmission and bandwidth as compared to existing VDSL and DSL technologies based on KPN's copper network) in the Netherlands by increasing its ownership in Reggefiber. KPN also acquired five fiber service providers and an active network operator from Reggeborgh and Reggefiber in 2012 to increase its presence in the Dutch FttH market. In addition to its improved FttH offering, KPN continues to invest in improving its existing copper network through new technologies, such as pair bonding and vectoring, which significantly increase the available broadband internet bandwidth on copper networks. See “—Infrastructure & Network—Fixed Infrastructure (the Netherlands)—Copper” and “—FttH”.

For the year ended 31 December 2012, Consumer Residential generated EUR 1,852 million in revenue, or 14.6% of total Group revenue, and 367 million of EBITDA, or 8.1% of total Group EBITDA.

The table below summarizes Consumer Residential's change in certain of its key operating metrics, including: voice customers, broadband internet customers, TV customers, FttH activated and total ARPU per customer.

	For the year ended and as of 31 December		
	2012	2011 (unaudited)	2010
Voice customers (thousands) <sup>(1)</sup> .....	2,752	2,761	2,991
Year-on-year change (%) .....	(0.3)	(7.7)	
Broadband internet customers (thousands) <sup>(2)</sup> .....	2,697	2,538	2,576
Year-on-year change (%) .....	6.3	(1.5)	
TV customers (thousands) <sup>(3)</sup> .....	1,766	1,400	1,197
Year-on-year change (%) .....	26.1	17.0	
FttH activated (thousands) <sup>(4)</sup> .....	368	102	41
Year-on-year change (%) .....	260.8	148.8	
ARPU per customer (EUR) <sup>(5)</sup> .....	40	39	38
Year-on-year change (%) .....	2.6	2.6	

(1) Voice customers for the Consumer Residential segment is the total number of traditional voice subscribers (PSTN/ISDN) and VoIP subscribers (copper and fiber) across all brands within the Consumer Residential segment in the Netherlands, excluding the Business segment's small office and home office customers, as of the end of the specified period.

(2) Broadband internet customers for the Consumer Residential segment is the total number of subscribers with an activated broadband internet (copper and fiber) connection within the Consumer Residential segment in the Netherlands, excluding the Business segment's small office and home office customers, as of the end of the specified period.

(3) TV customers for the Consumer Residential segment is the total number of subscribers with active subscriptions for KPN's TV services within the Consumer Residential segment in the Netherlands, including interactive, digital and analogue over copper or fiber as of the end of the specified period.

(4) FttH activated for the Consumer Residential segment is the total number of activated fiber subscribers across brands within the Consumer Residential segment in the Netherlands as of the end of the specified period.

(5) ARPU per customer for the Consumer Residential segment is the total service revenues of all products, including fixed line telephony, broadband internet and TV, divided by total average number of subscribers, based on total number of access lines, across brands within the Consumer Residential segment in the Netherlands for the specified period.

### *Products and services*

Consumer Residential provides fixed-line telephony, broadband internet and TV services to retail customers throughout its network area, which covers all regions of the Netherlands and reaches approximately 6.8 million households as of 31 December 2012.

Consumer Residential provides fixed-line telephony and broadband internet access services over analogue lines (PSTN), digital lines (ISDN) and IP-based connections (VoIP), as well as over its co-owned FttH network. KPN offers a large variety of tariff plans for its products from basic to premium. In addition, KPN has recently partnered with Fon, a global Wi-Fi network, to provide its customers with access to Fon's Wi-Fi network by sharing a portion of their own home bandwidth in exchange for free access on shared broadband connections of other KPN broadband customers in the Netherlands and Fon customers in other countries.

KPN offers TV on a stand-alone basis via KPN Digitenne and in multiplay/triple-play packages that include interactive (IPTV), digital TV, or analogue TV through service providers purchased from Reggeborgh in 2012, as well as fixed-line telephony and broadband internet. Fixed-line telephony is also sold on a standalone basis. As a first step towards offering quadruple-play services, KPN is rolling out "KPN Compleet" to certain fixed and mobile customers and as a further step plans to introduce a fully integrated quadruple-play offering for all customers.

IPTV is an important driver behind take up of triple-play packages. KPN has taken significant steps in recent years to improve its TV proposition, and now provides a market leading IPTV proposition in the Netherlands. In 2012, HD channels became included in KPN's standard IPTV package, a new set top box was introduced with a new customer interface, IPTV became available on tablets and smartphones and KPN agreed with HBO to offer three premium TV channels offering HBO's content. Consumer Residential also provides customers with value-added services such as a IPTV on smartphones and tablets. KPN focuses on customer service optimization and has reduced delivery times for its services. In 2012, KPN made changes in its call centers and stores to provide specialized customer support and has upgraded its internal processes to improve its delivery performance. In addition, KPN now provides free customer support 24-hours-a-day, 7-days-a-week.

### *Market environment and competition*

The fixed-line telephony and broadband internet markets in the Netherlands are characterized by a broadband internet market featuring relatively high customer penetration rates with limited growth potential, and a declining fixed-line telephony market as customers increasingly migrate their communication patterns towards VoIP and mobile services. For these reasons, and due to growing customer demand, telecommunication service providers are focusing on bundled offerings of multiple products, which allow for differentiation based on quality and value of service provided, instead of solely on price. In addition, bundled offerings generally drive and support telephony and broadband internet sales, increase ARPU and reduce customer churn as compared with individually sold products and services.

Consumer Residential's main competitors are the cable companies, UPC and Ziggo, which have historically competed aggressively with high quality TV offerings, marketing themselves on the basis of both the content of their TV services and their broadband speeds. KPN also competes with Tele2, T-Mobile and Vodafone, each of which provide fixed-line telephony, broadband internet and/or TV services over KPN's copper and fiber networks as wholesale customers of KPN's NetCo segment, and T-Mobile, which provides satellite TV in partnership with CanalDigitaal and broadband internet through KPN's copper infrastructure. KPN's competitors, in particular UPC and Ziggo, provide bundled triple-play packages of fixed-line telephony, broadband internet and TV across their product offerings.

For the three months ended 31 December 2012, KPN estimates that its TV market share in the Netherlands by number of subscribers was approximately 23%. As of 31 December 2012, KPN provided broadband internet service to approximately 2.7 million subscribers in its Dutch network, including five fiber service providers and an active network operator KPN acquired from Reggefiber and Reggeborgh in 2012. KPN estimates that its broadband internet market share (by number of subscribers) was approximately 41% of the Dutch market as of 31 December 2012.

### *Strategy*

KPN seeks to maintain in the Netherlands a minimum broadband internet market share of approximately 40% and its strategic objective over the longer-term is to increase that to approximately 45%.



Specifically, KPN's strategy is focused on:

- *Integrated Mobile and Fixed Services:* KPN believes that it has the opportunity to distinguish itself from the competition and improve its customer experience by combining its high quality mobile infrastructure with its nationwide fixed network in the Netherlands. As a first step towards offering quadruple-play services, KPN has begun to introduce "KPN Compleet" to certain fixed and mobile customers and as a further step plans to introduce a fully integrated quadruple-play offering. KPN believes an integrated mobile and fixed services offering will improve its customer experience and enable it to cross-sell and up-sell bundled, integrated mobile and fixed services, while also reducing churn.
- *TV Leadership:* KPN believes customers increasingly choose service providers based on the quality and selection of TV offerings and is, therefore, focused on continuing to improve its IPTV offering through improved TV services, advanced user interface and combined TV and music offerings. KPN believes its IPTV offering will drive the take up of its multi-play offerings and reduce customer churn.
- *Upgraded Network:* KPN will continue its hybrid VDSL and FttH network strategy in order to improve its customer experience through higher network speeds and quality. KPN believes FttH is a superior infrastructure in the long-term. In particular, FttH allows greater upload and download speeds as compared to cable or traditional copper DSL. FttH users also do not experience diminished download speeds as more users are online, which is in contrast to cable users who share bandwidth.
- *Improved Customer Service:* KPN will continue to focus on improving its customer experience by assisting online sales and service with customer focused call centers. KPN will also continue opening new XL stores, which offer KPN brand products and provide enhanced customer service.
- *Regional Approach:* In addition to its nationwide marketing approach, KPN will continue to implement a regional approach to its sales and marketing efforts, which it believes enables more efficient service and delivery. For example, KPN will continue to market its FttH roll-out regionally in conjunction with its roll-out of FttH.

#### *Marketing and sales*

KPN markets its Consumer Residential services in the Netherlands under three main brands: its high quality brand (KPN), its no frills brand (Telfort) and its premium brand (XS4ALL). The KPN brand covers the middle to high end of the market, particularly for families, with a variety of packages and tariff plans, which include Digitenne and IPTV. KPN's Telfort brand focuses on value for retail and small business customers, offering a variety of tariff options and packages. KPN's XS4ALL brand provides high-end offerings for individuals and small businesses.

KPN is increasingly seeking to cross-sell to its substantial existing customer base of fixed-line telephony and broadband customers; for example, by upgrading them to triple-play packages, and also by acquiring new customers. KPN believes that customers with bundled packages generally have higher customer satisfaction and decreased churn as opposed to customers with individual services.

KPN markets and sells its products to customers through a broad range of sales channels, including sales from its own stores (KPN and Telfort) and the recently introduced XL stores and other retail outlets, online directly from its website and inbound and outbound telesales.

#### ***Business***

Business provides a wide range of services, from fixed and mobile telephony and broadband internet to national and international data networks, to a wide range of business customers in the Netherlands. The Business segment offers fixed-line telephony and broadband internet access services over analogue lines (PSTN), digital lines (ISDN) and IP-based connections (VoIP) directly as the primary sales contact to business customers (Dutch corporate customers and small and medium enterprises), and through the Corporate Market segment, which sells bundled business ICT packages to larger and generally multinational businesses. KPN supports its mobile offering for business customers with its high quality mobile network, for example with KPN's 4G LTE proposition, which became commercially available from 4 February of this year, making it the first provider of 4G LTE in the Netherlands. Through its acquisition of Atlantic Telecom and a minority interest in RoutIT, KPN strengthened its competitive position and distribution footprint in the small and medium enterprise market through improved IP and fixed telephony services. In order to address demand in the business market to access information everywhere on all devices, as of 1 January 2013, KPN transferred corporate sales and collaboration

and communication services from Corporate Market to Business, to create a single point of contact for sales and telecommunication related services, and to enable Corporate Market to focus on delivery of IT infrastructure solutions.

As of 31 December 2012, KPN provided approximately 1.3 million customers with fixed line voice and broadband internet services through its Business segment. For the year ended 31 December 2012, Business generated EUR 2,352 million in revenue, or 18.5% of total Group revenue, and EUR 758 million of EBITDA, or 16.7% of total Group EBITDA.

The table below summarizes Business's change in certain of its key operating metrics, including: access lines voice, business DSL, connections VPN, service revenues, wireless customers and ARPU wireless blended during the period under review.

	For the year ended and as of 31 December		
	2012	2011 (unaudited)	2010
Access lines voice (thousands) <sup>(1)</sup> . . . . .	1,134	1,285	1,368
Year-on-year change (%) . . . . .	(11.8)	(6.1)	
Business DSL (thousands) <sup>(2)</sup> . . . . .	174	176	161
Year-on-year change (%) . . . . .	(1.1)	9.3	
Connections VPN (thousands) <sup>(3)</sup> . . . . .	75.3	73.9	72.4
Year-on-year change (%) . . . . .	1.9	2.1	
Service revenues (EUR million) <sup>(4)</sup> . . . . .	996	1,012	958
Year-on-year change (%) . . . . .	(1.0)	5.0	
Wireless customers (thousands) <sup>(5)</sup> . . . . .	2,337	2,105	1,774
Year-on-year change (%) . . . . .	11.0	18.7	
ARPU wireless blended (EUR) <sup>(6)</sup> . . . . .	37	42	46
Year-on-year change (%) . . . . .	(11.9)	(8.7)	

(1) Access lines voice for the Business segment is 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.

(2) Business DSL for the Business segment is the total number of DSL connections provided to KPN's Business segment as of the end of the specified period.

(3) Connections VPN for the Business segment is the total number of E-VPN and IP-VPN connections for external and internal customers, including tailor made solutions for large or corporate clients and internal wholesale customers (where revenues are recognized by the Business segment), but excluding external wholesale customers (where revenues are recognized by the NetCo segment), as of the end of the specified period.

(4) Service revenues for the Business segment include subscription fees for voice, SMS/MMS and mobile data; handset lease and insurance; revenues from incoming and outgoing voice, SMS/MMS and mobile data; revenues from roaming and net content; and M2M revenues for the specified period. As of 1 January 2012, Telfort Zakelijk moved from Consumer Mobile retail to Business mobile. 2011 service revenues for Business has been adjusted for the impact of these moves, which resulted in an increase of EUR 59 million. 2010 service revenues for Business has not been restated for these moves.

(5) Wireless customers for the Business segment is the total number of subscribers (postpaid and M2M) connected to KPN's mobile network as of the end of the specified period. As of 1 January 2012, Telfort Zakelijk moved from Consumer Mobile retail to Business mobile. 2011 wireless customers for Business has been adjusted for the impact of these changes, which resulted in an increase of 148,000 subscribers. 2010 wireless customers for Business has not been restated for these moves.

(6) ARPU wireless blended for the Business segment is the average service revenues per month per subscriber. ARPU wireless blended for the Business segment is calculated as the service revenues for the specified period divided by the sum of the month-end average subscriber base (postpaid and M2M) for months of that period. As of 1 January 2012, Telfort Zakelijk moved from Consumer Mobile retail to Business mobile. 2011 ARPU wireless blended for Business was not impacted by these moves. 2010 ARPU wireless blended for Business has not been restated for these moves.

### *Products and services*

In voice and broadband internet, KPN's Business segment provides a wide range of fixed mobile communication solutions. Its traditional business is heavily driven by customer demand for mobile e-mail solutions and broadband internet access, in particular by smartphones (such as BlackBerry, Windows Mobile, iPhone and Android), tablets, laptops, desktops and mobile internet cards. KPN's business customers can choose from a large variety of tariff plans for different of its products from basic to premium packages created for business customers, and can also choose from a range of bundled offers.

In network services, KPN offers 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.

KPN offers 24-hours-a-day, 7-days-a-week service desk access, and has added case management functionality to reinforce its customer relationship management to improve online customer self-care.

### *Market environment and competition*

In the context of a weak macro-economic environment, the Dutch business telecommunications market has experienced declining demand for telecommunications services and weaker demand for ICT services as IT budgets among businesses remain under pressure. Business customers are increasingly focusing on flat fee packages and integrated solutions. These trends have resulted in price pressure as contracts have often been renewed at lower prices. In particular, the Business segment's fixed telephony revenues have been declining due to new technologies such as VoIP replacing traditional services, pricing pressure and customers delaying improvements to their existing infrastructure.

KPN is the incumbent and market leader for business to business services in the Netherlands. KPN competes with a range of telecommunication service providers depending on the business market segment and competition is increasing. For larger, enterprise-level customers KPN primarily competes with Vodafone, as KPN and Vodafone are generally viewed as the only providers with the size and breadth of services capable of servicing these types of customers. In the small and medium enterprises and small office/home office customers, KPN competes with T-Mobile, Tele2, Vodafone, UPC and Ziggo. As broadband internet and smartphone penetration in the market for small and medium enterprises accelerates, the transition from traditional to bundled telephony and high speed broadband internet services has increased competition in the business generally.

### *Strategy*

KPN's strategic objectives are to continue to be a leading provider of business to business services in the Netherlands and maintain a stable market positions, which it aims to accomplish by:

- *High Quality Network and Infrastructure:* KPN will continue to invest in the quality of its services and infrastructure, as it believes quality of service is the key differentiator in the business market. For example, KPN launched its 4G LTE proposition on 4 February, making it the first to offer 4G LTE in the Netherlands. KPN aims to offer 4G LTE to approximately 50% of the Dutch population by mid-2013 and to provide nationwide coverage in the second half of 2014. In addition, KPN will continue the roll out of its VDSL and FttO network in order to improve its customer experience through higher network speeds and quality.
- *Sector Focus:* KPN's Business segment will continue to target specific industry sectors, such as healthcare, financial services, local government and education, that it believes it will be able to grow ICT and telecommunications spend at higher relative rates as compared to other sectors.
- *Simple Access to an Integrated Portfolio:* In order to address demand in the business market to access information everywhere on all devices, KPN is integrating parts of Corporate Market with Business into a one-stop shop for business to business, offering integrated packages with virtually all ICT telecommunications products and services. Together with Corporate Market, KPN is focusing on improving its ICT services, such as unified communications, secure managed devices, private cloud and service aggregation services. In addition, KPN is simplifying its mobile portfolio, is moving towards combined fixed and mobile services into integrated customer offers, and is continuing to seek to improve its online services and business centers.

### *Marketing and sales*

KPN primarily sells its products to the business market through its KPN, Telfort, Yes Telecom and XS4ALL brands online, through outbound sales and in partnerships with smaller, local companies that market and sell KPN's business product. KPN also sells to the business market through retail chains, such as Phone House and Dixons. In 2012, KPN began its "Single Point of Contact" marketing campaign, emphasizing back office sales for small and medium enterprises and flat fee packages for the small office/home office market. KPN also increased the market reach of its sales force by adding personnel devoted to business sales. In addition, to increase its distribution channels, KPN introduced XL stores in 2012, which offer KPN brand products and provide enhanced customer service.

In addition, KPN has developed a sales focus within certain market segments where it believes it can gain market share by focusing on their sector-specific demands. These are healthcare, financial services, local government and education. KPN has marketing and sales teams that specialize in these particular sectors.

### *NetCo*

NetCo is responsible for the operation and maintenance of KPN's fixed and mobile networks in the Netherlands, supporting KPN's strategy across its segments by operating high quality fixed and mobile networks. In the beginning of 2012, KPN merged Wholesale & Operations and Dutch IT Operations (IT NL) into a single segment, NetCo. NetCo implements innovation projects, network and IT improvements and streamlines costs through sourcing, partnering and planning for technology changes. NetCo operates an open access network model, where certain of its products and services are regulated, requiring NetCo to provide access to its fixed network to wholesale customers at capped prices, and acts as a dedicated wholesale partner for providers that need access to KPN's network to provide connections to their customers. As a result, in addition to providing services to KPN's segments, NetCo also provides network and IT services, and infrastructure solutions for wholesale customers in the Netherlands.

For the year ended 31 December 2012, NetCo generated EUR 2,621 million in revenue, or 20.6% of total Group revenue, and EUR 1,461 million of EBITDA, or 32.3% of total Group EBITDA.

### *Infrastructure and products*

KPN provides wholesale services that include access to its network infrastructure (WLR, WBA and wholesale fiber through its copper and fiber) and value added services (software and services to provide content and functionality over its network infrastructure). Wholesale customers can either purchase access to passive network infrastructure alone or with NetCo's active operating services, which allow telecom operators and service providers to offer their own services to end customers. NetCo also provides cloud computing and other services to wholesale customers.

#### Copper network

KPN operates high-quality copper networks through NetCo. KPN continues to invest in new technologies based on its copper network, such as VDSL upgrades in addition to its FttH network roll-out. See "—Infrastructure & Network—Fixed Infrastructure (the Netherlands)".

#### Fiber network

NetCo also operates two fiber networks, its FttO network, which it owns and operates directly, and its FttH network, which it co-owns and operates through its joint venture, Reggefiber Group B.V., which operates an open-access model. See "—Infrastructure & Network—Fixed Infrastructure (the Netherlands)—FttH". With FttH, customers have greater upload and download speeds as compared to cable or traditional copper DSL and do not experience diminished download speeds when more users are online, which is in contrast to cable users who share bandwidth and thus experience degraded speeds as user volume increases.

#### Wireless network

In the Netherlands, NetCo operates a 3G UMTS/HSPA+ network, which carried approximately 40% of voice traffic and 94% of data traffic on KPN's mobile network in the year ended 31 December 2012. The remainder is carried by its 2G GSM system. In addition, in 2012, KPN began upgrading its mobile network to modernize its mobile network and to enable 4G LTE. See "—Infrastructure & Network—Mobile Infrastructure—The Netherlands".

### *Market environment and competition*

NetCo is the only operator of fixed copper infrastructure in the Netherlands with nationwide coverage. KPN is required by OPTA to grant access to its local copper loop for wholesale fixed telephony and wholesale services on leased lines. See “Regulation—The Netherlands—Significant market power and market analysis”. NetCo faces competition from other regional operators which also operate their own networks in the Netherlands, including cable networks operated by Ziggo and UPC, and mobile networks operated by Vodafone and T-Mobile. However, while Vodafone and T-Mobile compete with NetCo for wholesale customers for their mobile networks, they also purchase access to NetCo’s copper and fiber networks to provide fixed line services. As a result, Vodafone and T-Mobile compete with KPN’s Consumer Residential segment, and at the same time are wholesale customers of NetCo who provide those fixed-line services to their own customers.

The number of ISDN/PSTN connections in the Netherlands continues to decline as VoIP grows. KPN has experienced a strong increase in data users over its mobile network, as average data usage per customer has increased in the context of declining traditional voice services and SMS traffic, in favor of rising data usage driven by communication applications, mobile internet and other data-heavy uses. KPN is thus focused on network improvement to react to these trends as described below.

### *Strategy*

Within its NetCo segment, KPN’s strategy is based on:

- *High Quality Network:* NetCo will continue to focus on network improvement through its hybrid VDSL, FttH strategy and FttO networks in 2013 and beyond in order to improve its customer experience through higher network speeds and quality. For example, in 2012, KPN strengthened its commitment to FttH by increasing its ownership in Reggefiber by an additional 10% to 51%. KPN also seeks to extend its broadband internet access with speed of at least 40Mbps, which it provided to approximately 70% of the Dutch market as of 31 December 2012, through VDSL upgrades and pair bonding, the roll out of FttH and FttO. In addition, KPN recently purchased a range of spectrum at auction in the Netherlands. KPN aims to offer 4G LTE to approximately 50% of the Dutch population by mid-2013 and to provide nationwide coverage in the second half of 2014.
- *Cost Efficiency:* To provide high-quality network and IT connectivity and increased efficiency, NetCo will continue to focus on network improvement and cost reductions through strategic partnerships, efficiency and improved sourcing. For example, in 2012, KPN entered into a partnership with Tech Mahindra in order to improve further the efficiency and effectiveness of its IT systems and operational processes and to address jointly strategic growth areas.

### *Marketing and sales*

NetCo also provides services to approximately 150 external customers, which are divided into NetCo’s three primary customers (Tele2, Vodafone and T-Mobile), internationals (BT, Verizon, AT&T and Colt), business ISPs (Voiceworks and Esprit), consumer ISPs (Canal Digitaal, Euphony, Solcon and Tweak) and voice/interconnect (Ziggo, UPC and Pretium). NetCo markets and sells its products and services with dedicated account teams and through online marketing, primarily based on its website.

### *Corporate Market*

Corporate Market is a supplier to multinational corporations and other large enterprises in the Netherlands of IT services and products, including consulting, cloud services, data center capacity and other network-related ICT solutions. Corporate Market offers end-to-end solutions centered on workspace management, connectivity solutions and information security and storage. In order to streamline services to its business customers of all sizes, with effect from 1 January 2013, KPN transferred corporate sales and collaboration and communication services from Corporate Market to its Business segment. This transfer is intended to allow Business to be the single point of contact for sales and telecommunication related services, and enables Corporate Market to focus on delivery of IT infrastructure solutions. The Corporate Market segment was originally named Getronics, but was renamed KPN Corporate Markets in the Netherlands in 2011, and its international operations, Getronics International, were sold in May 2012 as part of KPN’s strategic decision to focus on its core markets.

For the year ended 31 December 2012, Corporate Market generated EUR 1,405 million in revenue, or 11.1% of total Group revenue, and EUR 57 million of EBITDA, or 1.3% of total Group EBITDA.

## *Products and services*

### Cloud services and service aggregation

Corporate Market acts as a cloud services aggregator, acting as an intermediary to make it easier, safer and more productive for companies to navigate, integrate, extend and maintain cloud services. As a cloud services aggregator, KPN provides end-customers the opportunity to buy, provide support and manage current and future cloud, non-cloud, and connectivity services conveniently and securely.

In addition to service aggregation and private cloud services, KPN focuses on expected growth areas such as unified communications and secure managed devices independent of brand or technical requirements. As a result, Corporate Market supplies IT support services to certain corporate clients even if their underlying products or telecommunications services are provided by competitors, such as Vodafone. In 2012, KPN launched its services aggregator platform “Grip”, which allows enterprise customers to benefit from cloud computing by leveraging their current IT investments.

### Workspace management

Workspace management covers both the virtual and physical work environments. Corporate Market provides service models to clients to combine existing legacy and new cloud-based services. Together with the Business segment, Corporate Market sells and delivers packaged online, hybrid and traditional workspace services in the Netherlands in all segments ranging from the midmarket to the corporate enterprise market.

