



The network that connects us all

Integrated Annual Report 2014

Our mission

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

Our brands



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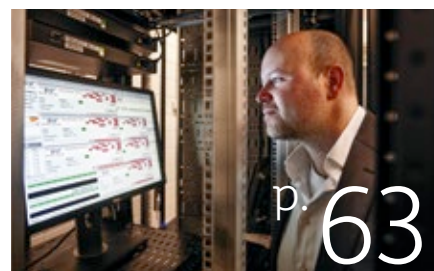
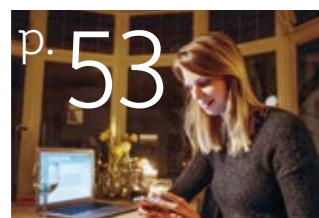
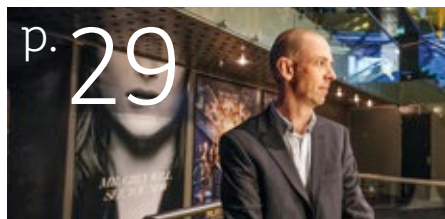
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Digital appendices

For an overview of our social and environmental figures, GRI index and all CSR KPIs, please see www.kpn.com/annualreport

Case studies

Throughout our Integrated Annual Report 2014 you will find various case studies highlighting how we make our customers feel free.



Introduction by the CEO



Eelco Blok, CEO

People like to be online wherever they are. To emphasize the power of connection, we launched the campaign 'Feel free' in spring 2014. With this simple and powerful message we demonstrate how our services and products enrich lives, adding value to society.

Basic necessity

We want to give millions of clients a feeling of freedom every day with our products and services, because we realize the significance they have in people's daily lives, their work and society. For many, it has become a basic necessity to be able to be online all the time and everywhere. Appreciation for our performance is growing, as reflected in a continued positive trend of customer satisfaction scores. It shows without a doubt that we are on track with our strategy, which is fully focused on providing an excellent service to our customers. It makes me realize how important the contribution of our employees is. I'm happy to see employee engagement in 2014 is 5% higher than in 2013. We see a growing culture of collaboration at KPN, and this is essential for us to become the best service provider.

4G network

Improving customer satisfaction is in no small part thanks to the success of 4G. We completed the nationwide roll-out of our 4G network in the spring of 2014, so our clients can enjoy the benefits of super-fast mobile internet everywhere. Whether it's to access a video in a remote area, mail large files or quickly check the soccer scores, it's all possible with 4G. Having a best-in-class mobile network is absolutely essential for KPN. Our mobile network in combination with our fixed network, is what differentiates us as the only integrated service provider. Our customers don't even notice anymore whether they are online via a mobile or a fixed connection.

Financial stability

From a financial perspective we have made good progress in 2014. Although revenue and EBITDA still declined, we gradually improved the trends in each successive quarter of 2014.

The final approval on the sale of E-Plus by the European Commission at the end of August was a financial and strategic benchmark for us. Besides an attractive 20.5% stake in Telefónica Deutschland, the sale yielded us EUR 5 billion in cash, improving our financial flexibility substantially. The strengthened financial position provides us with a solid platform to execute our strategy, and also allowed us to recommence dividend payments.

“Knowing that we can be connected with one another anytime, anywhere gives us a feeling of freedom and adds an extra dimension to our life and work”

Eelco Blok,
CEO

Our customers are our central focus in everything we do. We still have a way to go, particularly in the business market. BASE Company continued to be successful with its Challenger strategy in Belgium, focusing on postpaid and data growth supported by high network quality, price leadership and service leadership.

Board of Management

The sale of E-Plus has cleared the way for a further simplification of our organizational structure. Creating a flatter organization with short lines and more direct functional guidance from the Board of Management, together with a simplified portfolio of products, will help us achieve a breakthrough in customer satisfaction. The Board of Management has been strengthened by the appointment of Jan Kees de Jager in 2014 and Frank van der Post, who will take office in 2015.

KPN charity fund

I certainly want to mention the latest campaign in the Netherlands by the KPN Mooiste Contact Fonds, called ‘Hallo, is daar iemand?’ (Hello, is anyone there?). We want to inspire people to connect with others, especially people from vulnerable groups for whom social contact isn’t a given. It also shows how our products and services make a substantial contribution to society. For example, KlasseContact, the fund’s biggest project, uses our technology to keep chronically ill children connected to their classrooms and to their school friends. In 2014, we helped 540 chronically ill children and we aim to connect 1,250 in 2015.

Crucial services and external recognition

KPN has a natural bond with Dutch society that stretches back many years. We are closely linked to the Netherlands in every way and in almost every sector. As Dutch society grows ever more dependent on ICT and telecoms services, the services we deliver become more valuable, helping the economy and society to advance and become more sustainable. This includes providing crucial services for the police, defense force and transport sector; ICT applications for healthcare; and contributing to more efficient energy use – just a few examples of our efforts and achievements in the social sphere. Inclusion in renowned international indices confirms we are working on the right things. We are listed in the global Dow Jones Sustainability Index for the third year in a row and the Carbon Disclosure Project has named us as the world climate leader (together with KT Corp) in the telecoms sector. We have strengthened our ambition and aim to become climate neutral in 2015.

Looking forward

Driven by the excellent operational momentum we have seen a stabilizing financial performance through successive quarters of 2014. Supported by the benefits from the simplification program, we expect adjusted EBITDA to have stabilized by the end of the year and a growing free cash flow in 2015. We want to further reduce our costs. The downside of some of the necessary measures is that we have to let go a number of our colleagues. I regret that this is one of the inevitable consequences. We aim to enhance the sustainable employability of our people to make sure they are best sorted to find new jobs. Therefore, we offer them training programs and actively monitor the success rate of our redeployment programs.

We continue our efforts to make our management more diverse.

We keep on raising awareness among customers on privacy and security issues and on how we support them in protecting their privacy by providing secure products and services. We also want to do more to help our clients and our suppliers save energy and make the results of these efforts more measurable. We want to contribute substantially to further developing a wide range of ICT applications. Here we think about sustainable living, working more safely and simply via the cloud, remote surveillance, location-specific transport applications and, of course, affordable and accessible healthcare. I’m convinced we can have an increasingly positive influence on the way people live and work in almost every sector of society.

Room to innovate

KPN wants to help the Netherlands advance and be an example in Europe. The quality of the country’s infrastructure already ranks high on international lists. In fact, when it comes to internet speed, the Netherlands is at the top of the league in Europe. While we can take pride in this, it is far more important for us to realize the fundamental contribution that our high-quality infrastructure can make to the country’s economic growth. If businesses, organizations and the government take full advantage of the opportunities and benefits offered by ICT and telecoms, and if innovation is a top priority for all, then I’m certain the Netherlands will become stronger and bolster its competitive position in Europe. ICT and sustainable economic growth go hand in hand. If the Netherlands shows what it can do when it comes to ICT, and if innovation gets the space it needs, then we’ll be an outstanding example and confirm our reputation as a country of knowledge and innovation.

Review of the year 2014

From the introduction of our 'Feel free' campaign to the completion of our 4G roll-out in the Netherlands and high 4G coverage in Belgium. The 12 months of KPN summarized on two pages.



January

- Tweakers announced KPN as best mobile provider
- CloudNL is introduced as the first completely Dutch cloud service
- ACM fined KPN for putting competitors at a disadvantage in a government tender

February

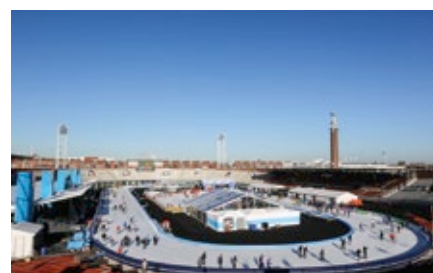
- 4G fast internet also available abroad
- Fairphone introduced in KPN stores
- KPN announced a simplification program that will result in at least EUR 300 million of savings within three years; the program includes an FTE reduction of 1,500 to 2,000

March

- KPN's 4G network first to reach nationwide coverage in the Netherlands
- 'De Coolste Baan van Nederland' welcomed more than 100,000 visitors
- 'Feel free' campaign launched in the Netherlands

April

- Eelco Blok reappointed as Chairman of KPN's Board of Management
- Mr. Sickinghe and Mrs. Zuiderwijk appointed as members of the Supervisory Board
- KPN's LTE broadcast tested successfully at Amsterdam Arena



May

- KPN reached an agreement on the new Collective Labor Agreement and Collective Defined Contribution pension plan in the Netherlands
- KPN and Hi doubled the amount of MBs in their EU internet bundles
- BASE Company launched a new product portfolio for business customers, containing the new BASE business cloud

June

- Consumentenbond announced Simyo, KPN, Telfort and Hi to be the best mobile providers
- KPN increased the capacity and speed of its 4G network and confirmed KPN's leading 4G position with activation of LTE Advanced
- KPN no longer placed under intensified supervision by the Netherlands Authority for Consumers & Markets (ACM)



July

- KPN and Fon started roll-out of nationwide KPN Wi-Fi network
- KPN official partner 'Eredivisie'
- KPN introduced extended versions of KPN Compleet, providing our customers with new combinations of fixed and mobile services
- New broadband portfolio launched; realizing ~85% reduction in the number of propositions



August

- Final approval for the sale of E-Plus by European Commission

September

- Jan Kees de Jager appointed to KPN's Board of Management
- KPN again listed in the Dow Jones Sustainability World Index
- KPN sponsor of the year 2014
- KPN won a large contract to build a CDMA network for Alliander Groep

October

- KPN global climate leader in the telecom sector according to CDP
- KPN main partner of the Alert Online cyber security campaign
- ACM analysis of the Dutch telecommunication markets concluded that KPN must continue to grant its competitors access to its network for the next three years
- iBasis, KPN and China Mobile were the first globally to execute international VoLTE roaming successfully
- Introduced goal alert for 4G customers
- KPN recommenced dividend payments

November

- KPN announced the appointment of Frank van der Post as Chief Commercial Officer as of March 1, 2015
- KPN acquired remaining 40% stake in Reggefiber and obtained full ownership
- Dutch Railways ('NS') and KPN announced signing of a five-year contract for IT services

December

- Following the 4G launch in 2013, BASE Company reached coverage of > 80% of the Belgian outdoor population
- KPN announced an additional FTE reduction of up to 580 FTE at KPN's Business segment and 200 new FTE positions in the Consumer segment
- Dutch Telecompaper's 'Word of Mouth' score showed customer satisfaction at KPN had improved most in the mobile telecommunications sector in Q3, compared with Q4 2013
- Implementation of eco-rating for mobile phones
- KPN in top 25 of the best employers



Our business



Anytime, anywhere: at home, at work and on the move. We connect people and businesses through our network, skilled employees and suppliers. As an integrated ICT service provider on the Dutch market and a challenger in the Belgian mobile market, we play a significant role in shaping the marketplace.

Our reliable and secure services

We offer our consumer customers data broadband services, IPTV services, mobile (voice, data and SMS) and fixed line telephony. For business, we offer broadband services, mobile, fixed line and data services. We also offer consultancy, data center storage and other network-related ICT solutions (optionally cloud based). Security of both our networks and services is of key importance as well as always respecting the privacy of our customers.

With our products and services, we connect people, companies and organizations. This requires a high-quality fixed and mobile infrastructure that is reliable, stable and energy efficient. That is why we invest every year to renew, improve and maintain our fixed and mobile networks.



data broadband services



IPTV services



data center storage



data network services



mobile telephony



fixed line telephony



consulting



other network related ICT and security solutions

Our secure network

With our network we connect a crucial part of all areas of society.



Mobile and fixed network

Mobile and fixed networks connect the customer at his or her location with the closest part of the KPN network. Mobile and fixed networks consist of copper and fiber cables, Wi-Fi Access points and antennas in towers in combination with the wireless spectrum (for Mobile and Digitenne).

Service platforms

The services of KPN are delivered via platforms with dedicated software for that specific service.

- All mobile voice and SMS are handled by one platform connected to several switches in various locations in the Netherlands and Belgium
- A central cloud-based IPTV platform handles all streaming of TV channels and on-demand media
- Data platforms manage the data connections for our business customers and the internet

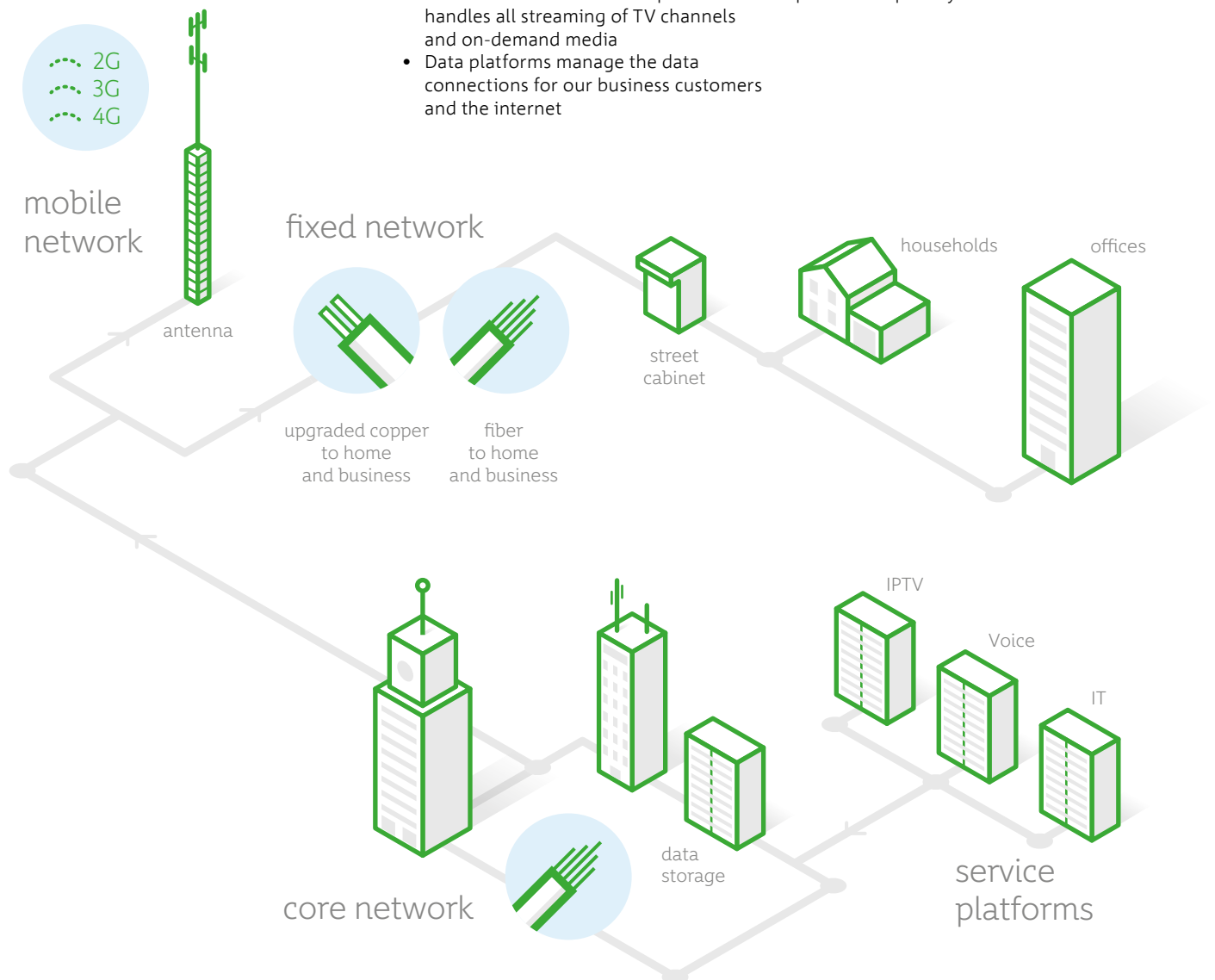
- Datacenters offer IT services, housing and hosting to business customers and for our own infrastructure
- Fixed telephony via PSTN/ISDN is handled by many switches and its own network around the country. VoIP is handled by central platforms

Core network

Our nationwide core network connects the access networks and service platforms to serve our customers.

Privacy & Security

Security and privacy functionality is integrated in all parts of our network in order to keep information safe and protect the privacy of our customers.



The world around us

Communications technology is transforming the way people work, socialize and do business. The impact of our services is far-reaching and directly benefits the economy, the environment and society. At the same time, there are many factors influencing our business.

Our relevant topics and sustainability focus

We continuously look at the world around us to analyze trends, stakeholder expectations and relevant topics considering our impact, influence and the value we can create being an ICT provider. Our analysis results in an overview of relevant topics and is input for our sustainability focus, our strategy, targets and activities.

We differentiate between three categories of relevant topics. The first category consists of topics on which we want to fulfill a leading role, considering our possible influence and impact and the expectations expressed by our stakeholders. The second category includes topics where we want to show our responsibility. The last category shows topics we monitor, but do not report on, as their relevance is considered to be limited by our stakeholders and ourselves. For more information on this process and an overview of the topics with limited relevance, please see Appendix 3 'Scope, reporting process and materiality determination'.

Fulfill a leading role

- 1 Financial performance
- 2 Sustainable employment
- 3 Privacy & Security
- 4 Climate & energy
- 5 Impact of ICT applications on societal issues
- 6 Diversity
- 7 Innovation & investments
- 8 Indirect economic impacts
- 9 Restructuring
- 10 Compliance

Take responsibility

- 11 Training
- 12 Customer loyalty
- 13 Safe customer behavior
- 14 Sustainable suppliers
- 15 Electromagnetic fields and radiation
- 16 Human rights and discrimination
- 17 Digital participation
- 18 Health & vitality
- 19 Equal remuneration
- 20 Ethical complaints procedures
- 21 Marketing communications
- 22 Resource use
- 23 Car fleet



What are the main developments in the world around us? From the competitive landscape in the Netherlands to requirements on privacy and from the Internet of Things to changing customer behavior, we monitor trends and respond. On this page you will find an overview of the most important events that affect us.

Customer behavior

- Business customers continue to migrate to IP-based services.
- There is growing demand for cloud computing and hosting, security, and machine-to-machine (M2M) services.
- At the same time, revenues from these new services are not fully offsetting the decline in the Dutch business market, caused by companies downsizing and rationalizing their IT spend.
- On the consumer side, there is a growing dependence on the internet. This creates a responsibility for KPN to continuously improve the quality of our networks and services to facilitate this important trend.

Economy, regulations and the competitive landscape

- The global economy is showing signs of slow recovery, although the overall picture remains fragile. Uncertainty about the economic climate continues, partly because of growing global geopolitical turbulence during 2014.
- Regulation, both at European and national level, continues to have a strong impact on our industry. In addition to regulation of KPN as a party with significant market power in certain parts of the market in which it operates, further regulation of international roaming rates and the continued debate on net-neutrality may impact our business.
- Regulatory authorities and other supervisory bodies continue their close scrutiny of market players in all sectors. KPN maintains an open dialogue with these authorities, most notably the Authority for Consumers & Markets, the Dutch telecoms regulator, to align expectations and discuss observations about our sector.
- Consolidation in our sector is increasing. The European Commission cleared

Telefónica Deutschland's acquisition of E-Plus in Germany, which was completed in October. In the Netherlands, cable company Ziggo was acquired by Liberty Global, which also owns UPC Netherlands. Several further consolidation processes are ongoing in the European telecommunications landscape.

- The Dutch government is considering regulation that will allow it to influence foreign control over Dutch companies that offer vital telecommunications infrastructure for the Netherlands – such as KPN – in order to protect Dutch national security interests.

Privacy & Security

- More people and businesses are using cloud services to store their personal and professional data.
- Being one of the largest suppliers of security services, we are responsible for providing a secure network that keeps information safe and protects people's privacy.
- Cyber attacks are a real threat, especially in a climate of increasing geopolitical tensions, underlining how crucial a secure internet infrastructure is.
- Despite privacy concerns, many consumers still choose to install apps on their devices that access personal data as a condition of their use.

Technological developments

- The growth of the 'Internet of Everything' – machine-to-machine communications – combined with big data and applications is creating new services and products that will transform the way we work and live. It is applied in education (smart self-learning systems), smart meters, smart factories, smart healthcare systems and smart homes, as well as in robotics, self-driving cars, local energy production and 3D printing.

- New technology such as software defined networks will improve cost efficiency in many sectors.
- KPN's infrastructure is vital to accommodate these developments, in terms of data speed, capacity and our products and services.

Healthcare

- ICT can make a real difference to healthcare in the future.
- The Netherlands has an aging population with related healthcare needs. To control costs and increase the quality of life of elderly people, the political focus is shifting towards care in the home and self-sufficiency.
- Patients are expected increasingly to mobilize support from friends and family (participation society), rather than depending on healthcare organizations.
- Innovative wireless ICT applications are vital to developing remote healthcare. KPN's network, services and applications can be significant in keeping healthcare accessible and affordable.

Energy

- KPN, together with KT Corp, is the number one telecoms operator in the global ranking of the CDP (former Carbon Disclosure Project) in the reduction of CO₂ emissions. This position stimulates us to do more to help our suppliers and customers also to save energy.
- The use of more electronic devices and data requires more energy; however, the use of ICT can also help customers in reducing energy use and costs.
- The Dutch government is committed to a National Agreement to save energy and transition to sustainable energy sources, confirming our own ambition to operate an energy-efficient network on green energy and become climate neutral.

Stakeholder engagement



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

We feel very connected to our stakeholders. Our customers and other stakeholders constantly communicate experiences and opinions on social media, which gives us ample opportunities to analyze what they want and need and to respond. We also have to find ways to investigate their needs when they are offline and create an open dialogue with our stakeholders about their observations and suggestions.

We engage with our stakeholders via various channels, such as organized stakeholder dialogue sessions, (in)formal contacts and social media in order to listen to and map their expectations and their main topics.

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

We defined seven stakeholders groups. Their expectations, the way we engage in dialogue, their main topics addressed in 2014 and our corresponding actions, are elaborated on in the following pages.

Our stakeholder groups:



Retail customers

What they expect

Our retail customers expect high-quality service for the right price. This includes failure-free networks, clear propositions and processes, a quick and proper response to questions and complaints and good communication. They want propositions and advice that meet their needs.

How we engage

We talk with our retail customers in our stores, via our call centers and our mechanics. We also interact through customer panels, market research and 'superpromoters' – loyal and enthusiastic supporters of KPN. We monitor what is said about KPN on social media, both positive and negative. We also use tools, such as the Net Promoter Score and Reprtrak, to monitor our reputation.

Their main topics in 2014

- Providing the best mobile network with the lowest amount of disturbances
- Making sure that products and services are easy to use
- Freedom of choice regarding use of data
- Providing a high-quality TV offer
- Sincere and proactive advice about the best possible subscriptions.

Our response

- We completed the nationwide coverage of our 4G network and further improved our 2G and 3G networks. We enhanced the standard speed of our 4G services
- We improved our IPTV menu which made navigating through the options easier
- We enhanced the amount of 'are you happy calls' in which we ask our customers whether their subscription still meets their needs. We ask customers who contact us with a problem or question if they are still satisfied with the package of services they obtain from us. We started offering multibrand solutions if this fits customer's needs
- We continued our NPS improvement program to improve customer loyalty
- We further enhanced our converged services, resulting in improved products such as an extended version of KPN Compleet.



Business customers

What they expect

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

How we engage

We talk with our business customers via our account managers, in our XL stores and our contact centers. We also engage through customer panels, market research, round table discussions, workshops connecting customers' strategies with KPN's and social media through our B2B platform KPN Inspire. We organized the RijksmuseumTop for about 350 business associates.

Their main topics in 2014

- ICT as a service
- Privacy & Security
- New ways of connectivity and collaboration.

Our response

- We integrated Business segment and IT Solutions to one combined department: Business segment (Integrated ICT Solutions), fitting the customer need for integrated telecom and ICT services and bringing opportunities for efficiencies for KPN
- We are further optimizing our products portfolio and have reduced the number of price plans
- We have programs in place to improve our customer service
- We introduced Cloud NL (Dutch Cloud) and guarantee that all data stored there are in the Netherlands
- We made progress on integrated ICT solutions with one customer interface
- We further developed vertical partnerships to create business solutions for customers, for example with local government, healthcare institutions and educational organizations



Employees

What they expect

Our people expect us to be clear when it comes to the strategic direction and focus of our businesses and expect (executive) management to be inspiring. They want straightforward business processes with effective cross-departmental collaboration. They appreciate the way we work together and feel supported by their managers and colleagues. Employees also expect us to take their interests into consideration when we restructure processes.

How we engage

We facilitate a continuous dialogue with our employees through initiatives such as management cafés, national strategy sessions, the annual employee survey, regular contact between senior management and the Works Council and our interactive intranet TEAMKPN Online.

Their main topics in 2014

- Being an attractive employer for our current and future employees
- KPN to become warmer and more customer focused
- Development of employees and managers: the right motivated person in the right place
- Employee engagement as an enabler of business success.

Our response

- Active involvement of and support from all employees, e.g. in culture sessions in which company values were recalibrated and desired behavior was defined
- Recruiting the right employees and developing our current employees by offering training programs
- Focus on people and customer orientation; good, fair and open communication
- We facilitated discussions with employees on labor conditions and we surveyed their preferences through the PrefScan
- NetCo developed 'het Ontwikkelhuis' in order to help employees find their way in their craftsmanship development
- Employee engagement results and culture aspects have been integrated in strategic plans, year plans and performance management and in day-to-day operations and culture.

INTRODUCTION

Stakeholder engagement



Community

What they expect

People expect us to be socially and environmentally responsible and to be a good corporate citizen. They want products and services that help to solve social and environmental issues.

How we engage

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

Their main topics in 2014

- The CSR Advisory Board suggested we show leadership in recycling mobile phones and increase the number we collect. They also advised us to focus even more on secure Dutch Cloud solutions and on a thorough privacy policy
- Our main CSR stakeholders advised us to keep a careful balance between striving for the maximum environmental result on the one hand and the best desirable social outcome on the other hand
- The VBDO was critical about our supposed lack of a clear statement on our role as a tax payer. They also questioned us about calculating the impact of our activities.

Our response

- We took steps to measure the impact of our CSR activities
- We reformulated our tax strategy & policy
- We enable our customers to save energy by no longer storing recorded television programs on hard disk, but in our Cloud
- We launched a campaign on the KPN Mooiste Contact Fonds
- We now use 100% green electricity in the Netherlands and Belgium
- We invited over 100 stakeholders for an event in a Gemeentemuseum and a dialogue in the Rijksmuseum.



Investor community

What they expect

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

How we engage

We organize key corporate events such as the Annual General Meeting of Shareholders, capital markets days, and meetings with analysts, credit rating agencies and investors during roadshows and conferences. We also provide relevant company information through timely press releases and regular publications such as our quarterly results and integrated annual report.

Their main topics in 2014

- Best-in-class fixed and mobile networks, and continuing good operational trends leading to stabilizing financial performance
- Completion of the sale of E-Plus leading to increased financial flexibility.

Our response

- We realized nationwide 4G coverage and ~50% of the households have access to >100Mbps on our hybrid FttH / upgraded copper access network
- Continuous gradual improvement of our financial performance
- We increased our financial flexibility with EUR 5.0 billion in cash from the proceeds of the sale of E-Plus and a 20.5% stake in Telefónica Deutschland, offering attractive synergy potential
- We recommenced dividend payments
- We completed a EUR 2.0 billion bond tender optimizing the efficiency of our balance sheet.



Suppliers

What they expect

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

How we engage

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

Their main topics in 2014

- Finding ways we can work together to reduce the cost level in a sustainable way
- Reduction of payment terms.

Our response

- In 2014, we initiated and started the Partner Board, a regular consultation opportunity with our preferred suppliers. We aim to meet with these suppliers every three months to discuss projects and new opportunities
- KPN and several suppliers agreed to reduce payment terms.



Government and regulators

What they expect

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

How we engage

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

Their main topics in 2014

- Avoiding non-compliance
- Integrity, for example in cases of regulatory capture by the government
- EC approves Telefónica take-over of E-plus and the ACM decided to clear the full acquisition of Reggefiber by KPN. For the next three years, ACM wants KPN to continue to grant its competitors access to its network
- Concerns about national (cyber) security.

Our response

- We continued our compliance efforts through programs such as optimizing our business control system, external reviews, benchmarking, enhanced compliance training and top management meetings focused on and stimulating company culture
- We continuously work to meet compliance requirements through clear and practical legal advice, clear operational procedures, related control mechanisms, and clear and safe ways to report potential misconduct. We interact closely with the ACM in relation to compliance, incidents and potentially different views on the interpretation of the law
- We are active on the EU level as an individual company and via trade associations
- We have ongoing discussions with political and governmental stakeholders
- We held the annual compliance survey for our employees
- We have an annual e-learning program for our employees.

Dialogue and inspiration in the Rijksmuseum

KPN and the Rijksmuseum have a special bond. As lead sponsor, KPN is allowed to make exclusive use of the wonderful halls of the Rijksmuseum at various times of the year. The halls form the backdrop for business and client events and stakeholder meetings. For instance, we organized the RijksmuseumTop for our 350 top-level business associates and their partners, with a view to strengthening our bond with the Netherlands. Freedom, the theme that KPN introduced into its campaigns this year, was also featured in the program. Together with representatives from the world of business, the public sector, government, politics, the media and public administration we took a look at freedom in the arts. The curators of the Rijksmuseum devised a tour specially for this occasion. It showed how artists perceived their freedom and painted about freedom, and whether or not they were free in the techniques they used.

In October, we organized a major stakeholder dialogue relating to our CSR themes. Here too, the inspiring location and fabulous works of the Rijksmuseum contributed to a fruitful discussion. Besides that, Rembrandt's 'Night Watch' took center stage in a workshop to show that what we think we see is not always what we actually see. After this plenary session the guests entered into a dialogue on themes such as 'Energy Efficiency', 'Privacy & Security', 'Healthcare of the Future' and 'The New Way of Living & Working'. Referring to the dialogue about 'KPN in Society', in which he took part, Giuseppe van der Helm, director of the VBDO, commented: "In addition to transparency about targets and progress, a lively dialogue with a wide range of stakeholders is essential in order to put sustainability into practice. Such a dialogue can determine what themes are material to KPN and what the level of ambition ought to be."



Our Strategy



We have a focused strategy, based on three pillars: to strengthen, simplify and grow. In 2014 we further integrated our CSR policy in our strategic principles.

Our strategy is focused on optimizing our societal contribution, addressing customers' current and future needs. By doing so, we believe we maximize our value for all our stakeholders. During the year, we reassessed our strategic themes in an interactive dialogue with our stakeholders. This reconfirmed our chosen CSR themes, which fit perfectly in our strategy: strengthen, simplify and grow.

CSR themes in our strategy

Strengthen

Best-in-class networks: Our network is inextricably linked with the Netherlands. We aim to provide best-in-class networks.

Privacy & Security: We believe in secure products and services for everyone, and highly value the privacy of our customers. Our specialized teams keep vigilant watch over our networks, systems, and our customers' data – 24 hours a day, seven days a week.

Energy efficient: We do everything possible to make the company increasingly energy efficient. Being close to climate neutrality ourselves, we now focus on the use of energy in the whole supply chain and by our customers. We also provide creative ICT solutions to help other sectors save energy.

Simplify

Transparent, reliable service provider: We aim to be the best service provider. We simplify our business in order to ensure that our customers' experience the highest-quality products and services, always, everywhere and from any device, with 24/7 support.

Grow

The New Way of Living & Working: When it comes to work and life, time and place are increasingly irrelevant. We support people to work anytime, anywhere. This enables them to create a good work-life balance, that also saves CO₂.

Healthcare of the Future: We believe that innovative ICT is necessary to keep top-quality healthcare available and affordable to everyone in the Netherlands. And we want all, both patients and healthcare providers, to benefit from that.

Our three strategic pillars

Strengthen



Invest in best-in-class networks

Focus on Privacy & Security

Reduce environmental impact

Maintain a solid financial profile

Simplify



Simplify our products and services portfolio

Simplify the organization and its operating model

Improve transparency and reliability

Grow



Improve market position and customer satisfaction and loyalty

Develop multiplay propositions further

Develop services that help to solve societal issues in sectors such as healthcare and transportation

What we did in 2014

- The first to offer a 4G network with national coverage
 - Increased the speed on our copper networks with new techniques (~50% of the households have access to >100Mb/s)
 - Continued the roll-out of our fiber network in the Netherlands
-
- Continued the implementation of our security policy to improve our overall security posture and define activities that contribute to our customers' digital security
 - Participated in and contributed to important initiatives to strive to make the internet safer for children
 - Helped customers who were unintentionally infected by malware
-
- Supported customers in saving energy by providing information and offering more energy-efficient services
 - Recycled 31% of sold mobile phones in the Netherlands
 - Reduced absolute energy consumption although data communication volumes keep growing
 - Introduced IPTV functionality in the cloud, reducing energy use
 - Carried out our sustainable strategy and maintained our ranking in the Dow Jones Sustainability Index (world), became CDP world climate leader and acquired a top three position in the Transparency Benchmark
-
- Sold E-Plus, which has led to a solid financial profile, providing a strong platform to execute our strategy in the Netherlands, Belgium and for iBasis
-
- Reduced the number of propositions for consumers and businesses
-
- Simplified the governance structure
-
- Simplified our IT
 - Improved customer feedback process
 - Offered customers opt-in choice for sharing personal data on traffic and roaming with KPN
-
- Gained full ownership of Reggefiber
 - Continued focus on customer needs resulted in an increased customer satisfaction (NPS)
 - Offered market-leading IPTV proposition supported by continuous improvements in IPTV
-
- Rewarded customers with incremental benefits
 - Introduced bundled services with more freedom of choice: KPN Compleet and KPN ÉÉN
 - Achieved strong base growth in IPTV
-
- Improved quality of life in several sectors, e.g. by connecting 4,297 healthcare locations and providing 38,696 customers with personal comfort services
 - Increased use of services that make the New Way of Living & Working possible
 - Connected 540 chronically ill children with their classmates

What we will do in 2015

- Always be accessible for customers by a combination of upgraded copper, fiber and 4G connections
 - Move towards a single IP core
-
- Keep pace with the security developments and try to remain one step ahead of those looking to abuse our services or trying to steal confidential information
 - Help our customers in becoming more aware of issues regarding privacy and social media
-
- Become climate neutral for our own operations (scope 1 and 2) for KPN Group
 - Increase recycling of fixed customer equipment
 - Help our customers to reduce their environmental impact
 - Expand our focus from climate impact to environmental impact
-
- Free cash flow growth expected in 2015
-
- Continue to simplify our propositions from a customer perspective
-
- Further simplify the governance structure
 - Simplify processes and systems (e.g. billing)
 - Transform to a more customer-centric organization with fewer management layers
-
- Improve transparency of offers and bills
 - Further optimize the online customer experience
-
- Maintain high quality of service
 - Further integrate services, telecommunications and ICT
 - Maintain front-runner position in leading benchmarks
 - Increase NPS
-
- Serve our customers based on an integrated approach
 - Introduce new cloud services
 - Focus on growth for Mobile
-
- Cooperate even more strongly with business customers and partners in developing new services

The value we create



We believe in a society where communications technology enriches life. It enhances day-to-day business and can make a real difference.

'Feel free'

People want to be free to connect with the world around them, on their own terms. They want the freedom to connect when they want, with whom they want, from anywhere, at any time. Having the freedom to choose how they interact with people, information, entertainment, companies and organizations makes people's lives easier and more enjoyable. This is the value we create.

This could mean, for example, the freedom to stay at home with a medical device rather than being monitored in a hospital. Or giving an Alzheimer's patient the freedom to move about independently because his or her movements can be traced, bringing peace of mind to caregivers. It also gives people the freedom to work at remote locations rather than commute to the office, which is better for the environment and eases traffic congestion.

For our employees

Our people are crucial when it comes to providing excellent service to our millions of customers. They are KPN. As an employer, we give them the resources and opportunities to unlock their potential and employability. We equip them to use their experience, expertise and enthusiasm to deliver a flawless service that allows individuals, families, businesses and organizations to feel free and connected.

For society

For more than 130 years, our fixed and mobile networks have kept people connected. Combined with our data centers, this makes us unique in the Netherlands. Crucial sectors such as transport, health, education, the police and the defense force all rely on our infrastructure. We believe contact with others should be self-evident, but for some people it is not that obvious. That is why we also focus on keeping elderly people and chronically ill children connected to the rest of society.

For our customers

Our customers expect us to deliver on our promises. That is why our service should never stop until the customer is completely satisfied. This applies in our phone shops, at home, at work, via a contact center or online. Our customers receive incremental benefits; they are rewarded for their confidence in KPN. We use our knowledge and experience to develop new ways of communication that are accessible and available for all. We maintain and innovate our networks so that we can always deliver what our customers want.

For our shareholders

Investing in customer service is investing in our shareholders. They too benefit from our long-term focus on the highest level of customer satisfaction. In combination with sound financial management, a strong market position and stable profits, we are convinced this is the key to a sustainable dividend policy and satisfied shareholders.



Better future for our employees

- Sustainable employability
- Work-life balance and autonomy

Better future for society

- Confidence in vital services
- Contribute to societal issues by saving energy, time and money in several sectors
- Making efficient use of the planet's resources

Better (work)life for our customers

- Freedom to work anytime anywhere with secure, trustworthy telecommunications services
- A connected life, anywhere, anytime

Sustainable and attractive total shareholder returns

- Sustainable and growing dividends
- Excess cash could be utilized for operational and financial flexibility, (small) in-country M&A, and shareholder remuneration

outcomes



engaged employees



integrated products and services



secure critical services for the Netherlands



long-term customer relationships/loyal customers



best-in-class ICT networks



profitable business



a solid reputation

business activities



providing opportunities to employees to invest in their future



running the infrastructure and development of products and services



provide a positive customer journey



building an effective, (energy) efficient and secure infrastructure

inputs



skilled employees



key partnerships and customer insights



financial resources



network and customer equipment from preferred suppliers



licenses and patents



regulatory framework



100% green electricity

Report by the Board of Management

“Further simplifying our organization, processes and products will make a substantial contribution to cost reduction”

Jan Kees de Jager,
Chief Financial Officer





Group performance

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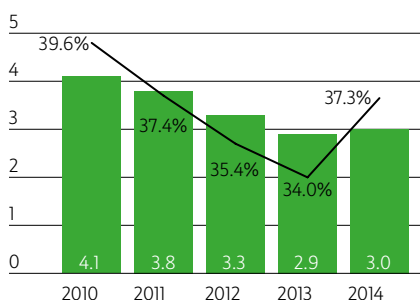
Assurance Report on Sustainability Information

- 101 Independent Assurance Report

Our main achievements in 2014

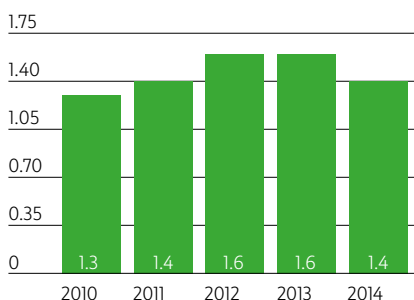
Through our services, products and network we ensure that people and businesses are online anywhere and anytime, with whatever device they choose. That is where our strength lies.

EBITDA
EBITDA margin
in billions of EUR



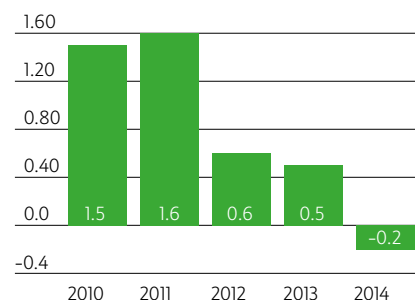
Capital expenditure

in billions of EUR



Free cash flow

in billions of EUR



Strengthen

% Households
>40 mb/s

77%
(2013: 70%)

% Households
>100 mb/s k

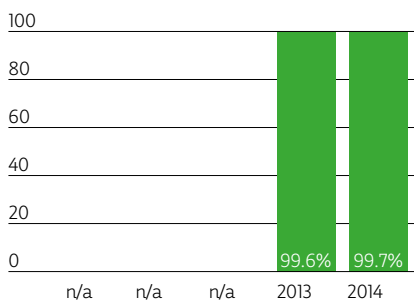
~50%
(2013: N/a)

% Recycled mobile phones
of total number sold mobile
phones in the Netherlands

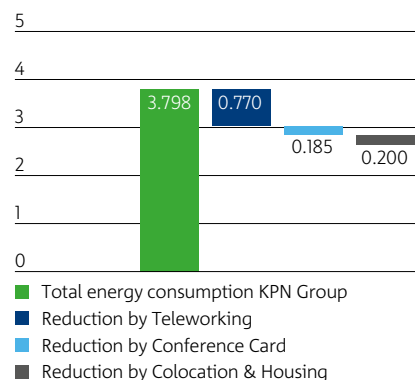
31%
(2013: 6%)

Network accessibility

norm >99%

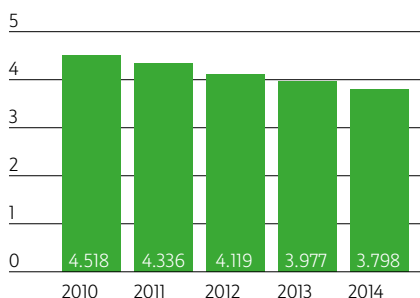


**Estimated reduced energy consumption
by KPN customers in 2014²**
in petajoules

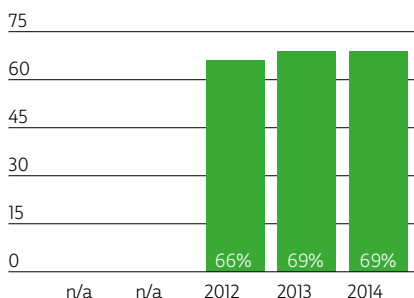


Energy consumption

in petajoules



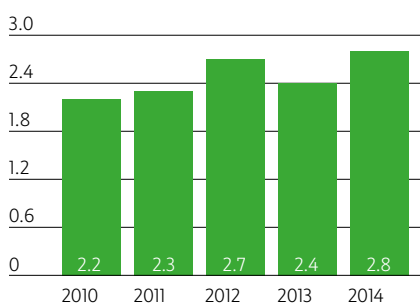
**% of Dutch people who believe
their data is safe with KPN¹**



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

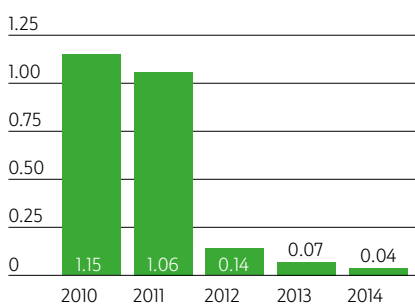
2) Energy savings resulting from the use of our ICT solutions by customers compared with our own energy consumption. For more information, please see p. 40-41 of this report.

Net debt/EBITDA



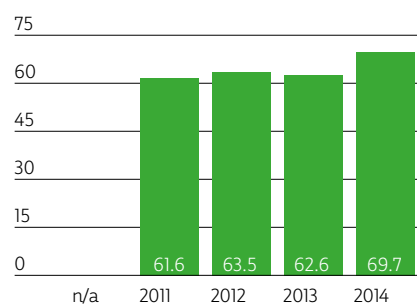
Earnings per share

in EUR



Reputation

Reprtrak pulse score



Simplify

Reduction in # of propositions

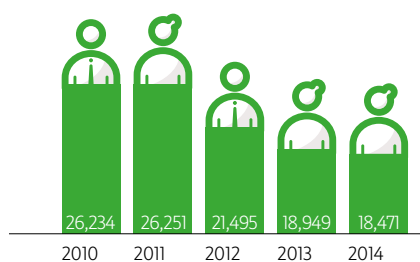
~65% for Consumer Mobile

~85% for Consumer Residential

~20% for Business market

FTEs

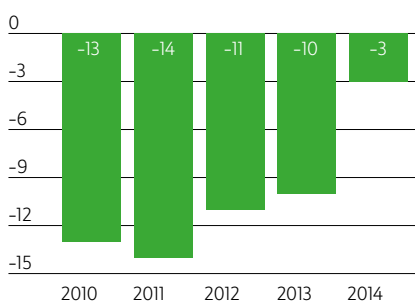
as of December 31



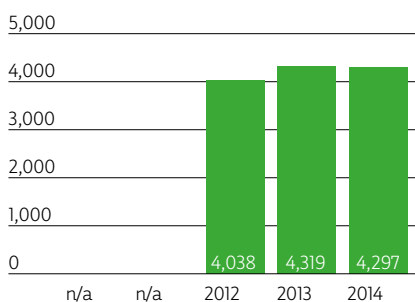
Grow

Customer loyalty

Net Promoter Score in the Netherlands



Number of healthcare locations connected



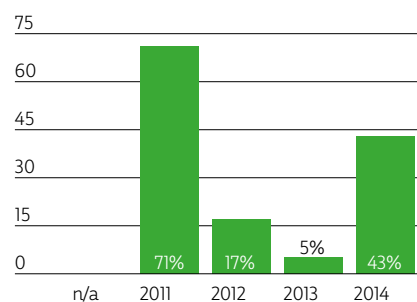
Base growth IPTV

+17%
(2013: 35%)

Number of 4G subscribers

2,065k
(2013: 543K)

Year-on-year % growth in the Netherlands of services that make the New Way of Living & Working possible¹



1) Unweighted average of mature and growth products.



Financial results and outlook

All KPN Group figures presented are based on KPN's continuing operations and do not include the financial results of E-Plus, unless stated otherwise. E-Plus was classified as held for sale and discontinued operations.

Overview highlights, KPIs & other targets

Highlights

- Adjusted Group revenues reflects customer base growth, price pressure in the mobile market and the declining business market size
- Adjusted EBITDA reflects the impact of phasing out of handset lease and investments in customer base growth
- Improved year-on-year financial performance through successive quarters of 2014
- Completed sale of E-Plus to Telefónica Deutschland
- Strengthened financial position
- Recommended dividend payments

Revenue

€ 8,083m
(2013: € 8,472m)

EBITDA

€ 3,015m
(2013: € 2,883m)

Group financial results

In 2014, we made good progress on our operational results. There was customer base growth in nearly all main consumer and business services in the Netherlands. At the same time, we also see a strong improvement in customer satisfaction. NPS for KPN brands in the Netherlands reached an all-time high in 2014. Group financial results reflect the strong competition across all segments and investments in our customer base growth and networks. See Segment performance for more details on our operational performance and the impact on financial results.

In Belgium, we continued to focus on executing our Challenger strategy. Our high mobile network investments in the last two years strengthened our network quality and led to more than 80% 4G coverage at the end of 2014.

In 2014, KPN made good progress with the Simplification program, realizing run-rate capex and opex savings ahead of plan at approximately EUR 140 million year-on-year and approximately 700 FTE reductions. Following the good progress in 2014, the run-rate capex and opex savings target has been increased from more than EUR 300 million (as announced in February 2014) to more than EUR 400 million by 2016 compared with 2013.

The sale of E-Plus has allowed us to strengthen our financial position (see section on Disposal group held for sale – Sale of E-Plus below). Net debt at the end of 2014 was EUR 2.5 billion lower compared with the end of 2013 and gross debt was EUR 3.8 billion lower.

Group financial results are discussed in more detail below.

Key figures

Group financials (in millions of EUR, unless stated otherwise)	FY 2014	FY 2013	Δ y-on-y
Revenues	8,083	8,472	-4.6%
Adjusted revenues	8,024	8,442	-5.0%
EBITDA	3,015	2,883	4.6%
Adjusted EBITDA**	2,573	3,022	-15%
EBITDA margin	37.3%	34.0%	
Adjusted EBITDA margin	32.1%	35.8%	
Operating profit (EBIT)	1,195	1,026	16%
Profit for the period from continuing operations (net profit)	239	293	-18%
Capex	1,412	1,616	-13%
Free cash flow	-169	489	n.m.