### Data centers

Corporate Market is responsible for housing and hosting data center resources for KPN and for external customers. In particular, it facilitates the evolution of traditional datacenter management portfolio to more cloud-based solutions.

### Connectivity services

Corporate Market provides connectivity services to enable companies to exchange information effectively and securely.

### Consulting services

KPN delivers consulting, advisory, design and implementation services for tailor-made integrated ICT solutions within its clients’ organizations. In addition, KPN provides interim and onsite ICT support services.

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

## *Market environment and competition*

In the context of a weak macro-economic environment, the Dutch ICT market is highly competitive and has experienced and continues to experience overcapacity. ICT vendors, such as KPN, continue to experience postponement of larger investments by ICT customers and price pressure, particularly on smaller new and renewal deals, as IT budgets remain constrained for many business customers as well as in the large customer segment generally. In addition, cyclical IT service activities such as consulting and time and material services are under pressure as customers are prioritizing capital expenditures with their limited resources. In particular, the governmental and financial services sectors, which are among KPN’s largest clients, are competitive. These factors, along with weak economic growth, have resulted in restructurings and other cost-cutting measures, such as significant outsourcing and offshoring efforts, within Corporate Market.

Corporate Market competes primarily with large international ICT providers, such as Capgemini, IBM, Logica, Atos and HP, as well as IT service providers such as T-Systems and Vodafone.

## *Strategy*

Within its Corporate Market segment, KPN's strategy is based on:

- *Main Dutch ICT Provider:* Corporate Market seeks to maintain its position as one of the only Dutch ICT service providers capable of catering to businesses of every size operating in the Netherlands. KPN believes this allows it to foster high-level and personal relationships with key decision makers, and facilitate KPN's strategy of targeting specific sectors where it believes it can be successful, such as healthcare, financial services, local government and education, to supply IT infrastructure, and application management in the near future.
- *Strategic Partners:* By developing strategic relationships with global ICT service providers to develop a greater breadth of products and services, KPN is aiming to play a larger role in its customers' IT service needs and secure a cost-competitive position. By acting as an IT support provider even to customers who use KPN's competitors for their primary telecommunications needs, Corporate Market gives KPN the opportunity to cross-sell KPN's other products and services.
- *Portfolio of Products and Services:* KPN is seeking to introduce, in response to changing markets, a new portfolio of service offerings, including online workspace management, unified communication, cloud services and service aggregation to market to new customers.

## *Marketing and sales*

KPN has realigned its sales and marketing strategy within Corporate Market to focus on its core products, including online workspace management, unified communication, cloud services and service aggregation, and reduced its service portfolio to streamline the number of services it provides and the number of suppliers it partners with. Corporate Market sells its core products as well as a portfolio of products from the Business segment. In addition, KPN has developed a sales focus within certain market segments where it believes it can gain market share by focusing on their sector-specific demands. These are healthcare, financial services, local government and education. KPN has marketing and sales teams that specialize in these particular sectors. In addition, KPN has client account managers for its top 500 accounts whereas Corporate Market also provides sales support for its products for smaller accounts by product area.

## **Mobile International**

### ***Germany***

KPN operates in Germany through E-Plus, which provides customers in Germany with multi-brand mobile telecommunications, offering prepaid and postpaid services targeted at multiple market segments. E-Plus is the third largest mobile provider in Germany by number of subscribers and fourth largest by service revenue. E-Plus's challenger strategy has focused solely on mobile telecommunications services in Germany since its beginning in 2005, but it has diversified from prepaid voice customers to a higher proportion of postpaid customers and mobile data users. E-Plus operates a high quality mobile network based on 2G and 3G technology, and plans to begin deploying 4G LTE in either 2013 or 2014 in line with customer demand.

For the year ended 31 December 2012, Germany generated EUR 3,404 million in revenue, or 26.8% of total Group revenue, and EUR 1,290 million of EBITDA, or 28.5% of total Group EBITDA.

The table below summarizes Germany's change in certain of its key operating metrics, including: service revenues, wireless customers, net adds—postpaid, net adds—prepaid and ARPU wireless blended during the period under review.

	For the year ended and as of 31 December		
	2012	2011 (unaudited)	2010
Service revenues (EUR millions) <sup>(1)</sup> . . . . .	3,149	3,099	3,092
Year-on-year change (%) . . . . .	1.6	0.2	
Wireless customers (thousands) <sup>(2)</sup> . . . . .	23,400	22,717	20,427
Year-on-year change (%) . . . . .	3.0	11.2	
Net adds—postpaid (thousands) <sup>(3)</sup> . . . . .	164	424	301
Year-on-year change (%) . . . . .	(61.3)	40.9	
Net adds—prepaid (thousands) <sup>(4)</sup> . . . . .	519	1,866	1,139
Year-on-year change (%) . . . . .	(72.2)	63.8	
ARPU wireless blended (EUR) <sup>(5)</sup> . . . . .	11	12	13
Year-on-year change (%) . . . . .	(8.3)	(7.7)	

- (1) Service revenues mobile for the Germany segment include retail and wholesale subscription fees from voice, SMS/MMS and mobile data; handset options; revenues from incoming and outgoing voice, SMS/MMS and mobile data; revenues from roaming, net content and M2M, minus service discounts for the specified period.
- (2) Wireless customers for the Germany segment is the total number of retail subscribers and customers of E-Plus's wholesale subscribers (in both cases, including postpaid, prepaid and M2M) connected to E-Plus's mobile network as of the end of the specified period.
- (3) Net adds—postpaid for the Germany segment is the total of newly registered postpaid subscribers in a given period, including M2M, minus the number of postpaid subscribers who cancelled their subscriptions, plus all migrations in from prepaid and migrations from wholesale, minus migrations out to prepaid and migrations out to wholesale for the specified period. Net adds—postpaid has been adjusted for the removal in 2012 of 576,000 inactive postpaid SIM cards.
- (4) Net adds—prepaid for the Germany segment is the total of newly registered prepaid subscribers in a given period, minus the number of prepaid subscribers who cancelled their subscriptions, plus all migrations in from postpaid and migrations from wholesale, minus migrations out to postpaid and migrations out to wholesale for the specified period. Net adds—prepaid has been adjusted for the removal in 2012 of 439,000 inactive prepaid SIM cards.
- (5) ARPU wireless blended for the Germany segment is the average service revenue per month per subscriber. ARPU wireless blended for the Germany segment is calculated as the service revenues for the specified period divided by the sum of the month-end average subscriber base (postpaid, prepaid and M2M) for months of that period.

### Products and services

E-Plus also offers a broad range of voice, messaging and mobile data products to retail and business customers, including small office and home office customers as well as small and medium enterprises, in Germany. E-Plus offers various tariff structures with its multi-brand strategy, including bundles and flat fee packages. E-Plus offers postpaid options and prepaid bundled services, which is an increasing focus for E-Plus as it seeks to use its strong position in the prepaid voice-only market to develop its position in voice-plus-mobile data bundles to existing and new customers. In 2012, E-Plus further increased its offerings of mobile data packages to adapt to customer demand, including by offering flat fee packages and more mobile data-oriented packages, with or without the smartphone of their choice. E-Plus also sells and leases handsets combined with tariff contracts and on a stand-alone basis.

E-Plus offers mobile services to wholesale customers in Germany, in the form of solutions for an increasing number of partners that include branded resellers (with whom E-Plus retains ownership of the customer base, such as Aldi-Talk, WAZ, MTV, NABU) and MVNOs (with whom the MVNOs retain ownership of the customer base) such as Versatel, NetCologne and Ecotel.



### *Market environment and competition*

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

There are three other significant players in the German mobile telecommunications market: Deutsche Telekom, Vodafone and Telefónica Deutschland. The two largest mobile telecommunications providers are Deutsche Telekom and Vodafone. E-Plus is the fourth largest mobile provider in Germany by service revenues, with an estimated mobile market share by service revenues of approximately 15.6% for the three months ended 31 December 2012. All operators are currently expanding capacity in an attempt to capture the expected growth in mobile data. In particular, Vodafone and Deutsche Telekom are rapidly deploying 4G LTE networks. E-Plus has focused on expanding its HSPA+ and mobile broadband internet network with the aim to begin deploying 4G LTE in either 2013 or 2014 in line with customer demand. E-Plus expects to provide 4G LTE services using its 1800MHz license.

Deutsche Telekom, Vodafone and Telefónica Deutschland each focus on the national market at various price points. E-Plus competes by focusing on prepaid and postpaid, price sensitive customers in defined geographic markets and segments. As a result, E-Plus has a market leading position in certain regions in Germany, but is more limited in its reach outside of these regions.

Along with the largest German independent service providers, Freenet/Mobilcom, numerous branded resellers, service providers and MVNOs, including Aldi-Talk, Blau, Fonic, Congstar, 1&1, Klarmobil and Tchibo, sell products and services, normally exclusively, by using the network of one of the four main network operators.

The German mobile telecommunication market is heavily regulated and certain elements of retail mobile pricing are dictated by EU and national regulation of, for example, MTRs and roaming charges. See “Regulation—Germany” for further discussion of these and other factors affecting the German mobile telecommunication market.

### *Challenger Strategy*

Within its German segment, KPN’s strategic objective is to attain a mobile market share by service revenues in Germany of approximately 20% in the long-term and achieve an EBITDA margin of between 30-35% in the medium term.

Specifically, its challenger strategy will focus on:

- *Monetize Competitive Data Network:* In order to expand its business, E-Plus expects to accelerate its mobile broadband internet deployment, including a 4G LTE network, as a means of improving its reputation for network quality and reducing customer churn. In particular, E-Plus is improving its network by upgrading its IP-backhaul (a system for linking its core network to its network of base stations), dual-carrier and HSPA+ capabilities and expects its network to be on par with the competition by mid-2013. E-Plus plans to begin deploying 4G LTE in either 2013 or 2014 in line with customer demand. These upgrades will improve the quality of E-Plus’s network, expand its reach and improve mobile data transmission. It will also place E-Plus in a position to take advantage of the increasing mobile data demand. As of 31 December 2012, E-Plus provided HSPA+ network coverage to more than 85% of the population in Germany capable of speed up to 21Mbps.
- *Postpaid Focus:* E-Plus will continue to focus on expanding its position in the postpaid market, as a means of increasing net adds. E-Plus believes it has an opportunity to grow its mobile data revenues from both existing and new customers as it accelerates network improvements and increasing customer demand for mobile data. E-Plus will seek to accomplish this by improving its network and marketing flat-fee mobile data packages, which will allow it to target postpaid customers that E-Plus believes are more likely to own smartphones and therefore to be larger consumers of mobile data and thus generate higher ARPUs than prepaid customers.
- *Regional Focus:* E-Plus’s challenger strategy in Germany is focused on specific regions, which it will continue to target and grow. E-Plus will continue to expand from its core geographic regions into geographical regions and market segments where it has lower market share. E-Plus aims to grow by building out its retail distribution network incrementally and to enhance brand recognition at the same time.

- *Distribution and Branding:* E-Plus will continue to focus on online sales through its various brands. In order to continue growing in the German market, E-Plus is seeking to further develop its online sales channel by increased emphasis on social media, while improving the strength of its brands through increased brand recognition and clear positioning for certain regions and market segments.
- *Improve Underlying Cost Structure:* E-Plus will seek to improve its underlying cost structure through strategic partnerships in order to limit network maintenance and expansion costs. E-Plus's expected improvement of its underlying cost structure should provide it with greater operational flexibility to respond to changing market conditions and allow for investments in growth.

### *Marketing and sales*

E-Plus markets its postpaid mobile services primarily through its innovative brand (BASE), its youth-focused brand (yourfone) and its no-frills brand (Blau). In addition, E-Plus markets its mobile service through its brands focused on affordable mobile services for various ethnic communities (Ay Yildiz and Ortel Mobile) and its online brand, which provides SIM cards for mobile phones online with and without subscription (Simyo).

E-Plus's marketing and advertising approach reflects its challenger strategy and focuses on online sales and, over the longer term, on expansion of a physical distribution network into targeted regions. E-Plus has driven its increase in customers by marketing online nationally and through its physical store network in its core geographies. E-Plus carries out various general and customized marketing measures from its core regions in all media. Regional marketing activities such as outdoor advertising and local promotional events are tailored to the local target groups and competitive situation. E-Plus's regional approach is intended to maintain existing market share in its core regions, while selectively competing in non-core regions to grow its market share in line with its network development.

Significant marketing activity is also focused on E-Plus's existing customer base to increase customer satisfaction, reduce churn and up-sell existing customers to new products and services. In addition, E-Plus is also seeking to develop its brands by increased marketing which will extend its brands into new geographic regions within Germany in accordance with its regional focus strategy.

E-Plus offers its products through its own stores, its online channels and retail chains. In order to continue to increase its coverage, E-Plus also operates through dealer networks, independent service providers, chain stores and exclusive partner stores. In addition, E-Plus enters into exclusive partnerships with distribution chains.

### ***Belgium***

KPN operates in Belgium through KPN Group Belgium, where its main brand, BASE, provides customers with multi-brand mobile telecommunications, offering prepaid and postpaid services targeted at multiple market segments. KPN Group Belgium is the third largest mobile service provider in Belgium by number of subscribers and service revenues, offering mobile services focused on value. As part of its challenger strategy, KPN Group Belgium has begun to provide fixed-line services to its mobile customers. KPN Group Belgium targets specific market segments through multiple offerings of its own brands and wholesale partnerships. KPN Group Belgium operates a high quality mobile network based on 2G and 3G technology, and plans to expand its dual-carrier and 4G LTE offerings. See “—Infrastructure & Network—Mobile Infrastructure—Belgium”.

For the year ended 31 December 2012, Belgium generated EUR 804 million in revenue, or 6.3% of total Group revenue, and EUR 272 million of EBITDA, or 6.0% of total Group EBITDA.

The table below summarizes KPN Group Belgium’s change in certain of its key operating metrics, including: service revenues, wireless customers, net adds—postpaid, net adds—prepaid and ARPU wireless blended during the period under review.

	For the year ended and as of 31 December		
	2012	2011 (unaudited)	2010
Service revenues (EUR millions) <sup>(1)</sup> .....	716	687	684
Year-on-year change (%) .....	4.2	0.4	
Wireless customers (thousands) <sup>(2)</sup> .....	3,424	4,131	3,728
Year-on-year change (%) .....	(17.1)	10.8	
Net adds—postpaid (thousands) <sup>(3)</sup> .....	17	66	65
Year-on-year change (%) .....	(74.2)	1.5	
Net adds—prepaid (thousands) <sup>(4)</sup> .....	(724)	337	85
Year-on-year change (%) .....	(314.8)	296.5	
ARPU wireless blended (EUR) <sup>(5)</sup> .....	15	14	16
Year-on-year change (%) .....	7.1	(12.5)	

(1) Service revenues for the Belgium segment include retail and wholesale subscription fees from voice, SMS/MMS and mobile data; revenues from incoming and outgoing voice, SMS/MMS and mobile data; revenues from roaming, net content and M2M, minus service discounts for the specified period.

(2) Wireless customers for the Belgium segment is the total number of retail subscribers and customers of KPN Group Belgium’s wholesale subscribers (in both cases, including postpaid and prepaid) connected to KPN Group Belgium’s mobile network as of the end of the specified period.

(3) Net adds—postpaid for the Belgium segment is the total of newly registered postpaid subscribers in a given period, minus the number of postpaid subscribers who cancelled their subscriptions, plus all migrations in from prepaid and migrations from wholesale, minus migrations out to prepaid and migrations out to wholesale for the specified period.

(4) Net adds—prepaid for the Belgium segment is the total of newly registered prepaid subscribers in a given period, minus the number of prepaid subscribers who cancelled their subscriptions, plus all migrations in from postpaid and migrations from wholesale, minus migrations out to postpaid and migrations out to wholesale for the specified period. Net adds—prepaid has been adjusted for the removal of 1,264,000 inactive prepaid SIM cards in 2012.

(5) ARPU wireless blended for the Belgium segment is the average service revenue per month per subscriber. ARPU wireless blended for the Belgium segment is calculated as the service revenues for the specified period divided by the sum of the month-end average subscriber base (retail and wholesale end-user subscribers for postpaid and prepaid) for months of that period.

### *Products and services*

KPN Group Belgium’s multi-brand strategy offers a full portfolio of mobile services (voice, SMS, mobile data) and content services, such as Spotify, in Belgium. This portfolio offers both value and simple solutions. A recent agreement with Belgacom enables KPN Group Belgium to provide a new triple play package, “Snow”, which provides fixed line telephony, broadband internet and TV to the Belgian market.

BASE is KPN Group Belgium’s mainstream retail brand, offering prepaid as well as postpaid mobile services. BASE Business also delivers mobile services for the business market (small office/home office and small and medium enterprises). Mobile data continues to be an important growth driver, not only through KPN Group Belgium’s own brands but also through its wholesale partnership, Mobile Vikings (45% owned by KPN Group Belgium), which is an MVNO focusing on mobile and broadband internet.

### *Market environment and competition*

The Belgian mobile communication market is highly competitive. Competition, together with regulatory obligations to reduce MTRs and roaming charges, have led to an overall decline in service revenues and ARPU in the Belgian mobile telecommunications market. Increasingly the market has been characterized by fixed-mobile convergence with competitors offering bundled packages combining fixed and mobile services.

KPN Group Belgium primarily competes against three other service providers in Belgium: Belgacom (Proximus), Mobistar and Telenet. Belgacom is the incumbent telecommunications provider and is majority-owned by the Belgian state. Belgacom remains the market leader in Belgium with Mobistar (majority-owned by France Telecom) the second largest competitor. KPN Group Belgium is the third-largest

provider, with an estimated mobile market share (by service revenues) of approximately 20% for the three months ended 31 December 2012. Telenet, the leading cable service provider in the northern part of Belgium, and the fourth largest provider, recently introduced an attractively priced mobile offering, as MVNO on the Mobistar network.

In 2012, the market environment changed significantly due to new telecom legislation allowing customers in Belgium to terminate their telecommunications contracts at cost as from six months after the starting date of the contract, and new pricing strategies by competitors, triggering increased customer volatility and price sensitivity. In this changing environment; KPN Group Belgium launched several commercial initiatives, including allowing customers in Belgium to terminate their telecommunications contracts at any time. In addition, KPN Group Belgium revamped its JIM prepaid as well as the BASE business portfolios, for example with the launch of BASE All 10, 20 and Unlimited, and new BASE Check 15.

The Belgian mobile telecommunication market is heavily regulated and certain elements of retail mobile pricing are dictated by EU and national regulation of, for example, MTRs and roaming charges. See “Regulation—Belgium” for further discussion of these and other factors affecting the Belgian mobile telecommunication market.

### *Challenger Strategy*

KPN Group Belgium’s strategic objective in the long-term is to attain a mobile market share in Belgium of approximately 25% and an EBITDA margin of between 25-30% in the medium term.

Specifically, its challenger strategy will focus on:

- *Mobile-centric challenger:* In order to expand its business, KPN Group Belgium seeks to continue to focus on its strength in mobile telecommunications, while also challenging fixed-telephony competitors. KPN Group Belgium will seek to accomplish this by improving its network and marketing innovative customer packages that take advantage of fixed-mobile convergence and the shift in customer preference from voice and SMS to mobile data. KPN Group Belgium has recently agreed with Belgacom to provide fixed-line services to KPN Group Belgium’s mobile customers.
- *Innovation and Value:* KPN Group Belgium is seeking to grow its retail customer market share by leading the mobile market in terms of value, customer service and price perception. It will continue to improve on delivering customer value with increased tariff options and content services, such as Spotify, and challenge fixed market players with bundled fixed-mobile options. KPN Group Belgium will seek to execute its innovation and value strategy in part through its Mobile Vikings partnership, which provide customer initiatives such as points that can be redeemed for products and services when customers assist other customers with customer service.
- *High Quality Network:* KPN Group Belgium will continue to accelerate its mobile broadband internet deployment, including the roll-out of a 4G LTE network, as a means of reducing churn by differentiating itself from competitors based on network speed and differentiation. KPN Group Belgium expects to accelerate its HSPA+ roll out in 2013 and aims have its 4G LTE network available to the majority of the country in 2014.
- *Regional Focus:* KPN Group Belgium’s challenger strategy in Belgium has focused primarily on the central regions of Belgium. Going forward, KPN Group Belgium will increase its focus on regions in the south of Belgium where it has lower market share, targeting large cities with its multi-brand strategy and high value business customers.

### *Marketing and sales*

KPN Group Belgium markets its mobile services primarily through its BASE brand, which is intended to offer customers a simple proposition that is focused on value. KPN Group Belgium also offers affordable mobile services targeting various ethnic communities through its distinct brands, such as Ortel Mobile and Türk Telekom as a branded reseller. In addition, under Belgian law, mobile service contracts are limited to a maximum of six months; however, all of KPN Group Belgium’s contracts have no fixed duration.

KPN Group Belgium markets its mobile services through TV, point-of-sale material and advertisements in newspapers, magazines and billboards, internet publicity and radio campaigns. In addition to traditional marketing media, KPN Group Belgium’s challenger strategy in Belgium also involves using customers as “brand ambassadors” to attract new customers through word-of-mouth advertising and by rewarding existing customers for referring others to its services.

KPN Group Belgium sells its mobile services through its BASE stores and ALLO Telecom stores and online. KPN Group Belgium also sells its mobile services through its network of 750 dealers, including nationwide chains and smaller regional dealers, and through alternative channels, such as fuel stations and confectionary, tobacco and newspaper stores. In addition, KPN Group Belgium has entered into reseller agreements with JIM Mobile, ALLO RTL and Contact Mobile to market and sell its products through their media outlets. Its business mobile offerings are sold primarily to small office/home office clients through business partners and to small and medium enterprise clients through its direct sales force. KPN Group Belgium has grown the number of its stores in recent years, with an expansion from 129 stores as of 31 December 2010 to 154 stores as of 31 December 2012.

KPN Group Belgium intends to grow its online channel by optimizing search engine marketing of its website and offering benefits that are available exclusively online. KPN Group Belgium also plans on integrating its multi-brand platform with its online channel by developing branded websites to ensure a seamless brand experience, and KPN Group Belgium is also developing an online functionality to provide an electronic billing and payment system to its customers.

### **Rest of World**

KPN's Rest of World segment comprised the Ortel Mobile business in the Netherlands, Germany, Belgium, France, Switzerland and Spain, as well as KPN Spain and KPN France, which were operated through collaborations with strategic partners. In connection with KPN's strategy to focus on its core markets, KPN divested KPN France in 2011, KPN Spain in 2012 and Ortel Switzerland in 2012, with Ortel Spain currently held for sale. As of 1 June 2012, Ortel Belgium was consolidated into the Belgium operating segment and as of 1 January 2013, Ortel Netherlands and Ortel Germany were consolidated into the Consumer Mobile and Germany segments, respectively. As of 1 January 2013, only Ortel France and Ortel Spain remained in Rest of World.

### **iBasis**

Through iBasis, KPN is a prominent player in the international wholesale voice market, terminating international phone calls on a worldwide basis. iBasis offers its carrier customers a range of global call termination products, as well as a portfolio of value-added mobile data services for mobile operators.

The international wholesale voice market is a commodity business that requires low-cost infrastructure and efficiencies that result from large-scale traffic volume. With its global footprint and more than 26 billion minutes of voice traffic annually, iBasis is one of the largest carriers of international voice traffic in the world. In addition to its widely-used technology in VoIP and global network footprint, iBasis has continued to expand its portfolio in two of the fastest-growing segments of global telecommunications, mobile services and consumer VoIP.

iBasis's strategy is to leverage its global IP infrastructure and expertise, sophisticated back office systems, and substantial scale, including a worldwide sales force, to provide international communications services to fixed and mobile operators worldwide. In 2012, iBasis launched innovative new offerings over its multi-service IPX platform, including LTE Signaling and high definition voice, to address emerging opportunities in global communications

For the year ended 31 December 2012, iBasis generated EUR 1,035 million in revenue, or 8.1% of total Group revenue, and EUR 30 million of EBITDA, or 0.7% of total Group EBITDA.

The table below summarizes iBasis's change in certain of its key operating metrics, including: minutes international and average revenue per minute during the period under review.

	<b>As of 31 December and for the year ended</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
		<b>(unaudited)</b>	
Minutes international (billions) <sup>(1)</sup> .....	26.2	25.6	24.1
Year-on-year change (%) .....	2.3	6.2	
Average revenue per minute (EUR cents) <sup>(2)</sup> .....	4.0	3.8	3.8
Year-on-year change (%) .....	5.3	0.0	

(1) Minutes international for iBasis is the total number of voice minutes sold by iBasis to its carrier customers for the period.

(2) Average revenue per minute for iBasis is minutes international divided by total revenue generated for the sales of minutes to carrier customers by iBasis for the period.

### *Products and services*

iBasis offers a comprehensive voice product portfolio: Direct Voice, Certified Voice and Premium Voice. The three products offer a progression of code coverage, pricing and features formulated to meet the varied requirements of fixed carriers, mobile operators, customer voice over broadband internet carriers, and prepaid calling card service providers.

In the mobile market, in addition to iBasis's voice products, it offer a portfolio of value-added mobile data services to enhance mobile operators' ARPU and customer loyalty called Mobile Matrix. Mobile Matrix includes global signaling, mobile messaging and roaming. With this combination of voice and mobile data services, iBasis competes in all telecommunications markets and particularly in the fast-growing segments of VoIP and mobile.

In addition to its wholesale activities, iBasis sells its prepaid calling services to the retail market in North America through calling-cards and its Pingo e-commerce service. iBasis offers branded and private-label prepaid calling cards sold through qualified distributors and retail merchants. Pingo is iBasis's online prepaid international calling service for retail customers and enterprises.

### *Market environment and competition*

The international wholesale voice market is a business that requires low-cost infrastructure and benefits from efficiencies of large-scale traffic volume. The market is characterized by margin pressure and increased competition for market share. By focusing on quality and efficiency, iBasis has maintained its position as one of the five largest carriers of international voice traffic in the world. iBasis's main competitors include AT&T, BICS, Deutsche Telekom, Tata and Verizon.

### *Marketing and sales*

iBasis sells its wholesale services through its own worldwide sales-force, with local presence in all regions, including the Americas, Europe, the Middle East and Asia. Dedicated sales and product teams for Mobile Matrix and other products work from its head office in Burlington, Massachusetts and from The Hague. Overall product management, innovation and network functions are mostly located in the United States.

## **Infrastructure & Network**

### ***Fixed Infrastructure (the Netherlands)***

KPN's fixed infrastructure in the Netherlands is of vital importance for its continued business operations and financial performance. KPN's hybrid FttH and VDSL network strategy emphasizes expanding the market for the services that it delivers with its networks. At the end of 2012, KPN was able to deliver broadband internet access with speed of at least 40Mbps to approximately 70% of Dutch households. KPN expects to continue its FttH roll-out in 2013, further increasing its market reach and introducing vectoring to increase both upload and download speeds. KPN's VDSL upgrades and FttH roll-out are on schedule.

### *Copper*

KPN is the only operator of fixed copper infrastructure in the Netherlands with nationwide coverage. KPN continues to make investments to upgrade its copper-based network. New technologies, such as pair bonding and vectoring, significantly increase the available broadband internet bandwidth on copper networks for subscribers and enable the commercial roll out of triple-play packages, including multi-room HD TV.

### *FttH*

KPN's deployment of FttH in the Netherlands is being executed through its joint venture, Reggefiber. In 2012, KPN strengthened its commitment to FttH in the Netherlands by increasing its ownership in Reggefiber by an additional 10% to 51%. In addition, KPN acquired Reggefiber Wholesale (Reggefiber's active network operator), which will allow Reggefiber to focus solely on the roll-out of FttH and to operate an open access passive FttH network. In connection with the increase in KPN's ownership of Reggefiber, KPN also acquired five fiber service providers from Reggeborgh and Reggefiber. See "General Information—Material contracts—Reggefiber joint venture".

KPN rolls out FttH in an area after pre-marketing its FttH services and achieving a minimum threshold of customer demand. As part of its FttH roll-out, in mid 2012, KPN introduced a standard 100Mbps FttH package (as compared to 40Mbps for VDSL and 8Mbps for plain copper DSL) and a premium 500Mbps FttH package. As of 31 December 2012, KPN's FttH roll-out had covered approximately 18% of Dutch households, or 1.2 million homes passed.

KPN believes FttH is a superior infrastructure in the long-term. In particular, FttH allows greater upload and download speeds as compared to cable or traditional copper DSL. FttH users also do not experience diminished download speeds as more users are online, which is in contrast to cable users who share bandwidth, and are also able to upload and download at the same time, unlike cable users.

KPN also provides fixed-line services to businesses, including FttO based on customer demand in an area generally, or based on specific customer orders.

## ***Mobile Infrastructure***

### *The Netherlands*

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

KPN recently paid EUR 1.35 billion to acquire 15 blocks of frequency licenses in the 800MHz, 900MHz, 1800MHz, 2.1GHz and 2.6GHz bands for a total of 120MHz in the recently completed spectrum auction in the Netherlands. This spectrum package enables KPN to continue its existing 2G and 3G service, and introduce new services, such as 4G LTE, for its customers for a period of 17 years in the Netherlands. KPN believes its market leading position will be strengthened as a result of the auction, as it will remain the only integrated access provider in the Dutch retail and business market, offering services through a combination of its own 2G, 3G and 4G LTE networks and its hybrid copper and FttH infrastructure.

KPN has started rolling-out its new 4G LTE network using spectrum in the 800MHz band. KPN expects to have covered approximately 50% of the Dutch population by mid-2013 and nationwide coverage in the second half of 2014.

### *Germany*

E-Plus continues the roll-out of its mobile data network. As of 31 December 2012, more than 85% of E-Plus's UMTS sites in Germany were HSDPA and HSPA+ enabled capable of speeds up to 21Mbps. In Germany, E-Plus holds licenses in the 900MHz, 1800MHz, 2.1GHz and 2.6GHz spectrum.

### *Belgium*

In Belgium, KPN Group Belgium's mobile network covers nearly all of the Belgian population, and it is implementing EDGE and UMTS technologies. KPN Group Belgium is also deploying 3G UMTS/HSPA+ technology. KPN Group Belgium continues to improve its existing mobile network, specifically focusing on indoor coverage. KPN Group Belgium expects to begin offering dual-carrier (DC-HSDPA) in the near term to achieve better resource utilization and spectrum efficiency. In addition, KPN Group Belgium plans to roll-out its 4G LTE network with the aim have its 4G LTE network available to the majority of the country in 2014. In Belgium, KPN Group Belgium holds licenses for 900MHz, 1800MHz, 2.1GHz and 2.6GHz spectrum.

## **Billing and collections**

KPN believes the quality of billing and collections is a key element of customer satisfaction. KPN generally bills its customers on a monthly basis; in the Netherlands and Belgium, KPN's subscriptions are generally billed one month in advance, with subscriptions billed at the end of the month in Germany, and traffic/usage also billed

one month behind in the Netherlands, Germany and Belgium. KPN is seeking to reduce complexity in its bills to make them easier to understand. In the Business segment, KPN offers specialized billing for medium and large customers.

In the Netherlands, KPN's billing and collections are operated by specialized service centers, which are shared among KPN's business segments in order to maintain high operational standards and optimize the efficiency of its IT systems. KPN's billing revenue assurance team is located in the Netherlands and seeks to ensure that invoices are correct and transparent.

Most of KPN's monthly invoices are produced automatically, while some based on older systems require manual work which is generally performed by an outsourcing partner. KPN provides invoices electronically via [www.kpn.com](http://www.kpn.com) or by emailing invoices directly to customers. For the year ended 31 December 2012, 82% of KPN's invoices were paperless.

KPN generally collects payment by direct debit for Consumer Mobile and Consumer Residential, while for Business customers, small businesses generally pay by direct debit and medium and large businesses are offered a variety of payment terms.

### **Intellectual property**

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

KPN continues to invest in the growth of its intellectual property rights portfolio, among others, through KPN's targeted long term research and development program in close cooperation with TNO Telecom and other research and development institutes and universities. For information on risks related to KPN's portfolio of intellectual property rights, please see "Risk Factors—Third parties may claim that KPN infringes their intellectual property rights, which could adversely affect KPN's business".

### **IT infrastructure**

KPN's IT systems are highly integrated into every aspect of its business, providing capabilities for a variety of purposes, such as sales, customer relationship management, billing, rating and payments, business intelligence, enterprise resource management and network integration. They are mainly hosted in redundant and geographically distinct data centers in various locations in the Netherlands.

KPN has continuously invested in its IT infrastructure over the years to further improve IT effectiveness and efficiency through increased standardization, centralization, consolidation and virtualization of IT systems. KPN uses carefully selected software systems that increase its efficiency, including specially designed software, open-source software and third-party commercial software. Despite an active cost optimization program, only well-established suppliers for hardware and software have been chosen to ensure reliability and prevent cost-intensive design changes as KPN attempts to use only a limited number of well-established IT service integrators.

### **Outsourcing**

In-house personnel oversee and manage the high-level aspects of KPN's IT systems, including IT strategy, program and portfolio management, high-level IT architecture, functional testing and acceptance and project management process. KPN's IT outsourcing and offshoring partners, such as Tech Mahindra, IBM, Accenture, Mindtree and Atos provide additional IT services in specific areas, such as solution design and development, integration and testing and IT operations. KPN is currently in the process of consolidating its IT systems and partners.

KPN also outsources certain other functions, including network maintenance and maintenance of facilities. For network maintenance and engineering, KPN partners with Huawei, VolkerWessel, Schuurings, Koning & Hartman, Alcatel-Lucent, Ericsson and ZTE, among others. KPN partners with Sodexo and Eurest, among others, for outsourcing the maintenance of its facilities.



## **Properties**

KPN owns and leases administrative facilities, operational network facilities, and retail facilities throughout the Netherlands, Germany, Belgium, Spain and France. KPN leases its headquarters in The Hague, the Netherlands.

## **Insurance**

KPN buys insurance coverage in amounts it believes are consistent with its risk management policies and with customary industry practices. KPN's insurance policies include insurance for property/business interruption, liability against claims from third parties, personal accidents, directors and officers liability and crime. KPN's intention is to maintain insurance coverage consistent with its risk management policies and industry standards, although the coverage may change and insurance premiums may increase.

KPN believes that its existing insurance coverage, including the amounts of coverage and the conditions, provides sufficient protection, taking into account the costs for the insurance coverage and the potential risks to its business operations. However, KPN cannot guarantee that no losses will be incurred or that no claims will be filed against it that go beyond the type and scope of the existing insurance coverage.

## **Environmental issues**

KPN is subject to a broad range of environmental laws and regulations. These laws and regulations impose increasingly stringent environmental obligations regarding, among other things, radiation emissions, zoning, the protection of employee health and safety, noise and historical and artistic preservation. KPN could, therefore, be exposed to costs and liabilities, including liabilities associated with past activities. KPN's operations are subject to obligations to obtain environmental permits, licenses and/or authorizations, or to provide prior notification to the appropriate authorities.

KPN's objective is to comply in all material respects with applicable environmental and health control laws, and all related permit requirements. KPN believes that the principal environmental risks arising from its current operations relate to the potential for electromagnetic pollution and for removal of certain elements of its network, such as copper cables. In extreme cases, the penalty for repeat violations of the applicable environmental laws in the Netherlands, Germany or Belgium could result in administrative sanction, suspension and even revocation of KPN's license.

KPN uses different network infrastructure strategies to achieve radiation emission ranges lower than the minimum levels permitted by applicable Dutch, German or Belgian regulations. If the Dutch, German or Belgian governments or regulator were to set limits on electromagnetic emissions that were stricter than those currently in effect, KPN could be required to upgrade, move or make other changes to its transmission infrastructure.

## **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, or which have had in the previous twelve months, a significant effect on the financial position or profitability of KPN, including its subsidiaries and consolidated joint ventures. 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 13 September 2006, Citibank N.A. (**Citibank**) and Cargill Financial Markets Plc. (**Cargill**) served a writ of summons on KPN, seeking EUR 218.9 million, excluding interest and costs, from various former officers and former shareholders of KPNQwest, including KPN. Citibank and Cargill claim compensation for damages in relation to a EUR 525 million syndicated loan provided to KPNQwest in 2002 on the basis of alleged misrepresentation and concealment by former management and former shareholders when the loan was provided to KPNQwest. Citibank acted as agent of the syndicate and as a 14.7% principal lender of the syndicated loan. Cargill claims that it acquired 85.3% of the claim by assignments of their part in the syndicated loan by other original lenders. The District Court of Amsterdam dismissed all the claims of Citibank and Cargill on 25 April 2012. Citibank and Cargill have appealed the decision, which remains pending.

On 28 September 2010, the bankruptcy trustees for KPNQwest served a writ of summons against multiple parties, including Qwest, KPN, the former CEO of KPNQwest and nearly all former members of the Supervisory Board of KPNQwest. The basis of the claim is that KPNQwest allegedly entered into transactions (among others with KPN) which did not serve a business purpose, incorrectly recorded turnover in relation to these and other transactions and thereby misled investors in and creditors of KPNQwest. According to the bankruptcy trustees, this constitutes mismanagement. The bankruptcy trustees are seeking to hold each of the defendants, including KPN as one of the shareholders of KPNQwest, severally liable for the damages that resulted from this alleged mismanagement. The bankruptcy trustees claim that the defendants, including KPN, should be severally ordered to pay for the deficit in the estate. The bankruptcy trustees estimated that the deficit in the estate amounts to approximately EUR 4.2 billion. However, this amount includes intra-group creditors, as well as creditor claims that are disputed by the bankruptcy trustees. According to the bankruptcy trustees' latest bankruptcy report, the consolidated amount of the deficit in the estate amounts to EUR 2.1 billion. KPN is currently preparing its statement of defense.

### ***Reggefiber***

In 2009, cable operators, Ziggo and UPC, as well as other telecommunications providers in the Netherlands, filed suit in the administrative District Court of Rotterdam (the **Court**), seeking to challenge the NMa's 2008 approval of KPN's entry into the Reggefiber joint venture. Plaintiffs claimed that by allowing the joint venture, competition in various fixed-line services, including fiber, cable and copper, would be restricted. In an interim ruling on 18 November 2010, the Court held that the NMa had provided insufficient evidence for part of its competition analyses. In particular, the NMa had not adequately demonstrated the potential effects on competition regarding non-price effects (such as the quality and roll-out of fiber) in its assessment or remedies. The Court then allowed the NMa to submit additional evidence and, after further consideration, it held on 10 May 2012 that the Reggefiber joint venture could continue despite its annulment of the NMa decision.

On 15 June 2012, Ziggo appealed the Court's decision to the Trade and Industry Appeals Tribunal (*College van Beroep voor het bedrijfsleven (CBb)*), claiming, among other things, that the Reggefiber joint venture should have been assessed in a second phase enquiry by the NMa to take into account the effects on the market as well as the effectiveness of the remedies. If the appeal is successful, the CBb could annul the NMa or Court decision or remand the matter to the Court or the NMa for further consideration, which in turn could lead to the confirmation, dissolution or amendment of the Reggefiber joint venture. A decision by the CBb is expected sometime in 2013.

## REGULATION

### Overview

KPN's operations, as well as those of its subsidiaries and affiliates, are subject to industry sector-specific telecommunications regulations governing the conduct of its various operating segments and general competition law, as well as a variety of other regulations. At both the EU level and under Dutch, German and Belgian law, the extent to which telecommunications regulations apply to KPN depends largely on the nature of its activities in a particular country. In addition to complying with such laws and regulations, KPN must comply with both specific and general legislation concerning, among other subjects, data protection, data retention, internet service provider liability, consumer protection and e-commerce.

The regulatory measures with the largest potential impact on KPN are the regulation of MTR tariffs and international roaming charges, obligations related to significant market power and the licensing regimes for the use of frequencies. In the Netherlands, Germany and Belgium KPN is regulated on mobile call termination services. The European Roaming Regulation is directly applicable in all EU 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.

KPN may participate in spectrum auctions in Germany and Belgium as early as 2013, which may require it to incur significant and unexpected capital expenditures or investments.

### The EU regulatory framework for electronic communications

#### *General*

The TV, telephony, mobile and internet access markets in which KPN operates are regulated at the European Union level.

EU Member States are required to enact EU legislation into their domestic law and to take EU legislation into account when applying domestic law. In each EU Member State, a national regulatory authority (**NRA**) is responsible for enforcing national telecommunications laws that are based on the Regulatory Framework for Electronic Communications in the European Union (the **EU Framework**). NRAs have powers under their relevant telecommunications laws concerning generally applicable sector specific regulation (e.g., on interoperability and end-user protection) and also to impose specific obligations (e.g., to impose network access, interconnection obligations and price controls) on operators that have "significant market power". NRAs also have the authority to assign wireless spectrum and supervise the use of frequencies.

In December 2009, amendments to the 2002 EU Framework were agreed upon that had to be implemented by May 2011. Since KPN's business is undertaken mainly within the European Union, its operations are, to a large extent, subject to the EU Framework and related telecommunications regulation.

#### *Fixed and mobile termination rate recommendation*

The European Commission made recommendations in 2007, requiring NRAs to analyze the call termination market in order to determine whether regulatory remedies needed to be imposed. In May 2009, the European Commission issued recommendations on the regulatory treatment of fixed termination rates (**FTRs**) and mobile termination rates (**MTRs**) in the EU, intending to reduce termination rates significantly by defining the details of the cost calculation of termination rates by the NRAs. With these 2009 recommendations, the Commission intended to harmonize cost standards for MTRs and FTRs throughout the European Union, while also eliminating asymmetry between operators. In particular, the 2009 recommendations include a "pure BULRIC" approach, which no longer takes into account various costs which had previously been considered when setting MTRs. Although the recommendations were not legally binding, NRAs have to take account of the recommendations while still being able to reflect national circumstances, in setting final MTRs. The application of these recommendations in the Netherlands, Germany and Belgium are each discussed below.

#### *Pending policy on next generation access (NGA) regulation*

In April 2010, the European Commissioner for Digital Agenda published the "Digital Agenda for Europe". The document outlines policies and actions to maximize the benefit of the digital economy by 2020 for European citizens. The announced actions include a strengthened European policy for spectrum (aimed at allocating additional spectrum for mobile internet access), targets for broadband penetration in the EU and the promotion of NGAs.

An element that has been under discussion and is of importance to KPN is the regulation of unbundled access to fixed networks. On 12 July 2012, EU Commissioner Kroes presented the outlines of regulatory principles, which are intended to provide durable regulatory guidance intended to last until at least 2020 in order to enhance the transition to the next generation of high-speed networks. A recommendation on non-discrimination and costing in relation to NGA networks is expected in 2013, which would facilitate this purpose. This recommendation is expected to include guidelines for wholesale price regulation on traditional copper and NGA networks of operators with significant market power, and consequently may have an impact on KPN's fixed business in the Netherlands.

### ***Roaming on mobile networks***

The European Roaming Regulation (as last amended in July 2012) provides the framework for tariff reductions for voice, SMS and data roaming charges (i.e., additional fees for calls initiated outside the subscriber's home country) on mobile networks in the European Economic Area. In addition to amending tariff regulation of wholesale and retail rates, the 2012 amendment introduced certain "structural measures" aimed at creating more competitive retail roaming markets. As a result of these amendments, regulated wholesale roaming price caps will further decrease on an annual basis until the end of July 2014, and after that date, retail roaming prices for voice, SMS and data will also be subject to price caps until (at least) July 2017. As a result of the changes implemented in July 2012, MVNOs can also benefit by paying regulated wholesale rates for voice, SMS and data roaming.

Beginning in July 2014, retail roaming services will also be required to be "decoupled" from other service offerings, meaning that roaming will have to be offered separately from national services and will also be obtainable from alternative roaming providers. Network operators such as KPN will also be required to facilitate access to data roaming services offered by foreign operators in their territories. The European Commission has published implementation regulations to ensure technical implementation.

### ***Access, interoperability and interconnection***

All providers of public electronic communications networks or services who control access to end-users in the EU are obliged to enter into negotiations upon the request of a competitor to conclude an interoperability agreement. Interoperability refers to all measures, including access and interconnection, that need to be implemented to ensure end-to-end connections. If a provider does not comply with its obligation to enter into negotiations, the NRA, at the other party's request, can impose proportionate obligations on the provider in order to ensure end-to-end connectivity. If commercial negotiation regarding access fails, the NRA has the power to secure access, interconnection and interoperability in the interest of end-users. The interoperability obligations imposed by the NRA must be objective, transparent, proportionate and non-discriminatory.

### ***Significant market power and market analysis***

To ensure that the telecommunications markets become genuinely competitive, an NRA can impose ex-ante regulation by means of market analysis decisions on operators or service providers that have "significant market power" in a relevant market within a given country. A company will be deemed to have significant market power if it, either individually or jointly with others, enjoys a market position equivalent to dominance, i.e., a position of economic strength affording it the power to behave to an appreciable extent independently of competitors, customers and ultimately consumers. Ex-ante regulation means that the NRA sets behavioral rules beforehand with which operators or service providers with significant market power must subsequently comply in the markets defined for such purpose by the NRA.

Before it can be established whether an operator or service provider has significant market power, the NRA will apply the principles of the general European competition law to determine in which relevant markets the operator or service provider competes. In determining the presence of significant market power, the NRA is required to take into account the European Commission's "Commission Recommendation on the relevant product and service markets (2007/879/EC)". In this recommendation, the European Commission predefined those product and service markets in respect of which ex-ante regulation may be warranted. Since December 2007, the Recommendation has included seven markets. A review of the Recommendation by the Commission is currently underway, but is likely to be finalized only in 2014. An NRA is required to investigate instances of significant market power in these seven predefined markets, but may also predefine additional relevant markets in its jurisdiction if the need is proven.

If an NRA determines that a company has significant market power, the NRA will have to impose one or more appropriate obligations. These obligations relate to, among other things, access and use of specific network facilities, non-discrimination, transparency or the level of tariffs permitted in the regulated wholesale or retail markets. Although the amended EU Framework provides NRAs with the power to mandate “functional separation” in certain cases (i.e., to separate the access network operations of providers with significant market power from the service business of such providers), this power is meant to be a remedy of last resort, with high thresholds to be overcome before it can be employed.

## **The Netherlands**

### ***General***

In the Netherlands, European Union regulations are implemented through the *Telecommunicatiewet* (the Dutch Telecommunications Act (**DTA**)) and the *Mediawet* (the Dutch Media Act (**DMA**)) and related legislation and regulations. Pursuant to the DTA, *Onafhankelijke Post en Telecommunicatie Autoriteit* (**OPTA**) is designated as an NRA, together with the Dutch Ministry of Economic Affairs (including the *Agentschap Telecom*) (**AT**), which is mainly responsible for spectrum and issues related to national security. The *Commissariaat voor de Media* (the Dutch Media Authority (**CvdM**)) is authorized to supervise and enforce compliance with the DMA.

The DTA includes conditions that apply to electronic communications networks and services. Possible obligations that could be imposed on KPN include access, interoperability and interconnection regulations, ex-ante regulations of tariffs and other matters for providers with significant market power, financial charges for new universal services or for the costs of regulation, data protection regulations, data retention and wiretapping obligations, consumer protection rules, provision of customer information to law enforcement agencies and access obligations.

In line with the EU Framework, the DTA contains a system of general authorizations, rather than individual licenses. A provider of a public electronic communications network or service is required to notify OPTA, which will register the notification of its network or service. The purpose of the notification is to increase transparency and to ensure effective regulation and does not constitute a formal condition for market entry.

With regard to scarce resources (numbers and frequencies) a system of licenses applies. AT administers the frequency spectrum and grants licenses. OPTA administers licenses with regard to allocation of phone and other numbers.

### ***Significant market power and market analysis***

In the Netherlands, KPN is designated by OPTA to have significant market power in various markets: the markets for voice call termination on its individual mobile and fixed networks, the markets for unbundled access to its copper, FttH and FttO networks, the market for high-quality WBA and wholesale leased lines, wholesale markets for fixed telephony and the retail markets for two or more simultaneous calls.

The European Commission has the power to veto a finding by OPTA of significant market power (or the absence thereof) in any market, whether or not it is included in the seven predefined markets. OPTA also monitors compliance with the ex-ante regulations it establishes on the basis of its market decisions. OPTA completed its first round of market analyses in 2005, which were effective during the period 2006 – 2008. In 2008, OPTA finished its second round of market analyses for the period 2009 – 2011. In 2011 and 2012 OPTA conducted an analysis of these markets which has led to the current decisions for in principle a period of three years.

The second round of market analyses, from 2009 – 2011, deregulated end-user markets by tightening KPN’s wholesale access and tariff obligations. These decisions were subject to appeals to CBb, which (partially) annulled most of OPTA’s decisions between 2010 and 2012 after concluding that OPTA had insufficiently defined the relevant markets for which the decisions would apply. OPTA’s current decisions have taken into account most of the CBb’s conclusions.

OPTA has now completed its market analyses for 2012 and onwards. KPN is still designated as an operator with significant market power in the unbundled copper network and wholesale telephony markets, as a result of which, KPN is subject to access obligations and margin squeeze tests are imposed. Tariff regulation in these markets is to a large extent based on safety caps (inflation-adjusted 2011 tariffs as maximums). While tariff

regulation in the wholesale telephony market has been eliminated for single calls (e.g., PSTN), it has been maintained for two or more simultaneous calls (e.g., ISDN2 or more), and in fact KPN's significant market power designation regarding two or more simultaneous calls has also been extended into the retail telephony, which results in a margin squeeze test being imposed. KPN's joint venture, Reggefiber, has been designated as having significant market power for unbundled access to its FttH network. However, KPN's designation as having significant market power in the low-quality wholesale broadband market has been lifted.