Revenues and other income

Group revenues and other income from continuing operations were 4.6% or EUR 389 million lower compared with last year. Positive impact from customer base growth as discussed above was offset by the impact of the ongoing decline of the business market size.

Revenues and other income (in millions of EUR)	2014	2013	Δ
KPN Group – continuing operations	8,083	8,472	-4.6%
KPN Group – continuing operations adjusted¹	8,024	8,442	-5.0%
Germany (including discontinued operations)	2,428	3,197	-24%
Belgium	711	728	-2.3%
Other (including eliminations)	33	41	-20%
Mobile International	3,172	3,966	-20%
Consumer Mobile	1,407	1,510	-6.8%
Consumer Residential	1,916	1,962	-2.3%
Business	2,920	3,201	-8.8%
NetCo	2,262	2,343	-3.5%
Other (including eliminations)	-2,050	-2,214	-7.4%
The Netherlands	6,455	6,802	-5.1%
iBasis	948	969	-2.2%
Other (including eliminations)	-140	-169	-17%
KPN Group – including discontinued operations	10,435	11,568	-9.8%
of which discontinued operations	2,352	3,096	-24%

Adjusted Group revenues and other income from continuing operations were 5.0% lower year-on-year.

A settlement with the Dutch tax authorities, for excess taxes paid by KPN in the period 2013-2014, led to a reimbursement of EUR 74 million in Q4 2014, of which EUR 30 million related to 2013 (classified as an incidental) and EUR 44 million related to 2014. Other incidentals include a release of revenue-related provisions of EUR 17 million (against an accrual of EUR 13 million in 2013) and income from the sale of fixed assets of EUR 5 million. Other incidentals in 2013 included proceeds from the sale of a subsidiary (EUR 23 million).

EBITDA

Group EBITDA from continuing operations increased by 4.6% or EUR 132 million compared with 2013.

Decline in Group revenues and other income, having direct EBITDA impact, and the higher subscriber acquisitions costs due to the phasing out of the handset lease was mainly offset by the EUR 477 million release of pension provisions discussed in more detail on page 25 and lower personnel expenses.

EBITDA was impacted by a restructuring cost of EUR 84 million (2013: EUR 122 million). Adjusted EBITDA from continuing operations was 15% lower year-on-year. The net positive impact of incidentals on EBITDA in 2014 amounted to EUR 526 million (2013: net negative impact of EUR 17 million).

EBITDA (in millions of EUR)	2014	2013	Δ
KPN Group – continuing operations	3,015	2,883	4.6%
KPN Group – continuing operations adjusted¹	2,573	3,022	-15%
Germany (including discontinued operations)	729	963	-24%
Belgium	149	192	-22%
Other (including eliminations)	-8	4	n.m.
Mobile International	870	1,159	-25%
Consumer Mobile	191	410	-53%
Consumer Residential	404	375	7.7%
Business	590	706	-16%
NetCo	1,241	1,297	-4.3%
Other (including eliminations)	24	-33	n.m.
The Netherlands	2,450	2,755	-11%
iBasis	23	29	-21%
Other (including eliminations)	403	-101	n.m.
KPN Group – including discontinued operations	3,746	3,842	-2.5%
of which discontinued operations	731	959	-24%

Incidentals in 2014 include the positive impact from the tax settlement benefit and release of pension provisions discussed above. Other incidentals in 2014 include adjustments of deferred revenue of EUR 5 million, EUR 3 million costs related to the phasing out of SNOW, the fixed offering in Belgium, and release of incidental provisions of EUR 17 million. The incidentals in 2013 included releases of asset retirement obligations related to mobile sites for EUR 11 million, adjustments of deferred revenue of EUR 20 million and the booking of incidental provisions of EUR 78 million.

REPORT BY THE BOARD OF MANAGEMENT — GROUP PERFORMANCE

Financial results and outlook

Operating profit

Group operating profit (EBIT) from continuing operations increased by EUR 169 million compared with 2013 (16%) due to EUR 132 million higher EBITDA and EUR 37 million lower net depreciation, amortization and impairment charges.

Operating profit (in millions of EUR)	2014	2013	Δ
Operating profit from continuing operations	1,195	1,026	16%
Net finance costs	-903	-757	-19%
Share of the profit of associates and joint ventures	-6	-7	14%
Profit before income tax from continuing operations	286	262	9.2%
Income taxes	-47	31	n.m.
Profit for the period from continuing operations	239	293	-18%
Profit/loss (-) for the period from discontinued operations	-823	-508	-62%
Profit/loss (-) for the period including discontinued operations	-584	-215	>100%

Net finance costs

Net finance costs increased by EUR 146 million compared with 2013, mainly driven by bond tender premiums.

Income taxes

KPN qualifies as an innovative company and therefore benefits from an agreement with the Dutch tax authorities with regard to the application of innovation box tax regime. The innovation tax regime is a facility under Dutch corporate income tax law whereby profits attributable to innovation are taxed at an effective rate of 5%. Due to the application of the innovation tax facilities, KPN's effective tax rate in the Netherlands is reduced from the statutory tax rate of 25% to approximately 20%. In 2014, KPN recognized a tax expense of EUR 47 million, mainly related to our operations in The Netherlands (EUR 38 million) and Belgium (EUR 3 million). The effective tax rate for KPN's continuing operations for 2014 is 16.1% (2013: -11.5%), mainly due to several settlements with the Dutch tax authorities mostly related to previous years. The effective tax rate was significantly influenced by one-off effects, and a change of the mix of profits and losses in the various countries. Without one-off effects the effective tax rate for KPN's continuing operations would have been around 21% in 2014. The effective tax rate (continuing operations) is expected to be approximately 20% in the 2015-2016 period. For further information on the tax impact of the sale of E-Plus, refer to paragraph 'Disposal group held for sale' below.

Net profit

Net profit from continuing operations decreased by EUR 54 million, 18% lower year-on-year, as the increase in EBIT was not sufficient to fully offset the impact of higher financial expenses as a result of the bond tender.

Cash flow, free cash flow

Free cash flow from operating activities from continuing operations for the year 2014 was EUR 658 million lower compared with 2013, mainly due to non-recurring items such as the impact of pension agreements and reduced supplier payment terms.

Cash flow (in millions of EUR)	2014	2013	Δ
Operating profit from continuing operations	1,195	1,026	16%
Depreciation and amortization	1,820	1,857	-2.0%
Interest paid/received	-705	-654	7.8%
Tax paid/received	38	-253	n.m.
Change in provision	-887	-191	>100%
Change in working capital	-224	162	n.m.
Other movements	-	-21	n.m.
Cash flow from operating activities from continuing operations	1,242	1,926	-36%
Capital expenditures from continuing operations	-1,412	-1,616	-13%
Proceeds from real estate	1	3	-67%
Tax recapture E-plus	-	176	-100%
Free cash flow from continuing operations	-169	489	n.m.

The lower free cash flow was mainly driven by less cash from working capital (EUR 386 million) including EUR 242 million related to reduced supplier payment terms, EUR 345 million lower EBITDA amended for the EUR 477 million pension provision releases, EUR 235 million payment related to pension agreements and EUR 51 million higher interest payments (including accrued interest of EUR 47 million related to the bond tender). These items were only partly offset by EUR 204 million lower Capex and EUR 115 million lower taxes paid in 2014.

Cash and cash equivalents

At December 31, 2014, cash and cash equivalents amounted to EUR 1,976 million, compared with EUR 3,946 million at December 31, 2013. In addition, KPN Held EUR 300 million held-to-maturity investments (under other current financial assets) as part of its liquidity management.

Capex

Capex decreased to EUR 1,412 million in 2014 compared with EUR 1,616 million for 2013, mainly due to lower customer driven investments (including phasing out of handset lease) and savings driven by the Simplification program (approximately EUR 70 million).

Pension position

In 2014, the implementation of a Collective Defined Contribution pension plan ('CDC pension plan') was approved for both the main plan ('KPN PF') and the Senior Management plan ('KPN OPF') as of January 1, 2015. The approval of the new CDC pension plan was recorded as an amendment of the existing pension plans and reduced the pension provision by EUR 467 million (EUR 451 million KPN PF and EUR 16 million KPN OPF). This release was recorded in KPN's Consolidated Statement of Profit or Loss as a reduction of the pension expenses. Under the new CDC pension plans, as of January 1, 2015, KPN will have no other obligation than to pay the annual fixed premium (as a percentage of the pensionable base) and therefore these plans will be accounted for as defined contribution plans. At December 31, 2014, after the lump-sum cash payments of EUR 230 million, the remaining pension provisions relating to the KPN PF and KPN OPF were fully released (plan settlement).

Also in 2014, amendments to the existing pension plans of SVG (the former Getronics pension fund) and the transfer of active participants as per January 1, 2015 to the KPN PF, were approved which resulted in a reduction of the pension provision of EUR 10 million (recorded in KPN's Consolidated Statement of Profit or Loss as a reduction of the pension expenses) and a lump-sum cash payment of EUR 5 million. In 2013, KPN recorded a release of the pension provision of EUR 28 million (related to KPN PF and KPN OPF) as a result of amendments to the plans due to new fiscal legislation.

The pension provision remaining at December 31, 2014 of EUR 316 million includes the (closed) pension plans of Getronics UK and Getronics US as well as certain early retirement schemes in the Netherlands. For more information about KPN's pension plans, reference is made to Note 23 of the Consolidated Financial Statements.

Borrowings, bond issues

Bond tender

In November 2014, KPN completed a bond tender offer to reduce gross debt and realign its financial profile with the new company profile. KPN repurchased an aggregate principal amount of EUR 1.8 billion of eight Eurobonds with maturities between 2016 and 2024. KPN settled certain interest rate swaps and cross-currency swaps related to the Eurobonds maturing in 2016, 2019, 2020 and 2024. The tender was financed with available cash.

Disposal group held for sale: Sale of E-Plus

The sale of E-Plus was completed in 2014. KPN sold and transferred 100% of its interest in E-Plus to Telefónica Deutschland. KPN received EUR 5 billion on a cash and debt free basis and a 20.5% stake in Telefónica Deutschland. The transaction will unlock estimated synergies, from which KPN will benefit through its 20.5% stake in Telefónica Deutschland.

The 20.5% stake in Telefónica Deutschland is accounted for as an available-for-sale financial asset in KPN's Consolidated Statement of Financial Position (see Notes 13 and 19 of the Consolidated Financial Statements for further information). Any dividends received and/or capital gains (proceeds above tax book value) realized on the stake will be subject to Dutch corporate income tax. KPN can utilize the deferred tax asset related to the sale of E-Plus to offset income related to the stake as well.

In 2014, KPN recorded an additional impairment related to the sale of E-Plus of EUR 1,265 million. The tax book loss related to the sale of E-Plus increased to EUR 5 billion, resulting in a total deferred tax asset of EUR 1,188 million at December 31, 2014, limiting KPN's taxable income in the Netherlands in the coming years.

Use of proceeds

KPN is using the majority of the cash proceeds of the sale of E-Plus to increase its financial flexibility. This includes amongst other:

- Bond tender
- Regular bond redemptions
- Reggefiber consolidation
- Reggefiber debt redemption
- Pension fund agreements
- Reduced supplier payment terms

Financial outlook

- Adjusted EBITDA stabilized by year-end 2015
- Capex < EUR 1.4 billion
- Growing free cash flow (excluding TEFD dividend)
- Additional cash flow via potential dividend from 20.5% stake in Telefónica Deutschland

Following the sale of E-Plus, KPN recommenced dividend payments with an interim dividend in respect of 2014 of EUR 0.02 per share, or in total EUR 85 million, which was paid on October 13, 2014. KPN intends to pay a total dividend per share of EUR 0.07 in respect of 2014. The final dividend of EUR 0.05 per share is expected to be paid in April 2015. KPN intends to pay a total dividend per share of EUR 0.08 in respect of 2015. The dividend per share in respect of 2016 is expected to grow further.

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



Shareholder returns

Overview highlights

Highlights

- Recommended dividend payments of EUR 0.07 in respect of 2014, DPS of EUR 0.08 intended in respect of 2015, growing further in respect of 2016
- Completed sale of E-Plus at attractive valuation; EUR 5 billion cash proceeds, and a 20.5% stake in Telefónica Deutschland
- Taken number of important steps to reduce debt and other financial liabilities, significantly increasing financial flexibility

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

Shareholder remuneration

Following the sale of E-Plus, KPN recommended dividend payments with an interim dividend in respect of 2014 of EUR 0.02 per share, or in total EUR 85m, paid in October 2014. The proposed total dividend per share of EUR 0.07 in respect of 2014 will be presented for approval to the Annual General Meeting of Shareholders to be held on April 15, 2015. The final dividend of EUR 0.05 per share is expected to be paid in April 2015. KPN intends to pay a total dividend per share of EUR 0.08 in respect of 2015. The dividend per share in respect of 2016 is expected to grow further.

In 2014 KPN has undertaken a number of actions that reduced future liabilities and contributed positively to the credit profile by increasing KPN's financial flexibility and visibility. The attractive 20.5% stake in Telefónica Deutschland provides additional flexibility and upside via potential dividends. KPN remains committed to an investment grade credit profile and expects to utilize excess cash for operational and financial flexibility, (small) in-country M&A and/or shareholder remuneration.

KPN Shareholding¹

Estimated geographic breakdown (based on institutional holdings)

United States	20 – 25%
Mexico	20 – 25%
United Kingdom	10 – 15%
The Netherlands	0 – 5%
Canada	0 – 5%
Rest of Europe	15 – 20%
Rest of World	0 – 5%
Other ²	15 – 20%

1) Source: Nasdaq Shareholder ID Q4 2014.

2) Retail, broker/trading and other.

Share ownership

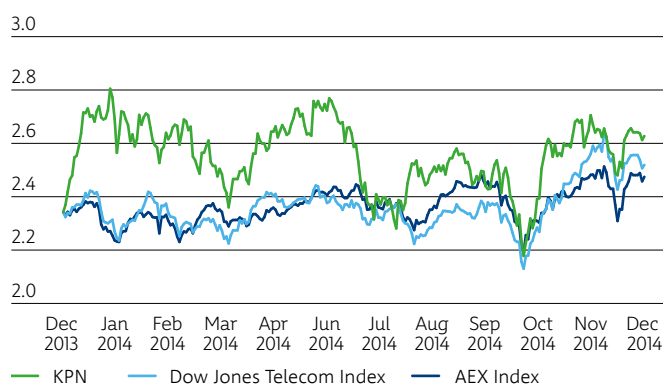
América Móvil published on February 10, 2015 that they owned 21.4% of KPN's ordinary shares at December 31, 2014. Franklin Mutual Series and Discovery Capital Management have respectively indicated, by means of notifications the AFM, to have shareholdings which equal or exceed 3% of the issued capital. To KPN's knowledge, no other shareholder owned 3% or more of KPN's outstanding shares and there are no net short positions in KPN's stock at December 31, 2014.

Financial calendar 2015

January 9, 2015: Extraordinary General Meeting of Shareholders
 February 4, 2015: Publication of full year 2014 results
 April 15, 2015: Annual General Meeting of Shareholders
 April 30, 2015: Publication of first quarter 2015 results
 July 29, 2015: Publication of half year 2015 results
 October 27, 2015: Publication of third quarter 2015 results
 Note that these dates may be subject to change.

Share price 2014

in EUR



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



Tax strategy and policy

Tax strategy

KPN's Board of Management considers its Corporate Tax Department as a crucial partner within the business and expects the Corporate Tax Department, while adhering to the tax policy, to provide clear, timely, relevant and business focused advice across all aspects of tax. Where alternative routes exist to achieve the same commercial results, the Corporate Tax Department is challenged to recommend the most tax efficient and responsible approach in the interest of all stakeholders, while remaining compliant with all relevant laws, regulations and international standards.

Tax policy

KPN's tax policy is embedded in five pillars: Compliance, Transparency, Relationship with tax authorities and other stakeholders, Accountability & Governance, Business rationale and transfer pricing.

Compliance

We commit ourselves to behave responsibly at all times, which is integral to ensuring the long-term sustainability of our business. We act in accordance with applicable tax laws and regulations and are guided by relevant international standards (for example OECD (Organization for Economic Cooperation and Development) guidelines). At all times, we respect the spirit of the law. Where tax laws do not give clear guidance, prudence and transparency shall be the guiding principles.

Transparency

We believe that transparency is a cornerstone of good tax governance. We regularly put forward understandable and timely communication about our approach to tax, our tax position and total tax payments on a country-by-country basis. We fulfill our disclosure obligations and are transparent to tax authorities. We support global initiatives of the OECD to promote tax transparency and responsible tax management.

Relationship with tax authorities and other stakeholders

We seek to maintain an open, honest and constructive dialogue with tax authorities based on transparency, respect and trust. Consequently, we disclose all relevant facts and circumstances. In the Netherlands, this is embedded in Enhanced Supervision ('horizontal monitoring') where we aim to enhance clarity and upfront certainty around tax. To this end, we engage proactively with Dutch tax authorities. We meet on a regular basis to ensure that our business dealings are better understood and to exchange views and insights on various (tax) matters. This open, two-way communication enables us to minimize uncertain tax positions. Our other stakeholders such as NGOs and interest groups should note that our Corporate Tax Department is aligned with the business and is not a profit center by itself. We welcome constructive debate on taxation. We aim to show good corporate citizenship in the way we handle tax issues and communicate clearly about our strategy and policy on tax governance.

Accountability and Governance

KPN's Corporate Tax Department is the focal point on all tax related matters and consists of experienced tax professionals who are in constant dialogue with KPN's senior management and KPN's business. This ensures that KPN's (senior) management is engaged and involved in all relevant tax matters. Within KPN we adhere to our Code of Conduct ensuring our accountability and Governance. Our tax policy is in line with our Code of Conduct. On a quarterly basis we report to the Board of Management on adherence to our tax policy.

Business rationale and transfer pricing

We do not enter into aggressive and contrived tax planning structures. We therefore do not use secrecy jurisdictions or so-called 'tax havens' solely for tax avoidance, nor artificial tax structures that have no commercial or operational substance. As we ensure that transfer pricing policies comply with applicable internationally agreed and recognized principles as outlined in the OECD guidelines, we report income in the countries where the value is created, applying the arm's length principle.



Innovations and investments

Overview highlights, KPIs & other targets

Highlights

- Realized nationwide coverage 4G
- Reduced number of propositions with ~65% in Consumer Mobile Segment and ~20% in Business Segment

% of households with >100 Mbps

~50%

4G outdoor coverage BASE Company

81%

(2013: 36%)

Innovation

KPN continuously invests and innovates to provide the best fixed and mobile networks, enabling our customers to communicate and access services, information and content anywhere, anytime. As an integrated access provider, we ensure a seamless user experience with simple and transparent customer interfaces across networks and devices, for example with our IPTV service. Increasingly, we provide connectivity for machines, sensors, smart homes, buildings and smart cities (Internet of Things).

Datacenters are becoming an increasingly crucial and integrated part of the ICT infrastructure to safely and efficiently handle fast growing amounts of data and usage of cloud based IT applications.

Infrastructure and network innovation

Our aim is to operate a best-in-class, reliable and secure ICT infrastructure. We continuously invest and innovate to achieve this ambition.

Fixed network

Our vision is that the best way to facilitate the growing demand for high bandwidth services is by a balanced mix of Fiber to the Home (FttH) and copper upgrades. KPN already rolled out FttH to more than 2 million homes at the end of 2014, resulting in more than 25% homes passed in the Netherlands. This is the highest FttH coverage in Europe.

Fiber is the superior technology for the longer term, but in the meantime we are upgrading our copper network with the newest technologies available to offer the highest possible broadband speeds. In 2014, we launched vectored VDSL and we already reach ~50% of Dutch households with download speeds of at least 100 Mbps. 77% of Dutch households can get download speeds higher than 40 Mbps, which is sufficient for simultaneously running high speed internet and two HD TVs.

Mobile network

KPN executed a very fast roll-out of our 4G network in order to reach nationwide coverage as early as possible. We achieved this in March 2014, long before our competitors and only 16 months after acquiring the 4G spectrum license in December 2012.

At the same time, we also renewed our 2G network, introduced UMTS900 to improve 3G quality, and added battery back-up to improve overall network availability. In November 2014, we entered a new phase in our 4G roll-out. We increased the mobile network capacity by installing additional 4G equipment that also uses the 1800MHz frequencies, next to the 800MHz frequencies that are already in use.

4G facilitates innovation

The nationwide LTE coverage opened up many new innovative possibilities, e.g. for the emergency services in the Netherlands. For example, fire brigade emergency rooms can now use live high-quality video streams via 4G from cameras on firemen's helmets and fire trucks to better assess the situation. This increases the safety of the firemen and allows much faster decision-making in the emergency room, e.g. calling for additional emergency forces when needed.

Datacenters and cloud services

We extended our ICT-portfolio in 2014 with an Infrastructure as a Service (IaaS) offer that is completely based on datacenters, networks and equipment in the Netherlands. This service is called IaaS CloudNL and allows business customers to flexibly rent storage, computing power and network capacity. The IaaS CloudNL service is very well suited for companies and large organizations that need to store personal or confidential data on Dutch territory. The service is compliant with the Dutch privacy law and sector-specific rules e.g. for financial institutions and healthcare.

Belgium

We continued the roll-out of our 4G network and achieved 81% outdoor coverage at the end of 2014. For more details on innovation in Belgium, please see p. 64-65 of this report.

Innovation and simplification

Moving towards one converged IP core network

An important part of our network strategy is to ensure that the IP data transport and service systems in our core network are as standardized and generic as possible. This way it can serve as a powerful, simple and secure backbone for all our services, whether it is fixed or mobile. In the past, we needed to build separate IP systems for different services, such as Fixed Broadband, IPTV,

mobile and business networks. With the technology available today, it is possible to simplify this architecture and we are now executing the program to move from the mosaic of core networks of the past to one state-of-the-art converged IP core network which is optimized for huge data volumes. This simplification will improve network reliability and security and brings about significant cost advantages.

Simplification of portfolio, processes and IT

It is our ambition to become the best service provider. In 2014, we started a simplification program focusing on simplification of our product portfolio, customer processes and supporting IT systems. We are in the middle of a transformation to a customer-centric organization with a simple, low cost efficient operating model.

In 2014, we designed a simple converged product line-up with a strong focus on integrated bundles (KPN ÉÉN for business customers and KPN Compleet for residential customers). In addition, we have an active product life cycle management in place and are continuously rationalizing our legacy product portfolio. In the fixed Residential segment, we achieved about 85% reduction in the number of different products as of Q2 2014. Consumers can now choose between four KPN broadband propositions (FttH / copper combined). In the Consumer Mobile segment, we reduced the number of propositions under the KPN and Hi brands by about 65% as of Q3 2014. In the Business segment, we achieved about a 20% reduction during 2014.

In the transition towards a customer-centric and efficient operating model, we are also simplifying our processes. The introduction of the new Business Support System (BSS) for our mobile services will result in synergies related to customer processes and decommissioning of legacy IT systems in 2015 and 2016. Secondly, we focus on online client processes. The digital journey of customers is the starting point for all processes and aims for a further shift to online sales and service, which we believe will result in increased customer satisfaction. We also further simplify and reduce our landscape of networks, IT systems and applications to achieve a low cost operating model, leading to lower costs and shorter release cycles (time to market).

Products and services innovation

We continuously improve our leading IPTV proposition to drive the growth of our bundled services. In February 2015, we were one of the first providers to launch TV Everywhere that enables customers to record and watch TV programs on all devices, also when not at home. TV Everywhere is enabled by our cloud-based PVR functionality and the high-quality KPN 4G network.

Healthcare of the future

Care professionals, healthcare institutions, patients and ICT-providers need to be connected with each other. We launched ZorgCloud, a place where they can get access to all kinds of information systems and applications. So far, 4,297 healthcare institutions have sent each other hundreds of thousands messages through this closed infrastructure.

Privacy & Security

We are convinced that security is key to our business. We not only make sure our own networks are secure, but we also offer services to our customers that give them access to a secured digital highway where they are in control of the information they share. Over the past years, we have invested heavily in security in order to make sure that KPN can be even safer than it is today.

We feel committed to support our customers in making safe and secure digital choices. We were one of the first global telecom operators to partner with the Blackphone initiative and the software of Silent Circle. See more on this initiative on page 45 of this report.

Dilemma

We need to invest continuously to maintain a best-in-class network to attract and retain loyal customers. However, the cost-benefit analysis of innovations is strengthened when more people use our network and use KPN products and services. The fact that the costs of innovation investments always come before attracting customers and increasing use of our products and services remains a dilemma.

Ambition

Our aim is to operate best-in-class, reliable and secure ICT infrastructure and services. We continuously invest and innovate to achieve this ambition and to contribute to society and sustainable economic growth.

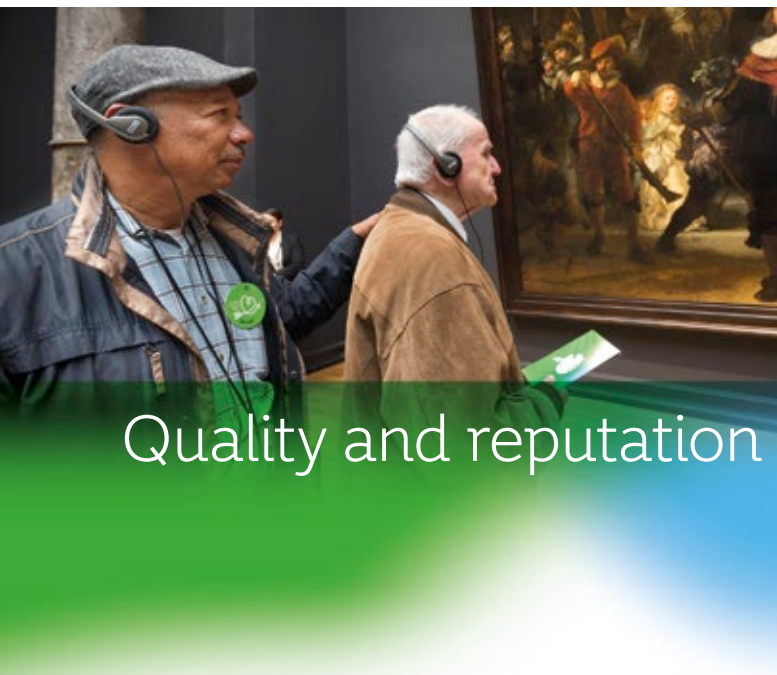
“We have the opportunity to innovate again”

Barry de Bruin,
Director IT, Pathé Theatres by
10 years a customer

“For a long while, we tried to maintain our central IT environment ourselves, but that took up a lot of time and we still had dissatisfied users who complained about slowness and instability. It cost us so much time that our IT department was barely able to come up with new innovations. Keeping our customers satisfied is one of our top priorities and switching to a cloud system turned out to be the best solution. Our aim was to make no further investments in hardware, software, updates

and migrations, as well as realizing an improvement in user satisfaction. We wanted to find a partner for whom cloud computing was a core business. We found that partner in KPN and its KPN Online Workstations cloud service. Admittedly, it took a while to get used to working with a standardized solution, but the results speak for themselves. No more complaints from users and our IT department is now free to work on innovations.”





Quality and reputation

Overview highlights, KPIs & other targets

Highlights

- Improved NPS for all KPN NL segments (+2 for Consumer Residential, +2 for Consumer Mobile and -13 for Business)
- Welcomed more than 100,000 visitors at the 'Coolste Baan'
- Received recognition as 'Sponsor of the year'
- Launched national campaign for the KPN 'Mooiste Contact Fonds'

Overall NPS KPN NL

-3

(2013: -10)

Value weighted media exposure for our Olympic campaign

13.7m

Chronically ill children provided with a KPN Classmate

540

(2013: 192)

In order to become the best service provider in the Netherlands we are strengthening our quality and reputation. We want satisfied customers and because of the important role of KPN in the Netherlands we need a solid reputation. Customers should feel free, because they can rely on the highest-quality ICT products and services to connect them all the time, everywhere and from any device, and on a flawless service. Our reputation is not only

strengthened by improving our networks, products and services but also by contributing to society. Also, by sponsoring initiatives connecting people, our key strength, we believe we can enhance the goodwill and reputation of our brand.

Reputation

We believe our reputation is not only the result of the products and services we offer and the degree to which our customers are satisfied, but is also influenced by the value we create for society. Our aim to improve our reputation focuses on all these items on a daily basis in order to improve the quality of our networks, the simplicity and clarity of our products and offerings, our stores, our service to customers and our CSR program. Reputation is first and foremost building on the things you do as a company. As the largest Dutch telecom operator, we connect millions of people in the Netherlands and have an important role in enabling a digital society. Communications is there to support our activities and our aim to become the preferred ICT brand in the Netherlands. Our new brand campaign 'Feel free' shows that we want our customers to experience freedom in their digital life when they use our products and services. We also support our reputation management through our engagement in sponsorships, such as ice skating and the Rijksmuseum as well as our charity fund het KPN Mooiste Contact Fonds. For this, KPN was awarded Sponsor of the year at the yearly sponsoring conference in the Netherlands.

RepTrak results

We use RepTrak to monitor our reputation. RepTrak, run by the Reputation Institute, monitors the reputation of the top 30 large Dutch companies, including KPN, based on a survey among the Dutch public. Our reputation target is based on three attributes within RepTrak that influence our reputation most significantly. Two out of three attributes showed a positive trend during the year, which indicates that we are on the right track and our improvement activities are paying off. We have managed to outperform on two out of the three long-term targets for reputation and almost realized the third one as well. This is likely the result of all the initiatives KPN undertook over the last years to improve customer satisfaction, customer loyalty and our role in society. It is down to our focus on the quality, simplicity and clarity of all our products and services as well as investments in the networks, the stores and service organization, in the reduction of energy use and other aspects of corporate social responsibility as well as the KPN brand.



"Freedom through connection. That is the core of the 'Feel free' campaign. New technology in our everyday lives is indispensable. That's why we want to launch a friendly campaign that really appeals to the heart, a campaign demonstrating that KPN is there for all of us, now and in the future"

Yvette Belt Beekman,
Manager Marketing Communications KPN&Hi

Improvements reputation

Research performed by the Reputation Institute in 2012 showed three areas of improvement that would benefit our reputation: the quality of our products and service, the clarity of our communication and the way we do business with our customers.

Resulting from the research, we intensified our efforts to improve our customer loyalty and customer service. For more information, please see Customer Loyalty on this page.



“Freedom means going and being wherever you want, doing whatever you feel like. The Mooiste Contact Fonds enables me to give someone a bit of that freedom”

Wilco van Schaik,
Account manager and volunteer KPN
Mooiste Contact Fonds

In 2014, we improved the transparency of our communication towards customers. During the Winter Olympic year 2014, we strengthened our communication on our social themes and the value we create for society. We were closely involved in organizing the Dutch Ice Skating Championships on the ‘Coolste Baan’, the former Dutch Olympic Stadium in Amsterdam. We are proud that we successfully linked our reputation agenda with our business agenda, resulting in value creation for our customers. We welcomed more than 100,000 visitors, who came to skate with their families or were present at other events such as the KPN Dutch Championship All Round and Sprint. As part of our campaign during the Winter Olympic games in Sochi, we communicated nationwide how we support and contribute to Dutch skating. We are proud of the overwhelming results achieved by our national ice skate equipe with a new gold medal record and gold medals on both team pursuits. We have chosen to support the Team Pursuit discipline to demonstrate the importance of cooperation in our company and we celebrated this and awarded KPN teams internally during our yearly Strategy Update in May.

During the autumn, we launched a campaign to inform and engage the Dutch public in the activities of the KPN Mooiste Contact Fonds. Social contact is not obvious for everyone. After seven years of facilitating socializing for elderly, physically disabled, chronically or severely ill children, we decided to tell the outside world about our foundation. Part of the campaign is engaging everybody in the Netherlands to join and help to solve loneliness in their own vicinity.

We aimed to improve in ‘the way we do business with our customers’ by simplifying our portfolio and our delivery and service processes. We will take further steps by changing the organization structure in order to become more customer-centric.

Dilemma

We made a lot of progress in the development and application of our ICT device called KPN Classmate, which enables chronically ill children to stay in touch with their classmates. In 2014, the KPN Classmate was runner-up in the Microsoft World Partner Conference Awards 2014. Although the device shows our technical capabilities and is an excellent example of the way we connect people by using ICT, we have felt conflicted about communicating about vulnerable children and using our efforts and results commercially. We showed restraint for years and only this year, after many years of successful experience, are we telling what we do in our corporate campaign ‘Feel free’.

Ambition

We aim to keep improving our reputation in the coming years. We will continue our involvement in products and services as well as events that create value for our customers, for example by sponsoring the ‘Late Rembrandt’ exposition in the Rijksmuseum. We continue the implementation of our reputation and NPS improvement programs.

For 2015, we have set our reputation targets on the average performance of the three attributes that influence our reputation most significantly.

Customer loyalty

Our efforts to become the best service provider in the Netherlands are focused on increasing customer loyalty by providing our customers with excellent fixed and mobile networks, and products and services of high quality and user-friendliness. In 2014, we therefore fully focused on simplifying our product portfolio and processes and we will continue doing so in 2015. We continuously measure our performance in our customer base, using the Net Promoter Score (NPS) method.

Results 2014

Based on the positive developments of the NPS for several of our services, we believe we are doing the right things to achieve our goals on customer loyalty. We improved our overall NPS for Consumer Residential and Consumer Mobile as well as Business Market. Our average NPS for KPN brands in the Netherlands increased to -3 (2013: -10). Within the Consumer Segment, an increase in service- and relation-perception is visible; more customers experience benefits and think of KPN as a provider that offers the best service. The percentage of KPN Compleet customers, which has a higher NPS score, increased in 2014. 2014 was also a successful year within the Business Segment; the NPS increased from -18 to -13. The appreciation of the performance of our networks increased and so did the appreciation of several service aspects.

Propositions

In 2014, we further simplified our portfolio in order to add benefits, make our services more attractive for our customers and to improve the efficiency of internal processes. For example, we offer combined fixed and mobile services to our customers in the consumer as well as the medium and (since 2014) small business segments. Especially in the Consumer Segment, customers who obtain these fixed and mobile services reward us with a higher NPS than customers with separate contracts or subscriptions. We also phased out almost 600 old-style subscriptions, which led to a simplification for our customers.

Quality and reputation

Improvements in quality and service

In 2014, we further organized our activities around continuous improvement based on customer feedback. At almost every touch point (that is, where KPN and its customers interact), we started or enhanced the use of 'closed loop feedback' (CLF) as a daily way of working. With CLF, we survey our customers immediately after their contact with KPN. In this way, we receive direct feedback and are able to act instantly when the customer is not yet satisfied.

NPS results on touch points

	NPS 2014	NPS 2013
Customer Contact Centers Consumer Residential*	+5	+0
Customer Contact Centers Consumer Mobile*	-7	-24
KPN XL stores*	+34	+33
KPN regular shops*	+25	+19
KPN Field Force (engineers) Consumer Residential*	+50	+44
Webcare Consumer Market	+27	N/a
Contact Center Business Market SoHo*	+3	-3
Contact Center Business Market Small & Medium, Large and Corporate*	+15	+8
Recommendation score large accounts	7.1	N/a
Recommendation score corporate accounts	7.2	7.1

* For this touch point, Closed Loop Feedback has been started or enhanced in 2014.

The activities to improve our service when in contact with our customers led to higher customer satisfaction levels at several customer interfaces (such as customer contact centers and stores). For example, the performance of an agent (friendliness, expertise and responsibility) has the highest impact on the NPS of contact centers and scored best, but waiting time and products have less impact and scored lower. However, our customers are not yet satisfied with all service experiences. For example, we made progress with the billing event in the corporate market. The recommendation score for billing increased from 5.4 in 2010 to 6.6 in 2014 (6.3 in 2013). Despite this increase, billing is still the lowest scoring event in the corporate market. Therefore, we continue our efforts to improve our service in this area by amongst other things better communications about price changes and deep dives into the problems of our least satisfied customers. We expect to see the first results in 2015.

In 2014, we enhanced the use of 'customer journey modeling' to investigate exactly what our customers experience at KPN. These journeys led to the identification of various improvement possibilities, such as our relocation service for consumers.

For information about specific quality improvements, please refer to the Business, Consumer Mobile and Consumer Residential sections of this report.

Ambition

In order to achieve our best service provider ambition, full attention on improving the NPS remains crucial. We will continue our efforts to deliver the customer promise and surprise our customers. Among other things, this means more focus on improving customer processes. We will implement a way of working in which customer journeys will be the basis for business process redesign. We expect this will lead to higher customer appreciation in NPS events and at our touch points. We will continue on our path of improving our level of service and customer processes on the basis of daily customer feedback. Also, we aim to further optimize the online customer experience. At the KPN brand level, we will continue

communicating transparently to our customers, providing them with our high-quality products and services that can simplify their lives. Our target for the overall NPS is +3 for 2015.

Sponsoring: Connecting people

Our vision: our strength lies in connecting people

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

KPN Mooiste Contact Fonds

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

In 2014, we started a corporate campaign to raise awareness of the KPN Mooiste Contact Fonds objective: our commitment to vulnerable groups in Dutch society for whom social contact is not obvious. We made progress on our project KlasseContact with partner EDventure. In 2014, we enabled 540 chronically ill children at home to communicate with their class via the 'KPN Classmate', an ICT device which is placed in the classroom. This means we did not reach our target of 550, because there were no more requests for a 'KPN Classmate' and thus we fulfilled the demand. We try to involve as many (former) employees and partners as possible in the KPN Mooiste Contact Fonds. In 2014, 1,286 employees and partners volunteered 1,955 times for several of the foundation's projects.

Together with 's Heeren Loo Zorggroep, we developed an online portal for people with learning difficulties to learn basic steps on how to use the internet. Users can access a carefully chosen selection of information, games, radio and movies. They can also share photos and video calls. This way, family contact is more fun, easier and safer for clients. The portal is used by 269 people.

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



"Thanks to KPN Teletolk, deaf and hearing impaired people can make an appointment by telephone with their doctor or a reservation at their favorite restaurant. The ability to make a call on an equal basis gives them a lot of freedom"

Rob IJzerman,
General Manager KPN Hotspots

In the Winter Olympic season, we wanted to make KPN visible as a sponsor and fan of Dutch speed skating. We expressed this aim in an integrated KPN campaign during the Winter Olympic games. The campaign focused on the KPN brand, our sponsorship and our customers in both the consumer and business market and was aligned with all KPN marketing and sales channels. We want to create additional value for customers and therefore provide them with extra services to experience Dutch (professional) skating. Our principal activity was our main sponsorship of the 'Coolste Baan', an official 400 meter ice track in the Olympic Stadium in our capital Amsterdam. The Olympic campaign generated the following results:

- EUR 13.7 million in value weighted media exposure
- KPN as the most recognizable Dutch Olympic sponsor
- Traffic and sales boost during the campaign period of 9% with EUR 9 million additional turnover
- An increase of all KPN brand values (personal, helpful, genuine and sympathetic)
- An increase of 6% on average in preference and support for the KPN brand
- 80,000 loyal customers invited to visit the 'Coolste Baan'
- 10,000 loyal customers who visited the KPN National Championship Allround and Sprint at the 'Coolste Baan van Nederland'.

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

Cultural sponsorship – Rijksmuseum

In 2013, we became lead sponsor of the Rijksmuseum in Amsterdam. We are proud to be able to make a contribution to this national treasure. The museum offers us relationship marketing potential for our business partners, customers and employees. In 2014, we celebrated the first anniversary of the renovated Rijksmuseum with a digital interactive billboard campaign featuring several world renowned paintings such as "The Night Watch". Furthermore, we offered the Dutch people a virtual tour through the museum hosted by the director Wim Pijbes. We organized a number of events in the Rijksmuseum for our top business partners and our SME clients.

Belgium

In 2014, we celebrated our 10-year partnership with Standard de Liège football club and renewed our partnership with Zulte-Waregem. We became proud sponsor of the newly created Limburg United basketball team in addition to Okapi Aalstar and we sponsored Belgium's basketball cup 'The BASE Cup'. We continued our ASO/PSO partnership and supported their three major cycling races. With our BASE brand and its Spotify offer, we partnered with several music festivals. We supported the aid campaign for families affected by the Soma disaster in Turkey and also supported ALS Liga Belgium and Télévie in different ways.

Ambition

Our target is to provide 1,250 chronically ill children with a 'KPN Classmate' in 2015. We are the main sponsor of the 'once in a lifetime' exhibition 'Rembrandt: the late works' in the Rijksmuseum in February 2015. Together with the Rijksmuseum, we want to give a stage to one of the greatest painters of our Golden Age for all Dutch people. We prolonged our skating sponsorship until the end of the skating season 2015-2016.

"I was able to focus fully on the Olympic season"

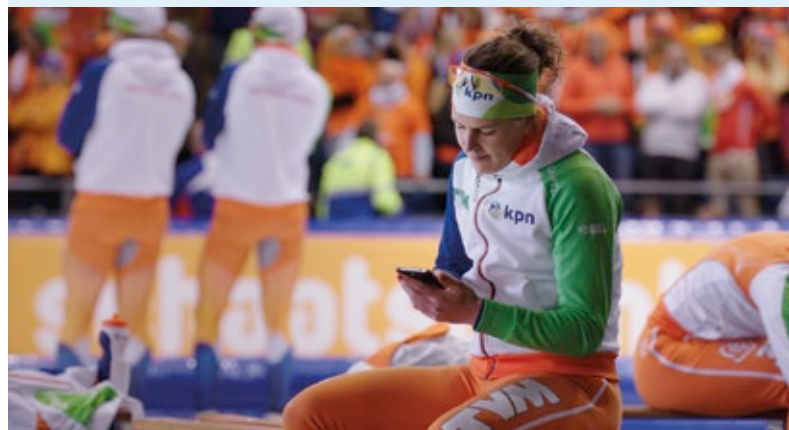
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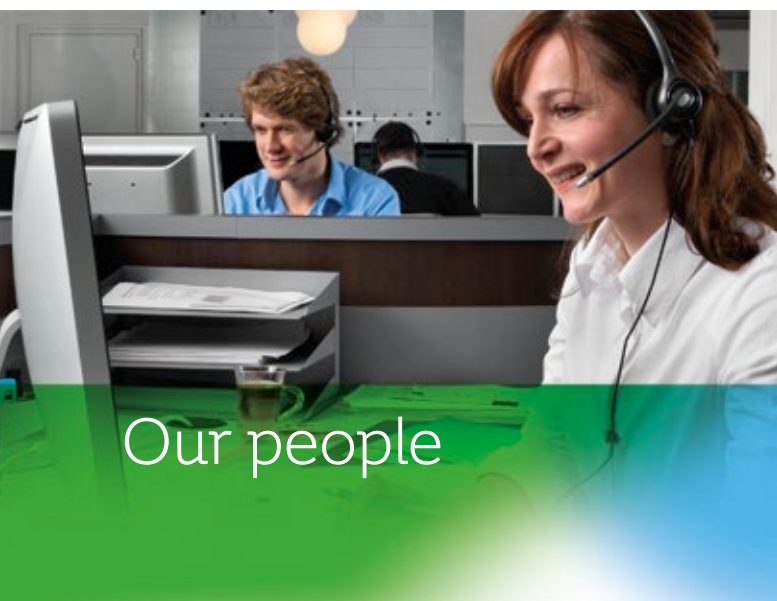
Multiple Olympic speed-skating champion

Played the leading role in the Winter Olympic campaign

"2014 was the most successful sporting year of my entire career. I won two gold medals and three silver medals at the Winter Olympics in Sochi and was voted Sportswoman of the Year and even Sportswoman of the World! I was impressed by the way in which KPN's winter campaign kept the whole country fascinated with skating last year. In just four weeks' time, more than 100,000 people skated on the 'Coolste Baan van Nederland', in the Olympic Stadium, and 45,000 fans cheered us on during the

combined Allround/Sprint National Championships. Thanks to sponsors like KPN and TVM, skaters were able to focus fully on their performances during the Olympic season. It is more than deserved that an independent jury chose KPN as the 'Sport Sponsor', 'Entertainment & Event Sponsor' and overall 'Sponsor of the Year for 2014' in the Netherlands and 'Best of Europe' at the ESA Excellence Awards. Together, we have won many gold medals and I'm incredibly proud of that!"





Our people

Our people strategy

Our employees are valuable to our organization and crucial in the continuous change of our business. Employees should constantly invest in their competencies to become the change agents we need. We want them to become more empowered and we are also investing in a culture of collaboration. Engaged and skilled employees are a prerequisite for the value we create for our customers and society.

We are transforming and simplifying our organization to empower our people to serve our customers better. Their knowledge, skills and commitments are our most important assets and add value for our customers. We are therefore committed to helping them develop their skills and enabling them to realize the value they add.

Four focus areas

We believe the success of our organization relies on the commitment of our people. To better align our people strategy with our corporate strategy 'strengthen, simplify and grow', we have developed four HR focus areas with corresponding slogans.

- 1) ÉÉN KPN: a connected organization
- 2) Feel free! Being an attractive employer
- 3) Simplified organization: one way of working
- 4) Simplified HR

ÉÉN KPN: a connected organization

To bring about a connected organization, we developed and implemented a top leadership program to align our senior management. We worked closely with leading business schools such as the International Institute for Management Development (IMD) and Ashridge.

Secondly, we are in the process of restructuring our business into a more functional organization. Following the sale of E-Plus, we reassessed our governance and business model. Human Resources is instrumental in bringing about organizational change, for example by developing the design principles, supporting Works Council-related interventions and introducing new behaviors as a starting point for a new culture.

Feel free! Being an attractive employer

The Dutch labor market is becoming increasingly flexible. We want our people to feel free to come, stay and leave KPN and we help them to grow as professionals by increasing their knowledge and skills. This focus on stimulating craftsmanship is what gives us a competitive edge in the labor market and helps us to attract and retain talented people. We believe craftsmanship will lead to better performance, more satisfied customers and ultimately a better business result.

Our performance management system looks at the value that our people create. We are convinced that teams perform better and deliver more value when people are aware of their responsibilities and the value they bring and they combine their individual strengths. This means our people determine their own added value as part of their performance management. Managers set the strategic direction for their teams, but each person defines his or her own added value in realizing the strategy.

Together with the corporate Works Council, we have developed activities to explain the 'why' of performance management to our employees and to support employees and management with implementing this strategic instrument.

Overview highlights, KPIs & other targets

Highlights

- Increased employee engagement scores
- Achieved an 80% success rate in outplacement programs
- Decreased absenteeism rate to 3.8%

% women in top-management

18%

(2013: 19%)

% women at KPN NL

24%

(2013: 24%)

% employees participating in i change

32%

(2013: 29%)

% employees who feel capable of working according to TNWL&W

78%

(2013: 74%)

Other CSR KPIs	Result 2014	Result 2013
Percentage of internal increase of the use of the New Way of Working ICT products	34% compared with 2013	5% compared with 2012
Percentage of women in middle management KPN NL	17%	16.5%

Our employee engagement survey shows we are on the right track to being an attractive employer. In 2014, we improved our overall engagement score and scored higher on how people perceive corporate strategy, their pride in working for KPN, our corporate social responsibility role, and most items related to development and performance management such as insight into how performance contributes to KPN's strategy and sufficient discussion of the results. We can still improve our performance in connecting senior management with the rest of the organization and in simplifying our processes and the organization.