On 20 December 2011, OPTA published its conclusion that the Dutch TV markets will not be regulated. Appeals were dismissed by the CBb on 5 November 2012, resulting in cable operators remaining unregulated.

On 2 July 2012, OPTA published its (amended) decision to base fixed termination access tariffs on a "plus BULRIC" cost methodology, which was outlined in 2011 by the CBb. The European Commission suspended this decision on the basis that OPTA had not followed the European Commission's recommendation to use a "pure BULRIC" approach, which would contribute to lower tariffs. OPTA responded that the decision of the CBb did not allow OPTA to use that approach. In addition, OPTA started its fourth round of market analyses on fixed and mobile termination markets in preparation for decisions covering mid-2013 to mid-2016.

OPTA initially intended to eliminate regulation of the wholesale market for FttO, but withdrew the draft decision after the European Commission expressed serious doubts in 2012 as to OPTA's draft decision. As a result, OPTA reanalyzed the market for unbundled access to KPN's FttO network and the market for high-quality WBA and wholesale leased lines. After a consultation, OPTA published on 28 December 2012 a final decision, in which KPN is designated as having significant market power in the market for unbundled access to KPN's FttO network and the market for high-quality WBA and wholesale leased lines. In both these markets, access obligations, margin squeeze tests and tariff regulations have been imposed as of 1 January 2013. KPN expects to appeal both decisions.

#### ***Mobile termination rates in the Netherlands***

In the Netherlands, KPN (as well as all other MNOs and MVNOs) has been designated by OPTA as having significant market power in the wholesale market for call termination on its individual mobile network, resulting in caps for the MTR fees it may charge for the termination of calls carried on its mobile network. In response to the European Commission's 2009 recommendations, in the Netherlands OPTA initially proposed a "glide path" towards the tariffs defined by the pure BULRIC cost model (1.20 Eurocents) by 1 September 2012. A decision on 31 August 2011 by the CBb ruled that this cost model was not in line with the DTA. The CBb therefore set the tariffs based on "plus BULRIC" costs that were also modeled by OPTA at 2.40 Eurocents, symmetrically applied on all operators. OPTA is preparing a new decision for mid 2013, a draft of which decision is expected in early 2013 for national consultation.

#### ***Mobile licensing***

In the Netherlands, KPN currently operates a mobile network on the basis of frequency licenses in the 900MHz, 1800MHz, 2.1GHz and 2.6GHz frequency bands (with various expiration dates between 2017 and 2030). KPN holds licenses for UMTS, 2.6GHz, DVB-T (Broadcast) and a number of other licenses.

Between October and December 2012, an auction was conducted for (mainly) 800MHz, 900MHz and 1800MHz spectrum for mobile communications, which resulted in the following spectrum allocation:

	<u>KPN</u>	<u>Vodafone</u>	<u>T-Mobile</u>	<u>Tele2</u>
800MHz . . . . .	2*10MHz	2*10MHz	—	2*10MHz
900MHz . . . . .	2*10MHz	2*10MHz	3*10MHz	—
1800MHz . . . . .	2*20MHz	2*20MHz	2*30MHz	—
1900MHz . . . . .	—	—	14.6MHz	—
2.1GHz . . . . .	2*5MHz	2*5MHz	—	—
2.6GHz . . . . .	30MHz	—	25MHz	—

The Dutch Parliament requested that parts (2\*10MHz) of the 800MHz spectrum and parts (2\*5MHz) of the 900MHz spectrum be reserved for at least two new operators. However, no new entrants applied for the reserved part of the 900MHz spectrum.

The licenses KPN acquired in the spectrum auction (except for the 2.1GHz) will remain with KPN until 2030, the same expiration as the 2.6GHz licenses that were auctioned in 2010.

## **Germany**

### ***General***

The operation of telecommunications networks and the provision of telecommunication services in Germany are subject to the regulations in the German Telecommunications Act (*Telekommunikationsgesetz*, German Telecommunications Act, or **GTA**) of 22 June 2004 (as amended on 1 August 2012). The Act implements the European Regulatory Framework for Electronic Communications Networks and Services (as amended in 2009). The Act is supplemented by certain regulations.

The GTA includes conditions that apply to electronic communications networks and services. Possible obligations include interoperability and interconnection regulations, ex-ante regulations for providers with significant market power, financial charges for new universal services or for the costs of regulation, data protection regulations, data retention and wiretapping obligations, consumer protection rules, provision of customer information to law enforcement agencies and access obligations.

Pursuant to the GTA, BNetzA, is designated as an NRA. BNetzA is responsible for the enforcement of the telecommunications laws and regulations and is vested with significant related powers. BNetzA can impose network access and interconnection obligations on network operators and approve or review the charges as well as general business terms and conditions of providers. Further, the authority is competent to allocate frequencies and supervise their use, transfer and trade. Moreover, BNetzA can oblige operators to provide a minimum set of telecommunications services for the public at an affordable price (universal service). It is possible to initiate legal proceedings against the decisions of BNetzA.

In Germany, the commencement, any modification and the termination of business activities for the operation of public telecommunications networks and the provision of publicly available telecommunications services must be notified to BNetzA. Yet, the operation of telecommunication networks and the provision of telecommunications services no longer require a license from a regulatory body.

In addition, the use of mobile frequencies still requires prior frequency assignment, typically conducted by public auction of available spectrum. According to the GTA, BNetzA can assign frequency usage rights on a general or an individual basis.

### ***Mobile termination rates in Germany***

In Germany, KPN (as well as other MNOs) has been designated by BNetzA as having significant market power for voice call termination on its individual mobile network pursuant to a BNetzA ruling of 5 December 2008. Under ex-ante rate regulation, BNetzA's approval of wholesale rates charged by mobile operators with significant market power is required prior to their application. The GTA provides for two basic approaches to prior approvals of rates: price-cap regulation and individual approvals on the basis of costs of efficient service provision. BNetzA will not approve rates which amount to an abuse of the operator's significant market power. BNetzA may also prohibit rates after they are implemented if, after carrying out a review at a later stage, BNetzA comes to the conclusion that charging such rates amounts to an abuse of the operator's significant market power.

Because it has significant market power, BNetzA can impose rate regulations on KPN. Currently, the wholesale call termination rates KPN charges are subject to ex-ante regulation by BNetzA. On 24 February 2011, BNetzA ruled with retroactive effect from 1 December 2010 that the rates which KPN is entitled to charge for call termination to its mobile telecommunications network is 3.36 Eurocents per minute, which was still significantly lower than the rates then in effect. This decision expired on 30 November 2012. BNetzA announced on 2 December 2012, that KPN still has significant market power in the market for voice call termination on individual mobile networks and subsequently started the approval process regarding KPN's MTRs as of 1 December 2012. On 16 November 2012, BNetzA set preliminary new MTRs of 1.85 Eurocents for the period from 1 December 2012 to 30 November 2013 and of 1.79 Eurocents for the period from 1 December 2013 to 30 November 2014. These preliminary decisions are based on a bottom up cost model which identifies the cost of efficient service provision instead of the pure BULRIC recommended by the EU Commission. BNetzA's preliminary decisions still have to be notified to the EU Commission and, if not amended as a result of comments made by the EU Commission, its final decisions will be retroactively applied as of 1 December 2012.

## ***Mobile licensing***

In Germany, KPN's subsidiary E-Plus operates a mobile network on the basis of frequency usage rights in the 900MHz, 1800MHz, 2.1GHz, 2.6GHz and 3.5GHz bands (with various expiration dates between 2016 and 2025).

On 21 November 2011, BNetzA published its final decision on the distribution of 900MHz frequencies in the German mobile market (*Frequenzverteilungsuntersuchung*). Based on the assumption that only E-Plus will refarm its 900MHz frequencies to offer both GSM 900 and UMTS 900MHz services, BNetzA found that the current distribution of 900MHz frequencies is not distorting competition in the German mobile market and that it will therefore not make available additional 900MHz frequencies until 31 December 2016.

Also on 21 November 2011, BNetzA started proceedings to gauge the demand operators will have by 1 January 2017 for the 900MHz and 1800MHz frequencies that will expire on 31 December 2016. On 9 November 2012, BNetzA published a scenario paper disclosing that, in addition to the four current mobile network operators, one or two new players have shown an interest in the 900/1800MHz frequencies and that the sum of future interests exceeds the available spectrum.

In BNetzA's view, the different expiration deadlines (2016, 2020, 2021 and 2025) for the 900/1800MHz spectrum and other usage rights would make a decision on all frequency usage rights and better alignment of the frequency usage rights reasonable. As a result, BNetzA outlines four potential scenarios, which can also be combined:

- Prolongation of 900/1800MHz frequencies. BNetzA's preliminary view was that disadvantages outweighed advantages.
- Early auction of the 900/1800MHz frequencies. BNetzA's preliminary view was that advantages equaled disadvantages.
- Early auction of the 900/1800MHz and other frequencies which expire in the near future (e.g., 450, 2000 and 3500MHz frequencies) and/or which might become available (e.g., 700 and 1400MHz frequencies). BNetzA's preliminary view was that advantages outweighed disadvantages.
- Short-term auctions/prolongations initially so that all usage rights expire 2025, followed by "big-bang" auction of all available frequencies in early 2020s. BNetzA's preliminary view was that advantages equal disadvantages.

BNetzA's scenario paper was open for comment until 31 January 2013. In the spring of 2013, BNetzA will publish a draft decision on the allocation of future 900/1800MHz usage rights, clarifying the nature and timing of any future spectrum allocation in Germany. As a result of this decision, KPN may participate in a spectrum auction in Germany as early as 2013, which may require KPN to incur significant unexpected capital expenditures or investments.

## **Belgium**

### ***General***

KPN's activities as a mobile network operator in Belgium are subject to statutory regulation and supervision by various Belgian national authorities, in particular the Belgian Institute for Postal Services and Telecommunications (**BIPT**). BIPT has responsibility for market regulation and for carrying out executive functions such as awarding licenses, managing the frequency spectrum, type approval and acting as a mediator in disputes between operators. The relevant regulatory framework is set forth in the Act of 21 March 1991 regarding the Reform of certain Public Economic Enterprises, the Act of 13 June 2005 regarding Electronic Communications (**AEC**), the Act of 17 January 2003 on the status of the BIPT and the Act of 17 January 2003 on appeals and dispute resolution arising from the Act of 17 January 2003 on the status of the BIPT.

In July 2012, the Belgian Parliament amended the Belgian legislative framework in order to implement the 2009 Directives into Belgian law. The amendments entered into force in August 2012 and certain others entered into force in October 2012. One of the most important amendments is that all consumers in Belgium now will have the right to terminate their telecommunication contracts at no cost as from six months after the starting date of the contract.



### ***Significant market power and market analysis***

In Belgium, KPN is designated by BIPT to have significant market power in the market for voice call termination on its individual mobile network.

### ***Mobile termination rates in Belgium***

Beginning with its decision on 11 August 2006, the BIPT extended its tariff regulation mechanism for MTRs, which already existed for Belgacom Mobile and Mobistar, to KPN. The tariff regulations provide for caps on MTRs and oblige mobile network operators to apply MTRs that are cost-based. The BIPT decided that the cost-based tariff regulation mechanism would be gradually implemented by means of an asymmetrical “glide path” to decrease MTRs in Belgium. As a result, the BIPT has lowered MTRs in the Belgian market by a series of incremental reductions.

On 29 June 2010, the BIPT adopted a final decision providing for a new “glide path” for the period 2010-2013, resulting in all operators of mobile networks in Belgium being subject to a maximum MTR of 1.08 Eurocents as of 1 January 2013 (effectively 1.18 Eurocents after being indexed for inflation).

On 14 July 2010, Mobistar and KPN each appealed the BIPT decision of 29 June 2010 with the Brussels Court of Appeal. Mobistar and KPN requested the suspension and annulment of the decision with regard to their own MTRs, and Proximus also intervened in the proceedings in order to safeguard its interests. On 16 May 2012, the Brussels Court of Appeal rejected KPN’s annulment petition; however, it stated that on procedural ground the decision should be annulled. The Brussels Court of Appeal decided to petition for a preliminary ruling to the Constitutional Court in order to determine whether the Brussels Court of Appeal has the power to maintain a decision which should be annulled for procedural reasons. Though KPN is not a party to this case pending before the Constitutional Court, a decision of the Constitutional Court is expected as early as the third quarter 2013. Nonetheless, despite appeals by KPN, Mobistar and Proximus, MTRs in Belgium have continued to decline according to the “glide path” and BIPT is preparing a new cost model in order to set tariffs for the period 2014-2016.

### ***Mobile licensing***

In Belgium, KPN’s subsidiary KPN Group Belgium operates a mobile network on the basis of frequency licenses in the 900MHz, 1800MHz, 2.1GHz and 2.6GHz bands (with various expiration dates between 2021 and 2027).

On 15 March 2010, KPN initiated a challenge to additional fees charged for the renewal of its 2G licenses with the Belgian Constitutional Court. On 15 July 2011, the Belgian Constitutional Court referred questions on the interpretation of the Authorization Directive to the European Court of Justice and, in its report of 26 October 2012, the Advocate General of the European Court of Justice rejected the main arguments put forward by KPN. The next step in KPN’s challenge is the judgment of the European Court of Justice, which is scheduled for 21 March 2013.

#### ***2G licenses***

The three Belgian mobile network operators, Belgacom Mobile (Proximus), Mobistar and KPN, were each awarded 2G licenses on 8 April 1995, 27 November 1995 and 2 July 1998, respectively, against payment of a one-off spectrum usage fee. The initial period was 15 years, but under the 15 March 2010 law, the existing 2G licenses will be renewed until 2021 in return for an additional license fee.

#### ***3G licenses***

The three Belgian mobile network operators, Belgacom Mobile, Mobistar and KPN, were also awarded a 3G license on 15 March 2001. The fourth 3G license was granted to Telenet Tecteo Bidco in 2011. All four 3G licenses will expire on 15 March 2021.

#### ***2.6GHz licenses***

On 28 November 2011, KPN obtained a license to use 30MHz frequency division duplexing in the 2.6GHz spectrum band in Belgium. The license became available as of 1 July 2012 and will expire in 2027. In total, 155MHz were successfully auctioned for a total amount of EUR 77.8 million. Belgacom (40MHz FDD for

EUR 20 million), Mobistar (40MHz FDD for EUR 20 million) and BUCD (45MHz TDD for EUR 22.5 million) also obtained spectrum in the 2.6GHz band. This frequency band is typically used for rolling out 4G mobile networks.

#### *800MHz frequency auctions*

On 14 November 2012, BIPT launched a consultation on draft legislation for the auction of the 800MHz band. Pursuant to this draft legislation, 3 times 10MHz duplex will be auctioned with a minimum reference price of EUR 90 million per 10MHz duplex. It is expected that the 800MHz spectrum will be auctioned by the end of 2013. As a result of this auction, KPN may participate in a spectrum auction in Belgium as early as 2013, which may require KPN to incur significant unexpected capital expenditures or investments.

## BOARD OF MANAGEMENT, SUPERVISORY BOARD AND EMPLOYEES

### Introduction

Set out below is a summary of relevant information as well as a brief summary of certain significant provisions of the Articles of Association and Dutch corporate law in force on the date of this Prospectus concerning the Board of Management and the Supervisory Board.

This section further includes a brief summary of information concerning the employees, incentives, codetermination and pension plans.

### Management structure

KPN has a two-tier board structure consisting of the Board of Management and the Supervisory Board.

### Board of Management

#### *Powers, responsibilities and functioning*

The Board of Management is responsible for the day-to-day management, the strategy and the operations of KPN under the supervision of the Supervisory Board. The Board of Management is required to keep the Supervisory Board informed and to consult the Supervisory Board on important matters, and must submit certain important decisions to the Supervisory Board or the General Meeting for its prior approval.

The Board of Management may perform all acts necessary or useful for achieving KPN's corporate purposes, except for those acts expressly attributed to the General Meeting or the Supervisory Board as a matter of Dutch law or pursuant to the Articles of Association or acts that are prohibited by law. The members of the Board of Management have joint powers and responsibilities. The members of the Board of Management share responsibility for all decisions and acts of the Board of Management and for the acts of each individual member of the Board of Management. The Board of Management may only adopt resolutions with an absolute voting majority.

The Board of Management as a whole is entitled to represent KPN. Additionally, the chairman of the Board of Management is authorized solely to represent KPN as are two members of the Board of Management acting jointly.

#### *Composition, appointment, term and dismissal*

The Articles of Association provide that the Board of Management shall consist of two or more members, with the exact number to be determined by the Supervisory Board. The Supervisory Board appoints the members of the Board of Management and shall notify the General Meeting of an intended appointment.

The Supervisory Board has the power to suspend or dismiss a member of the Board of Management. If the Supervisory Board has suspended a member of the Board of Management, the Supervisory Board shall, within three months after the suspension has taken effect, resolve either to dismiss that member of the Board of Management or to terminate the suspension. The suspension will cease automatically if the Supervisory Board fails to take a decision about this issue within these three months. The Supervisory Board shall not dismiss a member of the Board of Management until the General Meeting has been consulted on the intended dismissal. The Supervisory Board shall permit the member of the Board of Management who it intends to dismiss, to be heard before the General Meeting is consulted regarding the intended dismissal.

#### *Meetings and decision-making*

The Board of Management has adopted regulations (the **Management By-Laws**) that were approved by the Supervisory Board and most recently amended on 12 April 2012. The Management By-Laws describe, *inter alia*, the procedure of holding meetings and decision-making by the Board of Management, and the Board of Management's operating procedures. These Management By-Laws have been established taking into account the Dutch Corporate Governance Code. For further information on the Dutch Corporate Governance Code.

Under the Management By-Laws, the members of the Board of Management shall endeavor to achieve that resolutions are as much as possible adopted unanimously. Where unanimity cannot be reached and the law, the

Articles of Association or the Management By-Laws do not prescribe a larger majority, all resolutions of the Board of Management must be adopted by an absolute majority of the votes cast in a meeting at which at least a majority of the members of the Board of Management then in office are present or represented. In the event of a tie of votes, the chairman of the Board of Management shall have the deciding vote, provided that the Board of Management consists of three or more members. In the event of a tie of votes in a situation where the Board of Management consists of only two members, the proposed resolution shall be submitted for decision making to the chairman of the Supervisory Board.

A member of the Board of Management must immediately report any conflict of interest or potential conflict of interest to the chairman of the Supervisory Board and the other members of the Board of Management. The Supervisory Board will then decide whether there is an actual conflict of interest. Where a member of the Board of Management is considered to have an interest which conflicts with the interests of KPN, such member shall not be allowed to participate in discussions or decision-making in respect of the subject or transaction to which his or her conflict of interest relates.

### ***Board of Management resolutions requiring prior approval***

Under the Articles of Association, the resolutions of the Board of Management requiring the approval of the Supervisory Board for resolutions of the Board of Management relate to:

- (a) the issue and acquisition of shares of KPN and debt instruments issued by KPN or of debt instruments issued by a limited partnership or a general partnership in respect of which KPN is a general partner with full liability;
- (b) cooperation in the issue of depositary receipts for Shares in KPN;
- (c) an application for admission of the instruments as referred to under (a) and (b) for trade on a regulated market or a multilateral trading facility as referred to in Article 1:1 of the Dutch Financial Supervision Act or a system comparable to a regulated market or multilateral trading facility from a state which is not a Member State, or an application for the withdrawal of such admission;
- (d) the entering into or termination of long-term cooperation of KPN or a subsidiary with any other company or legal entity or as a fully liable partner in a limited partnership or general partnership if such cooperation or termination is of fundamental importance to KPN;
- (e) the acquisition of a participation worth at least a quarter of the value of the issued capital plus reserves according to KPN's balance sheet plus explanatory notes, by KPN or a subsidiary in the capital of another company, and any substantial increase or decrease of such a participation;
- (f) investments requiring an amount equal to at least a quarter of KPN's issued capital plus reserves according to its balance sheet plus explanatory notes;
- (g) a proposal to amend the articles of association;
- (h) a proposal to dissolve KPN;
- (i) a petition for bankruptcy or a request for suspension of payments;
- (j) the termination of the employment of a considerable number of KPN's employees or of a subsidiary's employees simultaneously or within a short period of time;
- (k) a significant change in the employment conditions of a considerable number of KPN's employees or of a subsidiary's employees; and
- (l) a proposal to reduce the issued capital of KPN.

Insofar not already subject to Supervisory Board approval pursuant to (a) up to and including (l) set out above, any resolution of the Board of Management which the chairman has voted against requires the approval of the Supervisory Board.

The Supervisory Board may require resolutions of the Board of Management other than those specified above to be subject to its approval.

Additionally, resolutions of the Board of Management entailing a significant change in the identity or the character of KPN or its business require the prior approval of the General Meeting, which in any case includes:

- (a) the transfer of (nearly) the entire business of KPN to a third party;

- (b) entering into or breaking off long-term cooperation of KPN or a subsidiary with another legal entity or company or as a fully liable partner in a limited partnership or general partnership, if this cooperation or termination is of major significance for KPN; and
- (c) acquiring or disposing of participating interests in the capital of a company at a value of at least one third of the sum of the assets of KPN as shown on its balance sheet plus explanatory notes or, if the company prepares a consolidated balance sheet, as shown on its consolidated balance sheet plus explanatory notes, according to the last adopted financial statements of KPN or a subsidiary.

### ***Members of the Board of Management***

The Board of Management is currently composed of the following members:

<u>Name</u>	<u>Year of birth</u>	<u>Position</u>	<u>Member since</u>
E. Blok .....	1957	CEO	June 2006 (reappointed in 2010)
W.T.J. Hageman .....	1970	CFO	September 2012
T. Dirks .....	1963	Member	November 2011

KPN's registered address serves as the business address for all members of the Board of Management, being Maanplein 55, 2516 CK The Hague, the Netherlands.

On 8 February 2013, the Supervisory Board announced its intention to appoint Joost Farwerck as member of the Board of Management. The Supervisory Board will inform the shareholders of the intended appointment during the annual General Meeting which is scheduled to take place on 10 April 2013.

#### *E. Blok—Chief Executive Officer*

Eelco Blok is a Dutch national and was appointed as a member of the Board of Management on 1 June 2006. Mr. Blok assumed the additional role of Chief Operating Officer in October 2010. As of the annual General Meeting in April 2011, Mr. Blok is the chairman of the Board of Management and Chief Executive Officer.

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 the Board of Management. He is a member of the supervisory board of Reggefiber Group B.V., he is a member of the board of the ICT Office and he is a co-chairman of the Cyber Security Council.

#### *W.T.J. Hageman—Chief Financial Officer*

Eric Hageman is a Dutch national and was appointed to the Board of Management on 11 September 2012, in the position of CFO. Prior to joining KPN, Mr. Hageman worked as a corporate financier in London from 1995 through 2005, where he advised companies in the telecoms, media and technology sectors. In 2005, Mr. Hageman joined KPN as head of Investor Relations. Additionally, he became head of the Mergers & Acquisitions department in 2007. In 2008, Mr. Hageman was appointed CFO of the Mobile International division. In that same year he took over responsibility for KPN Spain, KPN France and Ortel Mobile. In 2011, Mr. Hageman became CEO of KPN Group Belgium. Mr. Hageman also made a key contribution to developing the 2011-2015 Strategy. From January 2012 until 11 September 2012, Mr. Hageman has acted as CFO ad interim of KPN.

#### *T. Dirks*

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

Mr. Dirks joined E-Plus in 1996, having previously held management positions with Orbitel Mobile Communication (Vodafone/Ericsson) and Vebacom. He joined the E-Plus board of management in 2001. During his time at E-Plus, he has held the positions 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*

Joost Farwerck is a Dutch national and is responsible for The Netherlands. Mr. Farwerck joined KPN in 1993 where he has held various senior management positions across a number of segments of KPN in The Netherlands. Mr. Farwerck has held the positions of corporate secretary of KPN, Director Carrier Services, member of the board of management of the KPN Fixed Division, Managing Director KPN Fixed Operations and Carrier Services, Senior Executive Vice President KPN Wholesale and Operations and Senior Executive Vice President Residential KPN Netherlands. In addition, from 2007 to 2009 Mr. Farwerck was a non executive board member of iBasis, then listed on Nasdaq in New York. As of 15 February 2012, Mr. Farwerck was appointed Managing Director KPN The Netherlands and given responsibility for all of KPN's activities in The Netherlands.

***Employment and severance agreements of members of the Board of Management***

*Term of employment*

All members of the Board of Management have a permanent employment contract for an indefinite period of time, with the exception of Mr. Dirks. KPN has entered into a board agreement with Mr. Dirks for a definite period of four years. Mr. Dirks also holds the position of Chief Executive Officer of E-Plus Mobilfunk Geschäftsführungs GmbH under the terms and conditions of a service contract with a term ending on 8 November 2015, which contract as amended will remain in full force and effect, irrespective of any possible termination of the board agreement.