“Having grown up with ICT, talented graduates want to choose their work-life balance. The ability to be connected anytime with customers and colleagues is one of the attractive features of KPN as an employer”

Ibtissam Azghiri,
Graduate Recruiter

Simplified organization: one way of working

One of our strategic goals is to build a simple and efficient organization that is focused on our core business activities and customer service. We continued to roll out our Way of Working (WoW) improvement program, which uses so called ‘navigators’ to assist managers to sharpen their customer focus and employees develop their expertise and craftsmanship. In 2014, there were about 45 navigators active.

Market conditions continued to change in 2014, and we need to adapt our organization in response to those changing conditions. We focused on simplifying our organization to face changing demands from society and our customers and made great progress in this area. In our business, simplifying mostly means delayering, integration or stopping activities. A simplified organization also results in employees becoming redundant. Our workforce in the Netherlands was reduced with 434 FTEs in 2014, despite the acquisition of Reggefiber, as part of our simplification program that will result in quality improvements and in 1,500 to 2,000 fewer FTEs by 2016. During the year, HR was involved in all main reduction programs that are part of this simplification program.

In December 2014, we announced we are restructuring our Business segment to achieve even stronger customer focus and increase standardization. Unfortunately, this will result in an additional reduction of up to 580 FTEs in this segment. At the same time, we will hire an additional 200 FTEs in the Consumer segment to connect new customers and extend our service to existing customers.

Simplified HR

The role of the HR department has evolved from being administrative to supporting change in the organizational restructuring. We aim to simplify the department and separate our role as a business partner from that as an advisor. In 2014, we developed a new HR organizational model and redefined our roles and responsibilities based on qualitative interviews with stakeholders. We also aligned the Collective Labor Agreements (CLA) for KPN and KPN Contact. A new MyHR portal simplifies HR

processes for people across KPN, for example they can access the system anytime and anywhere for the most important and most frequent tasks.

Redeployment

We run a successful outplacement program that helps people move to new jobs when theirs become redundant. The program is run with two external partners. Our support varies according to how employable the person is and his or her position in the labor market. Some people are more disadvantaged than others, for example older people or those with a physical restriction. Compared with our peers, our outplacement programs have a high success rate of around 80%. In 2014, 419 employees participated in an outplacement program, of whom 282 found new jobs externally, 17 were redeployed within KPN and 39 started their own companies.

Diversity

We want our workforce to accurately reflect society for everyone to feel welcome in our organization. Our approach to diversity not only covers gender, but also includes age, ethnicity and people with a disadvantage in the labor market. All talent is welcome to work at KPN. We believe diverse teams achieve better results than homogeneous teams.

We did not achieve our targets on gender diversity; however, we remain committed to our target of having 30% women overall and also 30% in our top and middle management in 2015. In 2014, women comprised 17% of middle management and 18% of top management. Overall, 24% of our employees are female. In general, we believe the inflow of talented women is satisfactory. Our challenge lies in their promotion to top and middle management positions. Our efforts focus on analyzing bottlenecks and intervening on them. Although we are not yet fully satisfied with our performance, the “Talent naar de Top” organization recognized KPN as a good performer on diversity for the technology and telecom sector. According to Intermediair, we are the best performing ICT and IT company on gender diversity in the Netherlands. Furthermore, KPN offers women the best career development opportunities in this category. Over the years, we have provided women with activities such as coaching, education and executive training to help them succeed in their career at KPN.

Because we believe in full inclusion, we also further developed our activities and policies for age diversity, ethnicity and people with a disadvantage in the labor market. We want our people to feel free to be themselves at work. As such we signed the Declaration of Amsterdam which promotes an inclusive workplace for lesbian, gay, bisexual and transgender (LGBT) people.

In 2014, we made a commitment to adhere to several new initiatives, including the Dutch regulation on participation (Participatiewet) and an initiative on youth unemployment (Jeugdwerkloosheid). We are already committed to employing people with a disadvantage in the labor market, such as those aged over 55, people from non-Dutch backgrounds and those with a permanent or chronic medical condition. In 2014, we employed nine people with weak positions in the labor market. We are committed to demonstrating social return, which is a tender requirement for participating government tenders. We have grown into one of the larger private companies in the Netherlands that fulfills Social Return on Investment (SROI) obligations required by government organizations. In 2014, the number of social return requests from our customers, also in the private sector, continued to increase.

Our people

We also discussed alternative ways to fulfill social return criteria with government stakeholders. We initiated several think-tank sessions with the Dutch government about SROI criteria in tenders. In some cases, we were able to meet these SROI requirements, through new ways of public-private cooperation. We also used our sponsorship of the Rijksmuseum, the KPN Mooiste Contact Fonds and Klassecontact as a basis for partnering with local governments and we are recognized by Dutch authorities and non-profit organizations as a discussion partner in the field of SROI.

We filled 88% of our vacancies internally and 12% externally in order to build on our current strengths and capacities, but also enable new ideas to infuse our organization.

Health and vitality

Absenteeism declined for the fourth consecutive year, falling to 3.8%¹, thereby meeting our target of 3.9%. In 2014, we continued to focus on specific employee groups or departments with high absence rates or health-related problems. In 2014, we ran a voluntary Weightwatchers program in Houten to help employees adjust to a healthier lifestyle and lose weight. Participants paid for the program themselves, and we facilitated price agreements and provided meeting rooms. Stress-related absence is increasing, not least because a 24/7 society puts more pressure on maintaining an acceptable work-life balance. We organized stress management workshops to prevent stress-related absences. In 2014, people could use their employability budget to manage their own health proactively, for example by following courses on mindfulness, stress prevention, mental resilience, self-awareness and emotional intelligence. We also introduced a new work union (ArboUnie) protocol. It offers a wider partnership ideology and focuses on three profiles: problem areas, average illness rates and low rates of sickness.

32% of our people in the Netherlands participated in our interactive vitality coaching program 'i change' which means we have outperformed our target of 30%. We actively communicated about the program in our health and vitality initiatives. We also launched a new version of 'i change', which we developed with our supplier. The new 'i change' is based on personal profiles and includes an app that makes monitoring easier and more user-friendly.

The New Way of Living & Working

Moving forward on ambitions

We set three ambitions in 2013 to develop the New Way of Living & Working at KPN. Our first ambition was to adapt services to accommodate flexible working. We identified six target locations in 2014. These are equipped with Wi-Fi networks, flexible work places and sufficient videoconferencing and teleconferencing rooms to facilitate the New Way of Living & Working. People can choose where they work as their employee cards now give them access to all KPN's office buildings. Flexible employee mobility is another focus area for the New Way of Living & Working. We adjusted our strict parking policies to facilitate flexible working conditions and we installed charging points for electric cars and e-bikes at other office locations. We are currently developing an application that shows how many parking places are available in different locations.

Our second ambition is to use more of KPN's New Way of Living & Working products and services ourselves. We set a target to realize

20% growth in internal use of the New Way of Working ICT products and services, such as conference calling, videoconferencing, webcasting and Lync. We achieved an average growth in internal use of 34% and thus achieved our target. This result is based on a survey and represents the perception of our employees. To help us achieve our target, we promoted the internal use of Lync, for example by introducing an e-learning course. Our social network TEAMKPN Online enables employees to discuss topics and find colleagues. We extended its functionality by adding a talent finder, which allows employees to post specific work-related challenges and find people with the right skills and expertise to solve them. Working in this digital environment removes physical barriers, such as office locations or departments. Another new functionality of TEAMKPN Online is the integration of Lync (for further information, see page 59). We introduced follow-me printing that allows employees to use any KPN printer at any location with their employee card. Bring Your Own Device (BYOD) was implemented for Apple devices.



"We do not always fully appreciate how valuable the social platform TEAMKPN is to KPN. It's tremendous that everyone can share their information and respond to colleagues' messages and blogs"

Teun Verheij,
Online Media Manager
Corporate Communications

Our third ambition is that in the long term all KPN employees can work according to the New Way of Living & Working. We carried out new research among employees to gauge how many felt able to work this way. Employees who, by the nature of their job, cannot work in this way were excluded from the results. 78% of our employees felt capable. This means that we did not achieve our target of 90% because, for some of our employees, the working conditions are not fit for it, or the culture within that part of the company is not yet ready to work accordingly. One of the conclusions of the study is that people already perceive the New Way of Living & Working to be the standard at KPN. New employees are automatically given permission in our HR system to work this way. We added an opt-in function for the New Way of Living & Working to our Collective Labor Agreement, which facilitates the gradual implementation of this model. Department managers are responsible for deciding whether this way of working is suitable in their department, and for implementing agreements with their teams.

Employee involvement

We organized several events for our employees, such as a masterclass on how to use Twitter for business purposes and discussed this theme in several blog posts on our internal social media platform TEAMKPN Online, reaching a large audience. We use feedback from events and input from employees to help us improve and better align our facilities with their needs, increase their use of our products and services and make more employees feel able to switch to the New Way of Living & Working.

1) This % excludes the employees of former IT Solutions, now part of the Business Segment.

“This means a great deal to ill children”

Annemarie Kaptein, Director EDventure

“Children who are unable to attend school for long periods due to illness tend to lose contact with their friends and classmates. The KlasseContact project ensures that these children can continue to take their lessons and remain in touch with their peers. A laptop is made available to them at home and a KPN Klasgenoot (Classmate) is set up for them in the classroom. This piece of equipment enables children to participate in lessons live from their own homes. EDventure, the branch association for educational

consultants, works together with KPN's Mooiste Contact Fonds to achieve this. It means a lot to children that they can feel 'normal' in this way. I am proud of what we have achieved together and particularly of the hundreds of KPN volunteers who made themselves available on-site to explain how the system works to pupils, parents and teachers. KPN engineers took care of the connection. Their dedication is fantastic and essential to helping many more children over the coming years.”



The New Way of Living & Working is closely linked to saving energy, fuel and CO₂. To raise awareness of the ways our employees can save energy, we organized a fuel-saving competition for people with a lease contract, to find the most fuel-efficient employees. 1,877 people participated in the competition.

Belgium

In Belgium, enthusiastic and motivated people who understand and support our strategy for the Belgian mobile market are key to our success. Our main focus is on attracting talented people with the right skills and enabling all our employees to grow personally so each makes a unique contribution to executing the strategy. We want people to feel good and engaged within the organization.

To develop talent, we invest in coaching and development tracks for all our employees. We set targets based on roles and

responsibilities, empowering employees and making each aware of how he or she contributes to our overall business success. To support this process, we are strengthening our leadership and coaching capabilities.

We conducted a study into what new ways of working mean for BASE Company. Our aim is to translate the company's mobile-centric vision into a flexible approach to working. Our vision is to have a modern work environment that emphasizes paperless, clean desk and activity-based working. We will start to roll out this new work environment in 2015. Our goal is to create a 'Mobile Minds' workforce, who act as ambassadors for what we stand for.

Ambition

The Netherlands

In 2015, we will continue to connect people in a simplified organization. We will focus on our connection with our customers and the connection between our employees. This requires people with strong capacities to connect to others. We will also develop our internal 'Feel free' slogan further and communicate it to employees.

We continue to strive towards having 30% women in our organization in 2015. We also want to increase our employee engagement scores on 'Overall Engagement' to more than 70% and at least stabilize our scores for 'Working Environment' (61%) and 'Strategy & Leadership' (41%). In 2015, we want at least 80% of our redundant employees to find new jobs after completing an outplacement program. Furthermore, we aim for an absenteeism rate of 3.9% for 2015.

For 2015, we want more people to adopt the New Way of Living & Working. We want 90% of our employees to feel able to work in this way. Also, in 2015 we will investigate the development of a dashboard to measure labor productivity related to the use of ICT products of The New Way of Working. The New Way of Living & Working is already perceived as the standard within KPN; we will now focus on linking its targets and merits directly to employee expertise, autonomy and strategic company targets, such as customer satisfaction, reputation and performance. The New Way of Living & Working provides our people with the freedom to choose when and where they work, ultimately enhancing performance.

Belgium

We will continue to roll out our new work environment and our talent development program. We will also continue our efforts to maintain and increase the vitality of our people with a new Vitality program that emphasizes building energy and work-life balance.



Our suppliers

Overview highlights, KPIs & other targets

Highlights

- Initiated and implemented five sustainable solutions together with our suppliers
- Challenged suppliers in a competition to present innovative ideas on enhancing new business and received 53 ideas from 27 suppliers

% high-risk suppliers audited on-site

41%
(2013: 39%)

% high-risk & medium-risk suppliers that signed the Supplier Code of Conduct

96%
(2013: 96%)

% high-risk suppliers participating in a self-assessment

86%
(2013: 83%)

Partnering in a sustainable supply chain

We believe that the way in which we engage and cooperate with partners and suppliers and create a sustainable supply chain can enhance our business and bring about the necessary technological and sustainable innovations and new products.

In our procurement activities, we focus on saving costs, enhancing quality and flexibility and stimulating sustainability simultaneously. We believe that a sustainable supply chain enhances our business opportunities and those of our suppliers. Dialogue and sustainable partnerships with individual suppliers can empower an outside-in perspective and new ideas that are beneficial for both partners involved. Living up to stakeholders' expectations and demands of society fosters business continuity. As we do not produce mobile phones and other telecommunication devices or network equipment ourselves, we focus on engaging in partnerships with our suppliers to develop sustainable solutions. We want our suppliers not only to deliver sustainable products for our customers but also to comply with local laws related to production and working conditions.

Results on KPIs

We met all of our targets in 2014. We implemented five initiatives at our suppliers that resulted in a more sustainable supply chain and cost saving as well. In total, 41% of our high-risk suppliers were audited in 2014. The Joint Auditing Committee (JAC) audited 11 of our suppliers on-site. Additionally, we took the initiative for another ten on-site audits at our suppliers. In total, 86% of our high-risk suppliers participated in E-Tasc, a self-auditing system, or were audited on-site. Our Supplier Code of Conduct, or an alternative code of conduct of the supplier which is in the spirit of the Code of Conduct of KPN, is signed by 96.2% of our high-risk and medium-risk suppliers.

Sustainable solutions

The implementation of (sustainable) solutions together with our suppliers helps us to strengthen partnerships and accomplish our strategic goals. In 2014, we initiated and implemented five of such projects. One project led to a reduction in the weight of our SIM card packages by reducing the amount of materials needed. This results in a 60% reduction of CO₂ emissions during the production phase and can reduce transportation emissions. Another solution replaces heavy batteries for power outages with lighter weight battery packages, which comprise smaller amounts of environmentally hazardous substances and are easily recyclable. Other initiatives include more energy-efficient rectifiers in our networks, a tender for sustainable office supplies and a more efficient delivery model for ICT equipment that reduces traffic movements.

In 2014, we optimized the supply of handsets from the central warehouse to our shops by reassessing the logistical planning. This resulted in less traffic to the shops while maintaining a satisfying stock level. Besides improving our planning, we also switched to using smaller vehicles with a higher maneuverability in urban areas. Both changes resulted in an 85% CO₂ emission reduction. Additionally, the lower traffic frequency and the use of smaller vehicles resulted in a cost reduction.

Compliance with standards

Our Supplier Code of Conduct is part of our standard supplier contracts. All our suppliers need to sign the code or have their own equivalent code based on the United Nations Universal Declaration of Human Rights and the core treaties of the International Labor Organization. If suppliers refuse to comply, we do not renew contracts. In 2014, there were no such cases.

86% of our high-risk suppliers participated in a self-assessment (E-tasc) on how they deal with social and environmental factors. If a supplier is audited on-site, the self-assessment is not necessary. We perform on-site audits at our high-risk suppliers, which reflects one third of our high-risk supplier base in 2014. Partly, these audits are performed by the Joint Auditing Committee (JAC), a collective of ten telecom operators who jointly monitor sustainability performance in their supply chains according to international standards (ISO 14001, SA8000 and OHSAS 18001).

The on-site audits help to raise sustainability standards and working conditions in the supply chain. Where non-compliances or other issues are detected, a corrective action plan is drafted and followed up by the responsible JAC member. In 2014, issues regarding child labor at a production site of a supplier came to the attention of JAC. JAC started a dialogue with this supplier to prevent such conduct in the future and to make sure that necessary improvements are made. In December 2014, an on-site audit at a manufacturing location of this supplier showed that serious improvements have been made.

In 2014, two of our main suppliers appeared not to take responsibility for the human rights and environmental situation in the tin mines in Bangka Belitung (Indonesia). At our request they promised to take action to improve their tin mining activities. So far, one of them joined the tin working group of the Sustainable Trade Initiative. We request other suppliers to follow their example.

Other initiatives

Following the well appreciated Supplier Day in 2013, we organized a new supplier event in 2014. We took into account last year's suggestions for a more interactive program and organized a competition to challenge our suppliers to present their innovative ideas on enhancing new business, customer satisfaction, cost efficiency and productivity. We asked suppliers to take into account sustainability impact as well. We received 53 ideas from 27 suppliers and invited nine suppliers to pitch their idea. The winner, CEVA, received an award.

We also initiated the Partner Board, a regular consultation opportunity with our preferred suppliers. We aim to meet with these suppliers every three months to discuss projects and new opportunities. The Partner Board is initiated to ensure that supplier activities are aligned with our strategy (strengthen, simplify and grow). Our first evaluation of the Partner Board shows positive results.

In 2014, we took notice of supplier and societal expectations regarding our terms of payment. We offered a number of suppliers the possibility of shorter payment terms in exchange for discounts on supplier products and services. For us, this results in more flexibility regarding supplier choice, but also in a more flexible and lower cost base.

As in previous years, we monitor developments and initiatives to ban the use of conflict minerals in mobile phones and other electronic telecommunication devices. Currently, this discussion is restricted to the large manufacturers of electronic devices. Our influence on this process is limited.

Dilemma

KPN is a relatively small operator in the global telecom sector, compared with the large producers of electronic equipment. Our experience shows that our purchasing position, even united as the Joint Audit Committee, is sometimes not as strong as we would like it to be. A few large producers of electronic devices and mobile phones are not willing to sign our Supplier Code of Conduct or cooperate in E-Tasc or on-site audit processes. This does not mean that suppliers do not comply with standards. Facing the large popularity of their products and comparable market shares in both the consumer and business market, it is difficult for us to terminate relationships with these suppliers. We do however ask those parties to commit to all articles in our Supplier Code of Conduct.

Ambition

We strive for further enhancing our relationships with suppliers and for mutually exchanged experiences. In 2015, we will start a project that aims to improve productivity at our suppliers. In this project and in other dialogues, we will engage directly with our suppliers. We are convinced that a direct dialogue on individual supplier level reduces administrative pressure and facilitates a lean and flexible process.

Together with JAC, we continue our efforts to build a sustainable supply chain and verify the sustainable performance of our medium-risk and high-risk suppliers. However, it is our ambition to go beyond auditing suppliers and raising issues. We are looking for a more qualitative approach based on problem-solving and helping suppliers to meet social and environmental requirements. As a logical consequence, we move from focusing on audits and self assessments to a KPI on measuring the realized improvements on corrective actions, that follow from these audits and self-assessments. For 2015, we aim for 30% realized improvements on identified corrective action plans.



Environment

Overview highlights, KPIs & other targets

Highlights

- Aim to become climate neutral for own operations in 2015
- Saved energy resulting from the use of ICT solutions by our customers is approximately 30% of our own energy consumption
- Joined the Green Deal Circulair Buildings, aiming to minimize the use and maximize the reuse of natural resources, products and goods
- Implemented Information on sustainability of mobile phones (ECO-rating)

Reduction energy consumption compared with 2010

16%
(2013: 12%)

CO₂ emission reduction compared with 2005

98%
(2013: 94%)

% recycled mobile phones

31%
(2013: 6%)

Energy saved in networks NL

41 GWh
(2013: 47 GWh)

Other CSR KPIs

CO₂ reduction in the value chain (scope 3 in GHG protocol)

Result 2014	Result 2013
Calculation available in kton CO ₂	First calculation based on all categories of GHG protocol in NL

Environmental strategy

Our business activities have an impact on the living environment. This impact stretches all the way from using raw materials and resources to energy use during the user phase and to the end-of-life treatment of products and services. As (fossil) materials are becoming more and more scarce and the capacity of the earth to recover is diminishing, the need for an overall environmental approach becomes more urgent.

Over the past years, our environmental strategy has mainly been guided by our ambition to become climate neutral before 2020. In 2014, we extended our environmental strategy to integrate other urgent environmental impacts within our sphere of influence, such as resource use, recyclability of products, waste streams and end-of-life treatment of products. We also started to investigate how our products and services can contribute to ensure that the society can stay within the one planet boundary, since globally more (fossil) materials are used than the planet can recover within one year.

Our strategy not only focuses on reducing our risks in this field but mainly on benefiting from arising opportunities. The ICT sector has ample potential to contribute to a reduction of the global carbon footprint and of our current global environmental impact. According to the SMARTer 2020 report published by GeSI in 2012, the ICT sector is responsible for 2% of global greenhouse gas emissions but can contribute to a 16.5% GHG reduction in other sectors by 2020. Our environmental strategy aims to enable this potential based on a threefold approach:

1. Enabling the energy-saving potential of ICT
2. Reducing the environmental impact in our value chain (upstream and downstream)
3. Reducing our own environmental impact

By reducing our impact in the value chain and enabling the environmental saving potential of ICT, we are acting upon the demands and wishes of our stakeholders. In this external approach, we focus on realizing innovation together with our suppliers and on developing new innovative services, for example based on machine-to-machine communication (M2M). We are convinced that our environmental strategy and performance contribute to our competitive advantage, as increasing efficiency and lower costs contribute to our business and enable our customers to reduce both environmental impact and costs.

Our activities in reducing our own environmental impact are highly relevant as we are responsible for about 0.8% of the total Dutch electricity consumption. Furthermore, our internal approach strengthens the credibility of our external approach and facilitates the use by our customers of green networks and datacenters in their own activities.

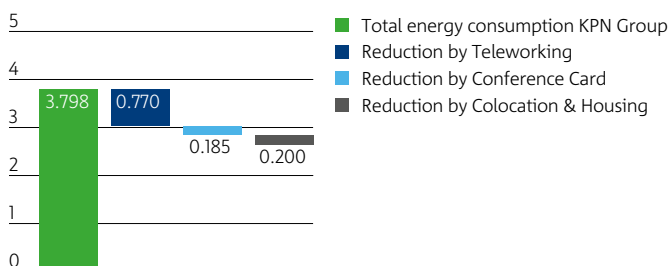
Enabling the energy-saving potential of ICT

In 2020, we aim to save as much energy with our products and services for our customers as we consume ourselves. To realize this ambition, we started measuring the impact of several products and services in 2013. In 2014, we improved and extended these calculations. The three services presented in the graph have the highest energy saving impact and resulted in an estimated energy consumption reduction of 1.15PJ. This is 30% of the total energy consumption of KPN. The calculation is based on installed base volumes, own measured data, publicly available data and statistics, internationally recognized studies and expert judgments

and is further described in Appendix 3. We will continue to improve the quality of the critical reference values to make the calculation results more robust.

Estimated reduced energy consumption by KPN customers in 2014

in petajoules



We also see energy-saving potential in other services, e.g. M2M, RFID and healthcare services. In 2014, we introduced a new M2M fleet management solution that helps customers to improve efficiency by optimizing route planning and supporting drivers to improve their driving behavior. One of our customers reported 9% fuel savings after three months. New innovations using RFID (radio-frequency identification) have great impact on tracking and tracing of individual products during transport and storage. By using RFID, not only locations but also temperatures of individual products can be measured. This can improve energy efficiency during transport of vulnerable fresh or cooled products, resulting in reducing fuel consumption, less food waste and adjusted cooling.

Our healthcare solutions enable check-ups and analysis from a distance. These solutions are developed to increase efficiency and lower costs for healthcare providers and to increase the independence and freedom of patients, but they also reduce travel and therefore contribute to lower environmental impact.

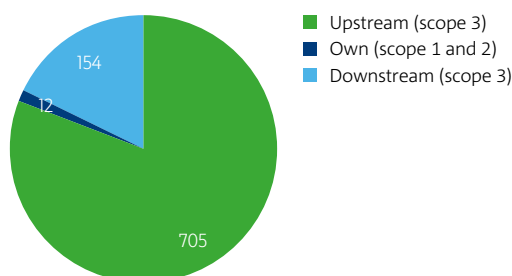
Reducing the environmental impact in our value chain

Calculating and reducing scope 3 emissions

Our ICT value chain is complex and most environmental impact is related to suppliers operating deep into our value chain. However, we do feel responsible for the total CO₂ impact of our products and services, including their production, use and end-of-life phase. In 2014, we improved the scope 3 emission calculation for our operations in the Netherlands and we defined actions to reduce the impact of our upstream and downstream emissions. In 2015, we will investigate whether we can report all upstream and downstream emissions for BASE Company.

Upstream, downstream and own emissions KPN NL

in kton



The scope 3 emissions are compared with our net scope 1 and 2 emissions (own operations in chart). The majority (82%) of our scope 3 emissions relate to upstream activities (like the production of equipment and hardware). We used the Environmental Extended Input/Output (EIO) method with figures published by DEFRA to calculate these emissions. Although the calculation is based on several assumptions, we believe these estimates provide a good overview of upstream impacts. The main impact relates to the production of ICT equipment that is used in our network. To reduce this impact, we focus on sustainable specifications on the production, transportation, packaging and performance of equipment in our procurement process. See appendix 3 for more information on the scope 3 calculations.

18% of our scope 3 emissions relate to downstream activities (downstream transport, products use and discarding/recycling phase). Actions we define to reduce the impact of these activities include improving the energy efficiency during product use, recycling of the products and informing our customers.

As part of our IPTV and broadband propositions, customers can record information, such as TV programs and movies. To reduce the energy use of customer equipment, we store the recordings in the green KPN cloud. Therefore, customer equipment no longer needs a hard disk. This solution not only reduces the energy consumption of our customers, but also requires less energy and materials during the production and disposal phase. Our equipment sourcing policy requires all new ICT equipment to be more energy efficient than its predecessor. In 2014, we realized a 13 GWh annual saving by replacing set-top boxes for IPTV customers with a newer and more energy-efficient model.

Other environmental impact reduction

Our environmental impact and strategy involves more than just our climate impact. We also aim to reduce the use of scarce minerals by improving the recycling rate and the recyclability of the equipment used by KPN and our customers.

We ask suppliers to improve the recyclability of their products as part of our sustainable sourcing program and were the first operator to sell the 'Fairphone'. This phone uses replaceable parts such as camera and battery, which reduces the impact on raw materials and extends product lifetime. In 2014, we also started informing our customers about the sustainability of mobile phones using ECO-rating. This ECO-rating is used by several operators to assure that rankings used by different operators are comparable and include CO₂, use of materials and working conditions during production. (<https://www.kpn.com/prive/ecorating.htm>)

In 2014, we set targets to collect 10% of sold mobile phones in 2014. In Belgium we collected 6%, which equals our 2013 results. In the Netherlands, we collected about 31%, a large part due to the return of leased mobile phones. Another way of improving reuse of mobile phones is the selling of previously owned mobile phones. In 2014, we added 25,000 pre-owned iPhones 4 to our portfolio and sold about 13,000. Besides the collection of mobile phones, we also changed the way we collect broadband modems from our customers. In 2014, we recycled 735 tons of customer equipment, mainly caused by swaps of modems and set-top boxes for TV-services. 46% could be re-used (second life) and 54% was recycled (processed as e-waste).

In appendix 6, more details are provided on the waste and recycling figures.

Environment

Reducing our own environmental impact

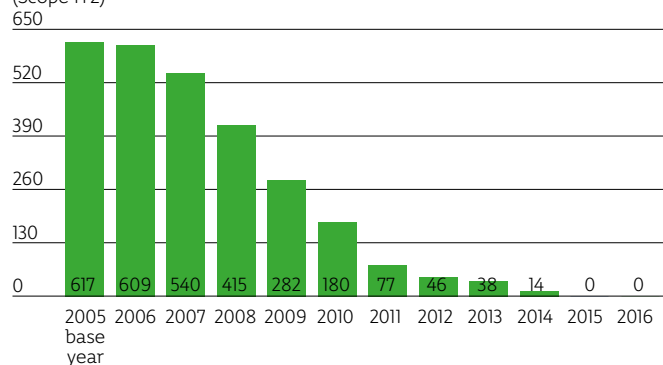
Climate neutral in 2015

We are well on track to realize our ambition to become climate neutral by reducing our absolute energy consumption, increasing the energy efficiency of our activities, sourcing renewable energy and compensating for remaining emissions. In 2014, our energy efficiency program and renewable energy program resulted in a reduction of our CO₂ footprint (scope 1 and 2) by 98% compared with 2005. This is better than our 2014 target (96%) and primarily realized by purchasing green electricity. The remaining CO₂ emissions are compensated with carbon certificates. In 2015, we intend to become climate neutral for our own operations (scope 1 and 2).

KPN Group own net CO₂ emissions

(in kton)

(Scope 1+2)

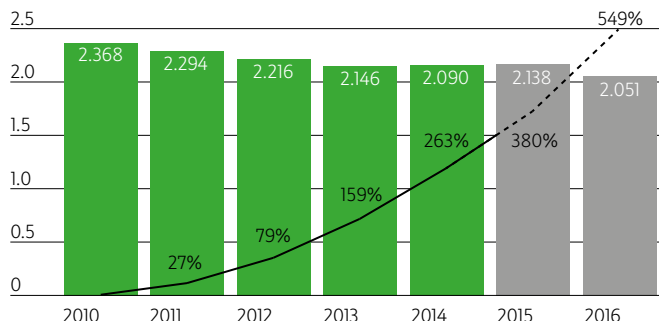


Reducing absolute energy consumption and increasing energy efficiency

We aimed to decrease the absolute energy consumption for KPN Group by 11% in 2014 compared with 2010. Again, we realized an absolute reduction, resulting in a total reduction of 16%. This is mainly caused by our energy efficiency programs in our networks, datacenters, offices and car fleet. Decreasing absolute energy consumption is partly a result of increasing energy efficiency, meaning that we need less energy for the same activity.

In our networks in the Netherlands, our energy-saving measures resulted in 41 GWh of savings, which strongly exceeds our target of 35 GWh. These savings not only compensated for growth by extending our networks and the roll-out of 4G, but contributed to an absolute electricity consumption reduction of 3% compared with 2013. This resulted in an improvement of the energy efficiency ratio of our Dutch networks (GWh per Gb/s) of 31% compared with 2013. The energy reducing effects in our networks are caused by two programs. Firstly, the continuous improvement and innovation of our network and, secondly, the concentration and reduction of the installed base for the traditional services. Year-on-year, we realized savings between 30 and 50 GWh, resulting in total savings of 198 GWh (annual consumption of around 60,000 households) as from 2010.

Networks in the Netherlands

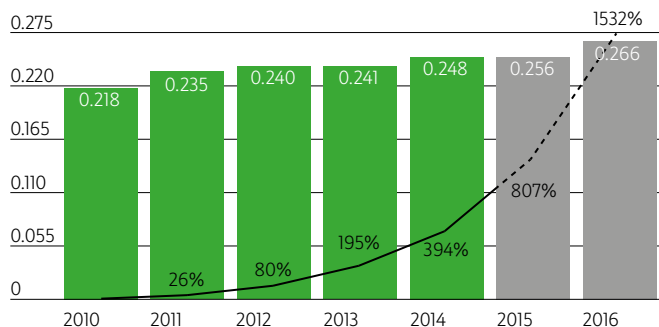


■ Electricity consumption in petajoules (PJ)

— Growth data volume (Gb/s) compared with 2010

In our network in Belgium, we realized our target of a 19% energy efficiency improvement. This resulted in an improvement of the energy efficiency ratio (GWh per Tb) of 38% compared with 2013.

Network in Belgium

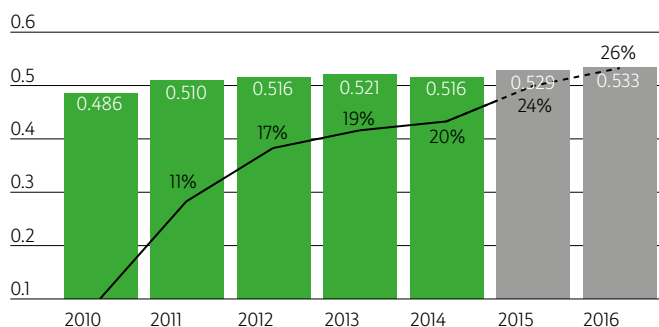


■ Electricity consumption in petajoules (PJ)

— Growth data volume (Gbit) compared with 2010

In our datacenters, our efficiency measures also resulted in improvement of our efficiency ratio. The energy efficiency ratio of datacenters is expressed by comparing total energy consumption with energy consumption of equipment used for customer services. The international standard for this calculation is PUE (power usage effectiveness). In 2014, our PUE improvement compared with 2005 is 32.3% which is according to our goal for 2014 (32.3%).

Data centers in the Netherlands



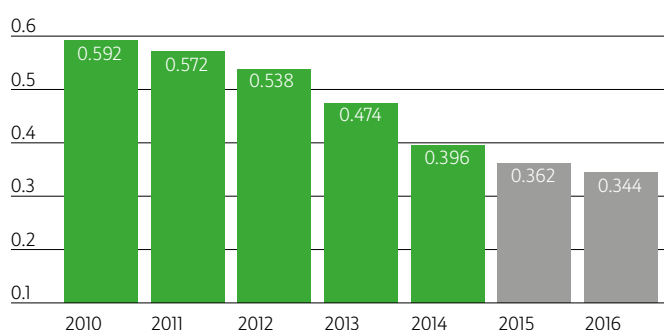
■ Electricity consumption in petajoules (PJ)

— Growth electricity consumption ICT equipment customers compared with 2010

In 2015, we plan to open a new datacenter that will be the first Dutch datacenter with the highest quality specifications 'Tier IV'. It will be located on the High Tech campus in Eindhoven. The heat generated in the datacenter will be reused in our own offices and the climate system of the campus.

In our car fleet, we realized a reduction of 5.6 million liters of car fuel compared with 2010. We outperformed our target of 25% (realization 34%) due to a combination of the implementation of The New Way of Living & Working, more energy-efficient cars and a reduction in the size of our car fleet. In 2014, we started a pilot with electric cars. To facilitate electric mobility, we installed charging points for cars and bicycles in all major offices.

Car fleet in the Netherlands



■ Energy consumption car fleet in petajoules (PJ)

In our offices, we also improved our environmental performance by installing more LED lights, improving the separation of waste and replacing the coffee machines with equipment that is 30% more energy efficient. In order to identify ways to further reduce the environmental impact of office buildings, we joined the Green Deal on Circular Buildings. The aim of this Green Deal is to reuse all materials used in buildings in order to migrate to a circular economy.

Sourcing renewable energy and compensation

Since 2011, 100% of our electricity consumption in the Netherlands and Belgium originates from renewable sources and since 2013, all electricity of KPN Group comes from renewable sources. All the electricity used in the Netherlands is locally generated from wind (e.g. 35% of Princes Amalia Windpark) or biomass (e.g. new biomass plant "Golden Raand" that is using only used wood). In 2014, all of our natural gas consumption and about 50% of our diesel and petrol consumption is compensated by forest compensation and Gold Standard projects. Together with our energy-saving program, this has resulted in a 98% reduction of CO₂ emissions since 2005. In 2015, our goal is to have zero net scope 1 and 2 CO₂ emissions. Further information on the calculation and determination of our reported scope 1 and 2 emissions can be found in Appendix 3.

Energy consumption and net CO ₂ emissions 2014	Petajoules (PJ)	kton CO ₂ Scope 1	kton CO ₂ Scope 2
KPN the Netherlands	3.5	11.8	0.0
Belgium and iBasis	0.3	2.5	0.0
KPN Group	3.8	14.4	0.0

External recognition

CDP

Also in 2014, we were benchmarked on our climate and energy strategy, disclosure and performance by CDP (formerly Carbon Disclosure Project). CDP annually rates nearly 2,000 companies on behalf of 767 investors with total assets of US\$92 trillion. We improved our disclosure score from 95 to 99 points (out of 100) and for the third year we received an A ranking for performance. Our score means that we are global climate leader in the telecom sector together with KT Corp.

We joined the RE100 program where front-runners in CO₂ reduction promote the generation of renewable power.

WWF Climate Saver

KPN was the first telecom operator with a WWF Climate Saver partnership. Our partnership, during which we outperformed all annual climate targets, ended in 2014. WWF the Netherlands and KPN are investigating new projects to continue our cooperation. For example, we discussed how KPN is creating opportunities to expand and open new markets for products and services that significantly avoid emissions for its customers.

Challenge

We want to make our customers more aware of the energy use associated with using ICT equipment. The use of mobile phones and ICT equipment and especially the associated data use, for example by video on demand, involves energy use. In contrast to the use of cars for example, where the amount of fuel used is directly visible, the energy use of data storage, data communication and local ICT equipment is relatively invisible for consumers. There is no energy label for networks or data use showing the most efficient product or the most efficient way to perform a certain activity. For example, most consumers are unaware that using a mobile phone or a tablet for a Google search is far more energy efficient than using a desktop. We are struggling to find a right way of expressing energy use to our customers and making them more aware of their influence and their opportunities to reduce environmental impact.

Ambition

We continue our ambition to reduce our energy consumption and sharpened our target to become climate neutral for our own operations (scope 1 and 2) in 2015 instead of 2020. We will continue our internal energy efficiency program and to stay on track we redefined our goals for 2015 for our networks, datacenters and car fleet. We disclosed these targets on corporate.kpn.com/csrtargets. We continuously strengthen our ambition to reduce our environmental impact in the value chain and to help our customers to reduce their environmental impact. We aim to increase the percentage of returned modems from 40% to 60% in 2015 and 80% in 2016. In 2015, we will continue our mobile equipment recycling ambition. As in 2014, we expect also to collect phones from the lease concept. Although we continuously try to find ways to collect mobile phones, we expect a decrease in the collection of mobile phones to 20% in 2015 and 10% in 2016, as a result of the phasing out of the lease-concept. In Belgium, we intend to collect 8% and in 2016 we intend to improve this to 10%.



Privacy & Security

Overview highlights, KPIs & other targets

Highlights

- Introduced six new security specific products and services
- Awarded the 'Privacy Waarborg' certificate
- Partnered with the Blackphone initiative and the Silent Circle software as one of the first global operators

% Dutch people feeling their data is safe with KPN¹

69%

(2013: 69%)

% customers who where unintentionally infected by malware helped within eight hours

96%

Other CSR KPIs	Result 2014	Result 2013
Number of customers who choose opt-in for sharing personal data on traffic and roaming with KPN	156,677	N/a
Amount of cases that we have worked on with our network of customers and partners to solve responsible disclosure cases from our global CERT community	26	17
KPN participates and contributes in important initiatives to strive to make the internet safer for kids. KPN has published its transparency report with respect to its contribution, including the reflection by stakeholders	Report submitted	Plan and implementation report put online

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

Enhancing a safe digital environment

Digital solutions are an inextricable part of people's daily lives, offering a steady stream of opportunities. The digital environment enables connections all the time and everywhere and generates economic growth. Yet, it has downsides such as the dangers of internet abuse, cyber attacks and hacking. A secure network is an absolute prerequisite for our customers to safeguard their privacy and prevent misuse of their digital identity. We feel it is our responsibility in this digital world to improve online security and to empower our customers in coping with and responding proactively to online security and privacy issues. It is only then that they can truly feel free in the digital world and experience the freedom and opportunities it has to offer. This is why we continuously improve our systems, products and services portfolio with regards to privacy and security.

Culture and organization

Privacy and security are an integral part of our business and are among the top priorities within KPN. We continued our monthly Guest Hacker Program for employees and gave attention to a different area of security each month. We invited guests with specific security expertise, from a safe-cracking expert from the military to experienced malware hunters.

We were the main partner of the third edition of the Dutch cyber security week 'Alert Online' in 2014, organized together with the Dutch government and over 100 Dutch organizations such as Rabobank and Gasunie. The campaign aims to enhance the awareness of the Dutch public on cyber security issues. The midweek highlight of the program was a national cyber crisis exercise 'Cyberdawn' hosted by KPN and conducted with help from Nederland ICT.

Security

Given recent global developments on cyber espionage, conflicts and terrorism, data protection and information security have never been more on top of the agenda. As the digital world is highly interdependent, we actively cooperate on cyber security and business continuity with various partners such as other telcos, businesses, governments and knowledge institutions, both in the Netherlands and internationally.

Our security approach

KPN's Chief Information Security Office (CISO) governs information security and business continuity for KPN. We follow the security life cycle of prevention, detection, response and verification. Rather than solely relying on prevention through a strong security policy, we focus on detecting vulnerabilities in our systems, products and services and on rapid response and problem-solving in case incidents occur. The CISO consists of four teams: Strategy & Policy team (prevent), CISO REDteam (proactive detection), KPN-CERT (Computer Emergency Response Team) (response) and Senior Security Officers (verify). KPN-CERT has tight operational integration with KPN's Security Operating Center (SOC) (reactive detection).

In 2014, the Strategy & Policy team focused on continuing the implementation of the KPN security policy that was introduced at the end of 2013 to improve our overall security posture and define security implementation activities. In 2014, our ethical hackers, the CISO REDteam, joined the Global Cyberlympics competition for the second time and once again demonstrated their competence and leadership in the security domain. They came back in third place in a hard-fought security contest.

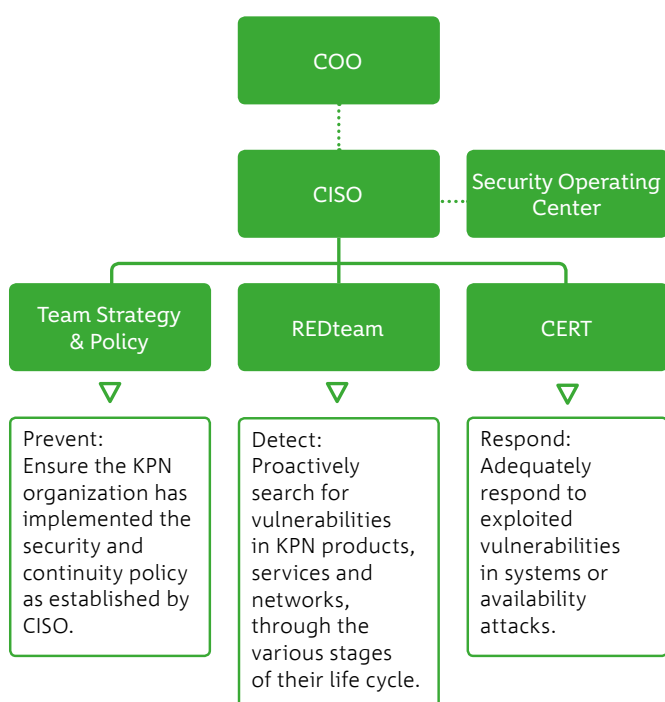
Besides the efforts of our own ethical hackers, we are willing to cooperate with anybody who identifies a potential security leak, provided they use their expertise responsibly and respect our Responsible Disclosure code. In case we encounter security incidents, from external or internal sources, the KPN-CERT's technical experts follow an industry standard incident response methodology. The team closely cooperates with other global CERT teams and shares knowledge and best practices on attacks and incidents. In 2014, together with Dutch knowledge and security institutes TNO, the Team High Tech Crime Unit of the Dutch police force and NCSC-NL (Dutch National Cyber Security Center), KPN-CERT published a 2013 report on net neutrality, data security and cyber espionage.

The KPN SOC monitors the security of our services, networks and systems 24/7. It locates vulnerabilities in the systems and coordinates their resolution. One of our main focus areas in 2014 was 'Project KPN Schoon' in which all systems were proactively scanned for weaknesses. In 2015, KPN Schoon will finalize implementation of continuous scanning in which all KPN NL departments and relevant subsidiaries automatically receive information on the results of the scanning and monthly statistics are available for all KPN entities.

Results on KPIs

During 2014, we worked on 26 cases with our network of customers and partners in order to solve responsible disclosure cases, which means that we achieved our target (16 cases). KPN works together with those who report a security weakness in our network, systems or products so that we can assess and resolve the issue. We believe this is vital for our overall security effectiveness and encourage such cooperation with the wider security community.

We aim to introduce security specific products and services in order to enable our society to keep living and working in a secure way. In 2014, we introduced six products and services, and thus achieved our target.



Major incidents

We continued our focus on detection and rapid response to possible security incidents. In April 2014, the heartbleed incident caused worldwide attention. The name 'heartbleed bug' is used to describe a severe vulnerability in the open source software OpenSSL that allows the theft of passwords, private keys and users' session cookies. It posed a serious threat to digital information security, and was followed in quick succession by three more issues, namely, shellshock, poodle (SSL) and kerberos. KPN CERT and SOC reacted quickly to assess and mitigate the issues from these vulnerabilities across the KPN landscape.

Blackphone and Silent Circle

We were one of the first international telecom operators to partner with Silent Circle to deliver the Silent Circle Apps and the Blackphone. The Blackphone is an Android smartphone featuring PrivatOS and was developed to protect the privacy of its user. We aim to include the Blackphone in our portfolio once it becomes available and actively promote the phone among our customers and the Dutch public. The Blackphone uses Silent Circle software and adopts the highest known mobile privacy and security standards. It is one way of responding to the government's challenge to make Dutch boardrooms more secure. We also adopted the Silent Circle encryption app, available in our KPN Cloudstore for iOS and Android. One of the security measures uses Perfect Forward Secrecy, which means that communication keys are automatically destroyed after a communication session, making it impossible to decrypt the contents of the conversation or the data at a later point in time.

The amount of potential data breaches reported in 2014 decreased compared with 2013. The majority of the reported incidents appeared not to have led to an actual data leakage. Potential data breaches are assessed instantly to determine whether they represent an actual data leakage. If so, we take measures and inform authorities and other people involved.

Privacy

For us, customer privacy is of the highest priority. We believe a secure network, secure products and secure services are a prerequisite to live up to our customers' privacy expectations. We aim to improve customers' trust through clear communication, reliability and customers choice. Our Privacy Statement is a solid agreement for our customers.

Increasing awareness

Research performed by our Customer Intelligence & Market Analysis department shows that consumers tend to see KPN as reliable with regard to dealing with data and privacy, whereas their perception on reliability of social media companies remains at a relatively low level. Also, they are more aware of the data they leave behind at companies and increasingly prefer opt-ins allowing companies to use personal data for personalized advertisements. Whereas consumers do not specifically request privacy measures, this privacy attitude is different from that of business customers, whose privacy demands are already a standard. Companies increasingly demand certificates that guarantee the implementation of privacy and security systems and related policies and checks. Since 2006, our Business Segment has had an ISO 27001 certificate, which has been extended in 2014 and now includes our most important services. With this certificate, we meet customer requirements and we can show our dedication to continually improving our services and processes.

Privacy & Security

Results on KPIs

We want our customers to feel that their data is safe in the hands of KPN. External research showed that 69%¹ of the respondents felt their data is safe with KPN. This result equals our 2013 score and means that we almost reached our target of 70%.

We did not reach our target on the number of customers who choose opt-in for sharing personal data traffic and roaming with KPN. Opt-out is set as default. For 2014, we aimed for 250,000 customers to choose opt-in. Instead we achieved 156,677 customers. The main reason why we did not reach this target is that fewer than expected Hi customers gave permission to use their personal data and opt-in became available later than we expected. This group appears to be critical about the benefits of providing their data and adjusting their settings. To increase the number of opt-ins, we will include the opt-in option within new apps and propositions in 2015.

Privacy Waarborg

In 2014, we were awarded the Dutch 'Privacy Waarborg' label. This label holds stringent standards and criteria for organizations with regard to privacy and checks on whether these organizations are accurate in dealing with customer data. We are proud to have been awarded this label without having to take additional measures to comply with the standards.

Other initiatives

In 2014, we started working on one central permission register for all customer data for our brands KPN, Hi and Telfort. This permission register will be included in our assurance framework. That means its information security will be checked periodically, and that all measures taken and implemented can be tested.

Law enforcement disclosure report

We respect our customers' privacy rights and abide by national regulations and international human rights regarding this issue. At the same time, we do have to comply with national laws and regulations requiring information disclosure to national investigation agencies. Abiding by these regulations is part of our license to operate, meaning that we are obliged to facilitate this in our infrastructure and cooperate with lawful interception orders as specified in the Telecommunication Act.

We treat law enforcement warrants with the utmost care and responsibility. We facilitate interaction with law enforcement for all KPN brands via our liaison office that is available 24/7. We assess incoming law enforcement warrants and check on different aspects to filter out any uncertainty. If we note a deviation, we reject the warrant, inform the agency involved and follow relevant procedures. In 2014, a mismatch was found in 1.6% of the warrants received.

In 2014, 99.4% of the interception orders concerned telephone numbers, 0% regarded email addresses and in 0.6% of the cases we were ordered to intercept IP addresses.

Dialogue

We aim to be a thought leader on privacy in the Netherlands and therefore we participate actively in public debates on privacy issues. During 2014, we organized both masterclasses and presentations for peers and law firms, and we organized a dialogue with partners and regulators. We participated in various seminars and shared our experiences and positions.

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

Our stakeholders stress the importance of freedom of choice for customers on what happens with their data. They see the tension between privacy and security and state that it is of utmost importance that KPN keeps the trust of the company even when exploring the possibilities of big data at the same time.

Internet safety

We want all our customers to enjoy the benefits of the internet and contribute to our digital society in a safe and well-informed way. To support this, we focus on raising awareness among customers, helping them to tackle issues and protecting children in safely exploring the internet.

Results on KPIs

In raising internet safety for our customers and helping them to solve problems, we invested in products, our Abuse Desk and awareness campaigns. In cooperation with other operators, we started the association Abuse Information Exchange. The association represents providers with a collective market share of more than 90% of Dutch internet access capacity. The association operates the Abuse Hub, a central information service that automatically collects and sorts internet abuse reports, indicating malware infections (risk of being part of a botnet), and distributes them to the relevant operator. Within KPN, our Abuse Desk receives infection reports and contacts the customers involved to help them solve the issue. The time it takes to solve the infection is one of the most important aspects. Our target was to help 98% of the customers infected by malware within eight hours. We achieved only 96%. This is mainly the result of our performance in Q1, in which we introduced a new registration system for automatic measurement and registration that needed additional attention during the starting period. During the year and as the functioning of the system improved, we increased the percentage of customers helped within eight hours to almost 98%. Besides sharing abuse reports, the cooperation between the National Cyber Security Center and the Abuse Information Exchange led to new initiatives, for instance in the aftermath of large cyber security incidents.

Besides the support given to customers who find their system infected with malware, we support customers in defending their systems against malware entering in the first place. We provide tooling via products such as PCveilig and Toestelveilig for computers and mobile devices. This tooling does not only protect against malware infections, but also provides support for retrieving a device when stolen and the deletion of personal information.



"You can only feel truly free when the communications that you would have had in private can be held publicly, without concerns for security and privacy. KPN launched the Silent Circle apps in 2014 to assist individuals and boardrooms with their private voice and text communications"

Jaya Baloo,
Chief Information Security Officer

We aim to contribute to a better world and to the protection of children by participating in and contributing to important initiatives to make the internet safer for kids. We continued our support to the 'Meldpunt Kinderporno', which aims to prevent and stop child sexual abuse. A report published by Inhope in 2014 shows that the time necessary to follow up on reports and remove (duplicated) content has been shortened. The report also shows an increase in the amount of CSAM material that is reported to law enforcement in one day. We also continued to develop our own initiatives and offer products and services in 2014, such as our free downloadable and child-friendly web browser MyBee. At the end of 2013, we also submitted our transparency report on our contribution to a safe internet for children, including input from stakeholders. Based on the transparency reports of all ICT Coalition members, a report on the implementation of the ICT principles was presented to stakeholders for reflection and subsequently published on the website of the ICT Coalition.

Dilemmas

We think product security should, at least partly, be a shared responsibility of hardware and software producers. While the European Commission has emphasized the responsibility of all owners of critical infrastructure, it has not underlined the responsibility for hardware and software vendors. As a result, security by design is not yet the standard in the sector. As a service provider, we connect different stakeholders and are committed to ensuring them maximum security, but we face challenges in coping with the weaknesses in product design that provide threats to our customers.

Big data provides ample opportunities for our business development. At the same time, our customers want us to respect their privacy. We only process customer data when our customers explicitly ask us to do so. There is much difference in privacy regulation globally. This makes it hard for us to compete with foreign companies that have business models using data as a currency without explicit permission. We will have to find a way to deal with this dilemma in a manner that respects customer wishes and privacy demands.

The telecom sector often receives requests to remove unwanted content from the internet, for example if it shows violence. Although we agree that harmful content should not be accessible on the internet, it is not up to us to assess the amount of potential damage and making content-related judgments ourselves. We think the responsibility of providing organizations with a framework for deciding whether certain content is a violation of law lies primarily with the government. This also holds for the supervision of uploading and downloading content from illegal sources. We refer requests like this to the law enforcement agencies.

Ambition

Security

Providing our customers with a secure network and secure products and services is a never-ending challenge. A proactive attitude remains vital in being able to detect and defend against the rapid nature of evolving and persistent threats. We continue to invest in our security team and employee knowledge to keep pace with the security developments and try to remain one step ahead of people looking to abuse our services or trying to steal confidential information. This is an information security arms race, and we need to be vigilant and prepared.

Over the last years, our Security Operating Center (SOC), REDteam and KPN-CERT team have gained highly valuable knowledge regarding security solutions and security management methods. We are convinced that our approach to security can help other companies and organizations to improve their security practices. This will raise the general security level within the Netherlands and that will also benefit KPN. By sharing our knowledge and experience, open sourcing our developed tools, we strengthen our hyperconnected ecosystem.

In 2016, eID (Electronic Identity) will be introduced in the Dutch society. Because of the importance of eID in Dutch (e-)society and the significant commercial opportunities, we aim to become the leading player in eID and have a target for 8,000 Dutch citizens to use a KPN eID by year end 2015.

Privacy

At the end of 2015, we want to improve our services to customers based on their use of data and roaming. This will be possible if more customers choose opt-in for data sharing with KPN. For 2015, we aim for 300,000 customers choosing this option.

We want to support our customers in becoming more aware of issues regarding privacy and social media. For customers, it is not always clear how their data is used by exploiters of social media. Privacy regulation in non-European countries is often far less stringent and protective than they expect. We want to point these threats out to our customers and show them the possible dangers of social media, such as data-mining. By being a partner in the organization of the alert online week, we aim to increase awareness and teach our customers how to behave on social media. We believe that this will increase the perception of KPN as a thought leader on privacy and security and will further strengthen our image as a reliable telecom provider. For 2015, we want 70% of our customers to feel their data is safe in the hands of KPN.

Furthermore, we want to simplify our privacy statement by further improving clarity and transparency. Our simplified statement will be clear on the data used, the ways we use it, the aspects we want our customers to be aware of, and the areas where customers can sign off. Customer privacy benefits from simple and integrated processes, because they allow for better control and easier overview. In this way, privacy also benefits from the results of the company-wide simplification program.

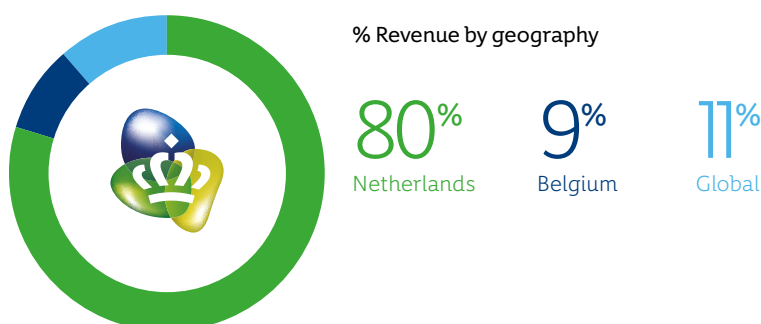
Internet safety

Together with the Abuse Information Exchange, we aim to include customers and strengthen their opportunities to take control of their internet safety. In 2015, we will introduce more tools and products for end users to enable them to improve their internet safety and prevent incidents from occurring.

In 2015, we will introduce a new version of our free downloadable and child-friendly web browser 'MyBee'. In this initiative, we cooperate with external partners such as the Dutch foundation 'Mijn Kind Online'. We will update the look and feel of the browser and improve the user experience and navigation. The use of recommended apps will be a central part of the new tool.

KPN Group in 2014¹

KPN is the leading telecommunications and information and communications technology (ICT) provider in the Netherlands.



The Netherlands



Consumer Mobile

We offer customized mobile services and products, ensuring that people can be contacted anytime, anywhere.

Our brands



Consumer Residential

We provide a broad portfolio of services in and around the house, such as internet, (interactive) TV and fixed telephony.

Our brands



Business

We offer our small, medium-sized, large and corporate business customers a wide range of both standard services and customized business solutions. Services range from fixed and mobile telephony and internet to a variety of data network and IT services such as workspace management and hosting, optionally in the cloud.

Our brands

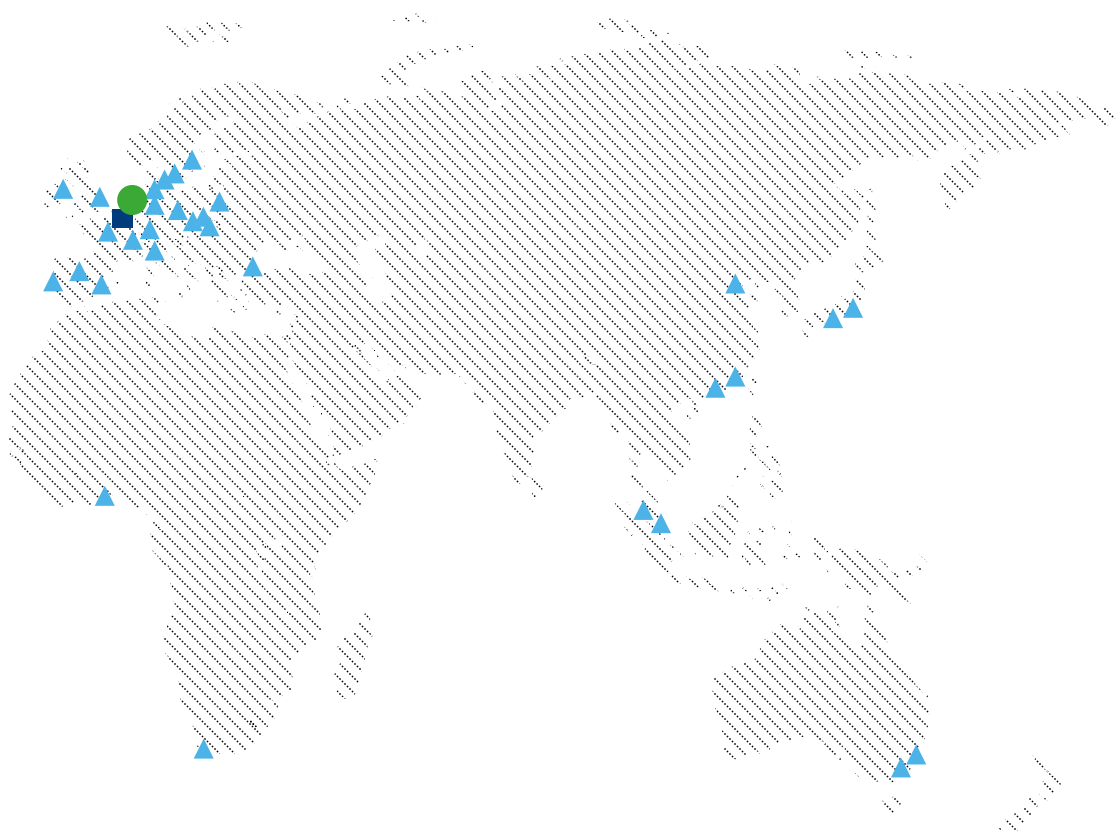


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Further information p. 54–55

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¹) The remaining activities of KPN's Germany segment are a part of Mobile International Other Segment as of January 1, 2014. See Note 35 of the Consolidated Financial Statements for further information on Mobile International Other Segment.



Belgium

Global



Netco

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



BASE Company

BASE Company is the successful challenger as the third largest mobile provider in Belgium. Its flagship is BASE. We also operate there with Simyo and Ortel mobile

We are active in mobile telephony with our brands BASE and BASE business.

Our brands



iBasis

iBasis provides wholesale network services to third parties and operates an IP-based infrastructure for international wholesale customers.

Our brand



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1) The remaining activities of KPN's Germany segment are a part of Mobile International Other Segment as of January 1, 2014. See Note 35 of the Consolidated Financial Statements for further information on Mobile International Other Segment.

“Customer satisfaction continues to rise, proving that we are doing things right”

Joost Farwerck,
Chief Operations Officer







Consumer Mobile

Overview highlights, KPIs & other targets

Highlights

- Reached nationwide 4G coverage in March 2014
- Realized strong base growth
- Realized ~65% reduction in number of propositions
- Financial performance reflects investment in base growth
- Increased overall NPS mobile brands to +2

Revenue

€1,407m

(2013: €1,510m)

EBITDA

€191m

(2013: €410m)

43%

Total Dutch mobile market share

(2013: 44%)

1,332k

4G subscribers

(2013: 323k)

Our strategy in action

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

4G

KPN was the first Dutch provider to offer KPN and Hi customers nationwide 4G coverage. During the year our no frills brands Telfort and Simyo introduced new 4G propositions, which made 4G available for all our mobile customers.

Optimized portfolio

We have introduced extended versions of KPN Compleet in 2014, providing our customers with new combinations of fixed and mobile services. Backed by our reliable nationwide networks, we increased both size and speed of our data bundles during the year. We introduced new 4G propositions with larger MB bundles up to 5GB for KPN and 8GB for Hi. Bundles for existing customers were enlarged in 2014, free of charge. For Telfort and Simyo, 4G is available as an extra option. As part of our multiplay proposition, we extended our family package with 'MB sharing', an option to transfer bundle credit from one family member to another.

High-quality customer service

Last year's efforts to improve our customers' service experience by improving our ability to deliver 'first time right' customer care has led to higher customer satisfaction ratings, demonstrated by higher Net Promoter Scores. For example, we enhanced service levels in our contact shops by linking our regular shops and XL stores. When confronted with a non-standard service issue, every shop employee can contact a service expert at the XL store nearby to help resolve the problem instantly. In 2014, we increased the number of XL stores to 17 and maintained our three business centers. The NPS of our regular shops increased to +25 (2013: +19). The NPS of our XL stores remained relatively stable at +34 (2013: +33).



"At Consumer Mobile, we have given over 350,000 customers a better price plan and reduced the number of price plans by 64%. Simplicity contributes directly towards customer satisfaction"

Bastiaan Germs,
Commercial Product Manager

We also optimized our online services, for example by simplified access to Mijn KPN (the personalized online portal for customers) and the introduction of a Social Service & Command center which enables us to answer customer questions in their own social media channels such as Twitter. Further simplifying our client processes, for example our online self-care, will be a focus for 2015. Another subject that we found important to improve for our customers was

proactive communication on scheduled network maintenance and notifications, in case of a network failure. For example, we started pilots to use SMS and Online to communicate any network problems as soon as these occur. On kpn.com our customers help other customers with questions and answers on the KPN forum. In 2014, the amount of visitors increased significantly, and so did the number of problems solved. We also improved our mobile service apps by among other things adding a user guide video, information about network disturbances and invoices on MyKPN mobile. We also added a Windows version to the iOS and Android apps.

Please refer to the Consumer Residential section of this report for more information about customer service developments.

Products and services

We offer mobile telephone and data services. As market leader in the dynamic mobile arena, we continued to optimize our multi-brand approach. The increasing dominance of smartphones and tablets leads to an explosive growth in mobile data traffic. High-quality brand KPN and youth brand Hi offer large 4G data bundles combined with value added services such as Spotify and multiplay (combining fixed and mobile services). In the no frills segment, Telfort offers a modular portfolio, including mid-range smartphones and the ability to combine them with Telfort Fixed in a multiplay portfolio. Online brand Simyo is successful with its SIM-only propositions.

Our Mobile Wholesale activities offer flexible customized platforms enabling partners to successfully introduce their own mobile propositions in the market.

Financial and operational review

Adjusted revenues and other income went down by 6.4% in 2014, mainly driven by lower service revenues due to lower ARPU levels year-on-year. ARPU decreased to EUR 27 (2013: EUR 31) due to lower above bundle usage and a continued competitive market. Strong base growth during 2014 has contributed to an improving trend in underlying service revenue growth in the second half of the year but for the full year service revenue decreased by 9.7%. Committed postpaid retail ARPU improved to ~77%, up five percentage points year-on-year.

Adjusted EBITDA decreased by EUR 218 million in 2014 driven by the decline in service revenue, having direct EBITDA impact, phasing out of handset lease and higher retention and subscriber acquisition costs as a result of a large number of new handset subscriptions. Retail postpaid net adds were +176,000 in 2014 (2013: +14,000), mainly driven by 4G and the uptake of fixed-mobile bundles. Consumer Mobile saw lower churn across all brands due to the strong focus on retention, fixed-mobile bundles and increased customer satisfaction.

Consumer 4G subscriptions increased to 1,332,000 in 2014, up from 323,000 at the end of 2013, representing a 40% penetration of the retail postpaid customer base. 21% of retail postpaid customers were in fixed-mobile bundles at the end of the year (2013: 8%). Both 4G and fixed-mobile bundles are driving a significant reduction in churn. The churn for KPN's mobile brands is approximately 50% lower for subscribers that are part of a quad-play subscription compared with a mobile only subscriber.

Key financials (in millions of EUR, unless indicated otherwise)	2014	2013	%
Service revenue	1,269	1,405	-9.7%
Revenue and other income	1,407	1,510	-6.8%
Adjusted revenue and other income	1,407	1,503	-6.4%
EBITDA	191	410	-53%
Adjusted EBITDA	192	410	-53%
Adjusted EBITDA margin	13.6%	27.3%	

Operational performance indicators (in thousands unless indicated otherwise)	2014	2013	%
Total Dutch mobile market share ¹ (in %)	43	44	n.m.
Wireless customers	7,540	7,351	3%
Net adds postpaid	176	14	>100%
Net adds prepaid	13	-242	n.m.
ARPU retail postpaid (in EUR)	27	31	-13%
Committed ARPU (in %)	~77%	~72%	n.m.
Number of 4G customers	1,332	323	>100%

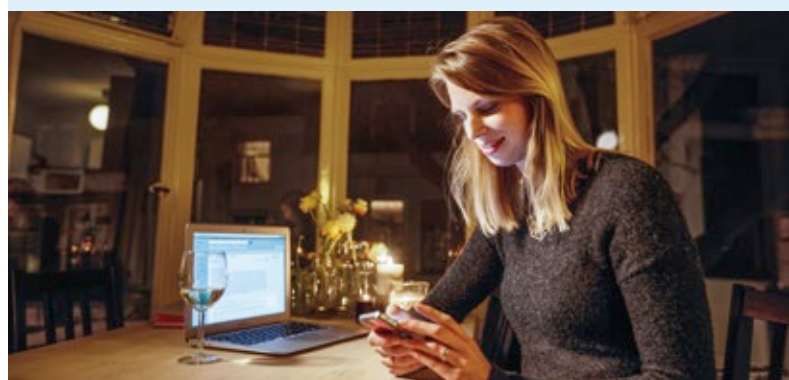
1) Based on service revenues.

“Like my sister was standing right next to me”

Adeline Bennaars
Two years a customer

“My sister Amely moved to Aruba three years ago. We only meet up once a year but, fortunately, I can see and speak with her whenever I like via Skype. It's so nice to actually 'see' her. It's almost like living part of her life with her on Aruba. I not only see Amely getting more blond and more tanned but I also get to see her home and her friends. Recently, we also began to Skype via mobile, thanks to KPN. She was feeling homesick

last time we spoke, while I was on a ski slope in Austria. Without having to connect all sorts of cables in advance, we made direct contact and could see and hear each other perfectly. It was almost like standing next to each other; me in my snowboard boots and her in her flip-flops. Having the freedom to be there for her, wherever and whenever I want, is invaluable to me.”





Consumer Residential

Overview highlights, KPIs & other targets

Highlights

- Broadband customer base returned to growth
- Realized ~85% reduction in number of propositions
- Introduced IPTV Online with functionalities on laptop, smartphone and tablet
- Increased overall NPS residential brands to +2

Revenue

€ 1,916m

(2013: € 1,962m)

EBITDA

€ 404m

(2013: € 375m)

50%

Triple-play penetration of broadband customers

(2013: 44%)

2.26

Number of products per customer (RGU)

(2013: 2.19)

Our strategy in action

In 2014, the market further developed into an integrated market for multiplay services. At Consumer Residential, we focus on our IPTV proposition and increasing the number of triple-play customers within our base. Combined with Consumer Mobile 4G mobile subscriptions, we offer our customers the full range of services in our multiplay proposition KPN Compleet and Telfort CombiVoordeel. Since IPTV is an important driver for triple-play growth, we continued to improve our IPTV proposition.

Optimized portfolio

In 2014, we simplified our portfolio for residential consumers. We introduced the new integrated fiber/copper line-up consisting of only four broadband propositions for KPN brand compared with over 20 propositions before. We also extended the range of combined propositions for fixed and mobile services. With KPN Compleet, customers who combine fixed internet, voice and IPTV with a mobile KPN or Hi subscription benefit from free services, such as 40 extra IPTV channels or twice as much data, SMS and minutes within their mobile subscription. We introduced a similar proposition for our Telfort and business customers in 2014.

High-quality customer service

In 2014, we optimized our omni-channel service approach. It is our ambition that customers have a positive experience with our brands, whether they contact us in one of our shops, online, via customer contact centers or when an engineer visits them at home. Therefore, we continued to optimize the cooperation between our customer interaction channels. For example, in 2014 we introduced 'click & collect' at Telfort which provides our customers with the choice to pick up online purchases at their Telfort shop of choice. We also increasingly integrate our sales and services activities.



"Watching TV programs is as popular as ever. Nowadays, everyone leads a hectic everyday life, so it can be a lot more convenient if you can watch a program wherever and whenever it suits YOU. With KPN's iTV, around one and a half million households have that freedom every day"

Diederik Rosenbaum,
Manager TV & Propositions

“We can watch our favorite TV shows whenever we want”

Naomi van Schaik,
One year a customer

“Four months ago, I switched to Interactive TV from KPN. My 12-year-old son, in particular, finds it extremely convenient to watch TV where, how and when he pleases. To be honest, I don’t watch a lot of TV myself but he is very pleased with Interactive TV and can easily explain to me how I can rewind or watch a

program from the beginning when I’ve switched on too late. My 19-year-old daughter has just left home and has also immediately subscribed to Interactive TV from KPN. She is just as enthusiastic as my son about the freedom Interactive TV offers.”



The First Contact Resolution increased in 2014, which indicates that more customers do not have to call us several times for the same problem. In 2014, we have continued efforts to change the way our customer contact centers work. An increasing number of our helpdesk agents are multi-skilled in providing fixed (IPTV, internet, voice) and mobile solutions in order to answer different questions in the same call. By improving the quality of our services, we reduced the number of calls to our customer contact centers. Our overall NPS for helpdesk contacts increased from +0 in 2013 to +5 in 2014 for residential services.

Appreciation of engineers’ visits by our customers was in 2014 at a stable high level with an average NPS of +50 (2013: + 44).

For information on improved service in our shops and online, see Consumer Mobile section.

Products and services

We offer TV, broadband internet and fixed-line telephony on a stand-alone basis, as dual or triple-play packages and as fixed-mobile combined packages (possible with 1, 2 and 3 fixed subscriptions). In 2014, we focused on adding more value for our customers by upgrading internet speeds, providing new IPTV services and improving MijnKPN environment. Since July, KPN brand has introduced new extended versions of the fixed-mobile packages (Compleet), where customers can combine, besides triple play, now also single- and dual-play fixed subscriptions with mobile. New IPTV functionalities include IPTV Online with functionalities on laptop,

smartphone and tablet. We serve our customers in the residential area with three brands. KPN is our quality brand, providing our customers with value-added services such as Spotify as part of the subscription. XS4ALL is the high-end brand for the top of the market. With Telfort, we are successful in serving the no frills segment. These three brands allow us to service all segments in the market.

Financial and operational review

Adjusted revenue and other income decreased with EUR 33 million compared with 2013 driven by the ongoing decline of traditional voice services and promotional activities to support broadband and IPTV base growth. Market share TV increased to 27%, up two percentage points year-on-year. ARPU per customer increased to EUR 44 by the end of 2014 (2013: EUR 42) partly driven by increased RGUs per customer.

Commercial initiatives, including the integrated FttH/copper proposition, combined with the copper network upgrades, resulted in high broadband and IPTV base growth in 2014. KPN’s total broadband customer base returned to growth (+33,000) in 2014. KPN showed continued good IPTV net adds (+237,000) in 2014, reaching 1.6 million IPTV customers at the end of 2014.

FttH activations increased by 88,000 in 2014 leading to 572,000 homes activated at the end of 2014. Supported by this strong growth, KPN’s triple-play penetration continued to increase and reached 50% of the broadband base, six percentage points higher compared with 2013. The number of triple-play packages went up by +162,000. Adjusted EBITDA increased by EUR 33 million or 8.7%. Decrease in adjusted revenue and other income is fully compensated by a decrease in costs.

The good uptake of fixed-mobile bundles (including quad-play) led to a fixed-mobile base of 485,000 at the end of the year (2013: 173,000), representing 17% of the broadband customer base. The strong growth of fixed-mobile bundles combined with network upgrades and quality improvements supported customer base growth and churn reduction.

Key financials (in millions of EUR, unless indicated otherwise)	2014	2013	flux %
Revenue and other income	1,916	1,962	-2.3%
Adjusted revenue and other income	1,916	1,949	-1.7%
EBITDA	404	375	7.7%
Adjusted EBITDA	412	379	8.7%
Adjusted EBITDA margin	21.5%	20.2%	10%

Operational performance indicators (in thousands unless indicated otherwise)	2014	2013	flux %
Market share broadband (in %)	40	41	n.m.
Market share TV (in %)	27	25	n.m.
ARPU blended (in EUR)	44	42	4.8%
RGU (in EUR)	2.26	2.19	3.0%
Number of triple-play packages	1,378	1,216	13%
Number of FttH activated	572	484	18%



Business

Overview highlights, KPIs & other targets

Highlights

- Ongoing decline in market size impacting financial performance
- Realized ~20% reduction in number of propositions
- Transforming organization to address market dynamics
- Growing demand for new services such as cloud and M2M
- Increased overall NPS to -13

Revenue

€ 2,920m

(2013: € 3,201m)

EBITDA

€ 590m

(2013: € 706m)

Access lines

€ 864k

(2013: € 994k)

4G customers

€ 733k

(2013: € 220k)

Other CSR targets	Result 2014	Result 2013
Number of healthcare locations connected with Healthcloud	4,297	4,319
Number of healthcare customers provided with personal comfort services (Tréés and CareFree at Home)	38,696	~40,000
Percentage of growth in the Netherlands of the use of services that make The New Way of Living & Working possible	43% compared with 2013	5% compared with 2012

Our strategy in action

The business of our customers is constantly changing, resulting in shifting telecom and ICT demands. Companies are looking for integrated communication solutions and services that can be securely accessed anytime and everywhere, while maintaining visibility on costs. As of January 2014, we have successfully integrated ICT Solutions in our Business Segment, meeting the customer need for integrated telecom and ICT services. Our business clients are also increasingly focused on their core services, leading to higher outsourcing levels and demand for standardized ICT services. Against this background of continued rationalization and optimization by its customers, KPN announced a restructuring plan in December 2014 (see Financial and operational review below). With this restructuring, KPN intends to achieve stronger customer focus and increased standardization.

Optimized portfolio

In 2014, we took KPN ÉÉN to the next level by launching our partner program 'Excellence' for the small and medium-sized enterprises (SME) segment. With this step, we are advancing from connectivity to collaboration, while reaching for the highest service level for our clients. For the Small offices/Home offices (SoHo) segment, we introduced a new services line-up in the fourth quarter of 2014, including KPN Compleet, which removes the boundaries between private and professional use of our integrated services. This line-up comes with Service Plus, a 24/7 B2B helpdesk.

Cloud is an important topic on the agenda of the ICT and Business decision-maker, but many are questioning data security, before migrating their ICT infrastructure and applications to the cloud. As we are offering secure and compliant cloud solutions, we launched a campaign in the second quarter of 2014, addressing this perceived barrier: "Do you know who can get access to your data? Store your business securely in the Netherlands." Going forward, the amount of data created by people and things, the internet of things, will increase enormously, which can bring value to our clients. We assist our clients by providing a big data platform and analytical tools as a service and providing insights, while safeguarding the privacy of all our customers.

High-quality customer service

We aim to offer the best services to our customers, whether it is our 4G, our integrated services, or our market-leading cloud, datacenter services and security services. As in the consumer market, we continued efforts to change the way our customer contact centers work. This led to an improved NPS of -13 (2013: -18). We will continue our efforts in 2015 to further improve NPS.

We continued our successful NPS program for the corporate market segment. The recommendation score given by our corporate clients increased to 7.2 at the end of 2014 (2013: 7.1). The success of the program lies in the customer improvement plans made by the account manager and the customer together, based on customer feedback. Because of the success of this approach, we started to implement a similar approach for the customers in the large enterprise segment, resulting in a recommendation score of 7.1 at the end of 2014.

In 2014, we received the award for the 'Best Infrastructure Provider' in the Netherlands from Computable Magazine.

Products and services

We have a tailored approach focused on customer needs in three segments: corporate, large enterprises and SME (including SoHo) segment. Our main brand, KPN, is used in all three segments and has a market-leading position, while the challenger brands focus on the SME segment (Telfort, Yes Telecom) and SoHo segment (Telfort). Towards certain specific sectors such as healthcare, critical communications, education and local government, we have adopted a so-called vertical approach.

We offer our customers solutions for seamless, continued communication, along with flat-fee price plans to provide cost assurance. IP technology provides a future-proof foundation for new services, such as mobile banking, electronic payments, videoconferencing, telecommuting and e-learning. To multinational corporations and other large enterprises we offer end-to-end solutions centered on workspace management, connectivity solutions, information security and datacenters.

KPN ÉÉN

With KPN ÉÉN, we offer our customers a simplified and bundled solution by combining fixed voice, fixed internet and mobile services as well as hosted/virtual PBX and cloud services. The price of KPN ÉÉN is based on a flat-fee per employee and takes into account different employee profiles.



“The Dutch National Railway company NS is going to use KPN’s workplace solution, KPN Werkplek, which allows employees to work together more easily. The solution dovetails with NS Next, the New Way of Living & Working program of NS, which gives employees the freedom to arrange their working hours more flexibly”

Rob Heemskerk,
Account Director Sales

Network services, workspace management and cloud-based solutions

KPN offers network services ranging from traditional data services to Virtual Private Network Services (IP-VPN and E-VPN), both nationally and internationally. We also host datacenter resources and we offer our clients a full range of services in the fields of workspace management, unified communications, secure managed devices, cloud-based solutions and service aggregation, to all segments ranging from the mid-market to the corporate enterprise market. Our cloud service Software Online includes Office 365, Back-up Online and Storage Online.

Consulting services

With our brands Call2 and KPN Consulting, our consulting services include (private) cloud, workspace innovation, business communications, applications, project and program management, facilitating organizational development and change, and security and compliance.

Financial and operational review

The challenging market environment impacted the financial performance of the Business segment in 2014. The total size of the business market continued to decline as a result of ongoing customer rationalization and optimization. Traditional high-margin services continued to decline, while demand for new services such as cloud and M2M is growing. KPN is therefore actively transforming the Business organization to address these changing market dynamics, and has taken further steps to de-layer and simplify the organization, including the additional reduction of up to 580 FTEs announced in December 2014.

Adjusted revenue and other income decreased by EUR 268 million driven by the declining total market, resulting in lower revenues from traditional services. Traditional voice services remained under pressure due to rationalization and the ongoing migration towards VoIP, which saw access lines fall to 864 thousand at the end of 2014 (2013: 994,000). Traditional voice ARPU was somewhat lower year-on-year at EUR 51 (2013: EUR 52). Also, wireless single-play ARPU remained under pressure and was lower year-on-year at EUR 41 (2013: EUR 45).

Adjusted EBITDA decreased by EUR 134 million, with the decrease in traditional revenues having direct EBITDA impact, partly offset by lower personnel expenses.

Main strategic initiatives as discussed above are showing positive results. The investments in wireless customer base growth led to net adds of 52,000. The 4G Business customer base increased to 733,000 in 2014 (2013: 220,000), and 42% of the wireless Business customer base was on 4G at the end of 2014. Multiplay seats increased by 146,000 in 2014 to 301,000, equivalent to 14% of the wireless customer base.

Key financials (in millions of EUR, unless indicated otherwise)	2014	2013	flux %
Revenue and other income	2,920	3,201	-8.8%
Underlying revenue and other income	2,910	3,178	-8.4%
EBITDA	590	706	-16%
Adjusted EBITDA	606	740	-18%
Adjusted EBITDA margin	20.8%	23.3%	10%

Operational performance indicators (in thousands unless indicated otherwise)	2014	2013	flux %
Access lines	864	994	-13%
Business DSL	189	193	-2.1%
Connections VPN	76	77	-1.3%
Wireless customers (excluding M2M)	1,726	1,674	3.1%
Number of 4G customers	733	220	>100%
ARPU wireless blended (EUR)	43	47	-8.5%

Our strategy in action: healthcare of the future

Our healthcare portfolio consists of several services and products with which people can feel free and that contribute to higher efficiency and lower costs for the sector. We facilitate the possibility to live at home longer through the use of a cardiac rhythm service and CareFree at Home (ZorgVrijThuis). With these services, people can experience more freedom of movement and greater independence. For healthcare practitioners, we facilitate HealthCloud and HealthWorkplace, with which they can work in a secure environment, independent of place and time.

Business

Solutions for healthcare consumers

In 2014, we integrated Tréés, a mobile alarm device with GPS, in the M2M delivery portal, which means provisioning and changes can be done online and on the go. For CareFree at Home and Tréés, we developed a smartphone application for informal and professional caretakers. With this app, caretakers can change their availability instantly and accept or decline calls triggered by an alarm. We increased the number of CareFree at Home customers and connected 275 in 2014. In total, we provided 38,696 customers with personal comfort services and thus did not reach our target, because the sale of CareFree at Home went more slowly than expected and the renewal of our cardiac rhythm service was delayed. We further developed our cardiac rhythm service to make healthcare available and affordable in the future (for further information, see the section on innovation on page 28-29).



“Elderly people want to be able to live at home longer, and KPN Zorg offers services that give them that freedom. We connect the elderly and caregivers, so together we can care for one another better”

Chantal Brouwers,
Commercial Product Manager ZorgVrijWonen
ZorgVrijThuis and Tréés

Solutions for healthcare professionals

For healthcare locations, we further developed the HealthCloud, integrating our former services eHealth, HealthConnect, and generic services of KPN and partners. This means we can deliver more simplified and inclusive services over our secured networks. Security and privacy are key priorities and prerequisites of our professional healthcare customers regarding the exchange of personal information and data. Our portfolio, with products and services such as KPN Secure Mail and HealthCloud, is developed with these sector demands in mind. We connected HealthCloud with CloudNL, which is a safe data storage system that guarantees local data storage in the Netherlands, and with the security portfolio of Trusted Service and external partners. We connected 4,297 healthcare locations with the HealthCloud. We did not reach our target, because we had some technical issues with onboarding new customers in the first half of 2014. These problems have been resolved, so in 2015 we will continue connecting new locations in different healthcare segments.

To be able to make it possible for healthcare practitioners to work anywhere, anytime, we developed the KPN Health Workplace. This service enables first-line health practitioners, such as pharmacists and general practitioners, to work safely in a large variety of applications by using our cloud services. With these developments, we are able to provide healthcare locations with high-quality secure systems that improve vital exchange of knowledge between health practitioners, also with their patients, in a safe and reliable way.

“New system, single supplier, greater scope for growth”

Jaap van der Welle,
Manager Corporate ICT, Mourik
20 years a customer

“Mourik is active worldwide in the field of construction, project development and industrial services. Mutual cooperation and international growth are spearheads for our organization, and a suitable telephony environment is an important part of this. For our complex organization – with numerous operating companies in various locations, comprising many different cultures – a cloud solution from KPN seemed the most logical choice. KPN offers data and voice services, its own datacenters and all the surrounding IT. As clients, we are able to reap the

benefits of this, whereas in the past we needed to enter into agreements with four different suppliers. To increase engagement within our organization, we asked our employees their opinions on the implementation of the new communication platform during workshops organized by KPN. What do you need? What is missing? This produced very useful feedback. Virtually the entire organization is enthusiastic about the new system. The path to international growth is now free from obstructions.”



Dialogue

We have frequent contact with our stakeholders about developments in the healthcare sector, our products and services and their expectations on our role and responsibility. In 2014, we organized several events. We participated at the Mhealth congress, where we discussed the opportunities and risks related to information exchange. During the Zorg&ICT congress, we organized a special session where we elaborated on HealthCloud, which led to multiple invitations from customers and partners to investigate possible ways of cooperation.

Dilemma

We are continuously looking for ICT innovations for the healthcare sector, for patients as well as healthcare practitioners. Caregivers can spend more time on actual healthcare, our ICT innovations contribute to higher efficiency and it lowers costs for the sector. Privacy and security are key priorities when it comes to patient data and to new healthcare solutions. The dilemma within this field is that safety in the provision of information can slow down the innovation speed. To minimize negative effects and delays at the end of the innovation process, we take security criteria into account directly at the design phase.

Ambition

Our ambition for 2015 is to achieve growth in our healthcare portfolio. We will do this by enriching our portfolio with vertical knowledge and ICT solutions for specific healthcare knowledge and for the challenges within the field, such as HealthCloud. We do this by reducing the number of network solutions in our healthcare portfolio to two, and increasing the availability of related services on our network for health practitioners. We aim to increase the number of connected healthcare locations to 4,700. In 2015, our target for the number of healthcare consumers provided with personal comfort services is 31,000, which is lower than last year because of the rationalization of our portfolio.

Our strategy in action: the New Way of Living & Working

The New Way of Living & Working allows our customers to save time, costs and energy and contributes to the work-life balance of their employees.

We aim for a growth in the use of products and services that make the New Way of Working & Living possible. We identify three typical product groups that provide the basis for our target: the conference card, videoconferencing online and workplace online. But we extended the number of products and services included in our growth calculation method. These products and services include CloudNL, Office365, Lync and HCS bundles, KPN ÉÉN, the MSE workplace, Storage Online and Mobile working. In 2014, we achieved a growth on the use of products and services in this portfolio. For mature products, it was 3% (conference cards, videoconference, werkplek online and mobile); for growth products, it was ~120% (Cloud, Lync and HCS). This means a blended, unweighted growth of 43%.

In 2014, we developed the Collaboration Card, which integrates videoconference, teleconference, Lync, conference card and SharePoint. The Collaboration Card enables meetings in which part of the attendants join via video, while others can join via their (mobile) phone or Lync. In 2015, this service will be evaluated as part of an overall review of unified communications and collaboration tooling. The way forward is to 'practice what you preach' by deploying standard KPN communication tooling (part of KPN ÉÉN).

We are a thought leader on The New Way of Living & Working in the Netherlands and aim to support and stimulate its implementation and development for our customers on technical, managerial and social aspects. To support our customers and the sales of typical New Way of Living & Working products and services, we organized and hosted several events during the year and were active in the public debate. We hosted a congress for our supplier Sodexo, which was attended by around 60 Sodexo suppliers. We gave a presentation on the impact of the New Way of Living & Working on facility management. Together with the Dutch WWF, we developed a white paper in which we discussed how the New Way of Living & Working can create opportunities to expand and open new markets for products and services that significantly avoid emissions for our customers. We cooperated with the Mirro Foundation. Mirro developed an online self-help and training module on the New Way of Living & Working. We provided a number of videos that are included in the module and informed customers and the public of its existence via KPN Actueel and our account managers. We also participated actively in the public debate on flexible working, for example by giving interviews for a number of national newspapers and publishing articles and blog posts on our corporate website.

To support the sales of typical The New Way of Living & Working products, we promoted our KPN Bespaarmeter. We think this tool, which can be used to calculate possible time, cost and energy savings resulting from the implementation of The New Way of Living & Working products and services, is not used often enough by (potential) customers. Based on feedback from specialists, we concluded that it was too technical. We are currently investigating how we can improve and refine the tool, for example by adding new products and services.

For 2015, we aim for a 40% growth in the use of products and services that make the New Way of Working & Living possible.

"We now have the freedom to invest"

Bernard Frerichs,
Advisor and project lead, Waterschap Hollandse Delta
Nine years a customer

"Our pumping stations, waste water purification facilities, sluices and locks are operated remotely from a central monitoring station. Information on how these waterworks are functioning is transmitted to a central computer by our employees, via the fixed and mobile networks. To keep our service areas safe and dry, we must have complete faith in our data and telecommunications infrastructure. But we also had other requirements to meet in our search for a new telephony provider: simplicity, quality and good value, for example. Waterschap Hollandse Delta

works in close cooperation with the Rivierenland water board, so we wanted a package that included complete compatibility between mobile and fixed telephony for both water boards. The solution was KPN FixedMobile in one and an entirely in-house GSM network at both locations. Our two water boards now save more than 25% on fixed and mobile telephony costs. This provides us with elbow room to invest in other business goals, such as the procurement of geo-measuring equipment for in the field and portable communications."





NetCo

Overview highlights, KPIs & other targets

Highlights

- Continued FttH roll-out and reached almost 2 million homes passed
- Reached 50% coverage of Dutch households with access to download speeds of at least 100Mbps
- Strengthened our best-in-class networks including improving security and business continuity
- Technological developments driving higher future bandwidth

Revenue

€ 2,262m

(2013: € 2,343m)

EBITDA

€ 1,241m

(2013: € 1,297m)

1,952k

Fiber-to-the-Home –
Homes passed

(2013: 1,635k)

99%

4G indoor coverage

(2013: 76%)

Other CSR targets	Result 2014	Result 2013
Percentage of the Netherlands that agree that KPN has the best ICT Infra	Consumers: 47% best fixed network, 46% best mobile network Business: 74% best fixed network, 68% best mobile network	Consumers: 46% best fixed network, 52% best mobile network Business: 64% best fixed network, 58% best mobile network
Percentage of households with more than 40Mb connection	77%	70%
Dropped-call rate nation wide: Network statistics: combined voice drop-rate 2G and 3G	0.37%	0.6%

Our strategy in action

Our strategy is based on our main ambition to be the connectivity provider of choice in all our markets and for all our customers. Key in executing our strategy are our best-in-class networks and operational excellence. We have strengthened both our fixed and mobile networks and focus on implementing the best, most energy-efficient and information-secure technologies. We can only realize operational excellence if we have simple products and services, delivered with simple processes and standardized IT.

Simplification

In 2014, we have made significant progress with our simplification program, reducing complexity in both IT and TI and reducing, among others, the number of incidents while at the same time improving efficiency.

Invest in best-in-class networks

In 2014, we have again invested heavily in our network infrastructure. We are continuously working to maintain and improve the reliability and speed of our fixed and mobile networks resulting in significant improvements in quality, capacity and simplification.

We were the first to reach nationwide 4G indoor coverage in the Netherlands in March 2014. By accelerating the 4G mobile network roll-out, we have confirmed our role as the leading provider in the Netherlands. As part of our 4G strategy, we use a combination of 800MHz, 1800MHz and 2600MHz spectrum to ensure high-quality 4G services to consumers and business customers throughout the Netherlands. Like our existing 2G and 3G mobile networks, our 4G network now has 99% indoor coverage in the Netherlands. Another illustration of network improvement is the roll-out of LTE-1800, an additional 4G frequency, in order to increase data speed and capacity. Combining LTE-1800 with the 800 MHz frequency is called 4G+ or LTE-advanced.

We started a trial in July 2014 to explore the possibilities of VoLTE technology including Video over LTE. Key customer benefits are making and receiving calls all on the 4G network while watching videos or streaming data, switching from voice to video and back, faster call set-up time and HD quality in both voice and video.

In our fixed network, we continued upgrading our copper network. We rolled out the VDSL outerrings, implemented pair bonding and vectoring. A combination of the technologies pair bonding and vectoring enables significantly increased broadband internet bandwidth on our copper network. Through vectoring, ~50% of Dutch households reached download speeds of 100Mbps at the end of 2014. At the end of 2014, we reached 26% of the households in the Netherlands with our FttH network.

To support our best-in-class access services, we continue to move towards an all-IP network. Moving towards a single IP core is needed to ensure best-in-class integrated access. A single IP core will allow for optimization for very high data volumes, reduced complexity and faster time to market.

Conduct business in a sustainable way

Investing in best-in-class networks also implies an energy-efficient network. It is our aim to reduce our absolute energy consumption by improving the energy efficiency of our networks. Our Dutch networks operate climate neutral, as all electricity used is 100% green, generated locally from wind turbines and biomass, and remaining emissions are compensated for. Best-in-class networks also imply investing in improving security and business continuity in order to minimize the risk of disruptions by building resilience into structures and processes.

Customer experience

To become the best service provider, we focus on being the best ICT operator as experienced by our customers. The customer experience is influenced by several factors. We focus on strengthening our relationship with customers through operational excellence and by rewarding loyalty. Another important driver for customer experience is the strengthening of our fixed and mobile networks and ICT platforms by implementing the best, most energy-efficient and information-secure technologies. For example, 4G improves the customer experience by providing significantly higher speeds, up to ten times faster than the 3G network.

Also, a proactive and timely communication about disruptions and scheduled maintenance is very important.

We regularly receive feedback from customers on our services (Closed Loop Feedback process). The feedback from our customers is continuously used for the improvement of our services. This results in an increase in perception on being the best ICT operator. Among our business customers, this is 74% in the fixed segment. In the Mobile Segment, this is 68%. Within our Consumer Segment, this is 47% for fixed and 46% for mobile.

For this data, we used a different panel set (still representative for the Dutch population), and a different set of sub-questions (more simple) compared with 2013, which makes a comparison between 2013 and 2014 not reliable. Besides that, we now summarize KPN brands for the Business Segment as well, because they use the same ICT infrastructure.

Products and services

NetCo is responsible for the planning, roll-out and operations and maintenance of fixed and mobile networks in the Netherlands. Furthermore, NetCo includes our fixed wholesale services.



“Behind the scenes, we ensure that all mobile data services work optimally. We avert breakdowns or solve them as quickly as we can, so that our customers get the best possible service”

Boyke Choerai,
Technical Manager Mobile Value
Added Services

“A respected telecom partner lends us status”

Wim van der Worp,
Chairman – Netherlands Heartbeat Foundation

“*Stichting Hartslag voor Nederland* (Netherlands Heartbeat Foundation) is a partnership between regional ambulance services. Two years ago, we introduced the SMS alert system *HartslagNu* (HeartbeatNow). It works in the following way: if someone suffers a cardiac arrest, an ambulance is immediately dispatched to them. But that’s not all. An SMS is also immediately sent to 30 CPR volunteers who live or work close to the patient and can reach them quickly. It is therefore literally a matter of life and death that these SMS

messages reach their destination on time. This is why we chose KPN’s reliable network but there was also another reason. In the future, we would also like to use GPS to reach those volunteers who are closest to the patient. Since this involves issues of privacy, it needs to be approved by the government. With a company like KPN behind us, we are more likely to be seen as a serious partner by the government. This will give us the scope to further expand our service and save even more lives.”