*Term of appointment*

Members of the Board of Management are appointed for a four-year term. On expiry of the four-year term, a member of the Board of Management may be reappointed.

*Severance payments*

If an employment contract with a member of the Board of Management is terminated early without this being imputable to that member, he is entitled to a severance payment of an amount equal to one year's gross salary. Mr. Dirks' employment contract contains a non-competition clause for which he will, as required by German law, receive compensation equal to 50% of his (German) salary during a maximum period of 12 months. In the event of a termination of his German contract, he will receive this compensation (in addition to his severance payment under KPN's remuneration policy).

*Termination of employment contract*

If Mr. Blok terminates his employment contract with KPN because he is no longer able to carry out his duties at the same level as he previously did and this is the result of KPN being merged or acquired, KPN must pay him compensation equal to one year's salary (the "fixed" remuneration component).

If Mr. Hageman terminates his employment contract with KPN due to the acquisition by one or more parties of more than 50% of KPN's ordinary shares, KPN must pay him compensation equal to one year's salary (the "fixed" remuneration component).

Mr. Dirks has a right to terminate his board agreement with KPN in the event of an acquisition by one or more parties of more than 50% of KPN's ordinary shares. In case of such termination, KPN must pay him compensation equal to one year's salary (the "fixed" remuneration component). Mr. Dirks service contract with E-Plus Mobilfunk Geschäftsführungs GmbH contains a similar termination right and compensation of one year's salary (the "fixed" remuneration component) in case of such termination.

*Loans and guarantees*

KPN does not grant loans or guarantees, including mortgage loans, to the members of the Board of Management. Therefore, as on the date of this Prospectus, no such loans are outstanding.

## **Supervisory Board**

### ***Powers, responsibilities and functioning***

The Supervisory Board is responsible for supervising the conduct of and providing advice to the Board of Management and for supervising KPN's business generally.

In performing their duties, the members of the Supervisory Board are required to act in the interests of KPN and its affiliated enterprise, taking into consideration the interests of KPN's stakeholders (which includes but is not limited to KPN's shareholders).

The number of members of the Supervisory Board will be determined by the Supervisory Board, and will consist of at least five members and at most nine members.

### ***Composition, appointment, term and dismissal***

The members of the Supervisory Board are appointed by the General Meeting on the basis of the Supervisory Board's nomination. In the event the General Meeting does not appoint the person nominated and does not resolve to reject the nomination, the Supervisory Board shall appoint the person nominated. The Supervisory Board shall notify the General Meeting and KPN's central works council (*ondernemingsraad*) (the **Central Works Council**) simultaneously of its nomination.

The General Meeting and the Central Works Council may recommend to the Supervisory Board persons to be nominated as members of the Supervisory Board. With regard to one-third of the members of the Supervisory Board, the Supervisory Board shall nominate a person recommended by the Central Works Council, unless the Supervisory Board objects to the recommendation on the grounds that the person recommended is expected to be unsuitable for the fulfillment of the duties of a member of the Supervisory Board or that the Supervisory Board will not be suitably composed when the appointment is made as recommended. If the Supervisory Board raises an objection against a person recommended by the Central Works Council, it will have to inform the Central Works Council of that objection and the underlying reasons. The Supervisory Board shall institute consultations with the Central Works Council without delay with a view to reaching an agreement on the nomination. If the Supervisory Board determines that no agreement can be reached, a representative of the Supervisory Board designated for that purpose shall apply to the Enterprise Chamber to uphold the objection. The application may not be filed until four weeks have lapsed since the consultations with the Central Works Council commenced. If the Enterprise Chamber declares the objection unfounded, the Supervisory Board shall place the person recommended on the nomination. If the Enterprise Chamber upholds the objection, the Central Works Council may make a new nomination.

The General Meeting may reject the nomination by the Supervisory Board with an absolute majority of the votes cast representing at least one-third of the issued and outstanding share capital. If less than one-third of the issued and outstanding share capital was present or represented at that meeting, a new meeting of Shareholders may be convened at which the nomination may be rejected by an absolute majority of the votes.

The members of the Supervisory Board are appointed for a maximum term of four years, provided that, unless a member of the Supervisory Board retires at an earlier date, his or her term lapses on the day of the first annual General Meeting to be held in the fourth year after the year of his or her appointment. A retiring member of the Supervisory Board can be re-appointed. A member of the Supervisory Board may be a member of the Supervisory Board for a total of no more than 12 years. The Supervisory Board members shall retire in accordance with a rotation schedule drawn up by the Supervisory Board.

On application by KPN, represented for such purpose by the Supervisory Board or a designated representative of the General Meeting or the Central Works Council, the Enterprise Chamber may remove a member of the Supervisory Board for neglect of his or her duties, for other important reasons or on account of any material change of circumstances, a result of which KPN cannot reasonably be required to maintain him or her as a member of its Supervisory Board. The Supervisory Board may suspend a member of the Supervisory Board. The General Meeting may dismiss the Supervisory Board as a whole for lack of confidence by an absolute majority of the votes cast, representing at least one-third of the issued and outstanding share capital, which results in the immediate dismissal of all the members of the Supervisory Board.

A resolution of the General Meeting of no confidence in the Supervisory Board cannot be passed until after the Board of Management has notified the Central Works Council of the proposed resolution and the reasons for

such resolution. The notification has to be made at least thirty days before the General Meeting is held at which the proposal is discussed. If the Central Works Council forwards an opinion on the proposal to the Board of Management, the Board of Management must inform the Supervisory Board and the General Meeting of this. The Central Works Council can have its position explained in the General Meeting.

### ***Meetings and decision-making***

Pursuant to the Articles of Association, the Supervisory Board may adopt rules regarding the holding of meetings, the convening of meetings and decision-making in meetings, as well as the division of its tasks and the establishment of committees as well as their procedures. In accordance with the Articles of Association, the Supervisory Board has adopted the Rules of the Supervisory Directors (the **Supervisory Board By-Laws**).

Pursuant to the Supervisory Board By-Laws, the Supervisory Board can, in principle, only adopt resolutions if the majority of its members are represented, on the understanding that any member of the Supervisory Board who has a conflict of interest (as specified in the Supervisory Board By-Laws) (a **Conflicted Member**) does not count in calculating this quorum. Resolutions can also be adopted without holding a meeting, provided that the subject concerned has been brought to the attention of all members of the Supervisory Board, none of the members of the Supervisory Board has opposed to this decision-making procedure and all members have participated in the decision-making, on the understanding that Conflicted Members do not participate in the decision-making. A resolution adopted in this way, shall be recorded in writing and signed by the chairman. The Supervisory Board can adopt resolutions, whether adopted in a meeting or without holding a meeting, by majority vote. Each member of the Supervisory Board is entitled to one vote. In the event of a tie, the chairman of the Supervisory Board will cast the deciding vote.

Pursuant to Dutch law, the Dutch Corporate Governance Code and the Supervisory Board By-Laws, a Conflicted Member of the Supervisory Board will not take part in the discussion and in the decision-making that involves a subject or transaction in relation to which he or she has a conflict of interest with KPN. Resolutions to enter into transactions, in relation to which a member of the Supervisory Board would have a conflict of interest, require the approval of the Supervisory Board.

Pursuant to the Supervisory Board By-Laws, the Supervisory Board adopted a profile of the size and composition of the Supervisory Board.

### ***Members of the Supervisory Board***

The Supervisory Board is composed of the following members:

<u>Name</u>	<u>Year of birth</u>	<u>Position</u>	<u>Member since</u>	<u>Re-appointed</u>	<u>End of term</u>
J.B.M. Streppel . . . . .	1949	Chairman	May 2003	April 2011	2015
R.J. Routs . . . . .	1946	Vice-Chairman	April 2009	first seat	2013
A.H.J. Risseeuw . . . . .	1936	Member	May 2001	April 2009	2013
M.E. van Lier Lels . . . . .	1959	Member	May 2001	April 2009	2013
M. Bischoff . . . . .	1942	Member	May 2003	April 2011	2015
C.M. Hooymans . . . . .	1951	Member	April 2007	April 2011	2015
D.J. Haank . . . . .	1953	Member	April 2009	first seat	2013
P.A.M. van Bommel . . . . .	1957	Member	April 2012	first seat	2016

The business address of the members of the Supervisory Board is KPN's registered address: Maanplein 55, 2516 CK The Hague, the Netherlands.

On 27 February 2013, the Supervisory Board announced that it proposes to appoint Carlos José García Moreno Elizondo and Oscar Von Hauske Solís as new members of the Supervisory Board. During the annual General Meeting of 10 April 2013, KPN's shareholders may vote on the appointment of Mr. Garcia Moreno Elizondo and Mr. Von Hauske Solís. The proposals to appoint Mr. Garcia Moreno Elizondo and Mr. Von Hauske Solís are a result of the shareholder commitment letter and the relationship agreement entered into by KPN and América Móvil on 20 February 2013. The shareholder commitment letter stipulates (among other things) that América Móvil agrees to support the Rights Offering subject to, among other things, two individuals nominated by América Móvil being appointed to the Supervisory Board.



Mr. García Moreno Elizondo is a Mexican national and currently holds the position of CFO of América Móvil. Mr. García Moreno Elizondo also holds several supervisory and advisory positions, including those of Banco Inbursa and Nacional Financiera. Prior to joining AMX, Mr. García Moreno Elizondo held amongst others 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. Von Hauske Solís is a Mexican national and currently holds the position of COO and Board Member of América Móvil. In addition, Mr. Von Hauske Solís holds several supervisory and advisory positions, including those of supervisory board member of Telekom Austria, member of the Board of Directors of Telmex, NET Servicios, Embratel Participações, Telmex Brasil, Telmex Argentina, Telmex Colombia, Telmex Perú, Telmex Ecuador, Telmex USA and Hildebrando Software.

At the upcoming annual General Meeting of 10 April 2013, Mr. A.H.J. Risseeuw, Ms. M.E. van Lier Lels, Mr. D.J. Haank and Mr. R.J. Routs will step down as members of the Supervisory Board, since they have reached the end of their four-year term of office. Mr. M. Bischoff will also step down as a member of the Supervisory Board in connection with his other commitments.

Mr. Risseeuw will not be available for reappointment, as the current four-year term of office is his third and last term. For reasons of continuity in the Supervisory Board, Ms. Van Lier Lels, Mr. Routs and Mr. Haank have indicated that they are available for reappointment during the upcoming annual General Meeting of 10 April 2013. In spite of the fact that Ms. Van Lier Lels already served three terms, Ms. Van Lier Lels has indicated her availability for reappointment for a period of one year.

#### *J.B.M. Streppel*

Jos Streppel is a Dutch national. Mr. Streppel was appointed as a member of the Supervisory Board on 12 May 2003 and has been the Chairman of the Supervisory Board since 13 April 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 Organization Development Committee. Mr. Streppel is the former Chief Financial Officer of AEGON N.V. and is a member of the supervisory board of Van Lanschot N.V., member of the supervisory board of Arq Psychotrauma Expert Group, member of the board of the Holland Financial Center and non-executive director of the RSA Group Ltd. He is Chairman of the Shareholders Communication Channel, Chairman of the Monitoring Committee Corporate Governance Code and Chairman of the board of Duisenberg School of Finance.

#### *R.J. Routs*

Rob Routs is a Dutch national and resides in Switzerland. Mr. Routs was appointed as a member of the Supervisory Board on 7 April 2009 and has been the Vice Chairman of the Supervisory Board since 13 April 2010. His term expires in 2013. Mr. Routs chairs the Remuneration and Organization Development Committee and is a member of the Nominating and Corporate Governance Committee.

Mr. Routs was a Board of Management member at Royal Dutch Shell PLC from 2004 until his retirement in 2008. 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 boards of AP Moller-Maersk Denmark and AECOM.

#### *A.H.J. Risseeuw*

Ton Risseeuw is a Dutch national. Mr. Risseeuw was first appointed as a member of the Supervisory Board on 2 May 2001. His current (third and final) term expires in 2013. Mr. Risseeuw is member of the Nominating and Corporate Governance Committee as well as of the Remuneration and Organization Development Committee. Mr. Risseeuw was the Chairman of the Supervisory Board from 10 September 10 2001 until 13 April 2010. He has held various management positions with Dutch international companies and is the former President of Getronics N.V. He is chairman of the supervisory board of Groeneveld Groep B.V.

#### *M.E. Van Lier Lels*

Marika Van Lier Lels is a Dutch national. Ms. Van Lier Lels was first appointed as a member of the Supervisory Board on 2 May 2001. Her current (third and final) term expires in 2013. She is a member of the

Audit Committee. Ms. Van Lier Lels held various management positions with Dutch international companies and is the former Chief Operating Officer of Schiphol Group. She is a member of the Supervisory Boards of USG People N.V., TKH Group N.V., Reed Elsevier N.V. She is the chairman of the Supervisory Council of The Netherlands Society for Nature and Environment and a member of the Council for environmental infrastructure, member of the central plan committee (CPB) and member of the board at the Aegon Association.

#### *M. Bischoff*

Manfred Bischoff is a German national. Mr. Bischoff was appointed as a member of the Supervisory Board on 12 May 2003. His current (third and final) term expires in 2015. He is a member of the Audit Committee. Mr. Bischoff is a former member of the management board of DaimlerChrysler and is currently chairman of the supervisory board of Daimler AG. He is also a member of the supervisory board of Fraport AG, chairman of the supervisory boards of SMS GmbH and Voith AG and a non-executive member of the board of directors of Unicredit.

#### *C.M. Hooymans*

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

#### *D.J. Haank*

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

#### *P.A.M. Van Bommel*

Peter Van Bommel is a Dutch national. Mr. Van Bommel was appointed as member of the Supervisory Board on 12 April 2012, and his term expires in 2016. Mr. Van Bommel is currently member of the board of management and CFO of ASMI and non-executive director of ASM PT (Hong Kong). Prior to his appointment as CFO of ASMI in July 2010, Mr. Van Bommel was the CFO at Odersun (a start-up company in the solar industry), the executive vice president at NXP and CFO at various divisions of Philips.

### ***Committees of the Supervisory Board***

Three committees assist the Supervisory Board: the Audit Committee, the Remuneration and Organization 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.

#### *Audit Committee*

The Audit Committee consists of four Supervisory Board members: Mr. Haank (Chairman), Mr. Bischoff, Ms. Van Lier Lels and Mr. Van Bommel. The Audit Committee's task is to supervise in particular the (quality of the) accounting and financial reporting practices, including quarterly and annual reporting, accounting and financial reporting policies and procedures, the (quality of the) internal control system and internal audit function, the independent external audit of the financial statements, the performance and evaluation of the external auditor and the compliance with relevant legislation and regulations. The task of the Audit Committee in the area of financial reporting and accounting practices is to provide reasonable assurance that the financial disclosures prepared by management adequately reflect KPN's financial condition, results of operations, cash flows and long-term commitments.

### *Remuneration and Organization Development Committee*

The Remuneration and Organization Development Committee consists of four Supervisory Board Members: Mr. Routs (Chairman), Mr. Streppel, Mr. Risseeuw and Ms. Hooymans. The task of the Remuneration and Organization Development Committee is to assist the Supervisory Board regarding the development and appropriate application of remuneration policies for the Board of Management, including the remuneration of the members of the Board of Management for the coming year; the individual short-term incentives (**STI**) of members of the Board of Management on the basis of the policy framework for performance related pay, achieved targets and goals; allocation policies for long-term incentives (**LTI**) (to members of the Board of Management and to other KPN senior management) and the conditions under which they are granted; and the remuneration of members of the Supervisory Board for submission to the Supervisory Board and to the General Meeting.

### *Nominating and Corporate Governance Committee*

The Nominating and Corporate Governance Committee consists of four Supervisory Board Members: Mr. Streppel (Chairman), Mr. Routs, Mr. Risseeuw and Ms. Hooymans. The task of the Nominating and Corporate Governance Committee is to assist the Supervisory Board with respect to the nomination of the Board of Management and the Supervisory Board and the oversight of development policies for senior management, as well as KPN's corporate governance policies.

## **Remuneration**

### ***Remuneration of the Board of Management***

#### *Remuneration policy*

The Supervisory Board establishes the individual remuneration of members of the Board of Management within the boundaries of the remuneration policies approved by the General Meeting and the recommendations by the Remuneration and Organizational Development Committee.

The aim of the remuneration policy is to attract, motivate and retain the necessary leadership talent for the Board of Management who will contribute to the long-term success of the Group. The policy is designed to reward members of the Board of Management for their contribution to the Group's performance and shareholder value. During 2010, KPN's remuneration policy was reassessed, leading to amendment proposals. The underlying principles of the proposed amendments were predominantly based on shifting the emphasis of the variable compensation more towards the longer term, to simplify the LTI grant and to add non-financial targets to the LTI, such as energy reduction and reputation related targets. The proposals to amend KPN's remuneration policy were approved by the General Meeting on 6 April 2011.

KPN's remuneration policy is designed with a view to achieve the following objectives (i) attracting and retaining the necessary leadership talent; (ii) driving performance that generates long-term profitable growth; (iii) promoting behavior that reinforces the business strategy and desired culture; (iv) encouraging teamwork across KPN; (v) strongly linking rewards to value creation; (vi) complying with best practice in corporate governance; and (vii) general acceptance by all stakeholders.

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

- **Paying competitively**—This is achieved through benchmarking against an employment market peer group consisting of companies with whom KPN generally competes for talent.
- **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 KPN's annual financial performance goals and long-term value creation strategy.
- **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.

In addition, the remuneration for each member is determined by taking into account the specific experience and responsibilities of the members of the Board of Management.

The remuneration package for members of the Board of Management consists of both fixed remuneration and variable remuneration.

As a policy, KPN does not provide loans to members of the Board of Management.

#### *Fixed remuneration*

The Remuneration and Organization Development Committee determines appropriate base salary levels based on a comparison with the remuneration of members of one peer group consisting of AEX-listed companies and European sector-specific companies. The companies in the peer group are: AkzoNobel, Randstad Holding, DSM, Royal Philips Electronics, Heineken, Unilever, Reed Elsevier, Portugal Telecom, Royal Ahold, Swisscom, Belgacom, Vodafone Group, BT Group and Cap Gemini. The Remuneration and Organization Development 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.

In line with KPN's pay-for-performance principle, base salary is targeted at the low end of the market-competitive range.

Each year the Supervisory Board considers whether circumstances justify an adjustment in base salary within the market-competitive target range for individual members of the Board of Management.

#### *Variable remuneration*

In designing this remuneration policy, the Supervisory Board analyzed the possible outcome of the variable remuneration components and the effect thereof on remuneration. The variable remuneration consists of two elements: an STI component which is payable in cash and the (abovementioned) LTI which is payable in conditional shares. As described below, the variable remuneration is linked to predetermined, assessable targets that can be influenced by performance. These targets underpin KPN's strategy because they relate to the strategic and financial targets set to 2015.

#### STI

At the beginning of each year, the Supervisory Board sets financial and non-financial target ranges for the Board of Management. Targets typically are based on revenue, EBITDA, Free Cash Flow and various measures of quality and market share. These ranges are based on KPN's business plan. At the end of the year, the Supervisory Board reviews KPN's performance against the target ranges. KPN's external auditor has been engaged to perform procedures to verify a consistent application of the approved calculation method, the mathematical accuracy of the STI calculations and a reconciliation of the source data used in the financial statements. Members of the Board of Management are eligible for an annual cash incentive only if KPN's performance is at or above the predetermined ranges.

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 KPN's risk profile and the incentive to achieve ambitious targets. The payout methodology is based on a payout approach for each of the financial and non-financial targets.

The Supervisory Board may apply a discretionary factor ranging between 0.7 (i.e., reducing 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 its 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 KPN performance.

The Supervisory Board has the discretionary authority to reward extraordinary management achievement that outperforms the regular business plan(s) and has created substantial additional value for KPN 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 the remuneration policy.

For the financial year 2012 the level of STI received by Mr. Blok was EUR 400,000. For the financial year 2012 the level of STI received by Mr. Hageman was EUR 77,745. For the financial year 2012 the level of STI received by Mr. Dirks was EUR 267,150.

## LTI

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 KPN.

The number of shares granted under this plan is based on fixed numbers as shown in the following table.

<u>Component</u>	<u>Form of Compensation</u>	<u>Value determination</u>	<u>Drivers</u>	<u>On target</u>	<u>Scenario maximum (position 1 to 3 in peer group and maximum performance on nonfinancial targets)</u>
Long-term share based compensation	Conditional Shares	Chief Executive Officer: 95,000 ordinary shares with deferred dividend Other members of the Board of Management: 66,000 ordinary shares with deferred dividend	For 75% based on total shareholder return and 25% based on non-financial parameters (energy reduction and reputation)	100% of the granted shares vest	200% of the granted shares vest

As from 2011, the number of shares that actually vest is conditional on the extent to which the returns to KPN's shareholders outperform the returns to shareholders of a peer group of Western European telecommunications companies (75% weighting) and for 25% on the achievement of the assigned non-financial parameters. Vesting of the non-financial parameters will only take place if KPN's ranking in the total shareholder return peer group is at least position 7.

In order to determine KPN's relative total shareholder return it is ranked among the following peer group: Belgacom, Telecom Italia, BT Group, Telefonica, Deutsche Telekom, Telekom Austria, France Telecom, Telenor, Hellenic Telecom, TeliaSonera, Portugal Telecom, Vodafone Group and Swisscom.

Vesting is also in principle 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 Board of Management members with respect to the overall level of pay and pay differentials within KPN.

An external remuneration consultant calculates the end-of-year total shareholder return 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 power to reward extraordinary management achievement that outperforms the regular business plan(s) and has created substantial additional value for KPN 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 due to exceptional circumstances in the period when the predefined performance criteria were or should have been met.

If subsequent to the date of grant, an issue of shares occurs or other securities convertible to shares, granted stock rights under the LTI incentive scheme may be altered to make its economic value equal to its economic value immediately before such issue.

The strategy of KPN is to ensure that it remains independent. Nevertheless, a situation may arise in which the Supervisory Board explicitly considers that a merger or a takeover bid regarding KPN must be entertained. Stock rights under the LTI incentive scheme become unconditional after a change of control on the basis of a calculation method as set out in the plan.

KPN's performance ranked 13th as compared to its total shareholder return peer group over the period 2010–2012 with respect to the 2010 share award. As a result no vesting of the granted shares in 2010 will occur in April 2013.

#### *Pensions*

Mr. Blok and Mr. Hageman of the Board of Management are participants in a defined contribution pension plan administered by the *Stichting Ondernemingspensioenfonds* KPN with a contribution, paid for by KPN, based on the fiscal contribution table that corresponds with a retirement age of 65 and an annual accrual rate of 2.25%. Mr. Dirks accrues pension benefits (combined defined benefit and defined contribution) with his German pension arrangement.

#### *Remuneration in 2012*

The total 2012 remuneration of the members of the Board of Management, not including LTI and STI, is set out in the table below:

<i>(EUR)</i>	<u>Base Salary</u>	<u>Pension contribution</u>	<u>Total</u>
E. Blok .....	807,577	162,400	969,977
W.T.J. Hageman <sup>(1)</sup> .....	178,009	21,463	199,472
T. Dirks .....	<u>650,000</u>	<u>66,904</u>	<u>716,904</u>
<b>Total</b> .....	<b>1,635,586</b>	<b>250,767</b>	<b>1,886,353</b>

<sup>(1)</sup> Remuneration of Mr. Hageman since his appointment as member of the Board of Management in September 2012.

#### *Remuneration of the Supervisory Board*

The Remuneration and Organization Development 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 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 also reassessed during 2010, resulting in a proposal to adjust the remuneration levels of the Supervisory Board. This proposal was approved by the General Meeting on 6 April 2011.

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

As a policy, KPN does not provide loans to its Supervisory Board members.

The total 2012 remuneration by KPN of the individual members of the Supervisory Board is set out below:

<i>(EUR)</i>	<u>2012</u>
J.B.M. Streppel .....	115,000
R.J. Routs .....	85,000
A.H.J. Risseeuw .....	70,000
M.E. van Lier Lels .....	70,000
M. Bischoff .....	70,000
C.M. Hooymans .....	70,000
D.J. Haank .....	80,000
P.A.M. van Bommel .....	<u>50,361</u>
<b>Total</b> .....	<b>610,361</b>

## Equity holdings

The total number of ordinary shares held by members of the Board of Management and the Supervisory Board for the dates stated are set out below:

### *Ordinary shares held by members of the Board of Management*

<u>Number of KPN's ordinary shares</u>	<u>31 December 2012</u>	<u>31 December 2011</u>
E. Blok .....	165,875	115,875
W.T.J. Hageman .....	1,315	0
T. Dirks .....	—	0
J.F.E Farwerck .....	—	—
<b>Total</b> .....	<b>167,190</b>	<b>115,875</b>

### *Ordinary shares held by members of the Supervisory Board*

<u>Number of KPN's ordinary shares</u>	<u>31 December 2012</u>	<u>31 December 2011</u>
J.B.M. Streppel .....	0	0
R.J. Routs .....	0	0
A.H.J. Risseuw .....	50,000	50,000
M.E. van Lier Lels .....	0	0
M. Bischoff .....	9,000	9,000
C.M. Hooymans .....	0	0
D.J. Haank .....	8,117	8,117
P.A.M. van Bommel .....	20,000	0
<b>Total</b> .....	<b>87,117</b>	<b>67,117</b>

## Employee share plan

Since 2006, KPN has granted shares and share-based (cash) awards on its shares to members of the Board of Management and senior management.