Network and IT services

We offer a full range of fixed and mobile services and we aim to deliver the best connectivity to our customers, independent of location and device.

Given the growth of data traffic and online services, the internet and its infrastructure can increasingly be considered as the backbone of society. A similar development can be observed with respect to mobile devices such as tablets and smartphones. People tend to have a blind trust in connectivity. As a result, both the well-being of people and the functioning of society strongly depend on the quality of our ICT infrastructure, which puts a heavy responsibility on KPN. This is why we strive to operate best-in-class networks.

To monitor our ambition to run the best ICT infrastructure, we measure both our technical performance and customers’ perception. Technical performance can be expressed in the dropped-call rate, the coverage of mobile networks, the average data speed of our network and the downtime of our services. We measure perception by the percentage of Dutch customers who rate our network as the best in the Netherlands.

Netco

In order to fulfill our promise, we undertook several initiatives this year including nationwide coverage with 4G, continued roll-out of VDSL and upgrading street cabinets. By increasing redundancy in the network, we reduced the vulnerability of connections and improved the quality and reliability for customers.

We succeeded in improving our dropped-call rate. Dropped calls are a serious source of annoyance for customers. Realizing a rate of 0.67% last year, 2014 showed a further improvement to 0.37%, easily meeting our 0.6% target. This performance belongs to the top ten worldwide. It seems that our efforts to focus on customers with a 4% or higher dropped-call rate paid off. Additionally, we started working with suppliers of mobile phones to remove the reasons for dropped calls, which are sometimes caused by hardware or software on the device.

Wholesale services

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

Infrastructure

Copper network

In 2014, we have invested heavily in technologies such as pair bonding and vectoring in combination with the roll-out of our VDSL outerrings, significantly increasing the available broadband internet bandwidth.

Fiber network

Through our fiber network, we offer unlimited data transport to customers with high bandwidth requirements and options for expansion such as data networks, and multi-room IPTV as well as IPTV Online with functionalities on laptop, smartphone and tablet. The roll-out of the Fiber-to-the-Home (FttH) network is carried out through our subsidiary Reggefiber, which operates on the basis of an open-access model.

Mobile network

In the Netherlands, we operate a 4G LTE, 3G UMTS/HSPA and a 2G GSM network system. In 2014, continued improvements enabled us to maintain the best-in-class networks in terms of quality and coverage. Mobile data continued to grow, up to 93% over 2014.

In 2014, overall down-time improved compared to 2014.

Challenges

Despite all efforts to increase network quality, we face a couple of challenges. A discussion has emerged about the coverage and availability of the national emergency number 112 in some remote areas. The issue was broadcast on national television and the Dutch parliament discussed the subject. At locations near the Dutch border, full frequency power is not always possible as it might cause interferences with foreign mobile broadcast systems. However, mobile coverage is only one aspect in realizing a 112 emergency call. The success is also influenced by issues such as the quality of a mobile phone, weather circumstances and other external factors. Also, the realization of a call depends on a complex routing via the fixed network, the national emergency control center and the rights regional control centers. Errors can occur at all interfaces in the process of this call realization. We continuously invest in our networks to improve our mobile services for customers and increase resilience regarding external risks such as power disruptions and disturbances at locations. Furthermore, we consult with provinces and municipalities to find additional ways of improving local network coverage. Another obstacle concerns the licensing procedures for installing or adjusting street cabinets in order to improve the quality of our services for customers, sometimes causing temporary local nuisance. It is a challenge to minimize these unwanted social impacts, while guaranteeing maximum product experience for customers. Finally, consumers have sometimes encountered poor display quality using our TV service Digitenne.

Ambition 2015

We will continue our efforts in 2015 to improve network quality, for instance by the availability of 100 Mbps bandwidth, by further building network redundancy, integrating core networks and pair bonding. For mobile, improving handovers will improve the network (see innovation). Moreover, technologies such as self-optimizing networks are promising and will be launched in the coming year.

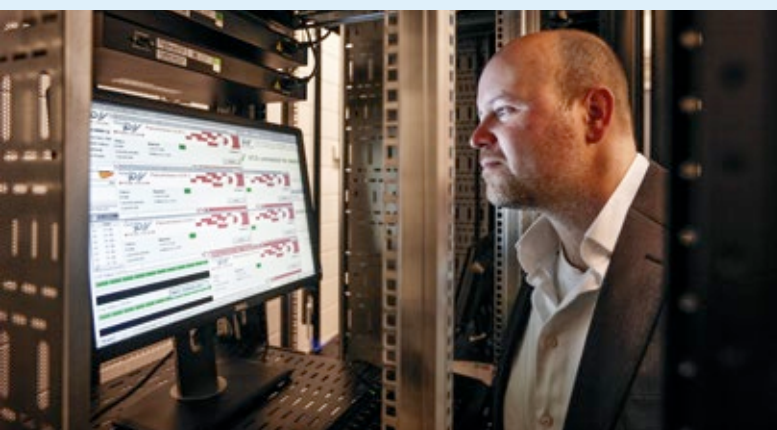
In 2015, we aim to have at least 60% of Dutch customers perceive our networks and ICT as the best. We realize this by committing ourselves to three technical targets. We are committed to a 30% reduction in the downtime of our services. We will change our target of % of households with >40 Mbps to % of households with >100 Mbps, because this gives a better representation of the current market situation we are in. In 2015, 70% of our customers should be provided with >100 Mbps. With regards to the dropped-call rate, we will focus on reducing the scatter of dropped calls per user. By improving the experience of the customers with a high number of dropped calls, we most effectively improve our nationwide performance and customer experience. We set a target of a ~25% reduction of customers with underperformance on dropped calls (from 77 thousand to <60 thousand).

“Having a reliable network has improved our services”

Marcel Weerts,
IT-manager PostNL Pakketten, PostNL
10 years a customer

“PostNL sorts around 650,000 packages a day. Our aim is clear: we want our customers to receive their packages as quickly as possible. That’s what our clients expect and rely on. But we also need reliable suppliers and KPN is one such supplier. Solid, dependable and with a reliable network. We need to record and share a great deal of information on the location of PostNL packages in the distribution chain. We need our own system for this, so we can deliver as many packages

as possible to people’s front doors in a single journey. But we also need it for our customers, so they can see what is happening with their packages. All this information is communicated via fixed lines, KPN datacenters, hand terminals and drivers’ mobile phones. And it is passed on to our clients via SMS, email and app notifications. It happens very quickly, because we try to keep the information as up to date as possible. KPN has made it possible to improve our services in this area.”



Financial and operational review

Adjusted revenue and other income decreased by EUR 111 million year-on-year in 2014, mainly driven by the ongoing decline of traditional services and lower revenues across segments.

Adjusted EBITDA decreased by EUR 70 million, with the decrease in traditional high margin revenues having direct EBITDA impact, partly offset by cost savings from the Simplification program and the consolidation of Reggefiber.

In October 2014, KPN received regulatory approval for full ownership of Reggefiber. Reggefiber’s way of building and operating a passive infrastructure, its regional approach and the FttH knowledge center will be valuable to KPN’s operations. Reggefiber has been fully consolidated from November 1, 2014. For more information on the acquisition of Reggefiber, refer to Note 31 of the Consolidated Financial Statements.

Key financials (in millions of EUR, unless indicated otherwise)	2014	2013	flux %
Revenue and other income	2,262	2,343	-3.5%
Adjusted revenue and other income	2,245	2,356	-4.1%
EBITDA	1,241	1,297	-4.3%
Adjusted EBITDA	1,228	1,298	-5.4%
Adjusted EBITDA margin	54.7%	55.4%	

Operational performance indicators (in thousands unless indicated otherwise)	2014	2013	flux %
% households > 40Mb	77%	~70%	n.m.
Number of FttH homes passed	1,952	1,635	19%
Indoor population coverage 3G (in %)	99	95	n.m.
Indoor population coverage 4G (in %)	99	76	n.m.



Overview highlights, KPIs & other targets

Highlights

- Realized >80% 4G coverage
- Simplified portfolio
- First operator in Belgium to launch a European postpaid offer to call and surf at the same price throughout Europe as in Belgium

Revenue

€ 711m

(2013: € 728m)

EBITDA

€ 149m

(2013: € 192m)

65k

Postpaid net adds

(2013: 127k)

~21%

Market share

(2013: ~20%)

Our strategy in action

Optimized portfolio

In Belgium, KPN pursues a challenger strategy and offers mobile telephony products and services through BASE Company. BASE Company kept its position as price leader in the mobile market by launching a more simplified portfolio focusing on three questions: do you like to make calls, do you like to surf and do you prefer everything unlimited? As first operator in Belgium, BASE Company launched a European postpaid offer to call and surf at the same price throughout Europe as in Belgium. In 2015, we will strengthen our position by focusing on simplification and innovation and excellent customer experience.

For our Business clients, a simplified portfolio and a bundle with unlimited roaming was launched. To improve our business customers' experience, we introduced cloud services.

Our price leadership was extended from tariff plans to devices. Our hardware sales are growing and this in a declining market. As first operator, we could offer the ICE phones to our customers. We also became official Apple dealer, which gave the iPhone sales an extra boost.

Our multi-brand strategy offers a full portfolio of mobile services (voice, SMS, data) and content services, such as Spotify. BASE is our mainstream retail brand offering both prepaid and postpaid products. BASE business delivers products for the SoHo and SME market. Next to Mobile, we challenged the fixed market in Belgium with the introduction of SNOW in 2013. On December 17, 2014, BASE Company announced that its fixed offering SNOW will be discontinued at the end of Q2 2015, as it is no longer considered to be economically viable to continue the offering.

Leading in customer experience

Customer experience remains the main focus throughout our company. We have an internal program that is engaging all employees to focus on how they can add that extra to our customers. There is no significant difference between the NPS of BASE (the smallest operator in Belgium) and the largest operator, however their scores are significantly higher than all other operators.

At BASE Company, we focus on making the life of customers easier. We launched the My BASE app where customers can view their credit/data usage, top up call credit, pay and view invoices. We expanded our Online Customer Zone to make sure our customers' questions via Facebook and Twitter are answered as soon as possible. Our email backlogs have disappeared by implementing an email handling tool and web integrated Social Media and chat as extra support channels within our service organization.

In 2014, we have organized call center visits for all departments and different initiatives to improve the customer experience have been launched. We convinced even more customers to use e-invoice. A new campaign management tool has been implemented in 2014 which allows us to detect customer needs. Our CX score for 2014 was 73.8 (2013: 75.8). In order to increase our CX score in 2015, we changed the structure of the organization to allow for more end-to-end customer focus by joining our commercial & customer experts and our CX experts.

We will measure NPS scores and satisfaction levels per customer touch point as from 2015 to give us better insights into the performance and satisfaction levels per touch point, and to enable us to continue to improve where needed.

Leading in network

We were the second operator in Belgium to offer 4G for all customers as of February 2014. BASE Company reached coverage of >80% of the Belgian outdoor population at the end of 2014. We also increased the bandwidth from 10 to 15MHz allowing maximum theoretical speeds of 129Mbps for downlink and 43Mbps for uplink in most areas. Maximum speeds may not be available in certain big cities.

Our leading position in voice quality. We are at par with the market leader for data quality for 3G technology. However, we are behind the competition in terms of 3G/4G deep indoor coverage (mainly in the big and medium cities) and 4G data speed. The independent bureau NetCheck measured the quality of the Belgian mobile networks in the second half of 2014. They carried out 7.5 thousand test calls on 12 thousand km of national roads, highways and in urban areas. This revealed that BASE has the best Call Success Rate (98.05%). This measures whether the customer has coverage, can set up the call, had good speech quality and the call did not drop. NetCheck also conducted similar research measuring the Session Success Rate for data. They measured whether how a device can open a webpage without any cut-off. In free-mode, we were again at par with number one (99.50%).

Low-cost organization

We are able to achieve this combination of a high-quality network and attractive offerings by running an efficient and low-cost operating model. We keep focusing on continuous improvements and simplification efforts to reduce costs. As an example, as of January 2015, BASE Company integrated the ALLO telecom shops and placed them under the BASE flag. With this integration, BASE Company is better equipped than ever to address the changing market circumstances and customer needs. For the customer, this means greater clarity: one brand, one shop story, one unique customer experience.

Financial and operational review

Adjusted revenues and other income decreased by EUR 19 million in 2014. Underlying mobile service revenues decreased by EUR 29 million. Postpaid ARPU (EUR 31) was lower compared with last year (2013: EUR 34), as continued tariff optimization by customers was only partly offset by strong data revenue growth.

In 2014, BASE Company showed postpaid net adds of 65 thousand (2013: 127 thousand). Prepaid net adds were -193 thousand in 2014 (2013: -162 thousand). Market share of BASE Company slightly increased.

Adjusted EBITDA decreased by EUR 30 million, due to lower adjusted revenues and higher traffic costs as a result of flat-fee propositions.

Key financials (in millions of EUR, unless indicated otherwise)	2014	2013	flux %
Service revenue	610	639	-4.6%
Revenue and other income	711	728	-2.3%
Adjusted revenue and other income	709	728	-2.6%
EBITDA	149	192	-22%
Adjusted EBITDA	156	186	-16%
Adjusted EBITDA margin	22.0%	25.5%	

Operational performance indicators (in thousands unless indicated otherwise)	2014	2013	flux %
Market share (in%) ¹⁾	~21%	~20%	n.m.
Wireless customers	3,261	3,389	-3.8%
Net adds postpaid	65	127	-49%
Net adds prepaid	-193	-162	-19%
Blended ARPU (in EUR)	15	16	-6.3%

1) Based on service revenues.



iBasis

Overview highlights, KPIs & other targets

Highlights

- Increased average revenue per minute to 4.1 (EUR cents)
- Established global footprint in LTE services
- First worldwide to successfully execute International VoLTE roaming
- Simplified organization in line with market developments

Revenue

€ 948m

(2013: € 969m)

EBITDA

€ 23m

(2013: € 29m)

4.1ct

Average revenue per minute

(2013: 3.9ct)

23.3bn

Number of minutes

(2013: 24.9bn)

Our strategy in action

KPN provides wholesale network services to third parties and operates an IP-based infrastructure for international wholesale customers through iBasis. Our strategy is to enable carrier and mobile operator customers to deliver high-quality international voice and data services to their end users and introduce innovative products faster, with global reach and reliability.

We leverage our global IP infrastructure and expertise, sophisticated back-office systems, and substantial scale to achieve sustainable leadership in international wholesale voice services and to be a successful challenger in the Mobile Value Added Services market.

In 2014, we continued to establish iBasis as a significant provider of LTE roaming and signaling solutions and to develop our innovative value-added services offerings for mobile network operators. For 2015 and beyond, we will remain focused on innovating and developing new services to establish new, profitable revenue streams.

As mobile operators expand beyond their domestic deployments to offer international VoLTE calling, they face significant challenges as they strive to provide a seamless, high-quality experience for their subscribers and to fully realize the economic value of the new technology. The iBasis solution supports both local breakout and home routing and helps operators overcome challenges such as global reach for VoLTE calls, signaling and media interworking between VoLTE and non-VoLTE networks, supporting VoLTE global roaming and exploiting HD voice capabilities.

With a single connection to the iBasis multiservice IPX, operators gain access to hundreds of destination countries around the world and to the full portfolio of iBasis voice and data capabilities. iBasis also provides a robust VoLTE test environment with interconnection and test locations around the world to help operators ensure that they are ready for commercial launch.

Products and services

We offer a voice product portfolio consisting of Certified Voice, Premium Voice and HD Voice. These products offer a progression of code coverage, pricing and features formulated to meet the varied requirements of fixed carriers, mobile operators and consumer voice over broadband carriers.

In addition to our voice services, we offer a comprehensive portfolio of value-added mobile data services and solutions, including our LTE Signaling eXchange, global signaling, mobile messaging and roaming. Our services aim to enhance mobile operators' average revenue per user and customer loyalty.

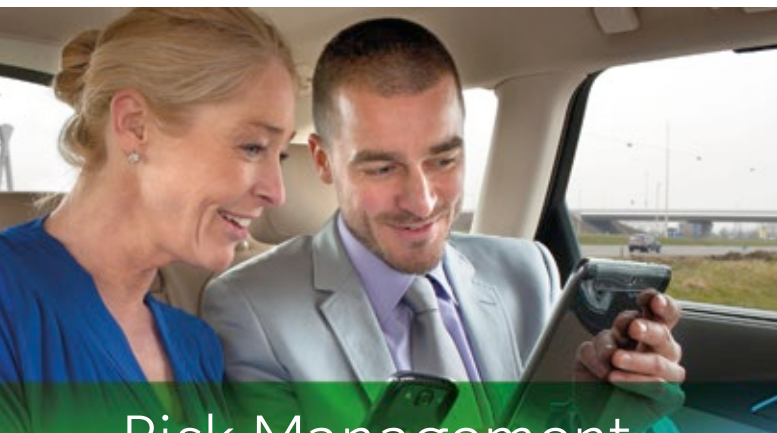
Financial and operational review

Adjusted revenue and other income decreased by EUR 21 million. Total minutes international decreased by 6.4% in 2014, reaching 23,3 billion minutes by the end of 2014 at a slightly increased revenue per minute.

Adjusted EBITDA decreased by EUR 6 million, with the decrease in revenues and other income partly compensated by lower cost levels. iBasis continued to expand the global reach of its LTE roaming service via peering partners and direct interconnections with mobile operators.

Key financials (in millions of EUR, unless indicated otherwise)	2014	2013	flux %
Revenue and other income	948	969	-2.2%
Adjusted revenue and other income	948	969	-2.2%
EBITDA	23	29	-21%
Adjusted EBITDA	23	29	-21%
EBITDA margin	2.4%	3.0%	
Adjusted EBITDA margin	2.4%	3.0%	

Operational performance indicators	2014	2013	flux %
Minutes international (in billions)	23.3	24.9	-6.5%
Average revenue per minute (EUR cents)	4.1	3.9	4.4%



Risk Management and Compliance

Risk Management and Control System at KPN

Board of Management oversight



Strategic risk Assessment

- Market developments
- Intensified competition
- Mergers and Acquisitions
- Macro-economic conditions
- Reputation risks
- Investments in licenses
- Disruptive technologies
- Other strategic risks



Operational and Financial risk Management

- Reliable financial reporting
- Compliance risks
- Security and Continuity risks
- Operational risks
- Financial risks
- Other risks



Integrity, culture and awareness

Risk appetite

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

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

Principal risks

We face a variety of risks as a result of our business activities, the most significant of which are:

- Intensified competition, including competition from new disruptive technologies or new business models of competitors
- Reputation risks due to operational and quality related incidents
- Threats to the confidentiality, integrity, or availability of KPN's networks, systems, or data caused by cyberattacks or lack of appropriate security controls and infrastructure measures

These risks and mitigating measures are described on pages 72-75.

Risk Management and Control System

Risks are managed via a framework of principles, organizational structures and measurement and monitoring processes that are closely aligned with our activities. The framework satisfies the relevant criteria as set forth by the Committee of Sponsoring Organizations of the Treadway Commission (based on the Integrated Internal Control Framework). Key components are discussed in more detail below. KPN's Risk Management and Control System is designed to avoid or mitigate rather than to eliminate the risks associated with the realization of KPN's strategic objectives. It provides reasonable but not absolute assurance against material misstatement or loss. The Risk Management and Control System is managed by the General Counsel Office; the Group Compliance and Risk Officer reports directly to the CEO of KPN.

Integrity, culture and awareness

KPN has several actions ongoing to support integrity and awareness within the organization. This is done via coaching sessions and dilemma workshops during team meetings, and other specific trainings. KPN strives for a business culture in which compliance and integrity is self-evident for all employees. Four major initiatives are 'tone at the top', code of conduct, whistleblower procedure and the Business Control Framework.

Tone at the top

The attitude and behavior of KPN's top management serves as an example for all KPN employees. Our Board members and senior management frequently communicate the importance of a strong risk culture to support a consistent tone from the top. To further strengthen this message, training sessions were held about our desired company culture and behavior.

Our employees in the Sales and Marketing, Customer Contact Centers and Retail departments were trained in classroom workshops to improve their awareness on competition law, integrity and our business principles.

Code of Conduct

KPN is conscious of its social and ethical responsibilities and wishes to ensure that work practices across the company are compliant with the law and regulations and consistent with social and ethical norms. For this reason, KPN has a Code of Conduct, which sets out the key values: personal, trust and simplicity. KPN can be held accountable for its performance by all of its stakeholders (customers, shareholders, employees, business associates, competitors, environmental organizations, international business relations and the community in the broadest sense). The Code of Conduct is available on the KPN website (www.kpn.com). KPN continuously updates its Code of Conduct and the underlying compliance policies, based on new and changed laws and regulation and communicates these via classroom training and e-learning. Using an e-learning module named 'Get the Code', over 16,500 employees were trained and they successfully passed the 'Get the Code' exam. This is an annual requirement for all employees in the Netherlands.

Whistleblower

The Speak-Up line empowers all employees and external parties to (anonymously) report misconduct of KPN employees. The Speak-Up line is personally promoted by the CEO of KPN. People are encouraged to speak up if they observe (suspected) misconduct. The number of reported issues increased in 2014 compared with previous years to 45 (2013: 28 and 2012: 5).

Business Control Framework

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

Strategic Risk assessments

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

Operational and Financial Risk Management

Operational and Financial Risk management addresses a wide range of risks, such as compliance risks, reliable financial reporting risks, security and continuity risks, corporate social responsibility risks, financial risks, tax risks and other risks.

Reliable Financial Reporting and Compliance (GRIP)

KPN has an integrated risk management approach and control framework called 'GRIP' (Governance and compliance, Risk management, Internal control and Processes) that includes:

- Internal control over financial reporting
- Compliance Risk Assessment Framework

'Internal control over financial reporting' ensures with a reasonable level of assurance that material misstatements in KPN's annual accounts are prevented or detected in a timely manner. Each quarter, Risk Management and Internal Audit assess the overall effectiveness of the GRIP framework before publication of the quarterly figures. The internal evaluation conclusions were in line with the observations discussed in the Board Report of the external auditors as part of their audit of the 2014 Financial Statements.

'Compliance Risk Assessment framework' (CRA) comprises an integrated framework which oversees risks related to compliance with the Dutch Telecommunications Act, competition laws and privacy regulations. For these risks, relevant processes and controls have been implemented and are continuously monitored. For risks related to significant market power (Aanmerkelijke Markt Macht), the compliance controls are tested and assessed for effectiveness by dedicated staff all year round. Also each quarter, a compliance report with a broader scope is drafted, monitoring the timeliness of implementation of new laws and regulations as well as the quality of incident reporting and compliance training. These reports are reviewed by Internal Audit and discussed with the Board of Management, segment management and the ACM (Autoriteit Consument & Markt).

The controls within GRIP are tested and assessed for effectiveness by dedicated staff year-round. The CFO of KPN reviews compliance of the segments with the requirements of the GRIP framework and discusses emerging issues and their timely resolution. KPN is continuously improving the effectiveness and efficiency of the internal control frameworks. In 2014, KPN further enhanced the GRIP approach with more focus on 'understanding the business' and more focus on key risks and effective monitoring controls.

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

Corporate Social Responsibility (CSR)

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

Financial Risk Management

KPN's Corporate Treasury department manages several important financial risks. The main identified financial risks are related to KPN's (large) cash positions, finance agreements, currency and interest exposures, and non-life insurance. These financial risks are managed by KPN's Treasury department under policies approved by the Board of Management, which include clear boundaries for currency risks, interest rate risks, counterparty risks and liquidity risks. Compliance with these policies is monitored frequently, including compliance in past periods and expected compliance in future periods.

For more information regarding Financial Risk Management at KPN, refer to Note 30 of the Consolidated Financial Statements.

Tax risks

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

Penalties

In 2014, KPN was subject to ten penalty cases. These penalties amounted to approximately EUR 39 million and include both revocable and irrevocable penalty-cases and fines that are paid or pending. Fines for which we successfully appealed are excluded from the total. Out of this EUR 39 million, EUR 33 million relates to a fine by ACM relating to the breach of the non-discrimination obligation and the obligation for transparency in the Business market where KPN was fined for informing its own business customers about promotions before informing wholesale customers. The penalty is irrevocable and was paid in 2014. All penalties were for breaches of the law relating to telecommunication. Furthermore, KPN was involved in 22 court cases in connection either with its designation as a party with significant market power in a particular market, or with the obligations imposed as a consequence and compliance therewith.

In 2014, the Dutch Advertising Code Committee gave a ruling (partially on appeal) on eight advertising statements by KPN. In five cases, the Committee ruled that the statement in question was wholly or partially in breach of the Dutch Advertising Code.

Internal Audit function

Internal Audit (KPN Audit) provides assurance to both the Board of Management and the Audit Committee concerning the 'In Control' status of KPN's segments and processes. The Chief Auditor reports to the CEO and has unrestricted access to the Board of Management and the Audit Committee. KPN Audit conducts its activities in a risk-based manner and in close cooperation with the external auditor, based on a continuous evaluation of perceived business risks. Auditors have unrestricted access to all documents and records, properties and staff. KPN Audit plays an important role in assessing the quality and effectiveness of KPN's Internal Risk Management and Control System. The Internal Audit function conducts systematic and ad hoc financial, IT and operational audits and special investigations. Furthermore, KPN Audit conducts periodic reviews on the quality of GRIP. Audit findings are discussed with responsible management, including directly responsible Board members, and every quarter the main findings are reported and discussed with the Board of Management and the Audit Committee.

Disclosure Committee

The Disclosure Committee (DC) examines all reports intended for external publication (disclosure) containing financial information to ensure that they are accurate, complete, timely and fairly present KPN's financial position and results in all material aspects. The DC reviews the disclosure controls and procedures. Based on its findings, the DC advises the Board of Management and the Audit Committee. As in 2013, in 2014 the DC consisted of (at least) the directors of Corporate Control (Chair), Corporate Treasury, Corporate Fiscal Affairs, Corporate Legal, Internal Audit, Investor Relations, Corporate Communication, the finance directors of the externally reported segments and the Secretary to the Board of Management. The DC met periodically in 2014.

In Control Statement and Responsibility Statement

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

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

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

With reference to best practice provision II.1.5 of the Dutch Corporate Governance Code, the Board of Management, to the best of its knowledge, believes that the Internal Risk Management and Control System, with regard to financial reporting, worked properly in 2014 and that the Internal Risk Management and Control System provides a reasonable assurance that the financial reporting does not contain any errors of material importance.

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

- The Annual Financial Statements of 2014 give a true and fair view of the assets, liabilities, financial position and profit or loss of KPN and its consolidated companies; and
- The Annual Report gives a true and fair view of the position as at December 31, 2014, the development during 2014 of KPN and its Group companies included in the annual financial statements, together with a description of the principal risks KPN faces.

The Hague, February 25, 2015

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

J.C. de Jager
Member of the Board of Management and Chief Financial Officer

J.F.E. Farwerck
Member of the Board of Management and Chief Operations Officer

Risks and countermeasures KPN Group

Category	Risk	Countermeasure
1. Intensified competition, including competition from new disruptive technologies or new business models of competitors		
Intensified competition	KPN could face increased competition from current as well as new market entrants and OTT players in markets or by market consolidation. Competition can occur based on price, increase of investment in customer acquisition and retention costs by competitors, subscription options, coverage and service quality. These factors could lead to lower profitability as well as lower market shares.	<ul style="list-style-type: none"> • Maintain balance between profitability and incentives to customers • Innovative products and services to meet changing customer needs • Roll-out of LTE and continuous identification of enhancements on the network to ensure KPN remains competitive • Improving NPS • Offer bundled services (triple-play, quad-play) and competitive price/portfolio combinations • Invest in quality of service and execution power • Multi-brand strategy • Further improve marketing and sales effectiveness • Strengthen distribution power with business partners, online channels and shops • Strategic partnerships and cooperation with OTT players • Intensified investments in business market portfolio (e.g. cloud services, M2M, hosting and security) • Further focus on unique selling propositions such as high quality infrastructure and services, national network coverage and reliable security • Increased focus on SME / SoHo propositions.
Disruptive technologies or business models and failure to introduce new products and services	<p>KPN's business model and financial performance could be affected by (disruptive) technologies and new players. KPN's response to new technologies and market developments and its ability to introduce new competitive products or services in the market are essential to KPN's performance and profitability in the long run.</p> <p>The introduction of new products and services such as new propositions may not be successful and/or timely. This could result in loss of market share and reduced profitability.</p>	<ul style="list-style-type: none"> • Develop new business models and new pricing models • Closely monitor market developments and trends in customer demands • Build lean and mean and flexible business organization • Develop strategic partnerships with OTT players • Maintain multi-brand strategy with differentiated propositions and develop fallback scenarios.
2. Reputation risks due to operational and quality related incidents		
Reputation risk due to operational and quality related incidents	KPN's technical infrastructure and IT may be vulnerable to damage or service interruptions, operational issues and quality related incidents. These incidents may include failures in the technical infrastructure or IT (e.g. theft/loss of customer data, failure of power supply, low coverage or insufficient customer service). Such incidents would have a negative impact on KPN's reputation, customer satisfaction and KPN's results.	<ul style="list-style-type: none"> • Monitor performance of technical infrastructure (e.g. performance, traffic growth and utilization rate) and IT • Benchmark quality of the technical infrastructure and maintain investment levels Strengthen the IT and continue implementation of new KPN Security Policy • Strengthen strategic programs to simplify and rationalize of IT/TI management • Back-up and recovery plans in case of emergencies • For business continuity in the Netherlands: internal continuity and disaster recovery programs including governance and training • For the Netherlands: Regional roaming in which a part of mobile voice traffic can be transferred to other operators in the event of calamities.
	Simplification and quality: KPN may make insufficient progress in realizing necessary quality improvements (NPS, First Time Right) and time-to-market of new products and services may be too long, which could lead to lower customer satisfaction/NPS and lower motivation of employees.	<ul style="list-style-type: none"> • Execution of quality improvement programs such as 'First Time Right' and 'Quality Circle' • Focus on drivers to improve Net Promoter Score (NPS) • Centralization of innovation and govern innovations and simplification at executive level.

Category	Risk	Countermeasure
	KPN may fail to meet stakeholder expectations relating to energy, emissions and sustainability. This could lead to loss of customers, loss of profitability in the future and reputational damage.	<ul style="list-style-type: none"> • Define and communicate to investors clear objectives for energy, emissions and sustainability • Continued dialogue with KPN's main stakeholders regarding their expectations for energy, emissions and sustainability • Carry out KPN's plan to become climate neutral in 2015.
3. Threats to the confidentiality, integrity, or availability of KPN's networks, systems, or data		
Information security threats	Threats to the confidentiality, integrity, or availability of KPN's networks, systems, or data caused by cyberattacks or lack of appropriate security controls and infrastructure measures.	<ul style="list-style-type: none"> • Continue implementation of the KPN Security Policy • Continue and strengthen Joint Security Operations Center implementation to improve security visibility and risk intelligence • Consolidate and maintain quality asset registration and configuration management database which enables rapid response to attacks • Continue HR strategy focused on attracting and retaining leading security experts.
4. Other risks		
Risks relating to regulatory and legislative matters	<p>Non-compliance with regulation and impact of new regulatory decisions:</p> <p>KPN may face issues in relation to non-compliance with regulation. These incidents could have a negative impact on KPN's reputation and relationship with regulators and/or supervisors.</p> <p>New regulatory decisions in the EU and the Netherlands could affect KPN's future operations and profitability.</p>	<ul style="list-style-type: none"> • Improving and maintaining a robust control framework dedicated to complying with Telco regulation (CRA framework) • Proactive stakeholder and reputation management including dialogue with regulators on predictable and pro-competitive (wholesale-based) regulation to minimize interventions in retail markets consistently over time • Strengthening the effectiveness of the compliance organization: <ul style="list-style-type: none"> – Centralized organization for compliance and risk management and maintenance of internal control framework – Compliance training sessions for staff and management – E-learning about the Company codes for all staff members of KPN in the Netherlands – Internal compliance investigations – Surveys and culture improvement programs • Ringfencing wholesale within operations.
	Tax: 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.	<ul style="list-style-type: none"> • Company-wide tax strategy and tax policy • Maintain good working relationships with tax authorities • Maintenance of internal control framework for key tax risk areas.
Lack of return on investments	High investments in fiber, copper or mobile infrastructure, including licenses, may not be recovered. The mobile market is characterized by increasing competition, accelerating changes in customer behavior, increasing price pressure and shrinking markets; also, large-scale investments in infrastructure are required to meet capacity demands. For the fixed market, fiber roll-out may not meet expectations and activations may fall behind, not reaching the required coverage ratio. This could lead to impairments of assets, licenses and goodwill.	<ul style="list-style-type: none"> • Balance the investments in copper upgrades and fiber-to-the-home roll-out • Continuous monitoring of performance, e.g. utilization and return on investment per area • Maintain balance between profitability and growth • Decision-making based on business cases (including continuous monitoring) • Develop strategic partnerships and investigate options for network sharing • Centralization of the management of capital expenditures • Less focus on roll out of high capital intensive fiber-to-the-home and increased focus on higher penetration.

REPORT BY THE BOARD OF MANAGEMENT — RISK MANAGEMENT AND COMPLIANCE

Category	Risk	Countermeasure
Impairment of assets	Changes in assumptions such as profitability, network penetration, long-term growth and discount rate could negatively affect the value of cash generating units and trigger an impairment.	<ul style="list-style-type: none"> • Focus on valuation principles and long term profitability, especially while conducting M&A related activities • Implement a solid investment policy • Monitor profitability of the cash generating units and network penetration.
	The sale of E-Plus resulted in a substantial amount of tax loss carry forwards (see Note 7 to the Consolidated Financial Statements) and deductible temporary differences for which a deferred tax asset of EUR 1.2 billion in total for the Dutch fiscal unity was recognized. Changes in assumptions such as profitability and long term growth could lead to an impairment of this asset.	<ul style="list-style-type: none"> • Monitor the final liquidation along with profitability and long term growth in the Netherlands.
	KPN obtained a 20.5% stake in Telefónica Deutschland as a result of the sale of E-Plus. This stake is reported as an 'available for sale financial asset' and measured at fair value which is based on the share price of Telefónica Deutschland on the stock market. The share price is volatile which could lead to an impairment of the 20.5% stake in Telefónica Deutschland which consequently could lead to volatility in KPN's Consolidated Statement of Profit or Loss.	<ul style="list-style-type: none"> • Monitor share price of Telefónica Deutschland.
Inability to compete effectively in Belgium	KPN is pursuing a challenger strategy in the Belgian mobile telecommunications market. KPN's competitors are larger established (quad play) operators that benefit from considerable financing, marketing and personnel advantages, wide brand-name recognition, perceived network quality and a deeply entrenched customer base. BASE Company as a mobile only player may prove unable to compete effectively with these established players, resulting in a material adverse effect on its business, financial condition and results of its operations.	<ul style="list-style-type: none"> • Development of KPIs to monitor the progress and success of an enhanced challenger strategy • Continued network roll-out • Continued focus on the quality of IT • Mobile broadband network minimally on par with competition • Customer differentiators such as price/value leadership and enhanced customer experience • Business model differentiators such as improvement of brand positioning and segmentation, regionalization and simplicity, cost leadership initiatives and innovative wholesale and operational partnerships • New Mobile Virtual Network Operator (MVNO) contracts • Develop strategic partnerships.
Adverse macro-economic conditions	Continued adverse macro-economic conditions: this could lead to lower revenue growth and lower profitability, affecting our businesses both in the Netherlands and abroad, and may lead to an impairment of assets.	<ul style="list-style-type: none"> • Innovation: develop new propositions • Swift response to new market developments and trends • Cost-cutting initiatives • Simplification program. This will lead to improved time-to-market, better quality of service and a simplified and agile organization. Additionally, it will lead to a structural lower level of operational costs.
Financing KPN and volatile financial markets	The pressure on KPN's self-imposed financial framework may increase in the event of higher net debt levels and/or lower profitability. In that case, KPN might not be able to maintain its current credit ratings, which could negatively affect pricing and availability of financing resources.	<ul style="list-style-type: none"> • Maintaining a strong liquidity position and prefunding maturing bond redemptions • Commitment to investment grade credit profile • Monitoring and forecasting of metrics used by rating agencies • Anticipating future changes in methodologies used by rating agencies • Maintaining discipline in allocating capital to investment opportunities.
	Uncertainty in financial markets, which could negatively affect pricing and availability of KPN's funding sources.	<ul style="list-style-type: none"> • Maintaining a strong liquidity position • Smooth redemption profile and upcoming bond redemptions financed well ahead • Diversification in funding sources • Active monitoring of counterparties, including measures to reduce counterparty risk.
	KPN holds substantial cash balances causing high counterparty risks.	<ul style="list-style-type: none"> • Manage counterparty risks by spreading excess cash among a sufficient number of strong counterparties.

Category	Risk	Countermeasure
Pensions	<p>In 2014, the KPN PF, KPN OPF and IT Solutions (NL) SVG plans were all transferred into (collective) defined contribution plans. However, several defined benefit plans remained for which a liability is recognized in KPN's Consolidated Balance Sheet. This liability is impacted by movements in interest rates, equity values (or 'value of the plan assets'), inflation rates and mortality. For further information about KPN's pension schemes, including the funding requirements and a sensitivity analysis, see Note 23 of the Integrated Annual Report 2014.</p>	<ul style="list-style-type: none"> • Closely monitor the development of the pension funds, including coverage ratios • Continuously investigate risk mitigation options such as transfer of remaining pension obligations to insurance companies.
Third party risks	<p>Dependence on suppliers and outsourcing/offshoring partners: KPN could depend too heavily on its ability to obtain adequate supplies of telecommunications equipment, related software and IT services, and on contractors' ability to build and roll out telecommunications networks on schedule as well as suppliers' ability to deliver dependable technical support. This could lead to an inability to deliver the required services at the right price and quality level.</p> <p>Furthermore, contractual obligations as included in agreements with KPN customers may not be properly translated into the relevant third party supplier contracts.</p> <p>Suppliers of KPN could – in hindsight – breach relevant legislation including human rights and/or environmental laws, which could have an impact on KPN's reputation.</p>	<ul style="list-style-type: none"> • Establish a strong demand organization that defines, enforces and monitors compliance with terms of contracts with suppliers and outsourcing parties and prepare re-transition plans as fallback scenario • Implement a well defined outsourcing process (toll gates, risk analyses etc) • Reduce number of suppliers and improve supplier selection criteria • Include a right to audit clause in supplier contracts and conduct regular audits • Require that suppliers comply with the KPN Security Policy • Create supplier default scenarios and include contractual ability to terminate the contracts based on non-performance • Align customer contract requirements with supplier contract requirements (this alignment is part of the governance rules for outsourcing). • Communicate KPN's supplier code of conduct to all suppliers • Request all suppliers to confirm compliance with KPN's supplier code of conduct • For high-risk suppliers, performance of audit procedures to evaluate suppliers' compliance with international standards for human rights and environmental laws.
Employment and diversity	<p>KPN may not be able to attract, deploy and retain qualified staff members, which could lead to insufficient competency and diversity in KPN's workforce.</p> <p>Restructurings could lead to less motivated personnel and/or key personnel leaving the Company (or even joining competitors) and thus loss of knowledge.</p>	<ul style="list-style-type: none"> • Improve talent management and remuneration programs to attract and maintain qualified staff • Communicate with (key) staff about reasons for restructuring and value their opinions and views • Promote technical education initiatives at high schools and universities to attract new workforce.



Regulatory developments

Introduction

KPN is subject to monitoring and regulation by regulatory bodies in the jurisdictions in which it operates. Key regulatory developments that could potentially impact KPN are: regulation of international roaming, obligations relating to significant market power and the licensing regimes for the use of frequencies. The European Roaming regulation is directly applicable in all member states. Regulation of operators with significant market power is applied nationally, after a national market analysis, but under coordination by the European Commission. In the Netherlands, this affects KPN in some fixed markets; in both the Netherlands and Belgium, KPN is regulated on mobile call termination services. Licensing regimes are also of a national nature.

European developments; towards a telecoms single market?

In the European Union, the debate on the proposal for a Regulation to stimulate the internal market for electronic communications to achieve a Connected Continent, as presented by former EU Commissioner Kroes on September 11, 2013, has been ongoing. The European Parliament finalized its first reading on the proposal on April 3, 2014 (including many amendments), but no Council position has been agreed in 2014. The 'trialogue' negotiations between the (new) Commission, (new) European Parliament and Council, to reach a common position, will only start afterwards. The current discussions mainly focus on the regulation of international roaming and net neutrality and potentially on some changes in the existing spectrum coordination and end user protection. The other subjects of the initial proposal are unlikely to be accepted, but may be part of a general review of the European Regulatory Framework that is announced to be undertaken by the new Commission.

On May 15, 2014, a directive of the European Parliament and of the Council entered into force on measures to reduce the cost of deploying high-speed electronic communications networks. The measures should be implemented into national law by July 1, 2016.

On October 9, 2014, the European Commission published the Recommendation Relevant Markets 2014, replacing the version of 2007, in which the markets that are in general deemed susceptible for ex ante regulation are limited to four markets (on wholesale fixed and mobile call termination and on fixed wholesale broadband access). The recommendation has no direct deregulatory effect, but it is up to national regulatory authorities to base their three-yearly market analysis decisions on it. Retail and wholesale fixed telephony services are no longer included, but could still be regulated nationally if specific national circumstances would justify ex ante regulatory intervention at wholesale level for a subsequent review period, but only if certain criteria are met.

International roaming on mobile networks

The Roaming Regulation 2012 extended the price regulation of the previous regulation and introduced 'structural measures' aimed at creating more competitive retail roaming markets as of July 2014. Since the first Roaming Regulation of 2007, the regulated price caps for wholesale as well as retail tariffs have been decreased annually, with a last reduction in July 2014. Since July 2012, MVNOs also can benefit from the regulated wholesale rates. As of July 2014, retail roaming services must be offered separately from national services and can be obtained from (if active) alternative roaming providers. Furthermore, operators need to facilitate that data roaming services can directly be offered by foreign operators in their territories. So far, hardly any alternative roaming offers are available in the market, potentially also caused by the political discussions on amending the roaming regulation. In the discussions on the proposed 'Connected Continent' regulation (see above), the European Parliament accepted an amendment that would mandate roaming tariffs in the EU to be equal to national tariffs, with a possibility to have restrictions based on 'fair use'. Currently, debates on amending the roaming regulation are ongoing, and no clarity exists for as yet what fair use restrictions would be allowed and what the relevant level of wholesale rates would be to allow a 'roam-like-at-home' pricing structure.

Market analysis decisions (the Netherlands)

KPN has been designated by the national regulatory authority ACM to have significant market power in some of the national fixed telecommunications markets. The last implemented decisions thereto came into force on January 1, 2012 (unbundled access to copper networks and – for at that time still joint venture Reggefiber – FttH), May 1, 2012 (wholesale telephony markets) and January 1, 2013 (high-quality wholesale broadband access and wholesale leased lines). On these markets access obligations, tariff regulation (partly by safety caps based on the 2011 tariff levels) and margin squeeze tests were imposed. Furthermore, KPN has been designated as having significant market power in the retail telephony markets for two and more simultaneous calls, for which markets a margin squeeze test is imposed. All of these decisions have been under appeal. The Trade and Industry Appeals Court ('CBB') has annulled or amended some of the decisions. The decision by which KPN was designated to have significant market power in the market of unbundled access to KPN FttO networks was annulled, by which this market is unregulated unless ACM published another decision with that effect. The Dutch television markets are not regulated.

The ACM is conducting its fourth round of market analysis. In October 31, 2014, ACM published the first draft decision concerning 'the market for unbundled access'. ACM concludes that, after the Ziggo/UPC merger, a risk of joint dominance in the fixed broadband/triple-play retail markets exists. To remedy the risk, KPN is to offer (virtual) unbundled access to its copper and fiber network at wholesale level. The draft decision has been consulted on a national level and will, after inclusion of amendments from the national consultation, be notified to the European Commission. The ACM intends to finalize its decision before May 1, 2015. KPN considers the proposed remedies inappropriate given the voluntary offer for wholesale access it presented in May 2014. Furthermore, the proposed remedies do not allow sufficient flexibility for upgrading KPN's copper network. The ACM is expected to prepare draft decisions concerning the (wholesale) telephony market and the wholesale business networks market later in 2015.

ACM decided to regulate the fixed and mobile termination rates by September 2013 based on a 'pure BULRIC' cost methodology, in line with the EU Commission's Recommendation on the regulatory treatment of fixed and mobile termination rates of May 7, 2009. In a pure BULRIC approach, joint and common costs are excluded from partial recovery by termination tariffs. ACM imposed maximum tariff levels of 0.108 EURct/min for fixed and of 1.019 EURct/min for mobile termination rates. In an injunctive procedure, the CBB judged on August 27, 2013 that ACM's decision materially seems no different from the earlier decision of 2010 (also applying the pure BULRIC methodology), which the CBB had annulled in August 2011. As an interim measure, the CBB decided that the tariffs should be set at the 'plus BULRIC' level of 0.302 EURct/min (fixed) and 1.861 EURct/min (mobile) during the appeal procedure. On October 15, 2014, the CBB rendered an interim decision in the appeal, in which it announced it would send prejudicial questions to the European Court of Justice on the legal status of the Recommendation. A final decision thereby is postponed until the answers of the European Court of Justice have been received and included in a national judgment.

Market analysis decision mobile call termination (Belgium)

In Belgium, the national regulatory authority BIPT decided on June 29, 2010 to regulate the mobile termination rates for all operators based on the 'pure BULRIC' cost methodology, in line with the EU Commission's Recommendation of May 2009 (see above), leading to a glide path for tariff reduction, with the last step as of September 1, 2013, at 1.08 EURct/min for all mobile operators. With its judgment of September 24, 2014, the Court of Appeal of Brussels has annulled the BIPT Decision for procedural reasons. The retroactive effects of the annulment are however mitigated for considerations of legal certainty and the Court of Appeal decided that the effects of the BIPT Decision of 2010 will be maintained until June 30, 2015. In February 2013, BIPT started a qualitative and quantitative consultation on the elaboration of a new cost model to be used as a basis for the regulation of MTR during the period 2013-2016. A first draft cost model has been consulted by BIPT in November 2013, but no final decision is available. In its draft work plan for 2015, BIPT has indicated that it would not be ready by June 20, 2015 with a new MTR decision, but rather by the end of 2015, therefore BIPT intends to adopt a refection decision in Q1 2015 in order to extend the applicability of the existing MTR decision beyond June 30, 2015.

Spectrum licenses (the Netherlands)

In the Netherlands, KPN holds licenses in the 800, 900, 1800, 2100 and 2600 MHz bands for mobile communications, a license for DVB-T (Broadcast) and a number of licenses of minor significance. The majority of the mobile licenses were granted after an auction in October-December 2012, and have a duration until 2030. The 2100 MHz licenses have a duration until January 1, 2017. However, in October 2014, the Minister of Economic Affairs published a draft decision for consultation on the duration of the 2100 MHz licenses, according to which the licenses will be extended upon request of the licensee for a period of four years. Thereby, the new allocation (auction) will be postponed by four years, potentially allowing simultaneous allocation with the 700 MHz band by that time. The extended licenses will be made technology-neutral, allowing use for 3G and 4G mobile technology. For the extension, a fee will be applicable, for the calculation of which the results of the 2012 auction are announced to be an input.