The conditionally granted shares and share-based awards 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 position ranking relative to its peer group of European telecommunications companies. Since 2011 75% of vesting is based on relative total shareholder return and 25% is based on non-financial performance measures consisting of energy reduction targets and a reputation dashboard.

In May 2012 an additional equity settled plan was established for members of senior management (excluding members of the Board of Management), called the restricted share plan (RSP). See “—KPN Restricted Share Plan 2012-2104”.

## Share option plans

All remaining share option plans have vested in 2010 and therefore, no employee share option plans are currently in force. As of 31 December 2012, 405,282 exercisable options remained outstanding with a weighted average exercise price of EUR 6.75 and an expiration date of April 2013.

## KPN Restricted Share Plan 2012-2014

KPN may, on the instructions of the Board of Management, grant share awards to senior management other than the Board of Management by a resolution of the Board of Management. Vesting of share awards is dependent upon conditions being satisfied at the vesting date.

In May 2012 the RSP was established for members of senior management (excluding members of the Board of Management). Shares under this plan will vest on 1 January 2015 if the employee is still employed with KPN. No other performance measures are applicable for this plan. As of 31 December 2012, 607,500 restricted shares are outstanding under the RSP.

## **Potential conflicts of interest**

There are no arrangements or understandings in place with major shareholders, customers, suppliers or others, pursuant to which any member of the Board of Management or any member of the Supervisory Board was appointed.

No member of the Board of Management and no member of the Supervisory Board has a conflict of interest (actual or potential) between any duties to KPN and his private interests and/or other duties. There is no family relationship between any member of the Board of Management, Supervisory Board or key employees.

## **Liability of the members of the Board of Management and the Supervisory Board**

Under Dutch law, members of the Board of Management and the Supervisory Board may be liable towards KPN for damages in the event of improper or negligent performance of their duties. They may be jointly and severally liable for damages towards KPN and towards third parties for infringement of KPN's Articles of Association or of certain provisions of the Dutch Civil Code. In certain circumstances, they may also incur additional specific civil and criminal liabilities.

The liability of members of the Board of Management, members of the Supervisory Board and other key employees is covered by a directors and officers liability insurance policy. This policy contains limitations and exclusions, such as willful misconduct or intentional recklessness (*opzet of bewuste roekeloosheid*).

## **Indemnification**

KPN will indemnify each member of the Board of Management and each member of the Supervisory Board against any and all liabilities, claims, judgments, fines and penalties incurred by them as a result of any threatened, pending or completed action, investigation or other proceeding, whether civil, criminal or administrative, brought by any party other than KPN itself or its group companies, in relation to acts or omissions in or related to his capacity as a member of the Board of Management or member of the Supervisory Board. KPN will not indemnify them with respect to claims insofar as they relate to the gaining in fact of personal profits, advantages or remuneration to which the relevant person was not legally entitled, or if the relevant person will have been adjudged to be liable for willful misconduct or intentional recklessness.

## **Other information in relation to members of the Board of Management and Supervisory Board**

At the date of this Prospectus, no member of the Board of Management and no member of the Supervisory Board has, in the previous five years (i) been convicted of any offences relating to fraud, (ii) held an executive function at any company at the time of or immediately preceding any bankruptcy, receivership or liquidation, (iii) been subject to any official public sanction by any statutory or regulatory authority (including any designated professional body) and (iv) been the subject of any official public incrimination or been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

## **Employees**

### ***Number of employees***

As part of KPN's strategy, in 2011 a FTE reduction program was announced to further lower the cost base in the Netherlands. The FTE reduction program was announced with the stated intention to reduce KPN's headcount by 4,000 – 5,000 FTE, which was approximately 20 – 25% of KPN's workforce in the Netherlands at that time. Since the start of the FTE reduction program in the Netherlands in 2011, a total of EUR 257 million in restructuring costs, including costs recognized for redundant facilities, have been recorded relating to the reduction of approximately 2,800 FTEs in the Netherlands, of which a reduction of approximately 1,900 FTEs had occurred by 31 December 2012. Since beginning the program in 2011, KPN has reduced net FTEs by approximately 1,550, which includes an increase of approximately 350 FTE as a result of acquisitions of businesses and KPN's investments to strengthen its market positions (e.g., customer facing staff including employees in shops and call centers). Social plans are in place and applicable to most employees within the Group to compensate or reduce economic disadvantages for employees in the event of a substantial alteration to the establishment. See "Operating and Financial Review—Material factors affecting results of operations and financial performance—FTE reduction program".



As of 31 December 2012, KPN employed a total of 26,156 FTEs. The below table sets out the number of employees employed by KPN, as well as a breakdown of KPN's employees by geographic location.

<b>Labor force</b>	<b>As of 31 December</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Employees (Full-time equivalents (FTEs))</b>			
The Netherlands	17,408	18,959	20,641
Germany	7,304	7,148	4,969
Belgium	894	1,457	1,432
United Kingdom	—	674	784
The Americas	308	1,917	1,600
Other	242	929	1,173
<b>Total at year end</b>	<b>26,156</b>	<b>31,084</b>	<b>30,599</b>
Employees of joint ventures	381	382	230
External agency staff at year end	3,171	3,613	3,778

### Pension schemes

KPN operates a number of pension schemes around the world. The majority of KPN's employees in the Netherlands are covered by defined benefit plans. The majority of the employees outside the Netherlands are covered by defined contribution plans. KPN pays its contributions to provide sufficient assets to fund the benefits payable to participants of defined benefit plans. For further detail on the impact of IAS19R on KPN's financial statements as a result of these pension schemes, please see "Operating and Financial Review—Recent accounting pronouncements—IAS19R".

#### *Company pension funds in the Netherlands*

At the date of this Prospectus, four KPN related company pension funds (*ondernemingspensioenfonds*) exist in the Netherlands: (i) the KPN pension fund (*Stichting Pensioenfonds KPN*) with an invested capital of about EUR 5.9 billion (ultimo 2012) and a total number of approximately 9,700 active members, (ii) the smaller pension fund for employees with a personal labor agreement (*Stichting Ondernemingspensioenfonds KPN*) with an invested capital of about EUR 0.7 billion (ultimo 2012) and a total number of approximately 500 active members, (iii) the pension fund for employees of Getronics in the Netherlands (*Stichting Voorzieningsfonds Getronics*) with an invested capital of about EUR 1.1 billion (ultimo 2012) and a total number of 4,300 active members and (iv) the pension fund for employees of Telecommerce B.V. (*Stichting Pensioenfonds SNT*).

*Stichting Pensioenfonds KPN* is required by Dutch law to maintain a minimum coverage ratio of approximately 104.5%. If the coverage ratio is below 104.5%, additional quarterly contributions (of about EUR 19.0 million per quarter after indexation) from KPN and/or reduction of pension benefits could be necessary to recover to the required minimum coverage ratio under a short-term recovery plan. When the coverage ratio is below the required minimum during the recovery period, no indexation of pension benefits is allowed. The additional payments from KPN are maximized (based on the funding agreement between KPN and the KPN pension fund) to the amount of EUR 360 million. In 2009, *Stichting Pensioenfonds KPN* agreed a short term recovery plan with the Dutch Pension Regulator on the basis of which KPN has to provide additional payments per quarter when the coverage ratio is below the minimum required coverage ratio for the period from 2009 to 2013 with a cap of EUR 360 million in total.

*Stichting OndernemingsPensioenfonds KPN* is required by Dutch law to maintain a minimum coverage ratio of approximately 104.5%. If the coverage ratio is below this 104.5%, additional quarterly contributions (of about EUR 1.5 million per quarter after indexation) from KPN and/or reduction of pension benefits could be necessary to recover to the required minimum coverage ratio under a short-term recovery plan. When the coverage ratio is below the required minimum during the recovery period, no indexation of pension benefits is allowed. The additional payments from KPN are maximized (based on the funding agreement between KPN and the KPN pension fund) to the amount of EUR 30 million. In 2009, *Stichting Pensioenfonds KPN* agreed a short term recovery plan with the Dutch Pension Regulator on the basis of which KPN has to provide additional payments per quarter when the coverage ratio is below the minimum required coverage ratio for the period from 2009 to 2013 with the cap of EUR 30 million in total.

*Stichting Voorzieningsfonds Getronics* has agreed with Getronics Holding B.V. that during the period 2010 – 2013 Getronics Holding B.V. can be required to provide additional lump sum payments of in total up to EUR 50 million for additional reserves (*bufferopslagen*), financing of the guaranteed return on investment (*garantieregeling*) or to prevent a cut of benefits (*korting*).

For some employees transitional arrangements are in place. These transitional arrangements include early retirement arrangements and arrangements for additional conditional pension accrual

Some of the employees also participate in certain transitional plans. These transitional defined benefit plans consist of an early retirement scheme and additional arrangements which have been agreed following the revised fiscal regulations applying to Dutch pension plans in 2006.

#### *Defined benefit plans in the United Kingdom*

Getronics UK was divested in 2012. In the United Kingdom, KPN contributes to a closed pension plan, externally funded in a pension plan governed by trustees. The Getronics UK pension plan has only members with preserved and deferred benefits. On 1 April 2012 the coverage deficit was equal to GBP 99 million and in 2012 KPN had to provide monthly contributions of GBP 572,500. In 2013 KPN expects to provide (on the basis of the applicable recovery plan) a one time lump sum of GBP 375,000 plus additional monthly payments of GBP 700,000.

#### *Defined benefit plans in the US*

Getronics US was divested in 2008. The closed and frozen defined benefit plans remained with KPN. These plans are closed and merged into one plan.

Until these merged plans are fully funded to 100% of their liabilities, US funding rules require quarterly contributions to recover them to a fully funded position over a seven year period based on a roll-over system. KPN has made additional quarterly employer contributions starting in April 2012 of USD 1.1 million per quarter. From April 2013, these additional quarterly employer contributions will rise to USD 1.3 million per quarter.

As of 31 December 2012, the defined benefit obligation of KPN above described plans covers approximately 98% of KPN's obligation for post-employment benefits and the related plan assets cover approximately 99% of KPN's plan assets.

Presented below, extracted without material adjustment from its audited financial statements, for the years ended 31 December 2012, 2011 and 2010 are total pension costs recognized on KPN's consolidated income statement, and the value of the assets and liabilities under KPN's defined benefit plans on its consolidated balance sheet.

<u>Income Statement</u>	As of and for the year ended 31 December		
	2012	2011	2010
	EUR in millions		
Defined Benefit Plans .....	214	117	114
Defined Contribution Plans .....	14	13	17
<b>Total</b> .....	<b>228</b>	<b>130</b>	<b>131</b>
<u>Balance Sheet</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Fair value of plan .....	8,216	7,224	6,632
Defined benefit obligations .....	9,771	8,299	7,348
<b>Benefit obligations in excess of plan assets</b> .....	<b>1,555</b>	<b>1,075</b>	<b>716</b>
Unrecognized past service cost, gains and losses .....	(1,380)	(783)	(286)
<b>Pension provisions (net)</b> .....	<b>175</b>	<b>292</b>	<b>430</b>

#### **Works councils and collective labor agreements**

##### *Works councils*

The Group has established works councils at various levels:

- the Central Works Council at the level of KPN;
- various works councils at the level of Dutch group companies;
- various works councils at the level of Belgian group companies; and
- various works councils at the level of German group companies.

In the Netherlands, a works council is a representative body of the employees of a Dutch business and its members are elected by the employees. The management board of any company that runs a business with a works council must seek the non-binding advice of the works council before implementing certain decisions with respect to the business, such as those related to a major restructuring, a change of control, or the appointment or dismissal of a member of the board of management. If the decision to be implemented is not in line with the advice of the works council, the implementation of the relevant decision must be suspended for one month, during which period the works council may appeal against the decision at the Enterprise Chamber. Certain other decisions directly involving employment conditions that apply either to all employees or to certain groups of employees may only be taken with the works council's consent. In the absence of such prior consent, the decision may nonetheless be taken with the prior consent of the sector cantonal of the district court.

### ***Collective labor agreements***

A significant number of the employees employed by KPN's group companies are members of trade unions. KPN has in place two collective labor agreements in the Netherlands, one of which is due for renewal in June 2013 and the other of which is currently negotiated and is expected to be finalized in the first quarter of 2013 with an effective date 1 January 2013. Individual terms and conditions are applicable for employees not covered under the scope/definition of one of the two collective labor agreements. Redundancies affecting these employees are handled on a case by case basis to the extent the applicable social plans are also not applicable.

### **Limitation of supervisory positions**

Dutch legislation came into force on 1 January 2013 limiting the number of supervisory positions to be occupied by executive directors of "large Dutch companies". The term "large Dutch company" applies to any Dutch company or Dutch foundation which at two consecutive balance sheet dates meets at least two of the following criteria: (i) the value of its assets, as given in its balance sheet (together with explanatory notes) on the basis of their acquisition price and production costs, is more than EUR 17.5 million; (ii) its net turnover in the applicable year is more than EUR 35 million; and (iii) the average number of employees in the applicable financial year is at least 250.

The new rules provide that (i) a person cannot be appointed as a managing director of a "large Dutch company" if he/she already holds more than two supervisory positions at another "large Dutch company" or if he/she is the chairman of the supervisory board or one-tier board of another "large Dutch company"; and (ii) a person cannot be appointed as a supervisory director or non-executive director of a large company" if he/she already holds more than four supervisory positions at another "large Dutch company", whereby the position of chairman of the supervisory board or one-tier board of another "large Dutch company" is counted twice.

An appointment in violation of these restrictions will result in that last appointment being void. Earlier appointments at other entities are not affected. The fact that an appointment is thus void does not affect the validity of decision-making.

KPN qualifies as a "large Dutch company". All directors of KPN comply with these rules because, among other things, they have all been appointed before 1 January 2013.

### **Diversity policy**

Dutch legislation came into force on 1 January 2013 requiring large Dutch companies to pursue a policy of having at least 30% of the seats on both the board of directors and the supervisory board to be held by men and at least 30% of those seats to be held by women. This allocation of seats will be taken into account in connection with the following actions: (i) the appointment, or nomination for the appointment, of executive and non-executive directors; (ii) drafting the criteria for the size and composition of the Board of Management, as well as the designation, appointment, recommendation and nomination for appointment of non executive directors; and (iii) drafting the criteria for the non-executive directors. KPN currently does not meet these gender diversity targets. If KPN continues to fail to meet these requirements over the remainder of 2013 it will be required to explain in its 2013 annual report: (i) why the seats are not allocated in a well-balanced manner; (ii) how KPN has attempted to achieve a well-balanced allocation; and (iii) how KPN aims to achieve a well-balanced allocation in the future. This rule is temporary and will cease to have effect on 1 January 2016.

## MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### Major shareholders

América Móvil is KPN's only major shareholder as of the date of this Prospectus. KPN was informed by América Móvil that it holds (either directly or indirectly) 422,559,000 of KPN's ordinary shares and thus holds 29.52% of KPN's total issued and outstanding share capital and voting rights as of the date of this Prospectus. However, due to ordinary shares held as treasury shares by KPN, and therefore not voting, América Móvil's percentage of total voting shares is 29.77%.

América Móvil has committed, subject to certain conditions, to participate in the Rights Offering and subscribe for the shares offered in the Rights Offering pro rata to its current shareholding in the total share capital of KPN, representing approximately 29.52% of KPN's ordinary shares. Further details of the shareholder commitment letter and relationship agreement signed by América Móvil are provided in "General Information—Material contracts—Shareholder commitment letter and relationship agreement". KPN's major shareholder does not have other voting rights than other shareholders.

To KPN's knowledge, no other shareholder owns 5% or more of KPN's issued and outstanding shares, either directly or indirectly, as of the date of this Prospectus.

On 17 May 2012, Capital Income Builder Inc. notified the AFM that it held 4.93% of KPN's issued share capital, (and 0% voting rights). On 26 July 2012, Capital Research and Management notified the AFM on that it held 4.67% of KPN's voting rights (and 0% of KPN's issued share capital).

KPN is not aware of any party, or any parties acting in concert, that directly or indirectly control the vote at any General Meeting, nor is KPN aware of any arrangement the operation of which may result in a change of control of KPN.

### Related party transactions

KPN is not aware that any related party has an interest in any material transaction to which KPN has been a party since 1 January 2013, or in any transactions which KPN entered into prior thereto and under which KPN or the other parties still have ongoing obligations, other than those listed below.

Transactions within the Group are not included in the description as these are eliminated in the Consolidated Financial Statements.

### *Transactions with joint ventures and associated companies*

Associated, non-consolidated companies and joint ventures of KPN sell goods and provide services to consolidated KPN companies. In addition, consolidated KPN companies sell goods or provide services to these associated companies and joint ventures (see Note 32 to the 2012 Consolidated Financial Statements incorporated by reference herein). The total value of sales transactions by KPN in the year ended 31 December 2012 with joint ventures and associated companies amounted to approximately EUR 66 million, as compared to EUR 47 million in the year ended 31 December 2011 and the total value of purchase transactions amounted to approximately EUR 77 million, as compared to EUR 37 million in the year ended 31 December 2011.

No related party transactions have taken place in the year ended 31 December 2012 that have materially affected the financial position or the performance of KPN, apart from the acquisition of 100% of the shares in Lijbrandt Telecom Holding B.V., Glashart Media B.V. and Reggefiber Wholesale B.V. from Reggefiber Group B.V., in which KPN holds 51% of the shares.

### *Board of Management and Supervisory Board*

With the exception of the remuneration of members of the Board of Management and members of the Supervisory Board (see also "Board of Management, Supervisory Board and Employees—Remuneration"), KPN has no knowledge of any material transactions, or proposed material transactions, in which members of the Board of Management or the Supervisory Board or close members of their families had a direct or indirect material interest in the year ended 31 December 2012.

The total value of goods sold and services provided by KPN (which all concerned payment of remuneration) in the year ended 31 December 2012 to parties in which members of the Board of Management or the Supervisory Board or close members of their families had a direct or indirect material interest amounted to approximately EUR 7 million, compared to EUR 32 million in the year ended 31 December 2011, and the total value of goods and services purchased from such parties in the year ended 31 December 2012 amounted to approximately EUR 15 million, compared to EUR 43 million in the year ended 31 December 2011. All transactions occurred in the ordinary course of business.

### *América Móvil*

Further details of the shareholder commitment letter and relationship agreement signed by América Móvil are provided in “General Information—Material contracts—Shareholder commitment letter and relationship agreement”.

## TAXATION

### General

The following summary outlines certain United States federal and Dutch tax consequences of the acquisition, holding, settlement, redemption and disposal of the Securities, but does not purport to be a comprehensive description of all United States federal and Dutch tax considerations in relation thereto. This summary is intended as general information only and each prospective investor should consult a professional tax adviser with respect to the tax consequences of an investment in the Securities.

This summary is based on tax legislation, published case law, treaties, regulations and published policy, in each case as in force as of the date of this Prospectus, and does not take into account any developments or amendments thereof after that date whether or not such developments or amendments have retroactive effect.

This summary does not address the Netherlands tax consequences for corporate holders of Securities which in addition to the Securities (i) own a share interest in the Issuer of 5% or more of the nominal paid-up share capital of the Issuer or (ii) holders of Securities of whom a certain related entity owns a share interest in the Issuer of 5% or more of the nominal paid-up share capital of the Issuer.

### Certain United States Federal Income Tax Consequences

**TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE (“IRS”) CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER’S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.**

The following is a summary of certain U.S. federal income tax considerations relevant to U.S. Holders (as defined below) acquiring, holding and disposing of Securities. This summary addresses only the U.S. federal income tax considerations for initial purchasers of Securities at their issue price (as defined below) that will hold the Securities as capital assets (generally, property held for investment). This summary is based on the U.S. Internal Revenue Code of 1986 (the **Code**), final, temporary and proposed U.S. Treasury regulations, administrative and judicial interpretations, all of which are subject to change, possibly with retroactive effect.

This summary does not discuss all aspects of U.S. federal income taxation that may be relevant to investors in light of their particular circumstances, such as investors subject to special tax rules (including, without limitation: (i) financial institutions; (ii) insurance companies; (iii) dealers or traders in stocks, securities, or currencies or notional principal contracts; (iv) regulated investment companies; (v) real estate investment trusts; (vi) tax-exempt organisations; (vii) partnerships, pass-through entities, or persons that hold Securities through pass-through entities; (viii) retirement funds and other tax-deferred accounts; (ix) holders that own (directly, indirectly or constructively) 10% or more of the voting stock of the Issuer; (x) holders that are not U.S. Holders; (xi) investors that hold Securities as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes; (xii) investors that have a functional currency other than the U.S. Dollar and (xiii) U.S. expatriates and former long-term residents of the United States), all of whom may be subject to tax rules that differ significantly from those summarised below. This summary does not address U.S. federal estate, gift or alternative minimum tax considerations, or non-U.S., state or local tax considerations.

For the purposes of this summary, a **U.S. Holder** is a beneficial owner of Securities that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation created in, or organised under the laws of, the United States or any state thereof, including the District of Columbia, (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source or (iv) a trust the administration of which is subject to the primary supervision of a U.S. court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

### *Characterization of the Securities*

Whether the Securities are debt for U.S. federal income tax purposes will depend on the facts and circumstances at the time the Securities are issued for U.S. federal income tax purposes. No statutory, judicial or

administrative authority directly addresses the characterization of the Securities or instruments similar to the Securities for U.S. federal income tax purposes. Although the matter is not free from doubt, and there is no authority directly on point, the Issuer intends to take the position that the Securities will be treated for U.S. federal income tax purposes as contingent payment debt instruments. Given the highly subordinated nature of the Securities relative to other obligations of the Issuer, the length of their term, and other features, however, it is not certain that the Securities will be respected as debt for U.S. federal income tax purposes. No opinion of legal counsel will be issued with respect to the U.S. federal income tax characterization of the Securities and the Issuer's treatment of the Securities is not binding on the IRS or the courts. By acquiring Securities or an interest therein, holders agree to treat the Securities as contingent payment debt instruments for U.S. federal tax purposes.

It is possible that the IRS could recharacterize the Securities as equity for U.S. federal income tax purposes. Such recharacterization could impact the timing and character of taxable income with respect to the payments on the Securities, particularly if the Issuer were to be a "passive foreign investment company" (a **PFIC**), which the Issuer does not believe it is nor does it expect to become. **PROSPECTIVE INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS REGARDING THE APPROPRIATE U.S. FEDERAL INCOME TAX CONSEQUENCES OF PURCHASING A SECURITY, INCLUDING THE POTENTIAL ALTERNATIVE CHARACTERIZATIONS OF A SECURITY.**

Subject to "—Alternative Characterization" below, the remainder of this discussion assumes that the Securities will be characterized as indebtedness of the Issuer for U.S. federal income tax purposes.

### ***Treatment of the Securities as Contingent Payment Debt Instruments***

For U.S. federal income tax purposes, the Securities should be subject to the original issue discount (**OID**) provisions of the Code and the U.S. Treasury Regulations governing contingent payment debt instruments issued thereunder (the **CPDI Regulations**). The Issuer, and, by a holder's purchase of the Securities, each holder agree to treat the Securities as contingent payment debt instruments for U.S. federal income tax purposes, and a U.S. Holder, regardless of its regular method of accounting, will have to include the OID accruing on the Securities in income using the non-contingent bond method. As more specifically described below, under the non-contingent bond method, a U.S. Holder will have to accrue OID based on certain assumptions and then make corrections to the extent the OID accrued exceeds or falls short of the actual discount.

Under the CPDI Regulations, a U.S. Holder of the Securities will include OID in income for each interest accrual period based on a projected payment schedule and a "comparable yield". The comparable yield will be the yield at which the Issuer would issue a fixed rate debt instrument with terms and conditions similar to the Securities.

During the term of the Securities, a U.S. Holder of a Security must report as ordinary income an amount equal to the sum of the daily portions of OID on the Security that are deemed to accrue at the comparable yield for each day during the taxable year (or portion of the taxable year) on which the Security is held. The amount of OID that is deemed to accrue in any accrual period will equal the product of the comparable yield (properly adjusted for the length of the accrual period) and the Security's adjusted issue price at the beginning of the accrual period. The daily portion of OID is then determined by allocating to each day in the accrual period the ratable portion of the OID that is deemed to accrue during the entire accrual period. In general, for these purposes, a Security's adjusted issue price will equal the Security's issue price, increased by the OID previously accrued on the Security and reduced by any non-contingent payment and the projected amount (as opposed to the actual amount) of any contingent payment previously made on the Security.

The Issuer is required to provide to holders, solely for U.S. federal income tax purposes, a schedule of the projected amounts of payments on the Securities. This schedule must produce the comparable yield. The comparable yield and projected payment schedule will be available from the Issuer by submitting a written request for such information to us at: KPN Corporate Treasury, P.O. Box 30000, 2500 GA The Hague, The Netherlands.

**THE COMPARABLE YIELD AND THE PROJECTED PAYMENT SCHEDULE ARE NOT DETERMINED FOR ANY PURPOSE OTHER THAN FOR THE DETERMINATION OF OID ACCRUALS AND ADJUSTMENTS THEREOF IN RESPECT OF THE SECURITIES FOR U.S. FEDERAL INCOME TAX PURPOSES AND DO NOT CONSTITUTE A PROJECTION OR REPRESENTATION REGARDING THE ACTUAL AMOUNTS PAYABLE TO THE HOLDERS OF THE SECURITIES.**

The use of the comparable yield and the calculation of the projected payment schedule is based upon a number of assumptions and estimates and are not predictions, representations or guarantees of the actual amounts of payments to a U.S. Holder or of the actual yield of the Securities. A U.S. Holder will generally be bound by the comparable yield and the projected payment schedule determined by us, unless the U.S. Holder determines its own comparable yield and projected payment schedule and explicitly discloses such schedule to the IRS, and explains to the IRS the reason for preparing its own schedule. The Issuer's determination, however, is not binding on the IRS, and it is possible that the IRS could conclude that some other comparable yield or projected payment schedule should be used instead.

### *Adjustments*

If the actual amount of a contingent payment exceeds or is less than the projected amount of the contingent payment based on the comparable yield and the projected payment schedule, a U.S. Holder will have positive adjustments (if the amount paid exceeds the amount projected) or negative adjustments (if the amount projected exceeds the amount paid). For any taxable year, these adjustments are netted. If the net adjustment is positive, then the net adjustment is treated as interest for the taxable year. If the net adjustment is negative, the treatment is as described below.

For the taxable year in which it arises, a net negative adjustment is first used by a U.S. Holder to reduce the income on the Security that would otherwise be taken into account for the taxable year. If the net negative adjustment exceeds that amount, then the balance is treated as an ordinary loss, and may be claimed as a deduction to the extent it does not exceed the U.S. Holder's OID income from the Security in prior years. (In the case of individuals, estates, or trusts, such deduction is not subject to the 2% floor on miscellaneous itemized deductions.) Thereafter, any amount still remaining is treated as a negative adjustment carryforward in the following year. Upon the sale, exchange or retirement of a Security, if a U.S. Holder still has an unused net negative adjustment (that is, an amount exceeding total income inclusions), that amount reduces the U.S. Holder's amount realized from such sale, exchange or retirement.

A U.S. Holder may have to include income in excess of cash distributions on a Security.

**PROSPECTIVE INVESTORS SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE APPLICATION OF THE CPDI REGULATIONS TO THE SECURITIES.**

### *Sale, Exchange, Retirement or Other Disposition of Securities*

A U.S. Holder's tax basis in a Security will, in general, be the U.S. Holder's cost for the Security, increased by the OID accrued by the U.S. Holder based on the non-contingent bond method described above (and without regard to any positive or negative adjustments) and reduced by any non-contingent payment and the projected amount (as opposed to the actual amount) of any contingent payment previously made on the Security. The difference between the U.S. Holder's tax basis and the amount realized will be gain or loss. Any gain will be treated as ordinary interest income. Any loss will be ordinary to the extent that the U.S. Holder's total OID inclusions exceed the total net negative adjustments (if any) that the U.S. Holder took into account as ordinary loss. The remaining loss (if any) will be capital loss.

In determining the amount realized by a U.S. Holder in the case of a scheduled retirement of the Securities, the U.S. Holder will be treated as receiving the projected amount of any contingent payment due at maturity based on the comparable yield and projected payment schedule. If the amount received by the U.S. Holder is different from the projected amount, then the U.S. Holder will have positive or negative adjustments as described above. In the case of an unscheduled retirement of the Securities, a U.S. Holder will be treated as having an amount realized equal to the amount paid by the Issuer.

**PROSPECTIVE INVESTORS SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE APPLICATION OF THE CPDI REGULATIONS TO THE DISPOSITION OF THEIR SECURITIES.**

### *Alternative Characterization*

As discussed above, the proper characterization of the Securities for U.S. federal income tax purposes is not free from doubt. The Issuer intends, and holders agree, to take the position that the Securities will be treated for U.S. federal income tax purposes as contingent payment debt instruments, but one possible alternative characterization that the IRS could assert is that the Securities should be treated as equity in the Issuer



for U.S. federal income tax purposes. The remainder of this discussion describes some differences in the U.S. federal income tax treatment if the IRS were to successfully assert that the Securities should properly be characterized as equity for U.S. federal income tax purposes.

The Issuer believes that it was not a PFIC for the year ending on December 31, 2012 and does not expect to become a PFIC for the current year or for any future taxable year. There can be no assurances, however, that the Issuer will not be considered to be a PFIC for any particular year because PFIC status is factual in nature, generally cannot be determined until the close of the taxable year in question, and is determined annually. The discussion below assumes that the Issuer was not, is not, and will not become a PFIC

#### *Distributions*

A distribution made by the Issuer on the Securities (including amounts withheld in respect of foreign income tax, if any) generally would be treated as a dividend includible in the gross income of a U.S. Holder as ordinary income. Such distributions would not be eligible for the dividends received deduction allowed to corporations. The Issuer does not expect to maintain calculations of earnings and profits for U.S. federal income tax purposes. Therefore, a U.S. Holder should expect that such distribution would generally be treated as a dividend, and such distribution may be eligible for a preferential income tax rate applicable to “qualified dividend income”.

Distributions treated as dividends on the Securities generally would constitute income from sources outside the United States for foreign tax credit limitation purposes.

#### *Sale, Exchange or Other Disposition*

A U.S. Holder generally would recognize gain or loss for U.S. federal income tax purposes upon a sale or other disposition of its Securities in an amount equal to the difference between the amount realized from such sale or disposition and the U.S. Holder’s adjusted tax basis in such Securities. Such gain or loss would be capital gain or loss and will be long-term capital gain (taxable at a reduced rate for non-corporate U.S. Holders, such as individuals) or loss if, on the date of sale or disposition, such Securities were held by such U.S. Holder for more than one year. The deductibility of capital losses is subject to significant limitations. Such gain or loss realized generally will be treated as derived from U.S. sources.

#### *Information Reporting*

Under U.S. federal income tax law and regulations, certain categories of U.S. persons must file information returns with respect to their investment in the equity interests of a foreign corporation. A U.S. person that purchases for cash Securities may be required to file IRS Form 926 or similar form if the transfer, when aggregated with all transfers made by such person (or any related person) within the preceding 12 month period, exceeds U.S.\$100,000. In the event a U.S. Holder fails to file any such required form, the U.S. Holder could be required to pay a penalty equal to 10% of the gross amount paid for such Securities up to a maximum penalty of U.S.\$100,000.

#### ***Backup Withholding and Information Reporting***

Regardless of whether the Securities are treated as debt or as equity for U.S. federal income tax purposes, in general, payments on, and the proceeds of a sale, redemption or other disposition of, the Securities, payable to (and, if properly treated as debt for U.S. federal income tax purposes, accruals of OID on the Securities attributable to) a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments and payments of accrued OID, as applicable, if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise to comply with the applicable backup withholding requirements. Certain U.S. Holders are not subject to backup withholding.

#### **Certain Dutch Tax Consequences**

##### ***Withholding Tax***

All payments made by the Issuer under the Securities may be made free of withholding or deduction for any taxes of whatsoever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein provided that (i) the Securities do not in fact function as equity of the Issuer

within the meaning of article 10, paragraph 1, subparagraph d of the Netherlands Corporate Income Tax Act 1969 (*Wet op de vennootschapsbelasting 1969*) and (ii) the Securities are not requalified as equity instruments for Netherlands tax purposes.

If the Securities function as equity of the Issuer within the meaning of article 10, paragraph 1, subparagraph d of the Netherlands Corporate Income Tax Act 1969 (*Wet op de vennootschapsbelasting 1969*) of the Issuer or qualify as equity instruments for Dutch tax purposes, the Issuer is required to withhold 15% Netherlands dividend tax in respect of interest paid on the Securities and on repayments of the Securities, insofar as such repayments exceed the in issue price of the Securities.

#### *Residents of the Netherlands*

If a holder of Securities is a resident or deemed to be a resident of the Netherlands for Netherlands corporate or individual income tax purposes, Netherlands dividend tax which is withheld with respect to payments on the Securities will generally be creditable for Netherlands corporate income tax or Netherlands individual income tax purposes.

#### *Non-residents of the Netherlands*

If a holder of Securities is a resident of a country other than the Netherlands and if a treaty for the avoidance of double taxation with respect to taxes on income is in effect between the Netherlands and that country and such holder is a resident for the purposes of such treaty, such holder may, depending on the terms of that particular treaty, qualify for full or partial relief at source or for a refund in whole or in part of the Netherlands dividend tax.

A refund of the Netherlands dividend tax is available to entities resident in another EU member state, Norway, Iceland, or Liechtenstein provided (i) these entities are not subject to corporate income tax there and (ii) these entities would not be subject to Netherlands corporate income tax, if these entities would be tax resident in the Netherlands for corporate income tax purposes and (iii) these entities are not comparable to investment institutions (*fiscale beleggingsinstellingen*) or exempt investment institutions (*vrijgestelde beleggingsinstellingen*). Furthermore, a similar refund of Netherlands dividend tax may be available to entities resident in other countries, under the additional condition that (i) the Securities are considered portfolio investments and (ii) the Netherlands can exchange information with this other country in line with the international standards for the exchange of information.

#### **Corporate and Individual Income Tax**

This summary does not address the Netherlands corporate and individual income tax consequences for:

- (i) holders of Securities holding a substantial interest (*aanmerkelijk belang*) or deemed substantial interest (*fictief aanmerkelijk belang*) in the Issuer and holders of Securities of whom a certain related person holds a substantial interest in the Issuer. Generally speaking, a substantial interest in the Issuer arises if a person, alone or, where such person is an individual, together with his or her partner (statutory defined term), directly or indirectly, holds or is deemed to hold (1) an interest of 5% or more of the total issued capital of the Issuer or of 5% or more of the issued capital of a certain class of shares of the Issuer, (2) rights to acquire, directly or indirectly, such interest or (3) certain profit sharing rights in the Issuer;
- (ii) investment institutions (*fiscale beleggingsinstellingen*);
- (iii) pension funds, exempt investment institutions (*vrijgestelde beleggingsinstellingen*) or other entities that are exempt from Netherlands corporate income tax;
- (iv) entities which are a resident of Aruba, Curacao or Sint Maarten that have an enterprise which is carried on through a permanent establishment or a permanent representative on Bonaire, Sint Eustatius or Saba, to which permanent establishment or permanent representative the Securities are attributable;
- (v) holders of Securities which are not considered the beneficial owner (*uiteindelijk gerechtigde*) of these Securities or of the benefits derived from or realised in respect of these Securities; and
- (vi) persons to whom the Securities and the income from the Securities are attributed based on the separated private assets (*afgezonderd particulier vermogen*) provisions of the Netherlands Income Tax Act 2001 (*Wet inkomstenbelasting 2001*) and the Netherlands Gift and Inheritance Tax Act 1956 (*Successiewet 1956*).

### *Residents of The Netherlands*

If a holder is a resident or deemed to be a resident of The Netherlands for Netherlands tax purposes and is fully subject to Netherlands corporate income tax or is only subject to Netherlands corporate income tax in respect of an enterprise to which the Securities are attributable, income derived from the Securities and gains realised upon the redemption, settlement or disposal of the Securities are generally taxable in The Netherlands (at up to a maximum rate of 25%).

If an individual is a resident or deemed to be a resident of The Netherlands for Netherlands tax purposes (including an individual who has opted to be taxed as a resident of The Netherlands), income derived from the Securities and gains realised upon the redemption, settlement or disposal of the Securities are taxable at the progressive rates (at up to a maximum rate of 52%) under The Netherlands' Income Tax Act 2001 (*Wet inkomstenbelasting 2001*), if:

- (i) the individual is an entrepreneur (*ondernemer*) and has an enterprise to which the Securities are attributable or the individual has, other than as a shareholder, a co-entitlement to the net worth of an enterprise (*medegerechtigde*), to which enterprise the Securities are attributable; or
- (ii) such income or gains qualify as income from miscellaneous activities (*resultaat uit overige werkzaamheden*), which include the performance by the individual of activities with respect to the Securities that exceed regular, active portfolio management (*normaal, actief vermogensbeheer*).

If neither condition (i) nor condition (ii) applies, an individual that holds the Securities, must determine taxable income with regard to the Securities on the basis of a deemed return on income from savings and investments (*sparen en beleggen*), rather than on the basis of income actually received or gains actually realised. This deemed return on income from savings and investments is fixed at a rate of 4% of the individual's yield basis (*rendementsgrondslag*) at the beginning of the calendar year (1 January), insofar as the individual's yield exceeds a certain threshold. The individual's yield basis is determined as the fair market value of certain qualifying assets held by the individual less the fair market value of certain qualifying liabilities on 1 January. The fair market value of the Securities will be included as an asset in the individual's yield basis. The 4% deemed return on income from savings and investments is taxed at a rate of 30%.

### *Non-residents of The Netherlands*

If a person is not a resident nor is deemed to be a resident of The Netherlands for Netherlands tax purposes (or has not opted to be taxed as a resident of The Netherlands), such person is not liable for Dutch income tax in respect of income derived from the Securities and gains realised upon the settlement, redemption or disposal of the Securities, unless:

- (i) the person is not an individual and such person (1) has an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands to which permanent establishment or permanent representative the Securities are attributable, or (2) is entitled to a share in the profits of an enterprise or a co-entitlement to the net worth of an enterprise, which is effectively managed in The Netherlands (other than by way of securities) and to which enterprise the Securities are attributable.

This income is subject to Netherlands corporate income tax at up to a maximum rate of 25%.

- (ii) the person is an individual and such individual (1) has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands to which permanent establishment or permanent representative the Securities are attributable, or (2) realises income or gains with respect to the Securities that qualify as income from miscellaneous activities (*resultaat uit overige werkzaamheden*) in The Netherlands, which activities include the performance of activities in The Netherlands with respect to the Securities which exceed regular, active portfolio management (*normaal, actief vermogensbeheer*), or (3) is entitled to a share in the profits of an enterprise which is effectively managed in The Netherlands (other than by way of securities) and to which enterprise the Securities are attributable.

Income derived from the Securities as specified under (1) and (2) is subject to individual income tax at up to a maximum rate of 52%. Income derived from a share in the profits of an enterprise as specified under (3) that is not already included under (1) or (2) will be taxed on the basis of a deemed return on income from savings and investments (as described above under "Residents of The Netherlands"). The fair market value of the share in the profits of the enterprise (which includes the Securities) will be part of the individual's Netherlands yield basis.

### ***Gift and Inheritance Tax***

Dutch gift or inheritance taxes will not be levied on the occasion of the transfer of a Security by way of gift by, or on the death of, a holder of a Security, unless:

- (i) the holder of a Security is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions; or
- (ii) the transfer is construed as an inheritance or gift made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in The Netherlands for the purpose of the relevant provisions.

### ***Value Added Tax***

In general, no value added tax will arise in respect of payments in consideration for the issue of the Securities or in respect of a cash payment made under the Securities, or in respect of a transfer of Securities.

### ***Other Taxes and Duties***

No registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty will be payable in The Netherlands by a holder in respect of or in connection with the subscription, issue, placement, allotment, delivery or transfer of the Securities.

### ***EU Savings Directive***

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

## SUBSCRIPTION AND SALE

Deutsche Bank Securities Inc., Goldman Sachs International and J.P. Morgan Securities LLC (together, the **Joint Structuring Advisors** or the **Joint Global Coordinators**, as applicable), Credit Suisse Securities (Europe) Limited and RBS Securities Inc. (together with the Joint Global Coordinators, the **Joint Bookrunners**) and Citigroup Global Markets Inc. and Merrill Lynch International (together with the Joint Bookrunners, the **Managers**) have, pursuant to a Subscription Agreement dated 22 March 2013, severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Securities at 99.60 per cent. of their principal amount. The respective percentages of principal amounts to be purchased by each of the Managers from the Issuer is set forth opposite their respective names below:

<u>Managers</u>	<u>Percentage</u>
Deutsche Bank Securities Inc. ....	16.67
Goldman Sachs International ....	16.67
J.P. Morgan Securities LLC ....	16.67
Credit Suisse Securities (Europe) Limited ....	12.5
RBS Securities Inc. ....	12.5
Citigroup Global Markets Inc. ....	12.5
Merrill Lynch International ....	12.5
<b>Total</b> .....	<b>100</b>

The Issuer has agreed to pay to the Managers a combined management and underwriting commission and to the Joint Structuring Advisers a fee in relation to the structuring advice provided to the Issuer. In addition, the Issuer has agreed to reimburse the Managers for certain of their expenses in connection with the issue of the Securities. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment in respect of the Securities being made to the Issuer. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Securities, including liabilities under the Securities Act, and may be required to contribute to payments the Managers may be required to make in respect thereof.

The Managers initially propose to offer the Securities at the offering price set forth on the cover page hereof. After the initial offering of the Securities, the offering price and other selling terms may from time to time be varied by the Managers.

The Issuer has agreed that neither it nor any of its subsidiaries will for a period ending 180 days after the issue date (both dates inclusive) without the prior written consent of the Joint Bookrunners directly or indirectly, authorise the issue, or publicly announce the issue, or issue, offer, pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase, purchase any option or contract to issue or sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any Securities (or otherwise acquire extant Securities) or such other securities, in cash or otherwise, other than (a) any rights granted to subscribe for, and any ordinary shares issued pursuant to the rights issue of Ordinary Shares contemplated by the Issuer by granting transferable subscription rights to the Issuer's existing shareholders, (b) an issue of senior unsecured debt securities for the purposes of the Group's ordinary course financing or (c) the issue of ordinary shares pursuant to any employee-stock options existing at the date hereof and to be described in the Prospectus.

Neither the Issuer nor any Manager has made any representation that any action will be taken in any jurisdiction by the Managers or the Issuer that would permit a public offering of the Securities, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Securities (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required.

Persons into whose hands this Prospectus comes are required by the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver the Securities or have in their possession or distribute such offering material, in all cases at their own expense.

Each Manager has agreed that it will, to the best of its knowledge, comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Securities or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense.

## **Selling and transfer restrictions**

### ***United States***

The Securities have not been and will not be registered under the Securities Act or under any securities laws of any state or other jurisdiction of the United States. The Securities may not be offered, sold, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state and other securities laws of the United States. There will be no public offer of the Securities in the United States. The Securities are being offered and sold in offshore transactions in compliance with Regulation S of the Securities Act and within the United States to QIBs as defined in Rule 144A pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Purchasers are hereby notified that sellers of the Securities are relying on an exemption from the registration requirements of Section 5 of the Securities Act, which may include Rule 144A or Regulation S thereunder.

As a result of the following restrictions, purchasers of Securities in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Securities.

Each purchaser of the Securities will be deemed to have acknowledged, represented and agreed, as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (a) that either: (i) it is a QIB, purchasing (or holding) the Securities for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (ii) it is outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act;
- (b) that the Securities are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Securities have not been and will not be registered under the Securities Act or any other applicable U.S. State securities laws and may not be offered or sold within the United States except as set forth below;
- (c) that, unless it holds an interest in a Unrestricted Global Certificate and is a person located outside the United States, if in the future it decides to resell, pledge or otherwise transfer the Securities or any beneficial interests in the Securities, it will do so only (i) to the Issuer or any affiliate thereof, (ii) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in offshore transactions in reliance on Regulation S in compliance with Rule 903 or Rule 904 under the Securities Act, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;
- (d) it will, and will require each subsequent holder to, notify any purchaser of the Securities from it of the resale restrictions referred to in paragraph (c) above, if then applicable;
- (e) that Securities initially offered in the United States to QIBs will be represented by one or more Restricted Global Certificate and that Securities offered outside the United States in reliance on Regulation S will be represented by one or more Unrestricted Global Certificate;
- (f) that the Securities in registered form, other than the Unrestricted Global Certificate, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT

PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144A FOR REALES OF THE SECURITY.

THIS SECURITY AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).”; and

- (g) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Securities as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Until 40 days after the commencement of the offering of the Securities, an offer or sale of such Securities within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Managers may arrange for the resale of Securities to QIBs pursuant to Rule 144A and each such purchaser of Securities is hereby notified that the Managers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. To permit compliance with Rule 144A in connection with any resales or other transfers of Securities that are “restricted securities” within the meaning of the Securities Act, the Issuer the Trust Deed to furnish, upon the request of a holder of such Securities or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Securities remain outstanding as “restricted securities” within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

### ***United Kingdom***

Each Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the UK Financial Services and Markets Act 2000 (the **FSMA**)) received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

### ***Hong Kong***

Each Manager has represented and agreed that:

- (c) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Securities other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (d) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

### ***Japan***

The Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the **Financial Instruments and Exchange Act**). Accordingly, each Manager has represented and agreed, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Securities in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, of Japan or to, or for the benefit of, any resident in Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

### ***Singapore***

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore, and the Securities will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the **Securities and Futures Act**). Accordingly, the Securities may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Securities be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person under Section 275(1) of the Securities and Futures Act or to any person pursuant to Section 275(1A) of the Securities and Futures Act and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the Securities are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor;
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Securities pursuant to an offer under Section 275 of the Securities and Futures Act except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act; or
- (ii) where no consideration is or will be given for the transfer; or



- (iii) where the transfer is by operation of law; or
- (iv) pursuant to Section 276(7) of the Securities and Futures Act or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations.

***General***

The offering of the Securities to persons resident in, or who are citizens of, a particular jurisdiction may be affected by the laws of that jurisdiction. Investors should consult their professional advisers as to whether the investor requires any governmental or any other consent or needs to observe any other formalities to enable the investor to purchase the Securities.

## GENERAL INFORMATION

### Listing

Application has been made to the Euronext Amsterdam N.V. for the Securities to be listed on Euronext Amsterdam. References in this Prospectus to the Securities being “listed” (and all related references) shall mean that the Securities have been listed and admitted to trading on Euronext Amsterdam. Euronext Amsterdam is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

### Authorisation

The Issuer has obtained all necessary consents, approvals and authorisation in The Netherlands in connection with the issue and performance of the Securities. The issue of the Securities was authorised by resolutions of the management board and the supervisory board of the Issuer, each passed on 14 December 2012.

### Significant or material change

There has been no significant change in the financial or trading position of KPN, including its subsidiaries and consolidated joint ventures, since 31 December 2012 up to the date of this Prospectus, except for: (i) the credit rating downgrades of the Issuer on 6 and 8 February 2013, (ii) the impact relating to payment of the Dutch spectrum auction of EUR 1,352 million, (iii) the entry into the Standby Underwriting Agreement dated 20 February 2013 relating to the Rights Issue among KPN, Deutsche Bank A.G., London Branch, J.P. Morgan Securities plc and Goldman Sachs International, (iv) the entry into the relationship agreement between the Issuer and América Móvil dated 20 February 2013 and (v) the issuance of the EUR Capital Securities and the GBP Capital Securities.

There has been no material adverse change in the prospects of the Issuer since 31 December 2012.

### Clearing Systems

The Securities have been accepted for clearance through DTC. In respect of the Restricted Global Certificate the CUSIP is 50048VAA8, the Common Code is 086527723 and the ISIN Code is US50048VAA89. In respect of the Unrestricted Global Certificate the CUSIP is N4297BBC7, the Common Code is 086527685 and the ISIN Code is USN4297BBC74.

The address of DTC is 55 Water Street, New York, NY 10041, United States of America.

### Documents Available

For the period of 12 months starting on the date on which this Prospectus is made available to the public, copies of the following documents will be available, during usual business hours on any weekday (public holidays excepted), for inspection at the specified office of any of the Paying Agents:

- (a) this Prospectus; and
- (b) the Trust Deed dated the Issue Date between the Issuer and the Trustee and the Agency Agreement dated the Issue Date between the Issuer, the Trustee and the agents named therein.

### Auditors

The auditors of the Issuer are PricewaterhouseCoopers Accountants N.V. (**PwC**). The relevant auditors who have signed the opinions in respect of the Issuer are members of The Dutch Professional Organization for Accountants. PwC have audited the financial statements of the Issuer, prepared in accordance with IFRS-EU for the financial years ended 31 December 2012, 31 December 2011 and 31 December 2010 and issued reports without qualification for each of these years. The auditors of the Issuer have no material interest in the Issuer. The business address of PwC is P.O. Box 90351, 1006 BJ Amsterdam, The Netherlands.