Spectrum licenses (Belgium)

In Belgium, BASE Company holds licenses for GSM, UMTS and LTE in the 800, 900, 1800, 2100 and 2600 MHz bands. A renewal of its 2G license from July 2013 until July 2018 was decided upon finally in 2013 for a fee of approximately EUR 62 million. The 2x10MHz 800MHz license, acquired in 2013, for a total consideration of EUR 120 million, has a duration of 20 years.



Corporate Governance

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

Legal structure of the Company

Royal KPN N.V. is a public limited liability company established under the laws of the Netherlands, with ordinary shares listed on NYSE Euronext Amsterdam. The Articles of Association of KPN were last amended on March 21, 2014.

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

Please see the section 'Composition of the Boards' starting on page 82, for information on the composition of the Board of Management and the Supervisory Board.

Shareholders

Share capital

Following the resolution of the Extraordinary General Meeting of Shareholders on January 10, 2014, the KPN authorized capital stock totals EUR 720 million, divided into 9 billion ordinary shares of EUR 0.04 each and 9 billion preference shares B of EUR 0.04 each. As of December 31, 2014, a total of 4,270,254,664 ordinary shares were outstanding.

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

Listings and indices

Since June 13, 1994, KPN's ordinary shares have been listed on Euronext Amsterdam (ticker: KPN). KPN has a Level I ADR program which allows investors to trade KPN ADRs in the United States on the Over-The-Counter market (ticker symbol: KKNY). KPN shares are included among others in the following leading indices: AEX, EURO STOXX Telecommunications Index, and STOXX Europe 600 Telecommunications Index.

The General Meeting of Shareholders

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

Within six months of the end of a fiscal year, an Annual General Meeting of Shareholders is held, where the discussion of the Annual Report and approval of the Financial Statements are put on the agenda. Other General Meetings of Shareholders are held as often as the Supervisory Board or Board of Management deem necessary. The Board of Management and the Supervisory Board determine the agenda of the Annual General Meeting of Shareholders. Shareholders who individually or collectively represent at least 1% of the issued capital or who, according to the Official Price List of NYSE Euronext Amsterdam, represent at least a value of EUR 50 million have the right to propose items for the agenda. Every shareholder has the right to attend a General Meeting of Shareholders in person or through written proxy, to address the meeting and to exercise voting rights.

Adoption of Financial Statements and discharge of responsibility

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

Obligations to disclose holdings

Pursuant to the Dutch Financial Supervision Act ('Wet op het financieel toezicht' or 'Wft'), legal entities as well as natural persons must immediately notify the Dutch Authority for Financial Markets ('AFM') when a shareholding equals or exceeds 3% of the issued capital. The AFM must be notified again when this shareholding subsequently reaches, exceeds or falls below a threshold. This can be caused by the acquisition or disposal of shares by the shareholder or because the issued capital of the issuing institution is increased or decreased. Thresholds are: 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%. A natural or legal person holding a net short position in the issued capital of a company is to notify the AFM on each occasion that the position reaches the threshold of 0.5% of the issued capital of the company concerned and on each occasion that it reaches 0.1% above this level. The AFM incorporates these notifications in the public register, which is available on its website. Failure to disclose the shareholding or short position qualifies as an offense, and may result in civil penalties, including suspension of voting rights and administrative penalties. See page 26 for the KPN shareholding as at December 31, 2014.

Purchase of shares in the Company's own capital and issue of new shares

The General Meeting of Shareholders authorized the Board of Management (for a period of 18 months until October 9, 2015) to purchase shares in the company's own capital with the aim to support KPN's management and employee incentive plans and, in accordance with the Articles of Association of the company, at a price per share of at least EUR 0.01 and at most the highest of (i) the Quoted Share Price plus 10% and (ii), if purchases are made on the basis of a program entered into with a single counterparty or using a financial intermediary, the average of the Volume Weighted Average Share Price during the effective course of the program. The Quoted Share Price is defined as the average of the closing prices of KPN shares as reported in the official price list of Euronext Amsterdam over the five trading days prior to the acquisition date. The Volume Weighted Average Share Price is defined as the volume weighted average price of trades in KPN shares on Euronext Amsterdam between 9am (CET) and 5.30pm (CET) adjusted for block, cross and auction trades.

At the proposal of the Board of Management, with approval of the Supervisory Board, the General Meeting of Shareholders resolved to reduce the issued capital through cancellation of own shares held by the company in accordance with the Articles of Association, with the aim to further optimize the equity structure of the company. The number of shares to be canceled following this resolution will be determined by the Board of Management and shall be limited by the maximum of 10% of issued capital as per April 9, 2014. The General Meeting of Shareholders has designated the Board of Management as the body authorized to issue ordinary shares and to grant rights to subscribe for ordinary shares and to restrict and to exclude statutory pre-emptive rights of existing shareholders upon the issuance of ordinary shares or the granting of rights to subscribe for ordinary shares (for a period of 18 months, until 9 October 2015), with the aim to ensure continuing financial flexibility of the company. This authority shall be limited to a maximum of 10% of the issued capital as per April 9, 2014, plus 10% of the capital if the issuance or the granting of rights occurs within the context of a merger or an acquisition. Resolutions by the Board of Management to issue ordinary shares, to grant rights to subscribe for ordinary shares or to restrict or exclude pre-emptive rights are subject to the approval of the Supervisory Board.

Change in nominal value

On January 10, 2014, KPN's Extraordinary General Meeting of Shareholders granted the requested approvals to amend the Articles of Association to decrease the nominal value of all shares from EUR 0.24 to EUR 0.04. The amount of the capital reduction was added to the share premium reserve of KPN. With the decrease of the nominal value, the authorized capital was amended as well, so as to keep the ratio between issued capital and authorized capital within the statutory requirements.

Supervisory Board

The Supervisory Board oversees strategic and commercial policymaking by the Board of Management and the way in which it manages and directs KPN's operations and affiliated/associated companies. Members of the Supervisory Board are appointed by the Annual General Meeting of Shareholders upon binding nomination by the Supervisory Board. The Central Works Council has an enhanced right to recommend persons for nomination up to one-third of the Supervisory Board. The Supervisory Board must nominate the recommended persons unless it is of the opinion that any such person would be unsuitable to fulfill the duties of a Supervisory Board member, or such appointment would cause the Supervisory Board to be improperly constituted.

According to the Articles of Association, the Supervisory Board must consist of at least five and not more than nine members. Members of the Supervisory Board resign according to a schedule set by the Supervisory Board. A member steps down at the first Annual General Meeting of Shareholders following his four-year term in office. In line with the Dutch Corporate Governance Code, members can be reappointed twice, leading to a maximum term in office of 12 years.

REPORT BY THE BOARD OF MANAGEMENT — GOVERNANCE

Corporate Governance

The Supervisory Board has determined its 'profile', defining the basic principles for the composition of the Supervisory Board. All nominees for election to the Supervisory Board must fit within this profile. According to this profile, the Supervisory Board must be composed in such a way that members of the Supervisory Board are able to operate independently of each other and of the Board of Management. The profile was last amended on April 22, 2013 to comply with diversity principles of Dutch law. The profile is available on KPN's website.

The by-laws of the Supervisory Board contain, among other things, rules regarding the members' duties, powers, working methods and decision-making, what decisions by the Board of Management it must approve, training and conflict handling. The by-laws are available on KPN's website.

Committees of the Supervisory Board

Four committees assist the Supervisory Board: the Audit Committee, the Remuneration Committee, the Nominating and Corporate Governance Committee and the Strategy and Organization Committee. These committees assist the Supervisory Board in its decision-taking and report their findings to the Supervisory Board. The tasks of these committees are laid down in charters, which are available on KPN's website. Further information on the activities of the committees in 2014 can be found in the section 'Composition of the Boards' starting on page 82.

Management

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

Corporate Social Responsibility (CSR) governance

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

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

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

Auditor

The external auditor is responsible for the audit of the financial statements. The external auditor reports to the Board of Management, the Audit Committee and the Supervisory Board to discuss findings pertaining to their review or audit of the quarterly and annual financial results. The external auditor attends the Annual General Meeting of Shareholders to answer questions pertaining to the auditor's report as included in the Annual Report. The Audit Committee approves every engagement of the external auditor, after pre-approval by the internal auditor in order to avoid potential breaches of the external auditor's independence. Both the external and internal auditor attend (parts of) the Audit Committee meetings. The Annual General Meeting of Shareholders appoints the external auditor on a yearly basis, upon recommendation by the Board of Management and the Supervisory Board.

Compliance with the Dutch Corporate Governance Code

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

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

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

Since October 1, 2014 KPN has complied with the best practice II.2.8: "The remuneration in the event of a dismissal may not exceed one year's salary (the 'fixed' remuneration component). If the maximum of one year's salary would be manifestly unreasonable for a management board member who is dismissed during his first term of office, such board member shall be eligible for severance pay not exceeding twice the annual salary." Mr. Dirks has been member of the Board of Management of KPN from November 8, 2011 until October 1, 2014. Mr. Dirks' employment contract contained a non-competition clause for which he would, as required by German law, receive compensation equal to 50% of his German base salary and short-term incentive during a maximum period of 12 months. Mr. Dirks resigned as of October 1, 2014 at his own request so there was no reason to apply this compensation clause.

Since April 9, 2014 KPN has complied with the best practice II.3.5: “A person may be appointed to the supervisory board for a maximum of three four-year terms.” On April 10, 2013, Ms. Van Lier-Lels was reappointed as a member of the Supervisory Board for the term of one year, whereas she had already served three four-year terms. The appointment of Ms. Van Lier-Lels was based on the enhanced right of recommendation of the Works Council and was important for the Company to ensure continuity within the Supervisory Board. Ms. Van Lier-Lels resigned as a member of the Supervisory Board as of April 9, 2014.

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

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

On August 29, 2013, the Foundation Preference Shares B KPN (the ‘Foundation’) announced that it exercised the option granted by KPN to acquire preference shares B in KPN in order to safeguard the interests of KPN and its stakeholders as América Móvil announced its intention to make a public offer for all KPN shares on August 9, 2013, without prior consultation of KPN. As a consequence thereof, 4,258,098,272 preference shares B were outstanding with the Foundation Preference Shares B KPN.

The Foundation emphasized that it would be holding the preference shares B only temporarily and from time to time it would be considering its position. On November 10, 2013, the Board of the Foundation Preference Shares B KPN requested the Board of Management to convene an Extraordinary General Meeting of Shareholders to redeem the 4,258,098,272 preference shares B. The Board of the Foundation was of the opinion that there was, subsequent to the withdrawal of the intended unsolicited offer by América Móvil, no reason to defer a decision to effect the redemption of the preference shares B. KPN’s Extraordinary General Meeting of Shareholders granted the requested approvals to cancel all outstanding preference shares B on January 10, 2014, which cancellation became effective on March 21, 2014. The cancellation resulted in a repayment to the Foundation of the payment made, amounting to 25% of the nominal value of the preference shares B, increased by an amount similar to a dividend in proportion to the time the shares were outstanding. The right granted to the Foundation to acquire preference shares B is unconditional and continuous, and the Foundation is therefore entitled to acquire preference shares B in the future.



Composition of the Boards

Supervisory Board

KPN's Supervisory Board currently consists of eight members. The composition of the Supervisory Board changed in 2014. At the Annual General Meeting of Shareholders of April 9, 2014, Mr. D.W. Sickinghe and Mrs. C.J.G. Zuiderwijk were appointed as members of the Supervisory Board. At the same time, Mr. R.J. Routs and Ms. M.E. van Lier-Lels stepped down as members of the Supervisory Board since they had reached the end of their one-year reappointment term. Mr. Spanbroek, General Counsel and company secretary, acts as secretary to the Supervisory Board.

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

Two vacancies will arise at the closure of the Annual General Meeting of Shareholders in 2015. Mr. J.B.M. Streppel and Ms. C.M. Hooymans will step down since they will have reached the end of their four-year term of office. Mr. J.B.M. Streppel will not be available for reappointment as the current four-year term of office is his third and last term. The vacancy that will arise when Ms. C.M. Hooymans steps down in 2015 will be filled based on the enhanced right of recommendation of the Works Council.



J.B.M. Streppel

Mr. Streppel was appointed as a member of the Supervisory Board on May 12, 2003 and has been the Chairman of the Supervisory Board since April 13, 2010. His current (third and final) term expires in 2015. Mr. Streppel chairs the Nominating and Corporate Governance Committee and is a member of the Remuneration Committee and Strategy & Organization Committee.

Mr. Streppel is the former Chief Financial Officer of AEGON N.V. and is a member of the Supervisory Board of Van Lanschot N.V., Chairman of the Board of Duisenberg School of Finance, non-executive director of RSA Group Plc. and member of the supervisory council of Arq Psycho Trauma Group. Mr. Streppel is a Dutch citizen.



D.J. Haank

Mr. Haank was appointed as a member of the Supervisory Board on April 7, 2009 and his (second) term expires in 2017. He is the Chairman of the Audit Committee and of the Remuneration Committee. He is also a member of the Strategy & Organization Committee.

Mr. Haank is currently CEO of Springer Science+Business Media (Springer). Mr. Haank holds several supervisory and advisory positions, including those of member of the Supervisory Board of NUON and MSD Netherlands B.V. and the Supervisory Council of the Dutch broadcast association TROS. Before his appointment at Springer, Mr. Haank was the CEO of Elsevier Science and Executive Board Member of Reed Elsevier PLC. Mr. Haank is a Dutch citizen.



P.A.M. van Bommel

Mr. Van Bommel was appointed as a member of the Supervisory Board on April 12, 2012 and his current (first) term expires in 2016. He is a member of the Audit Committee.

Mr. Van Bommel is currently a member of the board of management and CFO of ASM International N.V. Mr. Van Bommel is also non-executive director of ASM PT (Hong Kong). Before his appointment as CFO at ASMI, Mr. Van Bommel was CFO at Odersun, CFO at NXP and CFO at various divisions of Phillips. Mr. Van Bommel is a Dutch citizen.



C.J. García Moreno Elizondo

Mr. García Moreno Elizondo was appointed as a member of the Supervisory Board on April 10, 2013 and his current (first) term expires in 2017. He is a member of the Audit Committee.

Mr. García Moreno Elizondo is currently Chief Financial Officer of América Móvil. He holds several supervisory and advisory positions, including those of Banco Inbursa and Nacional Financiera. Prior to joining América Móvil and being a member of the Supervisory Board of Telekom Austria Group, Mr. García Moreno Elizondo held amongst other positions at the Mexican Ministry of Finance as the Director General of Public Credit and at the Swiss bank Corporation Warburg as executive director and managing director. Mr. García Moreno Elizondo is a Mexican citizen.



O. Von Hauske Solis

Mr. Von Hauske Solis was appointed as a member of the Supervisory Board on April 10, 2013 and his current (first) term expires in 2017. He is a member of the Remuneration Committee, the Nominating and Corporate Governance Committee and the Strategy & Organization Committee.

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



C.M. Hooymans

Ms. Hooymans was appointed as a member of the Supervisory Board on April 17, 2007 and her current (second) term expires in 2015. She is a member of the Remuneration Committee, as well as the Nominating and Corporate Governance Committee.

Ms. Hooymans is a former member of the Management Board of TNO and a member of the Supervisory Board of Rabobank Vallei en Rijn. Furthermore, she is a member of the Board of the Radboud Foundation (Radboud University and Radboud University Medical Center) and member of the advisory council of CBS. Ms. Hooymans is a Dutch citizen.



D.W. Sickinghe

Mr. Sickinghe was appointed as a member of the Supervisory Board on April 9, 2014 and his current (first) term expires in 2018. He is chairman of the Strategy & Organization Committee and member of the Nominating & Corporate Governance Committee.

Mr. Sickinghe is Managing Director of Fortino (Belgium). Mr. Sickinghe was CEO of Telenet (Belgium) in the period 2001-2013. Prior to that, he held executive positions at Wolters Kluwer (The Netherlands) and served in several management positions at Software Direct (France), NeXT Computer (France) and Hewlett-Packard (Switzerland and Germany). Mr. Sickinghe is currently Chairman of the Board of Van Eeghen Group (The Netherlands) and a board member of European Asset Trust (The Netherlands) Central Media Enterprises (Czech Republic) and UniBreda (Belgium). Mr. Sickinghe is a Dutch citizen.



C.J.G. Zuiderwijk

Mrs. Zuiderwijk was appointed as a member of the Supervisory Board on April 9, 2014 and her current (first) term expires in 2018. She is member of the Audit Committee.

Mrs. Zuiderwijk is chairman of the Board of Management of the Chamber of Commerce. She is currently a member of the Supervisory Board of Indaver and member of the Board of PubliQ. In the years 1993 to 2003, Mrs. Zuiderwijk worked for PinkRoccade in various management functions. Thereafter, Mrs. Zuiderwijk was the chairman of the board of the Hilversum hospital and, following the merger with the Gooi Noord hospital, the chairman of the Board of the Tergooi hospitals. Mrs. Zuiderwijk also was a member of the Innovation Platform of the Dutch government (from April 2007 to May 2010) and a member of the Care Innovation Platform of the Dutch Ministry of Health (from April 2008 to May 2010). Mrs. Zuiderwijk is a Dutch citizen.

REPORT BY THE BOARD OF MANAGEMENT — GOVERNANCE

Composition of the Boards

Composition of the Supervisory Board

Name	Year of birth	Start of term	End of current term	Committees
J.B.M. Streppel (Chairman)	1949	May 12, 2003 April 17, 2007* April 6, 2011*	2015	Chairman Nominating and Corporate Governance Committee; Member Remuneration Committee; Member Strategy & Organization Committee
P.A.M. van Bommel	1957	April 12, 2012	2016	Member Audit Committee
C.J. García Moreno Elizondo	1957	April 10, 2013	2017	Member Audit Committee
D.J. Haank	1953	April 7, 2009 April 10, 2013*	2017	Chairman Audit Committee; Chairman Remuneration Committee; Member Strategy & Organization Committee
O. Von Hauske Solis	1957	April 10, 2013	2017	Member Remuneration Committee; Member Nominating and Corporate Governance Committee; Member Strategy & Organization Committee
C.M. Hooymans	1951	April 17, 2007 April 6, 2011*	2015	Member Nominating and Corporate Governance Committee; Member Remuneration Committee
D.W. Sickinghe	1958	April 9, 2014	2018	Chairman Strategy & Organization Committee; Member Nominating & Corporate Governance Committee
C.J.G. Zuiderwijk	1962	April 9, 2014	2018	Member Audit Committee

* Reappointment.

Board of Management

Composition of the Board of Management

Currently, the Board of Management consists of three members. In September 2014, Mr. De Jager was appointed as a member of the Board of Management and took over the roll as Chief Financial Officer on November 1, 2014. In October 2014, Mr. Dirks left the Board of Management. Mr. Van Schilfgaarde was interim CFO until November 1, 2014 and attended meetings of the Board of Management.

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

Name	Position	Year of birth	Start of term	End of current term
E. Blok	Chief Executive Officer	1957	June 2006 /2010/2014*	2018
J.C. de Jager	Board member and Chief Financial Officer	1969	September 2014 **	2018
J.F.E. Farwerck	Board member and Chief Operating Officer	1965	April 2013	2017

* Reappointment.

** Chief Financial Officer as of November 1, 2014.

On January 9, 2015, the Supervisory Board appointed Mr. Frank van der Post to the Board of Management of KPN as Chief Commercial Officer as of March 1, 2015, after having informed the Extraordinary General Meeting of Shareholders of the intention to appoint Mr. Frank van der Post.



E. Blok

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

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

Mr. Blok joined KPN in 1983 and has had various management positions, including as director of KPN's Carrier Services, Corporate Networks and Fixed Net Operator, and he was responsible for Corporate Strategy & Innovation. More recently, he was Chief Operating Officer of KPN's former Fixed division. He was previously, from April until December 2004, a member of KPN's Board of Management. Until October 1, 2014, Mr. Blok was chairman of the Supervisory Board of E-Plus. He is a member of the Supervisory Board of Reggefiber Groep B.V. and co-chairman of the Cyber Security Council.



J.C. de Jager

Mr. De Jager was appointed to the Board of Management of KPN on September 26, 2014. As from November 1, 2014 he became Chief Financial Officer.

In the period from 2007 to 2012, Mr. De Jager was a member of the Dutch Cabinet, first as State Secretary for Finance (from 2007 to 2010), thereafter as Minister of Finance (from 2010 to 2012). As Minister of Finance, Mr. De Jager was responsible for, among others, the budget, general financial and economic policy, supervision of financial markets and cooperation with international financial institutions. As State Secretary for Finance, Mr. De Jager was responsible for many change processes, among others within the Dutch Tax Administration. In these functions, Mr. De Jager gained a lot of experience with financial markets and financial management of a large organization. In the period 1992-2007, Mr. De Jager founded and was Managing Partner at ISM eCompany, an eBusiness solutions company, for which he has acted as special advisor since his resignation from the Dutch Cabinet until his employment on the board of KPN. Mr. De Jager is member of the Board of BASE Company.



J.F.E. Farwerck

Mr. Farwerck is a member of the Board of Management and Chief Operating Officer.

Mr. Farwerck was appointed to the Board of Management of KPN on April 10, 2013. He started work at KPN in 1994 and held senior management positions in various divisions. He had been responsible for all KPN's activities in the Netherlands as Managing Director Netherlands since February 2012 and in September 2014 he became responsible for the operating activities of KPN as Chief Operating Officer. Mr. Farwerck is a member of the executive committee of VNO-NCW and a member of the Board of Nederland-ICT and chairman of the Board of iBasis.

Insider transactions

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

The table below provides an overview of transactions in 2014 by (former) members of KPN's Board of Management and Supervisory Board.

Date	Name	Transaction	Price per share
February 4	E. Blok	Bought 50,000 ordinary KPN shares	EUR 2.56
April 6	E. Blok	Cancellation of 156,693 conditional KPN shares due to non-fulfilment of performance criteria	EUR –
April 10	E. Blok	Award of 459,975 conditional KPN shares	EUR –
April 10	T. Dirks	Award of 234,497 conditional KPN shares	EUR –
April 10	J.F.E. Farwerck	Award of 207,440 conditional KPN shares	EUR –
August 5	E. Blok	Bought 50,000 ordinary KPN shares	EUR 2.38
September 26	J.C. de Jager	Award of 225,478 conditional KPN shares	EUR –
October 28	J.C. de Jager	Bought 30,000 ordinary KPN shares	EUR 2.47
October 29	C.J. García Moreno Elizondo	Sold 27,500 ordinary KPN shares	EUR 2.55
October 30	C.J. García Moreno Elizondo	Sold 27,100 ordinary KPN shares	EUR 2.58
October 30	C.J. García Moreno Elizondo	Sold 25,500 ordinary KPN shares	EUR 2.56
October 31	C.J. García Moreno Elizondo	Sold 26,780 ordinary KPN shares	EUR 2.62

The following transactions, performed in earlier years by members of the Board of Management or Supervisory Board who were appointed in 2014, have been notified to the AFM in 2014 upon their appointment:

Upon appointment as member of the Supervisory Board on April 9, 2014: D.W. Sickinghe held 130,000 ordinary KPN shares

Upon appointment as member of the Board of Management on September 26, 2014:

J.C. de Jager held 32,000 ordinary KPN shares



Supervisory Board Report

Strategic developments

Execution of strategy

Looking back at the year 2014, the Supervisory Board is pleased with the good strategic progress made:

In the consumer market, KPN realized customer base growth for all the main services. KPN also significantly improved customer satisfaction to well above market averages in the Netherlands, supported by a simplified product portfolio and client processes. Against a background of continued rationalization and migration to IP based services by business market customers – and at the same time increased customer demand for a variety of new services – KPN announced restructuring and efficiency measures in the business market aimed at achieving stronger customer focus, increased standardization and lower cost levels.

In a competitive Belgian market, BASE Company continued to be successful with its challenger strategy, focusing on postpaid and data growth supported by high network quality, price leadership and service leadership.

Through the year, KPN continued to invest in its networks and IT infrastructure, with a strong focus on quality improvements and process redesign. KPN completed the 4G roll-out in the Netherlands and – as part of its hybrid access network strategy – continued the upgrade of the copper network and the FttH roll-out with the aim to provide high-quality broadband services to its customers. In 2014, KPN also obtained full ownership of Reggefiber, which will contribute great value to KPN's operations with its efficient way of building and operating a passive infrastructure.

Another important landmark in the year 2014 was the sale of E-Plus. The completion thereof – together with the balance sheet repair through a successful capital raise in 2013 – has given KPN a solid financial profile, which provides a strong platform to continue to execute the “strengthen-simplify-grow” strategy in the Netherlands and Belgium. Moreover, the improved financial performance and profile allowed KPN to resume dividend payments. KPN also owns an attractive 20.5% stake in Telefónica Deutschland.

Following the sale of E-Plus, it was decided to change the organizational structure, enabling a functional and more direct control of KPN's operating activities, leading to an even stronger customer focus and cost control (and creating two new positions of Chief Commercial Officer and Chief Operating Officer within the Board of Management). The Supervisory Board supported the implementation of this new management structure.

The Supervisory Board strengthened the Board of Management with the appointment of Mr. De Jager as Chief Financial Officer (CFO) and the appointment (as of March 1, 2015) of Mr. Van der Post as Chief Commercial Officer (CCO). The Supervisory Board welcomed Mrs. Zuiderwijk and Mr. Sickhinge in its midst, and gratefully bid farewell to Ms. Van Lier-Lels and Mr. Routs (who reached the end of their terms).

Concluding, following turbulent recent years KPN positioned itself well in 2014 – operationally and financially – to remain the strong fixed-mobile integrated service provider with excellent customer service and products in the years to come.

Further activities of the Supervisory Board

During its meetings and contacts with the Board of Management, the Supervisory Board discussed the results achieved and plans for the next financial periods, further strategic matters that required the approval of the Supervisory Board (such as the exercise of the Reggefiber options) and all other relevant matters brought to its attention.

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

Each quarter, the external auditor reported to the Supervisory Board on its Board Report, discussing, e.g., accounting consequences of the sale of E-Plus, the deferred tax asset regarding the tax loss on the sale of E-Plus, the accounting treatment of the Reggefiber acquisition, pension matters, the rationalization of KPN's internal controls, quality of financial reporting and IT security. The Supervisory Board was again pleased with the progress made on IT matters. Also, the Supervisory Board discussed certain acquisition and divestment opportunities and approved various matters relating to the financing of KPN and the payment of dividends.

As part of the strategic discussions, the Supervisory Board was also kept informed on progress made on the Corporate Social Responsibility (“CSR”) themes of transparent, reliable service provider, best ICT infrastructure, healthcare of the future, new way of living and working, energy efficiency and privacy and security. The Supervisory Board was pleased that KPN strengthened its front-runner position in CSR amongst international telecom companies and other Dutch corporates. This was recognized externally, as KPN was again listed in the Dow Jones Sustainability World Index, earned a top three position in the Dutch Transparency Benchmark (and was thus nominated for the Kristal award from the Ministry of Economic Affairs) and became the joint global climate leader in the telecom sector (according to the Carbon Disclosure Project). KPN also continued to support the “Mooiste Contact Fonds”, aimed at stimulating social contacts for vulnerable groups within Dutch society.

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

Throughout the year, the Chairman of the Supervisory Board was in close contact with the Chief Executive Officer (CEO), and the Chairman of the Audit Committee was in close contact with the CFO (or interim CFO). Also, members of the Supervisory Board attended certain meetings of the Central Works Council. Outside these meetings, the Chairman of the Supervisory Board also met with the Chairman of the Central Works Council.

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

Finally, the Supervisory Board conducted a self-assessment regarding its performance in 2014, including its interaction with the Board of Management. In its assessment, the Supervisory Board used external support to perform individual interviews with its the members, as well as with the members of the Board of Management and the Company Secretary. The observations of these interviews were subsequently discussed in a plenary meeting. Overall, the Supervisory Board was positive on its own performance, noting in particular an open culture and atmosphere, an improved focus on strategy and business, and as a consequence providing a better challenge to management – also following changes in its composition in the last years. At the same time, it noted topics on which it could further improve, including the information provided to it, better cooperation as a full team, earlier involvement in key decisions for the company and more focus on talent development and succession planning, also amongst senior management. Furthermore, more attention should be paid to permanent education of its members. Actions were agreed to achieve such improvements.

Meeting information

Meetings of the Supervisory Board

The Supervisory Board met with the Board of Management on nine occasions in 2014, all of which were regularly scheduled meetings. Mr. Streppel acted as Chairman of the Supervisory Board, Mr. Haank was Vice-Chairman. The company’s Chief Legal Officer and Company Secretary, Mr. Spanbroek, acted as secretary to the Supervisory Board. The meetings commenced and/or ended with closed meetings where only Supervisory Board members (and at times the CEO) were present.

The attendance at the Supervisory Board meetings was 86%. No members were frequently absent and all members had adequate time available to prepare themselves and give the required attention to the matters at hand. In the event members could not join a meeting, the Chairman discussed the matters at hand before and after the meeting, in order to obtain the input and views of all Supervisory Board members. The Chairman is grateful to the Supervisory Board members for all the time they made available during this year with meetings and bilateral contacts between the Chairman and individual members of the Supervisory Board.

Independence

Throughout the year, six members of the Supervisory Board were independent from the Company within the meaning of the Dutch Corporate Governance Code. Two members – Mr. García Moreno Elizondo and Mr. Von Hauske Solis – were not considered independent within the meaning of the Dutch Corporate Governance Code. The composition of the Supervisory Board was such, however, that the members were able to act critically and independently of one another and of the Board of Management. See Note 33 of the Consolidated Financial Statements for related party transactions disclosure.

For a description of the organization and structure of KPN’s Supervisory Board, see ‘Corporate Governance’ starting on page 78.

Committees of the Supervisory Board

As set out in section ‘Corporate Governance’ starting on page 78, the Supervisory Board has the following Committees: the Audit Committee, the Remuneration Committee, the Nominating and Corporate Governance Committee and the Strategy and Organization Committee (as recently established). Their main considerations and conclusions were shared with the full Supervisory Board.

Audit Committee

The Audit Committee currently consists of four Supervisory Board members: Mr. Haank (Chairman), Mr. Van Bommel, Mr. García Moreno Elizondo and Mrs. Zuiderwijk (as of April 2014). Mr. Van Bommel and Mr. García Moreno Elizondo are considered to be financial experts within the meaning of the Dutch Corporate Governance Code. The Audit Committee had six regularly scheduled meetings, all of which were also attended by the CFO (or interim CFO). The attendance rate at the Audit Committee meetings was 85%. The Committee also met separately with the external auditor (as did the Chairman of the Supervisory Board). The Corporate Secretary of the Board of Management, Mrs. Van Dam-Debruyne, acted as the Audit Committee’s secretary.

REPORT BY THE SUPERVISORY BOARD

Supervisory Board Report

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

Each quarter, the Audit Committee also discussed in detail the matters included in the Board Report of the external auditor. The general meeting of shareholders appointed PricewaterhouseCoopers Accountants N.V. ("PwC") as KPN's independent external auditor for the year 2014. The Audit Committee reviewed the performance evaluation of PwC (which was conducted by senior management) and was satisfied with the results. The Audit Committee also closely monitored PwC's independence for performing non-audit-related services (e.g., when approving the related engagements). As EY was already appointed as the independent external auditor for the year 2015 (by the general meeting of shareholders), the Audit Committee monitored the smooth handover from PwC to EY during the year in preparation of the 2015 audit.

The Committee also discussed other topics that were within its scope of attention, most notably compliance, fraud management, tax matters, pension plan matters and application of IT in (financial) processes. Finally, the Audit Committee carried out its self-assessment by means of an extensive questionnaire, the results of which were discussed during the last meeting of the Audit Committee in 2014.

Strategy and Organization Committee

The Strategy and Organization Committee (acting as of September 2014) currently consists of four Supervisory Board members: Mr. Sickhinge (Chairman), Mr. Streppel, Mr. Haank and Mr. Von Hauske Solis. The Strategy and Organization Committee had two regularly scheduled meetings, which were also attended by the CEO, CFO and Director Strategy. The attendance rate at the Strategy and Organization Committee meetings was 75%.

The Strategy and Organization Committee worked with the Board of Management in preparing and reviewing topics concerning the strategy of the company (such as the fiber roll-out, content and cloud services) in advance of the meetings of the Supervisory Board, aimed at facilitating good discussions on the strategic options going forward. The Strategy and Organization Committee also facilitated in-depth industry debates in the Supervisory Board based on analyses and scenario development of the customers, technologies and competition.

Remuneration Committee

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

The Committee assisted the Supervisory Board in establishing and reviewing KPN's pay policy to ensure that members of the Board of Management are compensated consistently with that policy.

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

The Committee met five times in 2014, with an attendance rate of 90%. Consistent with its charter, the Committee was involved in several aspects, including but not limited to:

- Defining the level of pay-out for individual members of the Board of Management as part of the STI plan 2013 and LTI grant 2011 and setting the financial/non-financial targets and performance criteria for the STI plan 2014 and LTI grant 2014;
- Introducing an adjusted LTI plan, as approved by the AGM in April 2014; and
- Determining the new pension plan for Members of the Board of Management due to new legislation that will come into effect on January 1, 2015.

The Committee also discussed and recommended the terms and conditions with regard to (intended) changes in the composition of the Board of Management, as well as granting a discretionary incentive to Mr. Blok and Mr. Dirks to acknowledge their extraordinary management achievement in the very complex and time-consuming process of closing the sale of E-Plus to Telefónica Deutschland. The Supervisory Board considered that this achievement outperformed the regular business plan and created substantial additional value for the Company and its shareholders, which warranted such discretionary reward. Further details on the activities of the Remuneration Committee are provided in the 'Remuneration Report' starting on page 90.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee has currently four members: Mr. Streppel (Chairman), Mr. Sickhinge, Mr. Von Hauske Solis, and Ms. Hooymans.

The purpose of the Nominating and Corporate Governance Committee is to recommend individuals to the Supervisory Board for nomination as members of the Board of Management and Supervisory Board, to support the Supervisory Board in adopting high standards and practices for the corporate governance structure, to lead the Board of Management in its periodic review of its performance and to oversee the Company's activities in the areas of environmental and corporate responsibility. The attendance at Nominating and Corporate Governance Committee meetings was 80% (the Committee met seven times in 2014).

Consistent with its charter, the Committee discussed and reviewed the size and composition of the Supervisory Board and was responsible for the selection process regarding new appointments to the Supervisory Board and Board of Management.

The appointment of Mr. De Jager as a member of the Board of Management came into effect as of KPN's AGM on September 26, 2014. Mr. Van Schilfgaarde continued in his role as interim CFO until November 1, 2014. After this date, Mr. De Jager assumed responsibility as CFO within the Board of Management of KPN.

Following the completion of the sale of E-Plus, Mr. Dirks (CEO of E-Plus and member of the Board of Management of KPN at that time) stepped down as member of the Board of Management of KPN to become CEO of Telefónica Deutschland. Mr. Dirks left the Company on October 1, 2014.

The Supervisory Board appointed Mr. Van der Post as the company's CCO. Shareholders were informed of the intended appointment during an Extraordinary General Meeting of Shareholders (and approved a special remuneration item). Mr. Van der Post will assume responsibilities as a member of the Board of Management and CCO as of March 1, 2015.

During 2014, the composition of the Supervisory Board changed as well. Ms. Van Lier-Lels and Mr. Routs were not available for reappointment and stepped down after the AGM in April 2014. The appointment of Mrs. Zuiderwijk and Mr. Sickinghe as members of the Supervisory Board came into effect as of KPN's AGM on April 9, 2014.

The Committee continued to be committed to ensure (when possible) that the Supervisory Board and Board of Management consist of at least 30% female and at least 30% male members, thereby incorporating the Dutch law requirement and serving the interest of a balanced composition of the Boards. When searching for candidates for available Board seats, special attention was given to identify female candidates to achieve a more even distribution between male and female members. However, KPN aims to select the best person for the job and – as suitable female candidates were not deemed available – the 30% female representatives on Board of Management level was not yet achieved. For the upcoming Supervisory Board vacancies, KPN aims to make further progress to implement the policy and achieve the 30% female representation.

In this context, the Committee also asked the Board of Management to pay special attention to the recruitment and retention of female leadership talent at the senior leadership level in order to create a more diverse internal talent pipeline. Moreover, the diversity goals were expanded to include young people, women, migrant men and women, people with disabilities and seniors and thus achieve truly diverse teams which reflect society. For further information on KPN's diversity policy, see 'Our people' starting on page 34.

For an overview of all members of the Board of Management and Supervisory Board, see 'Composition of the Boards' starting on page 82.

Financial Statements

The Financial Statements for the year ended December 31, 2014, were prepared by the Board of Management and approved by the Supervisory Board. The Report of the Independent Auditor, PricewaterhouseCoopers Accountants N.V., is included in the 'Other Information' on pages 180-185.

The Supervisory Board recommends that the AGM adopts these Financial Statements.

Final remarks

On February 6, 2015, Mr. Ton Risseeuw, former member and chairman of the Supervisory Board, passed away. Mr. Risseeuw played a leading role in the turn-around of our company at the start of this century, and in the many developments since then. We are grateful to Mr. Risseeuw for all his support and dedication to the company and its employees.

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

Welcomed by my colleagues, your Chairman takes this opportunity to say farewell to you with a couple of reflections. Looking back, my terms with the company are really split into three. In the first part, we successfully turned around a state-owned company into a public company. The second period has been characterized by quick growth, good performance in capital markets and at the end over-valuation. In the third period, say the last four years, we have seen many technological developments and significant changes in customer behavior. It led first to a situation for KPN where we had to repair the balance sheet, change the business model and set the strategy for a successful and prosperous future of KPN. I sincerely believe that these tasks have been achieved now that the Board of Management is both capable and complete. Your outgoing Chairman is extremely grateful to shareholders and employees and above all to our customers to lead the company to where it is now. I trust that the Chairmanship of the Supervisory Board is in highly capable hands with my successor Mr. Sickinghe.

The Hague, February 25, 2015

J.B.M. Streppel

P.A.M. van Bommel

D.J. Haank

C.M. Hooymans

C.J. García Moreno Elizondo

O. Von Hauske Solis

D.W. Sickinghe

C.J.G. Zuiderwijk



Remuneration Report

Introduction

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

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

The Committee assists the Supervisory Board with establishing and reviewing the Company's pay policy to ensure that members of the Board of Management are compensated consistently with that policy.

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

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

Overview

Executive pay at a glance	Duties and activities of the Committee	Executive pay policy – detailed overview	Details of actual remuneration	Supervisory Board pay
A	B	C	D	E
▽	▽	▽	▽	▽
Highlights of KPN's pay policy (through questions and answers)	Insight into the topics discussed by the Committee	In-depth insight into KPN's pay policy for the Board of Management	Insight into actual cost levels for the Board of Management	Insight into KPN's pay policy for the Supervisory Board

A. Executive pay at a glance

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

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

How are executives rewarded?

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

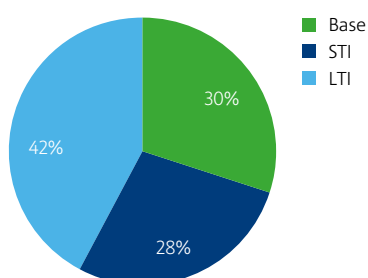
Component	Form	Fixed/variable	Drivers
Base salary	Cash	Fixed	Experience and responsibility
Benefits (primarily pensions)	Funded by cash contributions		Market-competitive standards
Short-Term Incentive (STI)	Cash		Performance – assessed through annual financial and non-financial targets
Long-Term Incentive (LTI)	Conditional shares	Variable	Performance – assessed through relative TSR (peer group), Free Cash Flow, Earnings per Share and non-financial parameters

What is the ratio between fixed and variable pay?

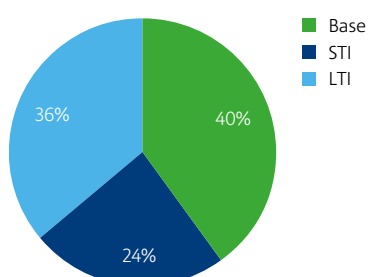
The ratio between fixed and variable pay is influenced by the extent to which targets are met. The pie charts represent the pay mix for both the CEO and the other Board members in case of an on-target performance.

Compensation policy

CEO



Other Executives



How is the level of compensation established?

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

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

REPORT BY THE SUPERVISORY BOARD — REMUNERATION REPORT

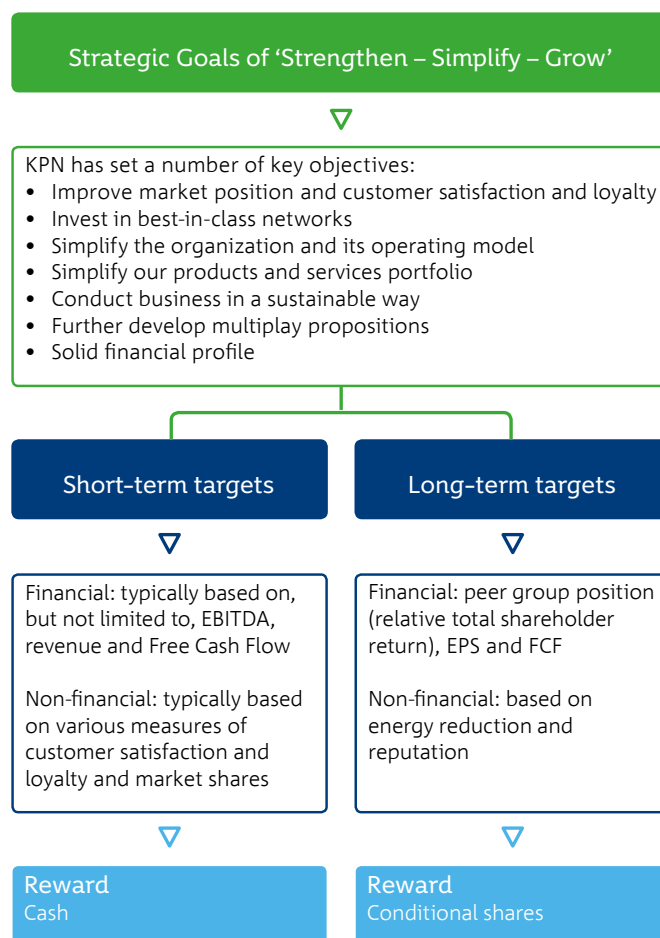
Remuneration Report

Are incentives aligned with strategy?

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

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

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

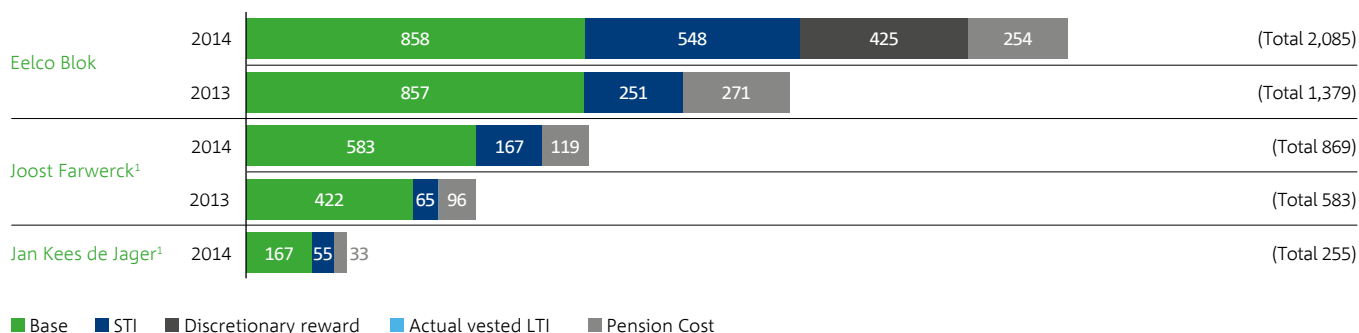


What was rewarded in 2014?

The bar chart below shows the actual remuneration related to the year. This includes the annual base pay, STI, LTI vested in the year, pension cost and any additional remuneration.

Board of Management

(in thousands of EUR)



1) Remuneration of Mr. de Jager since appointment as Board member in September 2014 and remuneration of Mr. Farwerck since appointment as Board member in April 2013.

B. Duties and activities of the Committee

Duties of the Committee

The Committee assists the Supervisory Board with:

- Establishing and reviewing the Company's pay policy (based amongst other things on national and international benchmark standards);
- Ensuring that members of the Board of Management are compensated consistently with that policy; and
- Reviewing and, if appropriate, recommending changes to the pay of the Supervisory Board.

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

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

Activities during 2014

The Committee met five times in 2014, with an attendance rate of 90%. Consistent with its charter, the Committee has been involved in several aspects, such as:

- Defining the level of pay-out for individual members of the Board of Management as part of the STI plan 2013 and LTI grant 2011 and setting the financial/non-financial targets and performance criteria for the STI plan 2014 and LTI grant 2014;
- Recommending the terms and conditions agreed upon with regard to changes in the composition of the Board of Management;
- Introducing an adjusted LTI plan, as approved by the AGM in April 2014, taking into account KPN's risk profile, the Company's pay policy, pay trends in the Netherlands and abroad as well as trends in Corporate Governance;
- Reviewing the need for adjustments in pay levels (where applicable, and in order to ensure a consistent pay structure for the individual members of the Board of Management);
- Adjusting the terms of reference of the Committee;
- Granting a discretionary reward to Mr. Blok and Mr. Dirks to acknowledge their extraordinary management achievement in the very complex and time consuming process of closing the sale of E-Plus to Telefónica Deutschland;
- Discussing and determining the details of the remuneration packages for Mr. De Jager and Mr. Van der Post;
- Determining the new pension plan for Members of the Board of Management due to new legislation that came into effect on January 1, 2015; and
- Preparing the Remuneration Report 2014 to be included in KPN's Integrated Annual Report.

C. Executive pay policy – detailed overview

Objectives of KPN's pay policy

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

- Attracting, motivating and retaining the necessary leadership talent in order to sustain and expand KPN's unique competencies and capabilities;

- Driving performance that generates long-term profitable growth;
- Promoting behavior that reinforces the business strategy and desired culture;
- Encouraging teamwork across business units and functional areas;
- Linking rewards to value creation for shareholders and other stakeholders;
- Complying with best practice in Corporate Governance; and
- General acceptance by all stakeholders.

Principles of KPN's pay policy

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

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

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

Composition of employment market peer group and market assessment

To ensure the overall competitiveness of KPN's pay levels, these levels are benchmarked against an employment market peer group. The Committee uses one peer group consisting of AEX-listed companies and European sector-specific companies. The table below shows the current composition of KPN's employment peer group:

Employment peer group	
AkzoNobel NV	Randstad Holding NV
DSM NV	Royal Philips Electronics NV
Heineken NV	Unilever NV/Plc
Reed Elsevier NV/Plc	Portugal Telecom SA
Royal Ahold NV	Swisscom AG
Belgacom SA	Vodafone Group Plc
BT Group Plc	Cap Gemini NV

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

The relative size of KPN is taken into account when determining whether KPN 'pays competitively'.

Base salary

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

REPORT BY THE SUPERVISORY BOARD — REMUNERATION REPORT

Remuneration Report

Short-Term Incentives (STI)

General

At the beginning of each year, the Supervisory Board sets financial and non-financial target ranges for the Board of Management. These ranges are based on the Company's business plan. At the end of the year, the Supervisory Board reviews the Company's performance against the target ranges. Members of the Board of Management are eligible for an annual cash incentive only if Company performance is at or above the predetermined ranges.

Objectives

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

Performance incentive zone

The target ranges for financial and operational performance comprise:

- A 'threshold' below which no incentive is paid;
- An 'on-target' performance level at which an 'on-target' incentive is paid; and
- A 'maximum' at which the maximum incentive is paid.