### Yield

For the period from the Issue Date to the First Reset Period, the yield will be 7.00 per cent. per annum. The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

## Estimated Expenses

The expenses related to the admission of the Securities to trading on Euronext Amsterdam are estimated to amount to €8,000.

## Managers transacting with the Issuer

The Managers and their respective affiliates have from time to time been engaged, and may in the future engage, in commercial banking, investment banking and financial advisory and ancillary transactions in the course of their business with the Issuer or any other of the Issuer's related parties for which they have received or may receive customary compensation. The Managers and/or their respective affiliates may provide such services for the Issuer and its affiliates in the future. In particular, Banc of America Securities Limited, Citigroup Global Markets Limited, Credit Suisse AG, London Branch, Deutsche Bank Luxembourg SA, J.P. Morgan Limited and The Royal Bank of Scotland N.V. are lenders under KPN's Credit Facility, and Goldman Sachs Bank USA and J.P. Morgan Limited were lenders under KPN's standby liquidity facility, which was cancelled upon the issuance of the EUR Capital Securities and the GBP Capital Securities. Additionally, the Managers, in the ordinary course of their business, have held and in the future may hold KPN's securities for investment. See "Use of Proceeds".

As a result of acting in the capacities described above, the Managers may have interests that may not be aligned, or could potentially conflict, with investors' and the Issuer's interests.

## Material subsidiaries

KPN is the holding company of a group that includes the following material subsidiaries (held directly or indirectly by KPN), all of which are engaged in KPN's business:

<u>Name</u>	<u>Country of incorporation</u>	<u>Percentage of capital and voting rights held by KPN (directly or indirectly)</u>
KPN B.V. ....	The Netherlands	100
iBasis Inc. ....	USA	100
Getronics N.V. ....	The Netherlands	100
E-Plus Mobilfunk GmbH & Co KG ....	Germany	100
KPN Group Belgium N.V. ....	Belgium	100

## Material contracts

### *Syndicated revolving credit agreement, standby liquidity facility and uncommitted overdraft facilities*

KPN entered into the Credit Facility on 6 July 2011. The Credit Facility is an unsecured EUR 2.0 billion multi-currency syndicated revolving credit facility, including a EUR 500 million swingline facility, with fourteen original lenders (each having a commitment of EUR 142.9 million), including J.P. Morgan Limited, and The Royal Bank of Scotland plc as Facility Agent, Euro Swingline Agent and Dollar Swingline Agent (each as defined in the Credit Facility). Borrowings under the Credit Facility can be used for general corporate purposes. The Credit Facility was undrawn as of 31 December 2012.

Loans under the Credit Facility bear mandatory costs and interest. The interest rate on loans drawn under the Credit Facility is LIBOR or EURIBOR for the relevant period and a margin which depends on credit ratings of S&P/Fitch and Moody's of KPN plus mandatory costs (if any). The margin is determined according to a credit ratings grid based on the average of KPN's two highest credit ratings, which currently corresponds to 0.65% per annum.

KPN has exercised its first of two options to extend the Credit Facility for one year, and as a result, the Credit Facility terminates on 6 July 2017. The Credit facility may be further extended an additional year, subject to lender consent.

The Credit Facility does not contain any financial covenants, but does include a restriction 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 the resulting company assumes all of the rights and obligations with respect to the loans. The undertakings and events of default are customary for this type of unsecured financing. KPN has not received any default notice under the Credit Facility.

In addition, and separate from the Credit Facility, KPN entered into a standby liquidity facility with multiple banks, including both Goldman Sachs Bank USA and J.P. Morgan Limited. The standby liquidity facility was cancelled upon the issuance of the Capital Securities. KPN also has four uncommitted overdraft facilities of EUR 50 million each, which may be cancelled at any time and do not have a specified maturity date.

The Offering does not trigger any event of default or mandatory prepayment of the facilities.

### *Capital Securities*

On 14 March 2013, KPN issued the EUR Capital Securities and the GBP Capital Securities (swapped to EUR 460 million nominal value).

The Capital Securities are unsecured subordinated obligations of KPN. In the event of a winding-up, the claims of holders of Capital Securities will be subordinated to the claims of senior creditors. In addition, upon the occurrence of certain special events (including without limitation, the occurrence of a change of control of KPN, a change in the assessment criteria of a credit rating agency such that the relevant Capital Securities are no longer eligible for the same, or higher amount of, "equity credit" or if KPN is required to "gross-up" for payments made under the relevant Capital Securities as a result of a change in the tax laws or regulations of the Netherlands or any interpretation or application thereof), the Capital Securities are redeemable at the option of KPN (in whole but not in part). Events of default under the terms and conditions of the relevant Capital Securities are limited to non-payment of principal and interest due under the Capital Securities and a winding-up of KPN (unless such winding-up is for the purpose of a merger, reconstruction or amalgamation the terms of which have previously been approved by an extraordinary resolution the holder of the relevant Capital Securities).

The EUR Capital Securities are perpetual securities in respect of which there is no fixed redemption date and are redeemable at the option of KPN (in whole but not in part) on 14 September 2018 and the date falling five years after 14 September 2018, and thereafter, on each interest payment date. The EUR Capital Securities bear interest on their principal amount at a rate of 6.125 per cent. per annum from (and including) 14 March 2013 to (but excluding) 14 September 2018, payable annually in arrear, except that the first payment of interest, to be made on 14 September 2013, will be in respect of the period from (and including) 14 March 2013 to (but excluding) 14 September 2013 and will amount to €30.88 per €1,000 in principal amount of the EUR Capital Securities. Thereafter, unless previously redeemed, the EUR Capital Securities will, in respect of each successive periods of five years (each a **Euro Capital Securities Reset Period**), bear interest at a rate equal to the sum of (i) 5.202 per cent. per annum (from 14 September 2018 to 14 September 2023), 5.452 per cent. per annum (from 14 September 2023 to 14 September 2038) and 6.202 per annum (from 14 September 2038 until the Euro Capital Securities are redeemed or purchased), and (ii) the 5-year swap rate for the relevant Euro Capital Securities Reset Period.

The GBP Capital Securities are long-dated securities redeemable on 14 March 2073. They are also redeemable at the option of KPN prior to their maturity date on 14 March 2020 and the date falling five years after such date. Thereafter, they are redeemable at the option of KPN on each interest payment date. The GBP Capital Securities bear interest on their principal amount at a rate of 6.875 per cent. per annum from 14 March 2013 to 14 March 2020, payable annually in arrear. Thereafter, unless previously redeemed, the GBP Capital Securities will, in respect of each successive periods of five years (each a **GBP Capital Securities Reset Period**), bear interest at a rate equal to the sum of (i) 5.505 per cent. per annum (from 14 March 2020 to 14 March 2025), 5.755 per cent. per annum (from 14 March 2025 to 14 March 2040) and 6.505 per cent. per annum (from 14 March 2040 until the relevant maturity date), and (ii) the 5-year swap rate for the relevant GBP Capital Securities Reset Period.

Following the occurrence of (i) a change of control of KPN or (ii) if within six months after the issued date of the Capital Securities KPN has not completed an equity offering with certain pre-determined specifications or if it announces its decision not to pursue such an equity offering, if KPN does not elect to redeem the Capital Securities, the then prevailing interest rate per annum (and each subsequent interest rate per annum) will increase by an additional 5% per annum.

KPN may, at its discretion, elect to defer all or part of any interest payment under the Capital Securities which is otherwise scheduled to be paid on an interest payment date (such deferred interest payment together with any further interest thereon, being Arrears of Interest). Any deferred interest payment shall itself bear interest at the interest rate prevailing from time to time. Arrears of Interest may be satisfied at any time (in whole or in part) at the option of KPN but must be satisfied on each mandatory settlement date.

The Capital Securities are listed on Euronext Amsterdam.

### *Reggefiber joint venture*

In 2008, KPN entered into a joint venture agreement with Reggefiber B.V. (which entity was later replaced after a restructuring by Reggeborgh) as KPN's partner in the joint venture company, Reggefiber. Upon the incorporation of Reggefiber, Reggeborgh contributed EUR 12 million, its existing FttH infrastructure and shares in its direct and indirect subsidiaries in exchange for an initial share ownership of 59% (held through Reggefiber Holding B.V.), and KPN contributed EUR 100 million and its fiber access network in Enschede in exchange for an initial share ownership of 41%. The purpose of the joint venture is the installment and exploitation of the FttH networks on an open-access model in the Netherlands.

In November 2012, KPN exercised its option to buy an additional 10% in Reggefiber for EUR 99 million, thus increasing its share ownership in Reggefiber to 51%. As a result, KPN and Reggeborgh now have joint control. The joint venture agreement contains a call option permitting KPN to buy an additional 9% of Reggefiber's share capital from Reggeborgh and a put option permitting Reggeborgh to sell such additional 9% share capital to KPN (the options jointly referred to as the **Call/Put Arrangement**). The Call/Put Arrangement will become exercisable upon the earlier of 1 January 2014 or upon the achievement of 1.5 million homes connected to the Reggefiber FttH network. Completion of the share transfer pursuant to the exercise of the Call/Put Arrangement by either party, will be subject to the approval of the NMa. The payment required of KPN, should either party exercise the Call/Put Arrangement, will range from EUR 116 million to EUR 161 million, depending on the reduction of average per home FttH activation capital expenditure per home at the time of payment as compared to prior periods. Upon reaching the 60% ownership of Reggefiber's share capital, KPN will be in control of Reggefiber.

In February 2011, KPN and Reggeborgh (as lenders) and Reggefiber (as borrower) entered into a subordinated intercompany loan agreement, through which, subject to certain requirements being met, KPN and Reggeborgh will each be obligated to grant over the three year period between 2011 and 2013 shareholder loans to Reggefiber of a maximum principal amount of EUR 455 million and EUR 504 million, respectively, which maximum amounts may be increased to cover any start-up losses of Reggefiber or its subsidiaries. As of 1 January 2014, KPN will be solely responsible for 100% of Reggefiber's new financing requirements. If the Call/Put Arrangement is exercised, the shareholder loans Reggeborgh made available to Reggefiber will be assigned to KPN against payment of a price equal to the total outstanding principal amount on those loans plus outstanding interest. The shareholder loans bear interest of 6% until 1 January 2014 and EURIBOR plus 3% thereafter. Until 1 January 2014, the interest will be added to the total amount of the outstanding shareholder loans and from 1 January 2014 the interest will be payable by Reggefiber at the end of each calendar year, with the possibility to capitalize the interest, subject to the financial situation of Reggefiber. The shareholder loans are scheduled to be repaid in full on 1 January 2019. If any shareholder loans have not been repaid by then, the interest on those loans may increase to EURIBOR plus 6%.

The joint venture agreement provides that, upon the exercise of the Call/Put Arrangement, Reggeborgh will immediately be able to exercise the Put Option. The Put Option will be effective for seven years from the date KPN reaches the 60% ownership threshold. The price KPN will be required to pay for the remaining 40% stake of Reggefiber, upon Reggeborgh's exercise of the Put Option, will be the market value of those shares at the time the Put Option is exercised. However, during the period commencing three and a half years after the date on which the Call/Put Arrangement has been exercised by either party, and ending five years after the Call/Put Arrangement has been exercised, Reggeborgh also has the option to require KPN to pay it a fixed amount of EUR 647 million for the remaining 40% should this amount be higher than the market value of the shares.

Reggefiber has a two tier board. The board of management consists of four members which are appointed by Reggeborgh, with a right of veto by KPN. If KPN reaches 60% ownership of Reggefiber's share capital, the members of the board of management will be appointed by KPN, with a right of veto by Reggeborgh.

The supervisory board consists of three supervisory directors. KPN is authorized to nominate a supervisory director A and Reggeborgh is authorized to nominate a supervisory director B. A supervisory director C who is also the chairman of the supervisory board is appointed on the basis of a joint nomination by KPN and Reggeborgh. Upon having reached the 60% ownership threshold, KPN will be authorized to solely nominate the supervisory director C. In general, resolutions of the supervisory board may be passed by an absolute majority in a meeting where the supervisory directors A and B are represented.

Resolutions of the general meeting of Reggefiber are adopted by an absolute majority of votes, unless the articles of association of Reggefiber or the joint venture agreement provides otherwise. Pursuant to the articles of

association of Reggefiber, certain resolutions, such as, *inter alia*, amendment of the articles of association, dissolution of the company and legal (de)merger, require a unanimous decision of the general meeting in which the entire issued capital of the company is represented.

### ***Shareholder commitment letter and relationship agreement***

América Móvil and KPN signed a shareholder commitment letter dated 20 February 2013.

América Móvil's pro rata participation in the Rights Offering as well as its vote in favor of the Rights Offering during the upcoming annual General Meeting of 10 April 2013 and under the shareholder commitment letter is dependent on, among other things:

- KPN fully complying with and the Issuer continuing to fully comply with its obligations under that letter and the relationship agreement between KPN and América Móvil dated 20 February 2013;
- KPN not being downgraded two notches or more by Moody's Investor Service or at all by S&P or Fitch;
- The standby underwriting agreement among KPN, Deutsche Bank AG, London Branch, J.P. Morgan Securities plc and Goldman Sachs International dated 20 February 2013 not being terminated;
- América Móvil's nominees for the Supervisory Board of KPN being appointed at the annual General Meeting; and
- There having been no material adverse change in the general affairs, business condition (financial or otherwise), results of operations, properties, assets, liquidity, solvency or prospects of KPN and its subsidiaries.

On 20 February 2013, KPN and América Móvil also entered into a relationship agreement, governing the long-term relationship between both parties. KPN and América Móvil will look to further develop their relationship by leveraging the financial, commercial and operational expertise of both parties. The relationship agreement takes into account the interests of all shareholders and other stakeholders of KPN.

The relationship agreement between KPN and América Móvil provides for the following:

- América Móvil shall be entitled to designate two individuals for appointment to the Supervisory Board at the annual General Meeting. Following the approval of the annual General Meeting, the appointment shall be effective as per the date of the annual General Meeting. Upon appointment of these nominees, the Supervisory Board will continue to consist of eight members;
- At least one of the members of the Supervisory Board designated by América Móvil will be represented on all committees of the Supervisory Board;
- América Móvil is entitled to have two designees as members of the Supervisory Board as long as América Móvil holds 20% or more of KPN's share capital, and at least one designee as member of KPN's Supervisory Board as long as América Móvil holds 10% or more of KPN's share capital;
- KPN will have access to the strategic experience and commercial and financial expertise of América Móvil through the formation of working groups, consisting of senior representatives of both parties, that will advise the Board of Management on operational and financial matters, including preparation of annual business plans and budgets of KPN and subsidiaries;
- KPN and América Móvil continue to investigate potential areas of business cooperation, such as joint procurement, international mobile roaming and international transit, with the aim to realize mutually beneficial cost savings;
- América Móvil may recommend qualified individuals to join KPN's management teams as well as explore cross posting of employees.
- América Móvil has agreed to a standstill and, subject to customary carve-outs, will not increase its shareholding to 30% or more of the voting rights attached to KPN's share capital during the course of the relationship agreement;
- In case of an announcement of an offer for any outstanding share capital of KPN or a transaction that would result in a change of control of KPN or a material subsidiary of KPN or an offer or series of offers for certain property of KPN valued in excess of EUR 200 million, the standstill may immediately be terminated by América Móvil; and
- The term of the relationship agreement is indefinite. Both parties may terminate the relationship agreement with two months' notice; however, KPN has agreed not to terminate the relationship agreement during its first two years unless América Móvil materially breaches the relationship agreement.

## GLOSSARY

<b>2G</b>	Second Generation Mobile System, which is based on the GSM universal standard.
<b>3G</b>	Third Generation Mobile System, which is based on the UMTS universal standard.
<b>4G LTE</b>	Fourth Generation Mobile System, which is based on the LTE universal standard.
<b>AT</b> ( <i>Agentschap Telecom</i> )	The Radio communications Agency, which is part of the Dutch Ministry of Economic Affairs.
<b>BIPT</b> ( <i>Belgisch instituut voor Postdiensten en Telecommunicatie</i> )	The Belgian Institute for Postal Services and Telecommunications is the telecommunications regulator in Belgium.
<b>Broadband</b>	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.
<b>BNetzA</b> ( <i>Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen</i> )	The Federal Network Agency is the telecommunications regulator in Germany.
<b>CBb</b> ( <i>College van Beroep voor het bedrijfsleven</i> )	The Trade and Industry Appeals Tribunal in the Netherlands.
<b>Churn</b>	A term common to the telecommunications industry, referring to the frequency with which customers of a given telecommunications provider disconnect from that provider's services, generally in favor of competitors, over a given period of time.
<b>Cloud services</b>	Cloud services are standardized IT capability (services, software or infrastructure) delivered via internet technologies in a pay-per-use, self-service way.
<b>Committed ARPU</b>	Committed ARPU is the monthly fixed revenues KPN receives per user, which are included in the customer's bundle.
<b>Customer base</b>	KPN defines customer base as the total number of connections or subscribers.
<b>CvdM</b> ( <i>Commissariaat voor de Media</i> )	The Dutch Media Authority, which is authorized to supervise and enforce compliance with the DMA.
<b>DSL (Digital Subscriber Line)</b>	DSL is a data communication technology for bringing high-bandwidth information to homes and small businesses over ordinary copper PSTN lines.
<b>DMA</b> ( <i>Mediawet</i> )	The Dutch Media Act.
<b>DTA</b> ( <i>Telecommunicatiewet</i> )	The Dutch Telecommunications Act.
<b>DVB-T (Digital Video Broadcasting—Terrestrial)</b>	DVB-T is a transparent transmission channel, via which all types of digital signal can be broadcast. In addition to digitalized video and audio data, DVB-T allows multimedia and computer data to be broadcast.
<b>E-VPN (Ethernet Virtual Private Network)</b>	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.

<b>EDGE (Enhanced Data rates for GSM Evolution)</b>	EDGE is a technology, which elevates GPRS download speeds to above 100 kbps.
<b>Fiber-optic cable</b>	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.
<b>FtH (Fiber-to-the-Home)</b>	FtH is an access network architecture in which the final part of the connection to the home is optical fiber.
<b>FtO (Fiber-to-the-Office)</b>	FtO is a fiber connection for business customers to the customers' office.
<b>GHz (Gigahertz)</b>	GHz is one billion hertz (a unit of frequency).
<b>GPRS (General Packet Radio Service)</b>	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.
<b>GSM (Global System for Mobile communications)</b>	GSM is a second generation, digital mobile telephone system that is widely used in Europe and other parts of the world to send and receive voice and data.
<b>HDTV (High-Definition Television)</b>	HDTV is high definition TV, which is a TV format requiring higher bandwidths.
<b>Hertz</b>	Hertz is a unit of frequency of one cycle per second.
<b>Homes activated</b>	KPN defines homes activated as the number of homes that are connected through fiber and have a subscriber contract with a service provider.
<b>Homes passed</b>	KPN defines homes passed as the number of homes that a service provider has capability to connect in a service area through fiber.
<b>HSDPA (High-Speed Downlink Packet Access)/HSPA+ (Evolved High-Speed Packet Access)</b>	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.
<b>ICT (Information and Communication Technology)</b>	ICT the unification and integration of communications telecommunications (telephone lines and wireless signals) and other technology such as computers, enterprise software, middleware, storage, and audio-visual systems.
<b>IP (Internet Protocol)</b>	Internet Protocol is a protocol used for communicating data across a packet-switched network. It is used for transmitting data over the internet and other similar networks. The data is broken down into data packets, each data packet is assigned an individual address, then the data packets are transmitted independently and finally reassembled at the destination.
<b>IPTV (Internet Protocol Television)</b>	IPTV is a system through which TV services are delivered using the internet protocol suite over a packet-switched network such as the internet.
<b>IP-VPN (Internet Protocol Virtual Private Network)</b>	IP-VPN offers a secured and private network using IP-based infrastructure.



<b>ISDN (Integrated Services Digital Network)</b>	ISDN is 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.
<b>ISP (Internet Service Provider)</b>	An ISP is company that provides individuals and companies access to the internet.
<b>LAN (Local Area Network)</b>	A LAN is a network designed to move data between stations within a campus.
<b>LTE (Long Term Evolution)</b>	LTE refers to a new mobile telephony technology that succeeds 3G. 3GPP (Third Generation Partnership Project) Long Term Evolution, is a new high performance air interface for cellular mobile communication systems. LTE is the last step toward the fourth generation (4G) of radio technologies designed to increase the capacity and speed of mobile telephone networks.
<b>M2M (Machine-to-Machine)</b>	M2M refers to the data communication between wireless and wired systems and other wireless and wired systems.
<b>Market share</b>	Market share is the percentage or proportion of the total available market that is being serviced by KPN.
<b>Mbps (Megabits per second)</b>	Mbps is a unit of data transfer rate equal to 1,000,000 bits per second. The bandwidths of broadband networks are often indicated in Mbps.
<b>MHz (Megahertz)</b>	MHz is one million hertz (a unit of frequency).
<b>MDF (Main Distribution Frame) access</b>	MDF access allows other telecommunications companies to access the local network, enabling them to connect with their customers through KPN's main distribution frames.
<b>MMS (Multimedia Messaging Service)</b>	MMS is an evolution of SMS that enables users to send multimedia content including images, audio and video clips to other users.
<b>MNO (Mobile Network Operator)</b>	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.
<b>MTA tariff (Mobile Terminating Access tariff)</b>	The MTA is 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.
<b>MVNO (Mobile Virtual Network Operator)</b>	An MVNO is 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.
<b>NMa</b> <i>(Nederlandse Mededingingsautoriteit)</i>	NMa is the Dutch Anti-trust Authority and is the Dutch authority responsible for monitoring compliance with anti-trust rules.
<b>NPS (Net Promoter Score)</b>	NPS is a method for measuring customer satisfaction based on whether customers would recommend KPN to friends or family.
<b>Open access</b>	Open access is a model where an operator is required by regulation to provide access to its network to wholesale customers at capped prices.
<b>OPTA</b> <i>(Onafhankelijke Post en Telecommunicatie Autoriteit)</i>	The OPTA, or The Independent Post and Telecommunications Authority, is the telecommunications regulator in the Netherlands.

<b>PSTN (Public Switched Telephone Network)</b>	PSTN is the traditional telephone system that runs through copper cables (voice up to 64 Kbps, data up to 56 Kbps).
<b>Quadruple-play</b>	Quadruple-play is the bundling of fixed-mobile (retail voice, landline internet and mobile services) with TV services.
<b>RGU (Revenue Generating Unit)</b>	KPN defines RGU as 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.
<b>Roaming</b>	Roaming is the transfer of mobile traffic from one network to another, referring to the exchange of mobile international traffic.
<b>SIM card (Subscriber Identity Module card)</b>	A SIM is a chip card inserted into a mobile phone, which contains information such as telephone numbers and memory for storing a directory.
<b>Smartphone</b>	A smartphone is a mobile phone built on a mobile computing platform and includes high-resolution (touch) screens, web browsers that can access and properly display standard web pages and high-speed data access via Wi-Fi and mobile broadband.
<b>SMS (Short Message Service)</b>	SMS is a service for sending messages of up to 160 characters to mobile phones that use GSM communications.
<b>Subscribers</b>	KPN calculates subscribers as an end-user with a connection to its mobile or fixed network and/or service platform. A subscriber is included in the subscriber base if there is a direct or indirect billing relationship, either prepaid or postpaid, unless the connection is owned by an MVNOs or through fixed-line access parties or if the connection has been inactive for a specific time period (prepaid or postpaid without contract).
<b>Triple-play</b>	Triple-play is the bundling of telephone, internet and TV products into one contract.
<b>Uncommitted ARPU</b>	Uncommitted ARPU refers to out of bundle revenues.
<b>UMTS (Universal Mobile Telecommunications System)</b>	UMTS is one of the major third generation mobile communications systems being developed. UMTS is suited to deliver voice, text, music and animated images. Data can be sent via UMTS at approximately 6 times the speed of ISDN.
<b>VDSL (Very-high-bitrate Digital Subscriber Line)</b>	VDSL is a DSL technology providing faster data transmission over a single flat untwisted or twisted pair of copper wires. 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.
<b>VPN (Virtual Private Network)</b>	A VPN is a virtual network constructed from logic connections that are separated from other users.
<b>VoIP (Voice over IP)</b>	VoIP is voice traffic transported over an IP-based data network. It enables new ways of communicating, such as combinations of telephony, messaging and videoconferencing.
<b>WBA (Wholesale Broadband Access)</b>	WBA is the rental by broadband internet service providers for 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 WBA it purchases from KPN along with its service fees.

**WLR (Wholesale Line Rental)**

WLR is the rental by telecommunication service providers of access to KPN's networks to supply telecommunication services to their customers. The telecommunication service provider charges its end customer for the combined WLR it rents 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.

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