The STI is designed to strike a balance between the Company's risk profile and the incentive to achieve ambitious targets. The pay-out methodology is based on a separate pay-out approach for each of the financial and non-financial targets.

The Supervisory Board's ability to apply a discretionary factor ranges between 0.7 (i.e. cutting the cash incentive by 30%) and 1.3 (i.e.

increasing the cash incentive by 30%). With this discretionary factor, the Supervisory Board is able to express the assessment of the overall individual performance of each member of the Board of Management. The ability to apply a discretionary factor does not increase average achievement levels. It does, however, allow the Supervisory Board some discretion in differentiating on the basis of individual contributions to Company performance.

The Supervisory Board has the discretionary authority to reward extraordinary management achievement that outperforms the regular business plan and has created substantial additional value for the Company and its shareholders. Other than that, discretion both upwards and downwards can be applied by the Supervisory Board if the outcome of the STI scheme would produce an unfair result or if the outcome would not be considered to reflect the basic objectives and principles of pay as outlined in this section.

Actual pay-out levels

For 2014, taking into consideration that it was a transformational year for KPN with good strategic progress, amongst other targets, EBITDA was slightly above threshold, EBITDA minus Capex was below threshold, market shares were, on average, around target performance, Free Cash Flow was around on-target and customer base was below threshold. Next to that a discretionary reward of 50% of their annual base salary was granted to Mr. Blok and Mr. Dirks in October, to acknowledge their extraordinary management achievement in the very complex and time-consuming process of closing the sale of E-Plus to Telefónica Deutschland. The Supervisory Board considered that this achievement outperformed the regular business plan and created substantial additional value for the Company and its shareholders, which warranted such a discretionary reward.

Component	Form of compensation	Value determination	Targets	Pay-out at threshold performance	Pay-out at or above maximum performance ¹
STI	Cash	'On-target' incentive equals 90% of base salary for the CEO and 60% of base salary for the other members of the Board of Management.	Targets typically are EBITDA, Free Cash Flow and various measures customer satisfaction and loyalty and market shares.	25% of the 'on-target' incentive (i.e. 22.5% of base salary for the CEO and 15% of base salary for the other members of the Board of Management). Pay-out below threshold performance: 0% of the 'on-target' incentive.	150% of the 'on-target' incentive (i.e. 135% of base salary for the CEO and 90% of base salary for the other members of the Board of Management).

1) Maximum including the effect of the discretionary factor.

Long-Term Incentives (LTI)

General

In addition to the base salary and the short-term annual cash incentive described above, a long-term incentive based on performance shares is used to ensure that the interests of the members of the Board of Management are aligned with those

of its long-term (or prospective) shareholders and to provide an incentive for members of the Board of Management to continue their employment relationship with the Company.

Component	Form of compensation	Value determination ¹	Drivers ²	On-target	Scenario maximum (position 1 in TSR peer group and maximum performance on financial and non-financial targets)
Long-term share-based compensation	Shares	CEO: based on 135% of base pay with deferred dividend. Other members of the Board of Management: based on 90% of base pay with deferred dividend.	For 25% based on relative TSR versus peer group, for 25% on Free Cash Flow, for 25% on Earnings Per Share, for 12.5% on sustainability/environmental targets and for 12.5% on stakeholder/customer targets.	100% of the granted shares vest.	200% of the granted shares vest.

1) Based on the average share price of the first trading day after the AGM.

2) Vesting of non-financial targets will be subject to achieving a cumulative net profit during the vesting period of three years (i.e. qualifier for vesting).

The number of shares granted under this plan is based on a percentage of base pay as shown in the table. The number of shares that actually vest, for the LTI plans 2014 onwards, is performance related and for 25% based on relative TSR versus peer group, for 25% on Free Cash Flow, for 25% on Earnings Per Share, for 12.5% on sustainability and environmental targets and for 12.5% on stakeholder and customer targets. The vesting methodology is based on a separate vesting approach for each of the financial and non-financial targets.

It is considered that comparing KPN's TSR with a wider group of companies (either geographically or with other industries) is not meaningful. Variations in returns would most likely be attributed largely to macro-economic events and/or sector shifts rather than to variations in management actions. Therefore, benchmarking TSR achievements relative to other, similar companies emphasizes rewarding for specific KPN performance.

The non-financial parameters set for 2014 are based on energy reduction and a reputation dashboard. Please refer to the Environmental Performance chapter of this report for detailed information about the energy reduction parameters. Vesting is in principle also subject to the condition that the member of the Board of Management has not resigned within three years of the date of the initial grant.

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

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

Performance-measuring and peer group performance

The table below provides an overview of KPN's performance peer group to determine KPN's relative shareholder return for LTI plans as of 2014.

Companies included in the peer group

Belgacom SA	Tele2 AB
BT Group Plc	Telekom Austria AG
Deutsche Telekom AG	TeliaSonera AB
Mobistar SA	Vodafone Group Plc
Orange SA	Swisscom AG
TDC A/S	KPN NV

Position	Vesting schedule	Vesting schedule	Ranking companies
	2012-2013 grant	2014 grant	2012 grant
Position 1	200%	200%	Hellenic Telecom (OTE)
Position 2	200%	175%	BT Group PLC
Position 3	200%	150%	Telenor ASA
Position 4	175%	125%	Deutsche Telekom AG
Position 5	150%	100%	Swisscom AG
Position 6	125%	75%	Belgacom SA
Position 7	100%	No vesting	Orange SA
Position 8 and below	No vesting	No vesting	KPN NV (13th position)

The table above provides the vesting schedules of the TSR part in the LTI plans and an overview of the final ranking of the 2012 share plan that vests in 2015. Vesting schedule for financial and non-financial targets other than TSR: threshold performance 25%, on-target performance 100% and maximum performance 200%.

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

Performance incentive zone

In line with the design of KPN's LTI plan the target performance ranges for vesting of the LTI plan comprise a threshold below which no shares vest, an on-target performance level at which shares vest an on-target and a maximum at which the shares vest at the maximum level.

Once vested, the shares will have to be held for a minimum period of two years. An exception to this rule is made for shares that are sold to cover income tax obligations in relation to the vested shares (typically the value taxed as income equals the amount of shares vested multiplied by the share price at the time of vesting).

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

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

The change of control clause contains immediate vesting at 100% (irrespective of the actual performance at that moment, whether higher or lower) and lifting of the blocked period normally applicable, to enable the member of the Board of Management to dispose of his shares in the situation of a change of control. The immediate vesting at 100% will be pro rata for the time passed in the plan during the vesting period of three years (i.e. 1/3 in year one, 2/3 in year two, full in year three).

REPORT BY THE SUPERVISORY BOARD — REMUNERATION REPORT

Remuneration Report

Further details of the LTI plan are disclosed in a so-called factsheet as approved by the AGM in April 2014.

Actual pay-out levels

Final TSR measurement for the 2012 share grant was conducted as per February 15, 2015. KPN's performance resulted in the 13th position in the TSR performance peer group with respect to the 2012 share award. This position does not lead to vesting in April 2015 of the granted shares.

Claw-back clause

The Supervisory Board has the discretionary authority to recover variable pay awarded on the basis of incorrect financial or other data.

Benefits

Pensions

Members of the Board of Management are eligible for a defined contribution pension plan with a contribution based on the fiscal defined contribution table that corresponds to a retirement age of 67 and an annual accrual rate of 2.15%. The pension plan for 2015 onwards will be adjusted in line with new pension legislation, i.e. accrual rate of 1.875% and pension accrual capped at EUR 100,000 base pay. Consequently, the Dutch Board members will receive a fixed gross allowance as of January 2015 equal to the associated pension contribution paid by the Company in 2014 for the base pay part above EUR 100,000. This gross allowance is calculated based on the applicable 2014 defined contribution plan, i.e. determined based on the age and annual base salary of the individual Board members. The gross annual allowance can be used to build up additional pension benefits based on a so-called net-saving pension plan as facilitated by Dutch (fiscal) pension legislation.

Additional arrangements

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

Loans

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

Terms of employment

Members of the Board of Management have a service agreement for a definite period of time with the exception of Mr. Blok, who has an employment contract for an indefinite period of time.

Members of the Board are appointed for a period of four years, which is in line with the requirements of the Dutch Corporate Governance Code.

Severance arrangements

Severance payments for the CEO and members of the Board of Management are aligned with the Dutch Corporate Governance Code (one year base salary, and – exceptionally during the initial term of four years – up to two years' base salary).

Change in composition and responsibilities of the Board of Management

The appointment of Mr. De Jager as a member of the Board of Management came into effect as of KPN's EGM on September 26, 2014. The remuneration package of Mr. De Jager fits within KPN's remuneration policy as approved by the General Meeting of Shareholders. His employment contract provides for a base salary of EUR 625,000 per year. Mr. De Jager is eligible for short- and long-term variable incentives, which are dependent on the performance of KPN versus the Company's financial and/or non-financial targets. The contractual severance pay is equal to one year's base compensation. A defined contribution pension plan is part of the arrangements. Mr. Van Schilfgaarde continued in his role as interim CFO until November 1, 2014. After this date, Mr. de Jager assumed responsibility as CFO within the Board of Management of KPN.

The Supervisory Board announced its intention to appoint Mr. Van der Post as the Company's Chief Commercial Officer (CCO). Shareholders were informed of the intended appointment during an EGM on January 9, 2015 and consequently the Supervisory Board appointed Mr. Van der Post as member of the Board of Management. Mr. Van der Post will assume responsibilities as a member of the Board of Management and CCO as from March 1, 2015. The main terms and conditions of Mr. Van der Post's agreement fit within KPN's remuneration policy, as approved by the General Meeting of Shareholders. Mr. Van der Post will earn a base salary of EUR 700,000 per year. He is also eligible for a short-term variable cash incentive and a long-term variable incentive (based on conditional shares). In addition, as a partial compensation for rights that Mr. Van der Post will forfeit at his previous employer, he will receive EUR 1.2 million compensation in cash and shares (spread out over time). Because compensation of this type was not foreseen in KPN's remuneration policy, shareholders were requested to grant their approval thereto at the EGM on January 9, 2015. This approval was granted by the shareholders.

Following completion of the sale of E-Plus, Mr. Dirks, CEO of E-Plus and member of the Board of Management of KPN, has stepped down as member of the Board of Management of KPN to become CEO of Telefónica Deutschland. Mr. Dirks left the Company on October 1, 2014.

Outlook for 2015

No adjustments in the Company's remuneration policy that require AGM approval are foreseen in 2015.

D. Details of actual remuneration

The remuneration of the current members of the Board of Management is set out below. All sections under D and E are part of the Financial Statements and subject to audit.

Name	Year	Salary & Social Security (EUR)	STI ³ (EUR)	Discretionary award ⁶ (EUR)	LTI: Share awards ¹ (EUR)	Pension costs ² (EUR)	Total (EUR)
E. Blok	2014	857,506	547,995	425,000	503,860	254,100	2,588,461
	2013	857,171	250,835	–	556,466	271,000	1,935,472
J.F.E. Farwerck ⁴	2014	582,506	167,038	–	217,210	118,700	1,085,454
	2013	422,074	64,866	–	86,152	95,600	668,692
J.C. de Jager ⁴	2014	166,911	54,526	–	55,341	33,357	310,135
Total current members ⁵	2014	1,606,923	769,559	425,000	776,411	406,157	3,984,050
	2013	1,279,245	315,701	–	642,618	366,600	2,604,164

- 1) The amounts in the table, in deviation from previous years, represent the cost recognized for shares in 2014 and 2013 based on their fair values and no longer the total cost of the granted shares in these years. The fair value per share of the 2014 grant was EUR 2.37 (excluding deferred dividend). Please refer to the 'Long-term incentives' section of this report for a further explanation. Under IFRS, the fair value of the share-based award is recorded as cost over the vesting period. The total cost relating to the 2014 grant of share awards amounted to EUR 1,090,141 for Mr. Blok (EUR 166,095 in 2013), EUR 491,633 for Mr. Farwerck (EUR 115,392 in 2013) and EUR 534,383 for Mr. De Jager.
- 2) The pension costs relate to the premiums paid or service cost. Interest charges and investment yields are not allocated on an individual basis. In the pension costs, in deviation from previous years, the costs for survivor's pension, disability coverage and administration cost are included.
- 3) Actual STI that relates to performance in the current year but paid out in the following financial year. Please refer to the 'Short-term incentives' section of this report for the actual pay-out levels per target in 2014. Final market shares in 2013 were determined in March 2014 which slightly altered the STI amounts for 2013 that were disclosed in the 2013 Annual Report.
- 4) Remuneration of Mr. Farwerck since appointment as a Board member in April 2013 and remuneration of Mr. De Jager since appointment as a Board member in September 2014.
- 5) In 2013, the temporary employer tax charge of 16% on 2013 salaries exceeding EUR 150,000 was recorded. This tax charge amounted to EUR 328,138 for the Board members in 2013 and is not included in the figures above.
- 6) A discretionary reward of 50% of his annual base salary was granted to Mr. Blok to acknowledge his extraordinary management achievement in the very complex and time-consuming process of closing the sale of E-Plus to Telefónica Deutschland.

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

Name	Year	Salary & Social Security (EUR)	STI (EUR)	Discretionary award/Notice period (EUR)	LTI: Share Awards ¹ (EUR)	Pension costs (EUR)	Total (EUR)
T. Dirks ²	2014	487,500	253,744	325,000	247,517	45,950	1,359,711
	2013	650,000	142,090	–	89,153	67,232	948,475
W.T.J. Hageman	2013 ³	619,671	–	236,161	-50,817	88,200	893,215
Total former members ⁴	2014	487,500	253,744	325,000	247,517	45,950	1,359,711
	2013	1,269,671	142,090	236,161	38,336	155,432	1,841,690

- 1) The amounts in the table, in deviation from previous years, represent the cost recognized for shares in 2014 and 2013 based on their fair values and no longer the total cost of the granted shares in these years. The fair value per share of the 2014 grant was EUR 2.37 (excluding deferred dividend). Under IFRS the fair value of the share-based awards is charged to the P&L over the vesting period. The total cost relating to the 2014 grant of share awards amounted to EUR 555,758 for Mr. Dirks (EUR 115,392 in 2013).
- 2) Remuneration of Mr. Dirks until October 2014. Final market shares in 2013 were determined in March 2014 which slightly altered the STI amounts for 2013 that were disclosed in the 2013 Annual Report. A discretionary reward of 50% of his annual base salary was granted to Mr. Dirks, to acknowledge his extraordinary management achievement in the very complex and time consuming process of closing the sale of E-Plus to Telefónica Deutschland.
- 3) Remuneration of Mr. Hageman until December 31, 2013. In the light of the six months' notice period for cancellation of the employment contract, it was agreed with Mr. Hageman to pay his remuneration to the end of the year and pay the remainder in December 2013.
- 4) The temporary employer tax charge of 16% on 2013 salaries exceeding EUR 150,000 amounts to EUR 159,154 for the former Board members in 2013 and is not included in the figures above.

REPORT BY THE SUPERVISORY BOARD — REMUNERATION REPORT

Remuneration Report

The following table summarizes the shares/share-based awards granted to current members of the Board of Management

	Grant date	Current status ⁸	Number of shares granted as of January 1, 2014	Number of shares/ share-based awards granted, vested, forfeited or sold in 2014 ^{1,2}	Number of shares/ share-based awards as of December 31, 2014	Total pre-tax fair value of shares on grant date (EUR) ³	Pre-tax market value of shares on vesting date or end of lock-up in 2014 (EUR)	End of lock-up period
E. Blok								
	4/10/2014	Conditional	–	459,975	459,975	1,090,141	–	4/10/2019
	4/12/2013	Conditional	156,693	–	156,693	166,095	–	4/12/2018
	4/23/2012	Conditional	156,693	–	156,693	269,800	–	4/23/2017
	4/6/2011 ⁶	Conditional	156,693	-156,693	–	1,085,850	–	n/a
J.F.E. Farwerck								
	4/10/2014	Conditional	–	207,440	207,440	491,633	–	4/10/2019
	4/12/2013	Conditional	108,860	–	108,860	115,392	–	4/12/2018
	4/23/2012 ⁵	Conditional	53,606	–	53,606	92,300	–	4/23/2017
	5/1/2012 ^{5,7}	Conditional	24,741	–	24,741	76,800	–	n/a
	4/6/2011 ^{5,6}	Conditional	39,008	-39,008	–	270,317	–	n/a
J.C. de Jager								
	9/26/2014 ^{5,6}	Conditional	–	225,478	225,478	534,383	–	4/10/2019

The following table summarizes the shares/share-based awards granted to former members of the Board of Management

	Grant date	Current status ⁷	Number of shares granted as of January 1, 2014	Number of shares/ share-based awards granted, vested, forfeited or sold in 2014 ^{1,2}	Number of shares/ share-based awards as of December 31, 2014	Total pre-tax fair value of shares on grant date (EUR) ³	Pre-tax market value of shares on vesting date or end of lock-up in 2014 (EUR)	End of lock-up period
T. Dirks								
	4/10/2014 ⁴	Conditional	–	32,569	32,569	555,758	–	4/10/2019
	4/12/2013	Conditional	108,860	-57,454	51,406	115,392	–	4/12/2018
	4/23/2012	Conditional	108,860	-21,167	87,693	187,440	–	4/23/2017
	4/6/2011 ^{5,6}	Conditional	45,523	-45,523	–	315,468	–	n/a

1) The shares granted to the members of the Board of Management represent 18% of the total number of shares and share-based awards granted in 2014 to all employees. On the grant date (April 10, 2014) the KPN share price quoted EUR 2.49 (closing price) while the fair value of each granted share was EUR 2.37 for members of the Board of Management. For Mr. Hageman all grants were forfeited in 2013.

2) The 2014 grant numbers do not include any deferred dividend during the vesting period. The deferred dividend during the vesting period will be additional granted in shares.

3) Value is calculated by multiplying the number of share awards by the fair value at grant date.

4) For Mr. Dirks the 2014 grant of 234,497 shares was reduced to 32,569 shares based on his last day in service of September 30, 2014.

5) Not granted in capacity as member of the Board of Management.

6) Final TSR measurement for the 2011 share grant was conducted as of February 15, 2014.

7) Shares in the vesting period or lock-up period are disclosed as conditional.

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

Stock ownership Board of Management

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

Number of shares	December 31, 2014	December 31, 2013
E. Blok	600,109	500,109
J.F.E. Farwerck	27,195	27,195
J.C. de Jager	62,000	n/a

The table below shows the shares held by former members of the Board of Management

Number of shares	December 31, 2014	December 31, 2013
W.T.J. Hageman ¹	n/a	50,000
T. Dirks ¹	n/a	n/a

1) Number of shares at the date of stepping down from the Board of Management.

Share ownership relates to ordinary shares.

In 2011 a share ownership recommendation was introduced whereby the members of the Board of Management are encouraged to acquire Company shares equal to one times the annual fixed compensation for members of the Board of Management (excluding CEO) and two times the annual fixed compensation for the CEO. Retained vested shares as part of the LTI will be included in the share ownership recommendation.

E. Supervisory Board pay

The Committee is responsible for reviewing and, if appropriate, recommending changes to the pay of the Supervisory Board. Any recommended changes to Supervisory Board pay must be submitted to the General Meeting of Shareholders for approval. In view of the competitive remuneration developments in the market combined with an increased workload and responsibility for Supervisory Board members, the remuneration policy of the Supervisory Board was reassessed during 2010, resulting in a proposal to adjust the remuneration levels of the Supervisory Board. This proposal was approved by the General Meeting of Shareholders on April 6, 2011. Please refer to the table for further details. Members receive an additional fee if a meeting is held in a country other than the member's country of residence.

Shareholdings in the Company held by Supervisory Board members serve as a long-term investment in the Company and help to align their interest with those of KPN's other shareholders. No Supervisory Board member is granted stock options or shares as a form of pay. As a policy, the Company does not provide loans or guarantees to its Supervisory Board members.

Ms. Van Lier-Lels and Mr. Routs were not available for reappointment and stepped down after the AGM in April 2014. The appointment of Mrs. Zuiderwijk and Mr. Sickinghe as members of the Supervisory Board came into effect as of KPN's AGM on April 9, 2014.

The table below shows the pay-out to Supervisory Board Members in 2014 and fixed Committee fees on an annual basis.

Amounts in EUR	Fees 2014
Chairman Supervisory Board	100,000
Vice Chairman of the Supervisory Board	70,000
Member Supervisory Board	60,000
Chairman Audit Committee	20,000
Member Audit Committee	10,000
Chairman Strategy & Organization Committee	10,000
Member Strategy & Organization Committee	5,000
Chairman Remuneration Committee	10,000
Member Remuneration Committee	5,000
Chairman Nominating and Corporate Governance Committee	10,000
Member Nominating and Corporate Governance Committee	5,000

REPORT BY THE SUPERVISORY BOARD — REMUNERATION REPORT

Remuneration Report

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

Amounts in EUR	Membership fees 2014	Committee fees 2014	2014 Total	2013 Total
J.B.M. Streppel	100,000	18,639	118,639	115,000
D.J. Haank	67,278	30,917	98,195	80,000
C.M. Hooymans	60,000	10,000	70,000	70,000
P.A.M. van Bommel	60,000	10,000	70,000	70,000
C.J. García Moreno Elizondo	60,000	10,000	70,000	52,500
O. Von Hauske Solis	60,000	13,639	73,639	52,500
C.J.G. Zuiderwijk	43,667	7,278	50,945	–
D.W. Sickinghe	43,667	10,917	54,584	–
R.J. Routs ¹	19,056	4,083	23,139	85,000
M.E. van Lier-Lels ¹	16,484	2,747	19,231	70,000
A.H.J. Risseeuw ¹	–	–	–	17,500
M. Bischoff ¹	–	–	–	17,500
Total	530,152	118,220	648,372	630,000

1) Former member of the Supervisory Board.

Stock ownership of the Supervisory Board

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

Number of shares	December 31, 2014	December 31, 2013
J.B.M. Streppel	–	–
D.J. Haank	24,351	24,351
C.M. Hooymans	–	–
P.A.M. van Bommel	114,000	114,000
C.J. García Moreno Elizondo	198,520	305,400
O. Von Hauske Solis	–	–
C.J.G. Zuiderwijk	–	–
D.W. Sickinghe	130,000	–
R.J. Routs ¹	n/a	–
M.E. van Lier-Lels ¹	n/a	–
A.H.J. Risseeuw ¹	n/a	50,000
M. Bischoff ¹	n/a	9,000
Total	466,871	502,751

1) Former member of the Supervisory Board. Number of shares at the date of step down from the Supervisory Board.

The Hague, February 25, 2015

D.J. Haank

C.M. Hooymans

J.B.M. Streppel

O. Von Hauske Solis

Independent Assurance Report

To: the Board of Management of Koninklijke KPN N.V.

The Board of Management of Koninklijke KPN N.V. ('KPN') engaged us to provide assurance on certain information ('the Sustainability Information') in the Integrated Annual Report 2014. Our engagement consisted of providing a combination of:

- limited assurance over the Sustainability Information in the Chapters 'Introduction', 'Strategic Review' and 'Report by the Board of Management' on pages 2 – 85 and the Appendices 2 and 3 on pages 190 – 195 (leading to a 'conclusion'); and
- reasonable assurance on the energy consumption and net CO₂ emissions data 2014 of own operations in the Netherlands (scope 1 and 2) on page 43 (leading to an 'opinion').

We believe these procedures fulfill the rational objective as disclosed by KPN on page 192.

Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Sustainability Information for the year ended December 31, 2014, does not provide a reliable and appropriate presentation of KPN's policy for sustainable development, or of KPN's activities, events and performance relating to sustainable development during the reporting year, in accordance with KPN reporting criteria.

Our opinion

Based on the procedures we have performed and the evidence we have obtained, in our opinion the energy consumption and net CO₂ emissions data 2014 of own operations in the Netherlands (scope 1 and 2) as presented in the table on page 43 of the Integrated Annual Report are, in all material respects, presented reliably and adequately, in accordance with KPN reporting criteria.

This conclusion and opinion are to be read in the context of what we say in the remainder of our report.

The basis for our conclusion and opinion

What we are assuring

We have reviewed the Sustainability Information in the Chapters 'Introduction', 'Strategic Review' and 'Report by the Board of Management' on pages 2 to 85 and the Appendices 2 and 3 on pages 190 – 195 of the Integrated Annual Report 2014 for the year 2014 (hereafter: 'the Report') of Koninklijke KPN N.V., Den Haag. This Sustainability Information comprises a representation of KPN's policy, activities, and performance relating to sustainable development during the reporting year 2014. The disclosures made by management with respect of the scope of the Report are included on pages 192 – 195 (Appendix 3 – Scope, reporting process and materiality determination).

In addition to our review procedures, we have performed reasonable assurance procedures on the energy consumption and net CO₂ emissions data 2014 of own operations in the Netherlands (scope 1 and 2) as presented in the table on page 43.

A review leads to limited assurance. Limited assurance procedures are substantially less in scope than reasonable assurance procedures in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

Limitations in our scope

The Report contains prospective information, such as ambitions, strategy, targets, expectations and projections. Inherent to this information is that actual future results may be different from the prospective information and therefore it may be uncertain. We do not provide any assurance on the assumptions and feasibility of this prospective information.

Furthermore, the following Chapters have been excluded from our assurance scope:

- Risk management and compliance (page 68-75); and
- Regulatory developments (page 76-77).

The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the sustainability information is free from material misstatement due to fraud or error. This is because there are inherent limitations of an assurance engagement, which result in most of the assurance evidence on which the auditor bases the auditor's opinion being persuasive rather than conclusive.

KPN reporting criteria

KPN developed its sustainability reporting criteria on the basis of the G4 Guidelines of the Global Reporting Initiative (GRI), which are disclosed together with detailed information on the reporting scope and reporting process and methods (Appendix 3 – Scope, reporting process and materiality determination) on pages 192 – 195. We consider the sustainability reporting criteria to be relevant and appropriate for our examination.

Understanding reporting and measurement methodologies

The information in the scope of this engagement needs to be read and understood together with the reporting criteria, for which KPN is solely responsible for selecting and applying. The absence of a significant body of established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

ASSURANCE REPORT ON SUSTAINABILITY INFORMATION

Independent Assurance Report

Our assurance approach

Materiality

We set thresholds for materiality at the planning stage and reassessed them during the engagement. These helped us to determine the nature, timing and extent of our procedures and to evaluate the effect of identified misstatements on the information presented, both individually and in aggregate. Based on our professional judgment, we determined specific materiality levels for each element of the Sustainability Information.

Areas of particular focus

The areas of particular focus that, in our professional judgment, were of most significance in the assurance engagement of the sustainability information, including the allocation of our resources and effort, are identified below together with an explanation of how we tailored our procedures to address these specific matters. This is not a complete list of all risks and/or matters identified by our work.

We have communicated the areas of particular focus with the Supervisory Board. These areas were addressed in the context of our assurance engagement of the sustainability information as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these areas of particular focus.

Scope 3 emissions	In 2014, KPN increased the level of disclosure of its scope 3 CO ₂ emissions. Inherent to the nature of scope 3 emissions, KPN had to use estimates and underlying assumptions to determine the indirect emissions in its value chain. Our review procedures focused on understanding the model used by management, assessing the mathematical accuracy of the calculations applied and assessing the underlying assumptions.
Estimated reduced energy consumption by KPN customers in 2014	As of 2014, KPN started reporting on the estimated reduced energy consumption by KPN's customers through the use of its products and services. KPN created an innovative model to estimate the positive impact of its products and services, while taking potential negative impacts into account. Our review procedures focused on understanding the model used by management, assessing the mathematical accuracy of the calculations applied and assessing the underlying assumptions.

Work done

We are required to plan and perform our work in order to consider the risk of material misstatement of the Sustainability Information.

Our main procedures included the following:

- performing an external environment analysis and obtaining an understanding of the relevant social issues, relevant laws and regulations and the characteristics of the organization;
- evaluating the acceptability of the reporting policies and consistent application of these, such as assessment of the

outcomes of the stakeholder dialogue and the process for determining the material subjects, the reasonableness of estimates made by management, as well as evaluating the overall presentation of the sustainability information;

- evaluating the design and implementation and testing of the operating effectiveness of the systems and processes for data gathering and processing of information as presented in the Report;
- interviews with management and relevant staff at corporate (and business/division/local) level responsible for the sustainability strategy and policies;
- interviews with relevant staff responsible for providing the information in the Report, carrying out internal control procedures on the data and the consolidation of the data in the Report;
- investigating internal and external documentation, in addition to interviews, to determine whether the information in the Report is adequately substantiated;
- performing analytical review of the data and trend explanations submitted for consolidation at group level;
- assessing the consistency of the sustainability information and the information in the Report not in scope for this Assurance Report; and
- assessing whether the sustainability information has been prepared 'in accordance' with the Sustainability Reporting Guidelines version G4 of GRI.

In addition to the procedures mentioned above, for the energy consumption and net CO₂ emissions data 2014 of own operations in the Netherlands (scope 1 and 2) we performed the following:

- assessing the systems and processes for data gathering, including testing the design, existence and the effectiveness of the relevant internal controls during the reporting year;
- conducting analytical procedures and substantive testing procedures on the relevant data;
- assessing the processing of other information, such as the aggregation process of data into the information as presented in the sustainability information; and
- corroborating internal and external documentation to determine whether the sustainability information is substantiated adequately.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion and opinion.

Professional and ethical standards applied

We conducted our assurance engagement in accordance with Dutch law, including Standard 3810N 'Assurance engagements relating to sustainability reports' (hereafter: 'Standard 3810N'). Our responsibilities under this standard are further described in the "Our responsibilities" section of this report.

We are independent of KPN in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA) and other relevant regulations.

Responsibilities

The Board of Management's responsibilities

The Board of Management of KPN is responsible for the preparation of the Report in accordance with KPN reporting criteria, including the identification of the stakeholders and the determination of material subjects. Furthermore, the Board of Management is responsible for such internal control as the Board of Management determines is necessary to enable the preparation of the Report that is free from material misstatement, whether due to fraud or error.

Our responsibilities

Based on our assurance engagement in accordance with Standard 3810N, our responsibility is to:

- express a conclusion on the Sustainability Information in the Report; and
- express an opinion on the energy consumption and net CO₂ emissions data 2014 of own operations in the Netherlands (scope 1 and 2).

This requires that we comply with ethical requirements and that we plan and perform our work to obtain limited assurance about whether the report is free from material misstatement.

The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant for the preparation of the Report in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KPN's internal control. An assurance engagement aimed on providing limited and reasonable assurance also includes evaluating the appropriateness of the reporting framework used and the reasonableness of estimates made by management as well as evaluating the overall presentation of the Report.

The Hague, February 25, 2015
PricewaterhouseCoopers Accountants N.V.

Original has been signed by M. de Ridder RA

Financial Statements





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FINANCIAL STATEMENTS — CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss

For the year ended December 31

Amounts in millions of EUR, unless otherwise stated	2014	2013
Revenues [1]	7,999	8,443
Other income [2]	84	29
Total	8,083	8,472
Own work capitalized	-86	-78
Cost of materials	728	574
Work contracted out and other expenses	3,186	3,187
Employee benefits [3]	797	1,297
Depreciation, amortization and impairments [4]	1,820	1,857
Other operating expenses [5]	443	609
Total operating expenses	6,888	7,446
Operating profit	1,195	1,026
Finance income	34	29
Finance costs	-871	-754
Other financial results	-66	-32
Financial income and expenses [6]	-903	-757
Share of the profit/loss (-) of associates and joint ventures [12]	-6	-7
Profit/Loss (-) before income tax from continuing operations	286	262
Income taxes [7]	-47	31
Profit/Loss (-) for the year from continuing operations	239	293
Profit/Loss (-) for the year from discontinued operations [19]	-823	-508
Profit/Loss (-) for the year	-584	-215
Profit/Loss (-) attributable to non-controlling interests [21]	14	7
Profit/Loss (-) attributable to equity holders [20]	-598	-222
Earnings per share after taxes attributable to equity holders for the year in EUR [8]		
–Basic (continuing operations)	0.04	0.07
–Fully-diluted (continuing operations)	0.04	0.07
–Basic (discontinued operations)	-0.19	-0.14
–Fully-diluted (discontinued operations)	-0.19	-0.14
–Basic (total, including discontinued operations)	-0.15	-0.07
–Fully-diluted (total, including discontinued operations)	-0.15	-0.07

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

Consolidated Statement of Other Comprehensive Income

For the year ended December 31

Amounts in millions of EUR, unless otherwise stated	2014	2013
Profit/Loss (-) for the year	-584	-215
Other comprehensive income:		
Items of other comprehensive income that may not be reclassified subsequently to profit or loss:		
Remeasurement pensions and other post-employment plans:		
Gains or losses (-) arising during the period [20]	-41	383
Income tax [20]	-9	-62
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	-50	321
Items of other comprehensive income that will be reclassified subsequently to profit or loss when specific conditions are met:		
Cash flow hedges:		
Gains or losses (-) arising during the period [20]	-1	-208
Income tax [20]	2	53
	1	-155
Currency translation adjustments:		
Gains or losses (-) arising during the period [20]	2	-1
Realized loss through profit or loss	4	-
	6	-1
Fair value adjustment available-for-sale financial assets:		
Unrealized gains or losses (-) arising during the period [13, 20]	163	8
Income tax [20]	-41	-
Impairment charge through profit or loss	-	-8
	122	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	129	-156
Other comprehensive income for the year, net of income tax	79	165
Total comprehensive income for the year, net of income tax	-505	-50
Total comprehensive income attributable to:		
Equity holders	-519	-57
Non-controlling interests	14	7
Total comprehensive income for the year, net of income tax	-505	-50
Total comprehensive income attributable to equity holders arises from:		
Continuing operations	304	445
Discontinued operations	-823	-502

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

FINANCIAL STATEMENTS — CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

Assets

Amounts in millions of EUR	December 31, 2014	December 31, 2013
NON-CURRENT ASSETS		
Goodwill	1,454	1,169
Licenses	1,564	1,729
Software	675	610
Other intangibles	299	135
Total intangible assets [10]	3,992	3,643
Land and buildings	569	596
Plant and equipment	5,704	4,274
Other tangible non-current assets	58	80
Assets under construction	275	390
Total property, plant and equipment [11]	6,606	5,340
Investments in associates and joint ventures [12]	42	320
Loans to associates and joint ventures [12]	19	453
Available-for-sale financial assets [13]	2,713	20
Derivative financial instruments [27]	328	117
Deferred income tax assets [7]	1,323	1,167
Trade and other receivables [14]	140	122
Total non-current assets	15,163	11,182
CURRENT ASSETS		
Inventories [15]	61	60
Trade and other receivables [16]	999	1,214
Income tax receivables [7]	49	1
Other current financial assets [17]	300	—
Cash and cash equivalents [18]	1,976	3,946
Total current assets	3,385	5,221
Non-current assets and disposal groups classified as held for sale [19]	8	9,469
TOTAL ASSETS	18,556	25,872

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

Group Equity and Liabilities

Amounts in millions of EUR	December 31, 2014	December 31, 2013
GROUP EQUITY		
Share capital	171	1,025
Share premium	9,847	8,993
Perpetual capital securities	1,089	1,089
Other reserves	-388	-517
Retained earnings	-6,146	-5,340
Equity attributable to equity holders [20]	4,573	5,250
Non-controlling interests [21]	57	53
Total Group equity	4,630	5,303
NON-CURRENT LIABILITIES		
Borrowings [22]	9,397	11,656
Derivative financial instruments [27]	191	753
Deferred income tax liabilities [7]	52	9
Provisions for retirement benefit obligations [23]	316	1,019
Provisions for other liabilities and charges [24]	136	163
Other payables and deferred income [25]	64	77
Total non-current liabilities	10,156	13,677
CURRENT LIABILITIES		
Trade and other payables [26]	2,559	2,927
Borrowings [22]	1,044	2,008
Derivative financial instruments [27]	7	10
Income tax payables [7]	79	289
Provisions for other liabilities and charges [24]	68	120
Total current liabilities	3,757	5,354
Liabilities directly associated with non-current assets and disposal groups classified as held for sale [19]	13	1,538
TOTAL EQUITY AND LIABILITIES	18,556	25,872

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

FINANCIAL STATEMENTS — CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Cash Flows

For the year ended December 31

Amounts in millions of EUR	2014	2013
Profit before income tax from continuing operations	286	262
Adjustments for:		
– Net finance cost [6]	903	757
– Share-based compensation [3]	6	4
– Share of the loss of associates and joint ventures [12]	6	7
– Depreciation, amortization and impairments [4]	1,820	1,857
– Other income	-2	-26
– Changes in provisions (excluding deferred taxes)	-887	-191
Changes in working capital relating to:		
– Inventories	-2	13
– Trade receivables	216	150
– Prepayments and accrued income	-102	95
– Other current assets	16	21
– Trade payables	-347	128
– Accruals and deferred income	-33	-189
– Current liabilities (excluding short-term financing)	28	-56
Dividends received [12]	1	1
Income taxes received/paid	38	-253
Interest received/paid	-705	-654
Net cash flow provided by operating activities from continuing operations	1,242	1,926
Net cash flow provided by operating activities from discontinued operations	312	927
Net cash flow provided by operating activities	1,554	2,853
Acquisition of subsidiaries, associates and joint ventures (net of acquired cash)	-745	-5
Disposal of subsidiaries, associates and joint ventures	-1	49
Disposal of intangibles	2	–
Investments in intangible assets (excluding software)	-61	-1,500
Investments in software	-379	-304
Investments in property, plant and equipment	-1,033	-1,312
Disposals of property, plant and equipment	4	16
Loans to associates and joint ventures	-177	-287
Other current financial assets [17]	-300	–
Other	–	15
Net cash flow used in investing activities from continuing operations	-2,690	-3,328
Net cash flow provided by/used in investing activities from discontinued operations	4,163	-660
Net cash flow provided by/used in investing activities [28]	1,473	-3,988
Rights issue	–	2,939
Repayment/Issuance Preference Shares B [20]	-255	256
Dividends paid	-94	-6
Paid coupon perpetual hybrid bonds	-67	-34
Issuance perpetual hybrid bonds	-1	1,085
Proceeds from borrowings [22]	–	915
Repayments of borrowings and settlement of derivatives [22]	-4,002	-1,142
Other	-34	-33
Net cash flow used in/provided by financing activities from continuing operations	-4,453	3,980
Net cash flow used in financing activities from discontinued operations	-251	-172
Net cash flow used in/provided by financing activities [29]	-4,704	3,808
Total net cash flow from continuing operations	-5,901	2,578
Total net cash flow from discontinued operations	4,224	95
Changes in cash and cash equivalents	-1,677	2,673
Net cash and cash equivalents at the beginning of the year [18]	3,620	947
Exchange rate differences	2	–
Changes in cash and cash equivalents	-1,677	2,673
Net cash and cash equivalents at the end of the year [18]	1,945	3,620
Bank overdrafts	31	326
Cash and cash equivalents [18]	1,976	3,946

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

Consolidated Statement of Changes in Group Equity

Amounts in millions of EUR, except number of shares	Number of subscribed shares ¹	Share capital	Share premium	Perpetual capital securities	Other reserves	Retained earnings	Equity attributable to equity holders	Non- controlling interests	Total Group equity
Balance as of December 31, 2012	1,431,522,482	344	6,717	–	-361	-5,417	1,283	51	1,334
Profit for the year	–	–	–	–	–	-222	-222	7	-215
Other comprehensive income for the year	–	–	–	–	-156	321	165	–	165
Total comprehensive income for the year	–	–	–	–	-156	99	-57	7	-50
Rights issue	2,838,732,182	681	2,276	–	–	–	2,957	–	2,957
Issuance of perpetual hybrid bond	–	–	–	1,089	–	–	1,089	–	1,089
Share-based compensation [3]	–	–	–	–	–	3	3	–	3
Dividend perpetual hybrid bond (net of tax)	–	–	–	–	–	-25	-25	–	-25
Dividends paid	–	–	–	–	–	–	–	-5	-5
Total transactions with owners, recognized directly in equity	2,838,732,182	681	2,276	1,089	–	-22	4,024	-5	4,019
Balance as of December 31, 2013	4,270,254,664	1,025	8,993	1,089	-517	-5,340	5,250	53	5,303
Profit for the year	–	–	–	–	–	-598	-598	14	-584
Other comprehensive income for the year	–	–	–	–	129	-50	79	–	79
Total comprehensive income for the year	–	–	–	–	129	-648	-519	14	-505
Share-based compensation [3]	–	–	–	–	–	3	3	–	3
Reduction nominal value	–	-854	854	–	–	–	–	–	–
Dividend perpetual hybrid bond (net of tax)	–	–	–	–	–	-76	-76	–	-76
Dividends paid	–	–	–	–	–	-85	-85	-9	-94
Acquisition	–	–	–	–	–	–	–	-1	-1
Total transactions with owners, recognized directly in equity	–	-854	854	–	–	-158	-158	-10	-168
Balance as of December 31, 2014	4,270,254,664	171	9,847	1,089	-388	-6,146	4,573	57	4,630

1) Subscribed ordinary shares (including treasury shares). Preference shares B were not included and classified as current liabilities (refer to Note 20).

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

The aggregate amount of deferred tax recorded directly in equity in 2014 was EUR 33 million negative (2013: EUR 41 million negative). The aggregate amount of current tax recorded in equity in 2014 was EUR 25 million positive (2013: EUR 4 million).

FINANCIAL STATEMENTS — CONSOLIDATED FINANCIAL STATEMENTS

General Notes to the Consolidated Financial Statements

General information

KPN is the leading telecommunications and information and communications technology (ICT) provider in the Netherlands, offering fixed and mobile telephony, fixed and mobile broadband internet and TV to retail consumers. KPN is also a market leader in the Netherlands in ICT services, infrastructure and network-related ICT solutions to business customers, including other telecommunications operators. In Belgium, KPN pursues a challenger strategy and offers mobile telephony products and services through BASE Company. KPN also provides wholesale network services to third parties and operates an IP-based infrastructure for international wholesale customers through iBasis.

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

The Financial Statements as of and for the year ended December 31, 2014 of Koninklijke KPN N.V. were approved for issuance by both the Supervisory Board and the Board of Management on February 25, 2015.

The Financial Statements are subject to adoption by the Annual General Meeting of Shareholders on April 15, 2015.

Significant accounting policies

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

Basis of preparation

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

As the corporate financial information of KPN is included in the Consolidated Financial Statements, the Corporate Statement of Profit or Loss is presented in abbreviated format in accordance with Article 402, Part 9, Book 2 of the Dutch Civil Code.

The Consolidated Financial Statements have been prepared under the historical cost convention, except for available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The Consolidated and Corporate Financial Statements are prepared on a going concern basis.

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

Changes in accounting policies and disclosures

The International Accounting Standards Board (IASB) continues to issue new standards and interpretations, and amendments to existing standards. KPN applies these new standards when effective and endorsed by the European Union. KPN has not opted for early adoption for any of these standards.

Implications of new and amended standards and interpretations
The following standards have been applied in the 2014 Consolidated Financial Statements:

- IAS 36 'Impairment of Assets' has been amended regarding disclosure requirements for the recoverable amount of non-financial assets. Certain disclosure requirements of the recoverable amount of the cash-generating units have been removed from IAS 36 since these are now covered by IFRS 13. The impact was limited and isolated to disclosures only.
- IAS 39 'Financial Instruments: Recognition and Measurement' has been amended to ensure that novation of derivatives, designated as hedge instruments, from one counterparty to a central counterparty as a consequence of law or regulation would not result in discontinuance of the hedge relationship. This amendment had no impact on KPN.
- IFRS 10 'Consolidated Financial Statements' establishes a single control model that applies to all entities including special purpose entities. This new standard had no impact on KPN.
- IFRS 11 'Joint Arrangements' classifies joint arrangements either as joint operation or joint venture by focusing on the rights and obligations of the parties to the arrangement rather than its legal form. This new standard had no impact on KPN.
- IFRS 12 'Disclosures of Interests in Other Entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. It is the complement of IFRS 10 and IFRS 11. The impact was limited and isolated to disclosures only.

The following standards have an effective date of July 1, 2014 and will be implemented as of January 1, 2015 due to the timing of their endorsement by the European Union:

- IFRIC 21 'Levies' provides guidance in addition to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on how to account for levies posed by governments other than income taxes, specifically on when to account for the liability. No material impact is expected.
- IAS 19 'Employee Benefits' has been amended regarding treatment of employee contributions in defined benefit plans. The amendment aims to simplify the calculation of employee contributions and is not expected to affect KPN.
- The Annual Improvements 2010-2012 and the Annual Improvements 2011-2013 cover amendments to several standards, none of which are expected to have a material impact on KPN.

Future implications of new and amended standards and interpretations

The following new standards and interpretations and amendments to existing standards will become effective on or after January 1, 2015. Only new and amended standards with a potential impact on KPN are discussed. These standards have not been applied in preparing these 2014 Consolidated Financial Statements:

- IFRS 9 'Financial Instruments' as issued in July 2014 is the final version of this new standard which will replace IAS 39 'Financial Instruments: Recognition and Measurement' and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting of financial instruments. IFRS 9 is effective as of January 1, 2018 and must be applied retrospectively although comparative information is not mandatory. However, as the standard has not yet been endorsed by the European Commission, it is uncertain when it needs to be applied by KPN. IFRS 9 is expected to have an impact on the classification and measurement of KPN's financial assets and liabilities. KPN is currently reviewing the extent of the impact of this new standard.

- IFRS 15 'Revenue from Contracts with Customers'. This standard was issued in May 2014 and is effective as of January 1, 2017. Endorsement is expected in 2015. The standard introduces new guidance on the recognition and measurement requirements of revenues. The standard applies to revenue from contracts with customers and also provides a model for the sale of some non-financial assets that are not an output of a company's ordinary business activities (such as the sale of property, plant and equipment or intangibles). IFRS 15 provides more detailed requirements than the current standards. KPN is currently reviewing the extent of the impact of this new standard in anticipation of endorsement. KPN mainly expects an impact on the timing of revenue recognition due to the removal of the cash restriction rule currently applied in revenue arrangements with multiple deliverables and on the accounting treatment of dealer commissions. Due to potential mismatches between timing of revenue recognition required by the new standard and receipt of corresponding cash flows, KPN also expects an impact on its balance sheet (recognition of contract assets and contract liabilities). Upon implementation of IFRS 15, the disclosures in KPN's Integrated Annual Report will be expanded to include required information such as movement schedules for recognized contract assets and contract liabilities, information about performance obligations and information on key judgments and estimates applied in recognition and measurement of revenues. KPN does not intend to early adopt this standard and expects to apply IFRS 15 in its Integrated Annual Report 2017 provided timely endorsement of the standard by the European Commission.
- The Annual Improvements 2012-2014 cover amendments to several standards, none of which are expected to have a material impact on KPN's financial information. The Annual Improvements were issued in September 2014 and are effective as of January 1, 2016; endorsement is pending.
- IFRS 10 'Consolidated Financial Statement' and IAS 28 'Investments in Associates and Joint Ventures' have been amended to remove inconsistencies between the standards on how to account for the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments were issued in September 2014 and are effective as of January 1, 2016; endorsement is pending. KPN does not expect a material impact on its financial performance.
- IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' have been amended to clarify the acceptable methods of depreciation and amortization. The principle for the basis of depreciation and amortization is the expected pattern of consumption of the future economic benefits of an asset. These amendments were issued in May 2014 and are effective as of January 1, 2016; endorsement is pending. KPN does not expect an impact on its financial performance.
- IFRS 11 'Joint Arrangements' has been amended to include new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendment was issued in May 2014 and is effective as of January 1, 2016; endorsement is pending. Based on current practice, KPN does not expect a material impact.

Basis of consolidation

KPN's Consolidated Financial Statements include the financial results of its subsidiaries and incorporate KPN's share of the results from associates and joint ventures.

Subsidiaries

Subsidiaries are all entities for which KPN is exposed to, or has rights to, variable returns from its involvement with the entity

and has the ability to affect those returns through its power over the entity ('control'). Subsidiaries are fully consolidated from the date on which control is obtained by KPN and are deconsolidated from the date on which KPN's control ceases. All intercompany transactions, balances and unrealized results on transactions with subsidiaries are eliminated.

Intercompany transactions, balances and unrealized gains and losses on transactions between group companies are eliminated.

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposal of subsidiaries

When control ceases, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in the Consolidated Statement of Profit or Loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in Other Comprehensive Income in respect of that entity are accounted for as if KPN had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in Other Comprehensive Income are reclassified to profit or loss.

Associates

Associates are investments in entities in which KPN can exert significant influence but which KPN does not control, generally by KPN having between 20% and 50% of the voting rights. These entities are accounted for using the equity method and are initially recognized at cost. Their carrying value includes goodwill identified upon acquisition, net of any accumulated impairment.

KPN's share of post-acquisition profits or losses is recognized in the Consolidated Statement of Profit or Loss, and its share of post-acquisition movements in Other Comprehensive Income is recognized in the Consolidated Statement of Other Comprehensive Income with a corresponding adjustment to the carrying amount of the investment. When KPN's share of losses in an associate equals or exceeds its interest in the associate, including any other receivables for which settlement is neither planned nor likely to occur in the foreseeable future, KPN does not recognize further losses, unless KPN has obligations to or made payments on behalf of the associate. Unrealized results on transactions with associates are eliminated to the extent of KPN's share in associates.

At each reporting date, KPN determines if there is any objective evidence that the associate is impaired. An impairment, being the difference between the recoverable amount of the associate and its carrying value, is recognized adjacent to 'Share of the profit (loss) of associates and joint ventures' in the Consolidated Statement of Profit or Loss.

Profits and losses resulting from upstream and downstream transactions between KPN and its associate are recognized in the KPN's Financial Statements only to the extent of unrelated investors' interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an

FINANCIAL STATEMENTS — CONSOLIDATED FINANCIAL STATEMENTS

General Notes to the Consolidated Financial Statements

impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with KPN's policies.

Joint arrangements

Joint arrangements are classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor. KPN has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method and are initially recognized at cost. The carrying value is subsequently adjusted to recognized KPN's share of the post-acquisition profits or losses and movements in Other Comprehensive Income.

The carrying value of joint ventures includes goodwill identified upon acquisition, net of any accumulated impairment.

When KPN's share of losses in a joint venture equals or exceeds its interest in the joint venture, KPN does not recognize further losses, unless KPN has obligations to or made payments on behalf of the joint venture. Unrealized results on transactions with joint ventures are eliminated to the extent of KPN's share in joint ventures. Accounting policies have been changed where necessary to ensure consistency with KPN's policies.

Business combinations

KPN uses the acquisition method of accounting to account for business combinations. The consideration paid is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration paid includes the fair value of any contingent assets or liabilities resulting from the arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their fair values at the acquisition date. When a business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the Consolidated Statement of Profit or Loss and the equity interest is then considered in the determination of goodwill.

Contingent considerations are recognized at fair value at acquisition date. Subsequent changes to the fair value of contingent considerations deemed to be an asset or liability are recognized in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' either in the Consolidated Statement of Profit or Loss or as a charge to the Consolidated Statement of Other Comprehensive Income. Contingent considerations classified as equity are not remeasured and subsequent settlement is accounted for within equity.

For each business combination, KPN elects to recognize any non-controlling interest in the acquiree either at fair value or at the proportionate share in the acquiree's net assets. Acquisition-related costs are expensed as incurred.

The excess of the consideration paid, non-controlling interests recognized and the acquisition date fair value of any previous equity interests in the acquiree over the fair value of KPN's share of the net assets acquired is recorded as goodwill. If negative goodwill occurs in case of a bargain purchase, the difference is recognized directly in the Consolidated Statement of Profit or Loss.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer (CEO), who is the Chief Operating Decision Maker according to IFRS 8 'Operating Segments'. Changes to KPN's segment reporting are disclosed in Note 35.

Foreign currency translation**Functional and presentation currency**

These Financial Statements are presented in Euro (EUR), which is KPN's presentation currency and functional currency. Each entity within the KPN Group has its own functional currency which is determined based on the primary economic environment in which the entity operates. All values are rounded to millions unless stated otherwise.

Transactions and balances

Transactions in foreign currencies are translated into the functional currency of the recording entity using the exchange rates applicable at the dates of the transactions. Monetary assets and liabilities resulting from such transactions are translated at the applicable rates at the reporting date. These exchange rate differences are recognized in the Consolidated Statement of Profit or Loss except when deferred in the Consolidated Statement of Other Comprehensive Income as qualifying cash flow hedges and qualifying net investment hedges. Exchange rate differences on non-monetary assets and liabilities are reported as part of the fair value gain or loss from that asset or liability. Exchange rate differences arising from the translation of the net investment in foreign entities, of borrowings and other currency instruments designated as hedges of such investments are recognized in the Consolidated Statement of Other Comprehensive Income.

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

Subsidiaries

The results and financial position of subsidiaries that have a functional currency other than KPN's presentation currency (Euro) are translated as follows:

- assets and liabilities for each financial position presented are translated at the closing rate at the date of that financial position;
- income and expenses for each statement of profit or loss are translated at average exchange rates; and
- all resulting exchange differences are recognized in the Consolidated Statement of Other Comprehensive Income (in the currency translation reserve, a separate component within equity).

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

Significant accounting estimates, judgments and assumptions

The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenue and expenses during the period as well as the information disclosed and the contingent liabilities. For KPN's significant accounting estimates, judgments and assumptions, reference is made to the Notes to the Consolidated Financial Statements.

The accounting estimates, judgments and assumptions deemed significant to KPN's financial statements relate to:

- the determination of deferred tax assets for losses carry forward and provisions for tax contingencies (see Note 7);
- the determination of fair value less costs to sell and value in use of cash-generating units for goodwill impairment testing (see Note 10);
- the determination of fair values of net assets acquired in business combinations (see Note 31);
- the depreciation rates for the copper and fiber network included within property, plant and equipment (see Note 11);
- the assumptions used to determine the fair value of the call/put arrangements of Reggefiber Group BV (see Notes 12, 27 and 30);
- the assumptions used to determine the provision for retirement benefit obligations and periodic pension costs, such as discount rate, mortality rates and benefit increases (see Note 23);
- the more likely than not assessment and the reliable determination of the financial impact required to recognize a provision for idle cables, which are part of a public electronic communications network (see Notes 24 and 32);
- the assumptions used to determine the fair value less costs to sell of assets and liabilities held for sale, including disposal groups (see Note 19);
- the assessments of exposure to credit risk and financial market risks (see Note 30); and
- the determination of the expected deal proceeds for the sale of E-Plus, including the Net Debt/Working Capital settlement (see Note 19).

During 2014, the pension plans have been amended, resulting in (amongst others) a lower effect from accounting estimates, judgments and assumptions. Refer to Note 23 for more information.

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

Statement of Profit or Loss

Revenue recognition

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

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

Recognition of deferred revenue related to airtime is based on the expected usage of airtime per proposition.

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

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

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

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

Revenue arrangements with multiple deliverables

Arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet recognition criteria of IFRS. Revenues from multiple deliverables arrangements are allocated to the identified separate units of accounting based on their relative fair values. If the fair value of the delivered item exceeds the cash received at the time of delivery, revenue is recognized up to the non-contingent cash received.

Any connection fee proceeds not allocated to the delivered equipment are deferred upon connection and recognized as service revenue over the customer contract period unless KPN has the obligation to continue providing services beyond that period, in which case the expected customer service period is used.

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

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

Other income

Other income includes gains on the sale of property, plant and equipment and gains on the disposal of subsidiaries, associates and joint ventures as well as other gains not related to KPN's operating activities.

FINANCIAL STATEMENTS — CONSOLIDATED FINANCIAL STATEMENTS

General Notes to the Consolidated Financial Statements

Leases

Leases where KPN as lessor retains a significant portion of the risks and rewards of ownership of the leased asset are classified as operating leases. The assets remain on the Consolidated Statement of Financial Position and are depreciated over the asset's useful life. The lease payments received from the lessee are recognized as revenue on a straight-line basis over the lease period.

Payments made by KPN as lessee under operating leases are charged to the Consolidated Statement of Profit or Loss on a straight-line basis over the period of the lease (net of any incentives received from the lessor). If a sale-and-leaseback transaction results in an operating lease, the profit or loss is calculated using the fair value of the assets sold and recognized in the Consolidated Statement of Profit or Loss immediately.

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

In case KPN acts as lessor in a finance lease, the transaction is accounted for as a normal sale and the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is deferred and recognized as interest over the lease term.

Share-based compensation

KPN operates a number of share-based compensation plans, both equity- and cash-settled. For equity-settled plans, the fair value of options or shares granted to employees is measured at grant date. For cash-settled plans, the fair value of the liability for the awards granted is remeasured at each reporting date and at settlement. The costs of share-based compensation plans are determined based on the fair value of the options and shares and the number of options or shares expected to vest. On each Statement of Financial Position date, KPN determines whether it is necessary to revise the expectation of the number of options or shares that will vest. The fair value is recognized as costs in the Consolidated Statement of Profit or Loss over the vesting period of the options or shares against an increase in equity in case of equity-settled share-based compensation plans and against recognition of a liability in case of cash-settled share-based compensation plans. For details on KPN's share-based compensation plans, see Note 3.

Operating expenses

Operating expenses are measured and recognized based on the accounting principles that are applied to related assets or liabilities and are allocated to the year in which they are incurred.

Subscriber acquisition and retention costs are expensed as incurred. The most common subscriber acquisition costs are cost for handsets and dealer fees. The cost of a handset is expensed when the handset is sold. The sale can be an individual sale or

a component of a multiple deliverable arrangement containing for example the sale of a handset combined with a subscription. In both cases, the handset is expensed when the costs are incurred. When a handset is leased out, it depends on the type of lease (operating or finance) whether the costs are expensed as incurred or capitalized and depreciated over the expected lifetime (see 'leases' above).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. KPN's qualifying assets mainly are its network (included in property, plant and equipment) as well as operating licenses (included under intangible fixed assets) which are dependent on a related network. Borrowing costs related to licenses are capitalized during the construction phase of the related network up to the time that services can be first rendered on a commercial basis.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Taxation**Current income tax**

The current corporate income tax charge recognized in the Consolidated Statement of Profit or Loss is calculated in accordance with the prevailing tax regulations and rates, taking into account non-taxable income and non-deductible expenses. The current income tax expense reflects the amount for the current reporting period that KPN expects to recover from or pay to the tax authorities. Current income tax related to items recognized directly in equity is recorded in equity and not in the Consolidated Statement of Profit or Loss. KPN's management periodically evaluates positions taken in the tax returns regarding situations in which applicable tax regulations are subject to interpretation and establishes provisions when deemed appropriate.

Deferred income taxes

Deferred income tax positions are recognized for temporary differences between the tax basis of assets and liabilities and their carrying values in KPN's Consolidated Statement of Financial Position.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Both the recognized and unrecognized deferred tax assets are reassessed at each reporting date. No deferred tax assets are recognized for deductible temporary differences that arise from initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit or loss reported in the Consolidated Statement of Profit or Loss nor the taxable profit or loss. Deferred tax assets are recorded for deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures and are recorded only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences except when they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit or loss reported in the Consolidated Statement of Profit or Loss nor the taxable profit or loss. Also, no deferred tax liabilities are recorded for taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax positions are stated at nominal value and are measured at the corporate income tax rates KPN expects to be applicable in the year when the asset is realized or liability is settled based on enacted or substantially enacted tax laws.

Deferred income tax assets and liabilities are netted if there is a legally enforceable right to set off current tax assets against current tax liabilities, deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity and there is an intention to settle on a net basis.

Statement of Financial Position

Intangible assets

Goodwill

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose, irrespective of whether other assets or liabilities of the acquiree are assigned to those cash-generating units.

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

In case of disposal of a business which was part of a cash-generating unit, goodwill is allocated to that business on a relative fair value basis and included in the carrying amount of the business when determining the result on the sale.

Licenses

Licenses are valued at cost less amortization and impairment. The cost value of a qualifying asset may include capitalized borrowing costs related to qualifying assets incurred during the construction phase of the related asset. Amortization is calculated using the straight-line method and is commenced at the date that services

can be offered (available for use). The amortization period for licenses equals the useful life, but is limited to the expiration date of the licenses. Licenses are reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset concerned may not be recoverable. An impairment loss is recognized for the amount by which the book value of the licenses exceeds its recoverable amount. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use. Impairments are reversed if and to the extent that the impairment no longer exists.

Licenses not yet available for use are tested annually for impairment or whenever KPN has an indication that the licenses may be impaired. Licenses are tested as part of a cash-generating unit as licenses do not generate independent cash flows.

Software

Internally developed and acquired software, not being an integral part of property, plant and equipment, is capitalized on the basis of the costs incurred, which include direct costs and directly attributable overhead costs incurred. During the development phase, interest expenses incurred are capitalized as part of qualifying assets if material. Software is amortized over the estimated useful life. Amortization commences when software is available for use.

Software is reviewed for impairment whenever events or changes in circumstances indicate that the book value may no longer be recoverable. An impairment loss is recognized for the amount by which the asset's book value exceeds its recoverable amount. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use.

Other intangibles

Other intangible fixed assets such as customer relationships and trade names acquired in business combinations are capitalized at their fair values at acquisition date and are amortized using the straight-line method.

Other intangible fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the book value may no longer be recoverable. An impairment loss is recognized for the amount by which the asset's book value exceeds its recoverable amount. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use.

The amortization period of the intangible assets are as follows:

Category	Amortization period
Goodwill	No amortization
Licenses	5 to 20 years
Software	3 to 5 years
Other intangible assets	4 to 20 years

Tangible assets

Property, plant and equipment

Property, plant and equipment are valued at cost less depreciation and impairment. The cost includes direct costs (materials, direct labor and work contracted out), directly attributable overhead costs and may include borrowing costs capitalized as part of qualifying asset, recorded during the construction phase of property, plant and equipment components.

FINANCIAL STATEMENTS — CONSOLIDATED FINANCIAL STATEMENTS

General Notes to the Consolidated Financial Statements

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

Category	Depreciation period
Land	No depreciation
Buildings	14 to 33 years
Network equipment	3 to 7 years
Network infrastructure	10 to 30 years
Vehicles	10 years
Office equipment	4 to 10 years

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

Subsequent costs such as costs for replacement of network components are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that KPN will receive future economic benefits associated with the item and the cost can be measured reliably. The carrying amounts of replaced assets are derecognized. All other repairs and maintenance costs are recognized in profit or loss when incurred.

The assets' residual values and useful lives are reviewed at least annually and adjusted if appropriate.

Financial assets

KPN's financial assets include investments in companies other than subsidiaries and associates, financial receivables held for investment purposes and other securities. At initial recognition, KPN classifies its financial assets in one of the following categories:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments; and
- Available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the financial assets at initial recognition and assesses the designation at every reporting date. All financial assets are initially recognized at fair value plus transaction costs attributable to the acquisition of the asset if a financial asset is not recorded at fair value through profit or loss. Subsequent measurement depends on the classification of the financial asset.

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss at inception. Financial assets held for trading are classified in this category when acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives, including separated embedded derivatives, are classified as held for trading except when they are designated as effective hedge

instruments under IAS 39 'Financial Instruments: Recognition and Measurement'. Financial assets at fair value through profit or loss are recognized in the Consolidated Statement of Financial Position at their fair value with net changes in the fair value presented as finance costs (in case of negative net changes to the fair value) or finance income (in case of positive net changes to the fair value) in the Consolidated Statement of Profit or Loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and created by KPN by providing money, goods or services directly to a debtor, other than:

- those KPN intends to sell immediately or in the short term, which are classified as held for trading; and
- those for which KPN may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available-for-sale.

After initial measurement, loans and receivables are carried at amortized cost using the effective interest rate, which may equal cost if there is no maturity, less an allowance for uncollectibility. The amortized cost is calculated by taking into account any discounts or premiums on acquisition and transactions costs. The effective interest rate amortization is recognized in the Consolidated Statement of Profit or Loss under finance income or finance costs.

Loans and receivables are included in current assets, except for maturities greater than 12 months after the Statement of Financial Position date. Loans and receivables are included in Loans to associates and joint ventures and in Trade and other receivables in the Consolidated Statement of Financial Position. See also Notes 12, 14, 16 and 30.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when KPN has the intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortized cost using the effective interest rate, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included as finance income in the Consolidated Statement of Profit or Loss. Losses arising from impairment are recognized in the Consolidated Statement of Profit or Loss as finance costs.

Available-for-sale financial assets

KPN's available-for-sale financial assets include equity investments. KPN intends to hold these assets for an indefinite (undefined) period of time and has therefore not classified the assets as held for trading nor has it designated the assets at fair value through profit or loss. Available-for-sale financial assets are carried at fair value with unrealized gains and losses (except for impairment losses) recognized in the Consolidated Statement of Other Comprehensive Income until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in the Consolidated Statement of Other Comprehensive Income is taken to the Consolidated Statement of Profit or Loss for the period. Impairment losses incurred are recognized directly in the Consolidated Statement of Profit or Loss for the period.

For information on fair values of quoted and unquoted investments, refer to Note 30.

Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value. Subsequently, KPN measures all derivative financial instruments based on fair values derived from market prices of the instruments or valuation techniques such as discounted cash flows. Gains and losses arising from changes in the fair value of the instruments are recognized in the Consolidated Statement of Profit or Loss as finance cost (in case of negative net changes to the fair value) or finance income (in case of positive net changes to the fair value) during the period in which they arise to the extent that the derivatives have no hedging designation or they are ineffective.

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

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

Changes in the fair value of an effective derivative, which is designated as a fair value hedge and qualifies as such, along with the gain or loss on the hedged item that is attributable to the hedged risk, are recorded in the Consolidated Statement of Profit or Loss as finance cost (in case of negative changes to the fair value) or finance income (in case of positive net changes to the fair value).

Changes in the fair value of an effective derivative, which is designated as a cash flow hedge and qualifies as such, are recorded in the Consolidated Statement of Other Comprehensive Income for the effective part, until the profit or loss are affected by the variability in cash flows of the designated hedged item. The ineffective part of the cash flow hedge is recognized in the Consolidated Statement of Profit or Loss as finance cost (in case of negative changes to the fair value) or finance income (in case of positive net changes to the fair value).

If an underlying transaction has ceased to be an effective hedge or in case of early redemption of the hedged item, KPN discontinues hedge accounting prospectively which means that subsequent changes in the fair value are recognized in the Consolidated Statement of Profit or Loss, under 'finance income' or 'finance costs'. The cumulative amount recorded in the Consolidated Statement of Other Comprehensive Income is released in profit or loss.

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

Refer to Note 27 on KPN's derivative financial instruments and Note 30 on KPN's financial risks.

Inventories

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

Losses on the sale of handsets which are sold for less than cost is only recorded when the sale occurs if the normal resale value is higher than the cost of the handset. If the normal resale value is lower than costs, the difference is recognized as impairment immediately.

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

Trade and other receivables

Receivables are initially recognized at fair value, and subsequently measured at amortized cost using the effective interest rate method less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that KPN will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. The provision is set up through the Consolidated Statement of Profit or Loss (as other operating expenses). When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the Consolidated Statement of Profit or Loss. See Notes 14 and 16 for further information on KPN's trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within borrowings in current liabilities on the Consolidated Statement of Financial Position and are not deducted from cash and cash equivalents.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups classified as held for sale as well as liabilities directly associated herewith are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. If fixed assets are transferred to held for sale, depreciation and amortization ceases. A disposal group classifies as a 'discontinued operation' based on its significance to the KPN Group.

See Note 19 for further information on KPN's non-current assets and disposal groups held for sale.

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General Notes to the Consolidated Financial Statements

Equity

KPN's authorized share capital consists of ordinary shares which are classified as equity and preference shares B which are classified as short-term liabilities (Note 20). The surplus paid by shareholders above the nominal value of shares is recognized as share premium. Incremental costs directly attributable to the issue of new shares or options are shown in the Consolidated Statement of Other Comprehensive Income as a deduction, net of tax, from the proceeds.

Equity instruments and other financial instruments with a long-term nature are classified based on their specific nature, terms and characteristics. Refer to Note 22 for disclosures on KPN's accounting of the perpetual hybrid bonds issued. The consideration paid by KPN for the acquisition of its own equity instruments (treasury shares) is deducted from other reserves at trade date until those shares are canceled, reissued or disposed of. Upon subsequent sale or reissue of such shares, any consideration received is included in other reserves.

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

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

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

Financial liabilities

KPN's financial liabilities include loans and borrowings, derivative financial instruments, other payables and deferred income and trade and other payables. At initial recognition, KPN classifies its financial liabilities in one of the following categories:

- Financial liabilities at fair value through profit or loss;
- Loans and borrowings; and
- Derivatives.

All financial liabilities are initially recognized at fair value net of directly attributable transaction costs in case of loans and borrowings. Subsequent measurement depends on the classification of the financial liability. Management determines the classification of the financial liabilities at initial recognition and assesses the designation at every reporting date.

Financial liabilities at fair value through profit or loss

This category has two subcategories: financial liabilities held for trading and those designated at fair value through profit or loss at inception. Financial liabilities held for trading are classified in this category when incurred for the purpose of repurchasing in the near future. This includes derivatives, including separated embedded derivatives, that are not designated as hedging instruments in a hedging relationship as defined by IAS 39. Financial liabilities at fair value through profit or loss are

recognized in the Consolidated Statement of Financial Position at their fair value with net changes in the fair value presented as finance costs or income in the Consolidated Statement of Profit or Loss. KPN has not designated financial liabilities at fair value through profit or loss.

Loans and borrowings

After initial recognition, loans and borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the Consolidated Statement of Profit or Loss over the period of the borrowings using the effective interest method. The amortized cost is calculated by taking into account any discounts or premiums on acquisition or issuance and transaction costs. The effective interest rate amortization is recognized in the Consolidated Statement of Profit or Loss under finance costs.

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

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

This category applies to KPN's borrowings (Note 22), other payables (Note 25) and trade and other payables (Note 26).

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and reported on a net basis on KPN's Consolidated Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Provisions for retirement benefit obligations**Pension obligations**

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

A net defined benefit asset may arise where a defined benefit plan has been overfunded. KPN recognizes a net defined benefit asset in such a case only when future economic benefits are available to KPN in the form of a reduction in future contributions or a cash refund.

Actuarial gains and losses are recognized immediately in the Consolidated Statement of Other Comprehensive Income.

Past service costs, curtailments and settlements are recognized immediately in the Consolidated Statement of Profit or Loss.

The amount of pension costs included in operating expenses with respect to defined benefit plans consist of service cost, past service costs, curtailments and settlements and administration costs. Net interest on the net defined benefit liability is presented as part of finance costs.

For pension plans that qualify as a defined contribution plan, KPN recognizes contributions as an expense when an employee has rendered service in exchange for those contributions.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. KPN recognizes termination benefits when KPN is demonstrably committed either to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after December 31 are discounted to present value.

Other long-term employee obligations

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

Provisions for other liabilities and charges

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the Statement of Financial Position date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. See Notes 23 and 24 on KPN's provisions.

Statement of Cash Flows

The Consolidated Statement of Cash Flows is prepared using the indirect method. Cash flows denominated in currencies other than the euro are translated at average exchange rates. Cash flows relating to interest and taxes on profits are included in the cash flow from operating activities. The consideration paid in cash for newly acquired KPN Group companies and associated companies is included in the cash flow from investing activities net of cash acquired. Cash flows resulting from the acquisition or disposal of KPN Group companies are disclosed separately. Investments in property, plant and equipment, which are financed by financial leases, are not included in the cash flow used in investing activities.

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Notes to the Consolidated Statement of Profit or Loss

[1] Revenues

Amounts in millions of EUR	2014	2013
Rendering of services	7,026	7,829
Sale of goods	940	575
Other revenues	33	39
Total revenues	7,999	8,443

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

Reference is made to Note 35 for more information on KPN's revenues per segment.

[2] Other income

Amounts in millions of EUR	2014	2013
Gains on the sale of property, plant and equipment	6	5
Other gains	78	24
Total other income	84	29

Gains on the sale of property, plant and equipment in 2014 is mainly related to the transfer of the test system and spare parts of the C2000 network (EUR 5 million).

In 2014, other gains mainly included a tax settlement benefit of EUR 74 million and gains from the disposal of sales contracts of Callfactory (EUR 2 million). In 2013, other gains mainly included a positive result of the sale of Infrastructure Services & Partners B.V. (EUR 23 million), the sale of Utility Connect B.V. (EUR 5 million) and a negative result of the sale of Compucom (EUR -3 million).

[3] Employee benefits

Amounts in millions of EUR	2014	2013
Salaries and wages	1,020	1,064
Pension charges [23]	-369 ¹	101
Social security contributions	146	132
Total employee benefits	797	1,297

1) Includes release of provision of EUR 477 million; for details, please refer to Note 23.

[..] Bracketed number refers to the related Note.

Reference is made to Note 35 'Segment Reporting' for further information on the number of employees and to Note 24 'Provisions for other liabilities and charges' for further information on employee redundancy costs. In the other operating expenses, an amount of EUR 72 million is recorded related to personnel restructuring (2013: EUR 100 million).

Board of Management and Supervisory Board

The Remuneration Report included in this Annual Report contains required information comprising 'D: Details of actual pay-out for 2014' and 'E: Supervisory Board Pay 2014', which are deemed part of these Financial Statements.

Share option plans

KPN has granted stock options on its shares to members of the Board of Management, senior management and employees in the Netherlands with a collective labor agreement. As all remaining share option plans vested in 2010, no cost is recorded in 2014 and 2013.

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

		Exercise price (in EUR)	Maximum term	Exercisable (years after grant date)	Vesting period	Profits in escrow if exercised within 3 years ¹	Performance related ²
2005	Management	6.73-7.18	8 years	3 years	3 years	–	yes
	Management	6.73	8 years	3 years	3 years	–	no
	Management Belgium	6.73	8 years	3.7 years	3 years	–	no

1) If options are exercisable immediately, the profits from any exercise prior to the third anniversary of the date of issue will be held in escrow until the third anniversary of the issue, at which time such profits will be released to the relevant option holder, provided that the option holder remains employed by KPN.

2) The number of options that vested after the three-year vesting period and were performance-related depended on KPN's Total Shareholder Return (stock appreciation plus dividend pay-out; TSR) relative to a peer group of European telecommunication companies.

In 2013, the remaining outstanding 405,282 options expired with a weighted average exercise price per option of EUR 6.75.

The average KPN stock price in 2014 was EUR 2.56 (2013: EUR 2.02).

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Notes to the Consolidated Statement of Profit or Loss

Share plans

Since 2006, KPN has granted shares (equity-settled) and share-based awards (cash-settled) on its shares to members of the Board of Management and senior management: the Performance Share Plan (PSP). The conditionally granted PSP award will vest after three years if the employee is still employed with KPN. The number of share-based awards which vest partly depends on KPN's Total Shareholder Return (TSR) position ranking relative to its peer group of European telecommunications companies. Since 2011, vesting is based for 75% on relative TSR and for 25% on non-financial performance measures i.e. energy reduction targets and a reputation dashboard.

Since 2014, vesting is based on individual vesting for 25% on relative TSR versus peer group, for 25% on Free Cash Flow, for 25% on Earnings Per Share, for 12.5% on sustainability/environmental targets and for 12.5% on stakeholder/customer targets. Vesting of non-financial targets will be subject to achieving a cumulative net profit during the vesting period of three years (i.e. a qualifier for vesting).

The list of companies included in the peer group and the vesting schedule can be found under 'Long-term incentives' in the 'Remuneration Report' section.

In May 2012 and May 2013, an additional equity settled plan was granted to senior management: the KPN Restricted Share Plan. Shares under this plan will vest on January 1, 2015 (2012 grant) and on January 1, 2016 (2013 grant) if the employee is still employed with KPN. For this plan, no other performance measures are applicable.

The share plan rules provide the possibility to adjust granted rights under the incentive plans to maintain its economic value if, subsequent to the date of grant, an issue of shares occurs. This approach is exclusively aimed at reflecting the increased number of shares following the rights issue and is in line with market practice. In 2013, therefore, the granted shares were adjusted based on a mathematically calculated adjustment factor, i.e. the cum-rights price divided by the TERP (Theoretical Ex-Rights Price) which, in case of the KPN rights issue, set the adjustment factor at 1.6494. This adjustment factor was be applicable for the existing (not yet vested) LTI plans, i.e. 2011, 2012 and 2013.

The main features of the awards granted under the PSP and Restricted Share Plan to KPN management are summarized below:

		Maximum term	Settlement type ¹	Vesting period	Holding period after vesting of/until
2008	Board of Management	5 years	Equity	3 years	2 years
	Senior Management	3 years	Cash	3 years	—
2009	Board of Management	5 years	Equity ²	3 years	2 years
	Senior Management	3 years	Cash	3 years	—
2010	Board of Management	5 years	Equity	3 years	2 years
	Senior Management	3 years	Cash	3 years	—
2011	Board of Management	5 years	Equity ²	3 years	2 years
	Senior Management	3 years	Cash	3 years	—
2012	Board of Management and Senior Management	5 years	Equity ²	3 years	2 years
	Senior Management	3 years	Cash	3 years	—
	Senior Management Restricted Share Plan	2.7 years	Equity	2.7 years	—
2013	Board of Management and Senior Management	5 years	Equity ²	3 years	2 years
	Senior Management	3 years	Cash	3 years	—
	Senior Management Restricted Share Plan	2.7 years	Equity	2.7 years	—
2014	Board of Management and Senior Management	5 years	Equity ²	3 years	2 years
	Senior Management	3 years	Cash	3 years	—

1) The cash-settled share awards will be settled in cash and no holding restrictions apply. An exception to the holding period for equity-settled plans is made with respect to shares that were sold upon vesting to cover the tax obligation on the vested shares. After vesting, the holder is able to sell a number of unconditional granted shares only up to the amount necessary to settle the wage taxes liability relating to the profit made on the stock compensation plan.

2) Including deferred dividend.

The total compensation expense associated with the share plans was EUR 6 million in 2014 (2013: EUR 4 million) and the related liability (for cash-settled shares) at December 31, 2014 was EUR 3 million (2013: EUR 1 million). This liability is included under Other payables and deferred income. During 2014, KPN granted 4,932,318 shares and share-based awards (2013: 6,511,905) to members of the Board of Management and senior management. Since no vesting conditions were met in the years 2013 and 2014, the intrinsic value at vesting was zero.

The following table presents the number of shares and share-based awards under the share plans for the year ended December 31, 2014.

Number of shares and share-based awards	Total at December 31, 2012	Granted/ additional vesting ^{2,5}	Exercised/ Vested	Forfeited	Total at December 31, 2013 ^{3,5}	Granted/ additional vesting ²	Exercised/ Vested	Forfeited	Total at December 31, 2014 ^{3,5}	– of which: Non-vested
2008 Shares Board of Management	87,576	–	-87,576	–	–	–	–	–	–	–
2011 Share- based awards Senior Management	1,395,215	810,747	–	-137,266 ⁴	2,068,696	–	–	-2,068,696	–	–
2011 Shares Board of Management	135,334	87,885	–	– ⁴	223,219	–	–	-223,219	–	–
2012 Share- based awards Senior Management	1,116,558	704,672	–	-132,449	1,688,781	–	–	-135,817	1,552,964	1,552,964
2012 Shares Board of Management/ Senior Management	438,667	188,317	–	-25,311	601,673	–	–	-95,814	505,859	505,859
2012 Restricted Shares Senior Management	607,500	375,200	–	-42,359	940,341	–	–	-371,000	569,341	569,341
2013 Share- based awards Senior Management	–	1,776,293 ¹	–	–	1,776,293	–	–	-154,534	1,621,759	1,621,759
2013 Shares Board of Management/ Senior Management	–	634,113 ¹	–	–	634,113	–	–	-101,446	532,667	532,667
2013 Restricted Shares Senior Management	–	1,934,678	–	-20,600	1,914,078	–	–	-494,400	1,419,678	1,419,678
2014 Share- based awards Senior Management	–	–	–	–	–	3,274,202	–	-21,824	3,252,378	3,252,378
2014 Shares Board of Management/ Senior Management	–	–	–	–	–	1,658,116	–	-55,952	1,602,164	1,602,164

- 1) On the basis of a 100% grant. The equity-settled share numbers do not include any deferred dividend during the vesting period. The deferred dividend during the vesting period will be granted in additional shares.
- 2) At grant date, the fair value is calculated using a Monte Carlo Simulation model except for the restricted shares. At April 10, 2014, the fair value was EUR 2.37 (2013 grant: EUR 1.06) for the 2014 share-based award (cash-settled) and EUR 2.37 (2013 grant: EUR 1.06) for the 2014 equity-settled share grant for members of the Board of Management and Senior Management (excluding deferred dividend). The fair value was EUR 1.58 for the 2013 Restricted share award for Senior Management.
- 3) At December 31, 2014, the fair value of each cash-settled share-based award was measured, using recent strategic plans, forecasts and a Monte Carlo Simulation model, based on the most recent available share price of KPN and its performance compared with peer companies at the moment of valuation (i.e. closing share prices as at December 31, 2014). At December 31, 2014 the fair value was EUR 0 (2013: EUR 0) for the 2012 share-based award, EUR 0.85 (2013: EUR 1.96) for the 2013 share-based award and EUR 2.42 for the 2014 share-based award.
- 4) At the end of 2014, KPN held the 13th position with respect to the 2012 share grant and at the end of 2013 KPN held the 14th position with respect to the 2011 share grant. Final TSR measurement for the 2012 share grant was conducted as of February 15, 2015.
- 5) Granted shares were adjusted based on a mathematically calculated adjustment factor, i.e. the cum-rights price divided by the TERP (Theoretical Ex-Rights Price) which, in case of the KPN rights issue, is set at 1.6494.

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

	2014 PSP	2013 PSP	2013 Restricted Shares
Risk-free interest rate based on euro government bonds for remaining time to maturity of 2.7 years	0.6%	0.6%	0.6%
Expected dividend for KPN (based on one year's historical daily data preceding the date of award)	2.0%	0.0%	–
Expected volatility (PSP grant based on 2.7 years historical daily data)	38.4%	32.9%	–
Share price at date of award (closing at grant date)	EUR 2.49	EUR 1.06	EUR 1.58

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Notes to the Consolidated Statement of Profit or Loss

[4] Depreciation, amortization and impairments

Amounts in millions of EUR	2014	2013
Amortization of other intangible assets	570	585
Impairment of other intangible assets	7	14
Total amortization and impairments of other intangible assets	577	599
Depreciation of property, plant and equipment	1,199	1,232
Impairments and retirements of property, plant and equipment	44	26
Total depreciation and impairment of property, plant and equipment	1,243	1,258
Total	1,820	1,857

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

Amounts in millions of EUR	2014	2013
By classification:		
Land and buildings	76	79
Plant and equipment	1,116	1,127
Other tangible fixed assets	35	41
Assets under construction	16	11
Total	1,243	1,258

[5] Other operating expenses

In 2014, Other operating expenses comprised, among others, an addition to the restructuring provision of EUR 84 million (2013: EUR 122 million). For more details reference is made to Note 24.

Auditor's fees

The fees listed below relate to the services provided to KPN and its consolidated group entities by PwC Accountants N.V., the Netherlands, KPN's external auditor as referred to in Section 1(1) of the Dutch Accounting Firms Oversight Act ('Wet toezicht accountantsorganisaties' or 'Wta'), as well as by other Dutch and foreign-based PwC individual partnerships and legal entities, including their tax services and advisory groups:

Amounts in millions of EUR	2014	2013
Financial statements audit fees	8.6	6.8
Other assurance fees	1.1	4.5
Tax fees	4.4	3.2
All other fees	0.2	0.3
Total	14.3	14.8

The total fees of PwC Accountants N.V., the Netherlands, charged to KPN and its consolidated group entities amounted to EUR 6.7 million in 2014 (2013: EUR 10.7 million).

The financial statements audit fees include the aggregate fees billed in each of 2014 and 2013 for professional services rendered for the audit of KPN's annual financial statements and annual statutory financial statements of subsidiaries or services that are normally provided by the auditor in connection with the audits. In 2014 additional audit fees were incurred in Germany in relation to the sale of E-Plus.

The other assurance fees include the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of KPN's Financial Statements and are not reported under audit services. This includes revenue and IT-related assurance services and regulatory-related assurance services. In 2013 this also included EUR 2 million fees related to the rights issue. The other assurance fees billed in 2014 are still regarded as permitted services under the Audit firms supervision act ('Wet toezicht accountantsorganisaties').

Tax fees in 2014 primarily related to tax services billed in the Netherlands and Germany in relation to the sale of E-Plus. All tax fees billed in 2014, as well as all other fees billed in 2014 related to services based on contracts that were in existence prior to January 1, 2013 or were billed by foreign PwC firms.

[6] Financial income and expenses

Amounts in millions of EUR	2014	2013
Finance income	34	29
Interest on borrowings	-589	-688
Interest on provisions for retirement benefit obligations	-23	-41
Interest on other provisions	-2	-1
Other	-257	-24
Finance costs	-871	-754
Amortizable part of hedge reserve [20]	-13	-6
Financial instruments not qualified for hedge accounting	1	17
Exchange rate differences	-4	3
Reggefiber call/put arrangements [12, 30, 31]	-159	-56
Other	109	10
Other financial results	-66	-32
Total	-903	-757

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

In 2014, interest on borrowings included a non-cash amount of EUR 22 million (2013: EUR 19 million) relating to debt issue costs and similar costs, which are amortized over the remaining life of the respective bonds. The decrease in interest on borrowings was related to a lower gross debt position.

In 2014, line item 'Other' in Finance costs included premiums and fees of EUR 236 million and additional amortization costs of EUR 7 million related to the tender on outstanding Eurobonds executed in November 2014.

Interest on provisions for retirement benefit obligations is the net amount of interest cost on the defined benefit obligation and expected return on plan assets (see Note 23).

Changes in the carrying value of Reggefiber call/put arrangements to acquire the remaining shares have been recorded in Other financial results, resulting in a loss of EUR 159 million in 2014 (2013: EUR 56 million loss). Refer to Note 31 for further information on Reggefiber.

In 2014, line item 'Other' in Other financial results mainly includes a gain of EUR 42 million for the remeasurement of KPN's 51% stake in Reggefiber, which was partly offset by the release of the related hedge reserve from equity of EUR 7 million, a settlement gain of EUR 25 million because KPN reached an agreement with Reggeborgh on the option to acquire the remaining 40% stake in Reggefiber (refer to Note 31) and a gain of EUR 32 million on the unwinding of swaps related to the bond tender. In 2013, this included the net result of the sale of available-for-sale financial assets (11% stake in Compucom) for the amount of EUR 21 million.

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Notes to the Consolidated Statement of Profit or Loss

[7] Taxation**The Netherlands**

In 2006, KPN signed a covenant with the Dutch tax authorities to self-assess and transparently discuss KPN's current and potential future tax issues (enhanced supervision, "horizontal monitoring").

In the course of 2014, KPN and the Dutch tax authorities reached several agreements. One of these agreements related to the agreement reached in December 2013 on the Dutch tax consequences of the tax book loss which is recognized as a result of the sale of E-Plus to Telefónica Deutschland. With the closing of the sale in 2014 this tax book loss amounts to approximately EUR 5 billion. To the extent this loss cannot be carried back to earlier years, it is expected to offset KPN's taxable income in the Netherlands in the current and coming years. Dividends received and/or capital gains (up to the amount of the loss deducted) realized on KPN's 20.5% shareholding in Telefónica Deutschland are subject to Dutch corporate income tax. Following this agreement, KPN increased the deferred tax asset of the Dutch fiscal unity with regard to the book loss on the sale of E-Plus in 2014 with EUR 297 million (EUR 932 million in 2013) to EUR 1,229 million. The revaluation of the stake in Telefónica Deutschland following changes in the share price during the period from October 1, 2014 to December 31, 2014 was recorded through Other Comprehensive Income and reduced the deferred tax asset by EUR 41 million to EUR 1,188 million at December 31, 2014. The deferred tax asset was not included in the disposal group held for sale.

KPN qualifies as an innovative company and concluded an agreement in 2011 with the Dutch tax authorities with respect to the application of the Dutch innovation box tax regime. The innovation box tax regime is a facility under Dutch corporate income tax law whereby profits attributable to innovation are taxed at an effective rate of 5%. The application of the innovation box resulted in a benefit of EUR 17 million over 2014 (2013: EUR 37 million) and furthermore reduced KPN's effective tax rate in the Netherlands from the statutory tax rate of 25% to approximately 20%.

Reggefiber has been consolidated (in full) in the financial statements of KPN as of November 1, 2014. The Reggefiber Group consists of seven fiscal unities of which several unities have tax losses carry forward. At December 31, 2014, a deferred tax asset of EUR 85 million was recorded of which EUR 47 million relates to recognized tax losses carry forward.

Germany/E-Plus discontinued operations

After the sale of E-Plus to Telefónica Deutschland, KPN remains liable for current tax positions of E-Plus until December 31, 2013. The total outstanding amount was EUR 60 million at December 31, 2014.

In Germany, income tax consists of trade tax ('Gewerbesteuer') and corporate tax ('Körperschaftsteuer'). In 2013, E-Plus was classified as 'disposal group held for sale' and upon that classification an impairment of the deferred tax assets for tax losses carry forward of EUR 747 million was recorded (as loss for the period from discontinued operations) resulting from changes in expectations of future taxable income in the German legal entities remaining within KPN Group. On August 29, 2013, The Foundation Preference Shares B KPN exercised its call option and obtained an interest in KPN's issued share capital equal to 50% minus one share. This event resulted in a change of control from a German tax perspective and expiration of 50% of the available losses carry forward in Germany. This triggered a permanent partial release of recognized deferred tax assets for tax losses carry forward of EUR 99 million as loss for the year from discontinued operations. At the closing date of the sale of E-Plus to Telefónica Deutschland, the remaining deferred tax assets for tax losses carry forward were no longer recognized.

The German activities (E-Plus) of KPN formed a German partnership transparent for German tax purposes and a permanent establishment for Dutch tax purposes. An agreement in 2004 with the Dutch tax authorities allowed KPN to offset in 2002 a EUR 11.5 billion tax loss related to E-Plus against its Dutch taxable result. This loss had to be recaptured in later years by adding EBITDA of E-Plus to the taxable income of KPN. For the tax payments on this recapture, a deferred tax liability had been recognized. As of December 31, 2013 this recapture was fully realized.

Other entities

There are several other entities in the Netherlands which are separately liable for income taxes. In most other countries in which KPN operates, tax loss carry forward is available and therefore no income tax is payable except when minimum taxation rules are applicable. In 2013, iBasis recognized a deferred tax asset to an amount of EUR 23 million based on tax loss carry forward to offset positive taxable income in the coming years.

Income tax expense

Amounts in millions of EUR	2014	2013
Current tax	-37	-53
Changes in deferred taxes	-10	84
Income tax (charge)/benefit from continuing operations	-47	31

The reconciliation from the Dutch statutory tax to the effective tax rate is explained in the table below.

Amounts in millions of EUR	2014	2013
Profit before income tax from continuing operations¹	292	269
Taxes at Dutch statutory tax rates ²	-73	-67
Tax rate differences of foreign operations ³	–	-4
Non-taxable income and non-deductible expenses ⁴	-35	-16
Notional interest deduction Belgium	–	13
Innovation tax facilities current year	17	37
Innovation tax facilities prior years ⁵	-18	16
(De)recognition of deferred tax positions⁶:		
– related to prior years	37	45
– related to the current year	5	4
Other	20	3
Income tax benefit/(charge) from continuing operations	-47	31
Effective tax rate continuing operations	16.1%	-11.5%

1) Excluding the share in profits or losses of associates and joint ventures.

2) Taxes at Dutch statutory tax rates are calculated on the basis of profit before income tax from continuing operations (excluding the share of profits of associates and joint ventures) and the applicable Dutch corporate income tax rate of 25% in 2014 and 2013.

3) Tax rate differences of foreign operations reflect the impact of different tax rates in the fiscal jurisdictions in which KPN operates. In 2014 and 2013, the corporate tax rates amounted to 34% in Belgium and 40% in the United States.

4) Non-taxable income and non-deductible expenses represent adjustments for income not subject to taxation and mainly relates to a non-deductible loss regarding Reggefiber of EUR 99 million (please refer to Note 31 for further information).

5) In 2011, KPN reached an agreement with the Dutch tax authorities with regard to the application of the so-called innovation tax facilities which was reassessed in 2013 and 2014.

6) (De)recognition of deferred tax positions reflects the effects of valuation or non-valuation of tax loss carry forward and deductible temporary differences mainly due to blended tax rate adjustments. In 2013, iBasis US recognized a deferred tax asset to an amount of EUR 23 million based on tax loss carry forward to offset positive taxable income in the coming years.

Deferred tax assets and liabilities

Amounts in millions of EUR	December 31, 2014	December 31, 2013
Deferred tax assets	1,323	1,167
– of which: to be recovered after 12 months	1,182	1,103
– of which: to be recovered within 12 months	141	64
Deferred tax liabilities	52	9
– of which: to be realized after 12 months	49	9
– of which: to be realized within 12 months	3	–
Deferred tax assets and liabilities	1,271	1,158

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

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Deferred tax assets

Deductible temporary differences							
	Tax loss carry forward ³	Goodwill	Other intangibles ²	Pension provisions ⁷	Other ¹	Offset against deferred tax liabilities	Total
Balance as of December 31, 2012	1,109	198	438	309	507	-714	1,847
Exchange differences	—	—	—	-2	2	—	—
Income statement benefit/(charge)	-628	-29	—	-27	838	—	154
Tax charged to equity	—	—	—	-62	53	—	-9
Reclassification	5	—	—	-40	36	156	157
Transferred to held for sale	-388	-83	-438	—	-73	—	-982
Balance as of December 31, 2013	98	86	—	178	1,363	-558	1,167
Exchange differences	3	—	—	4	-4	—	3
Income statement benefit/(charge)	-15	-30	—	-155	378	—	178
Changes in consolidation	44	—	—	—	42	—	86
Transfer to current tax ⁴	-76	—	—	-50	5	—	-121
Tax charged to equity ⁵	-41	—	—	-9	—	—	-50
Reclassification ⁶	747	—	—	43	-808	78	60
Balance as of December 31, 2014¹	760	56	—	11	976	-480	1,323

1) Other deductible temporary differences at December 31, 2014 include property, plant and equipment of EUR 82 million (2013: EUR 231 million), cash flow hedge reserves of EUR 131 million (charged to equity, 2013: EUR 130 million) and revenue recognition of EUR 16 million (2013: EUR 19 million). Furthermore, it includes the remaining part of the deferred tax asset of EUR 1.2 billion in the Netherlands that relates to the sale of E-Plus. The tax benefit relating to this DTA is partially reported as 'profit from discontinued operations' and partially recorded through Other Comprehensive Income.

2) Mainly related to UMTS licenses in Germany.

3) The impairment of EUR 747 million of deferred tax assets for tax losses carry forward in Germany in 2013 is reported as 'loss for the period from discontinued operations'.

4) Includes the usage of the deferred tax asset of EUR 1.2 billion in the Netherlands that relates to the sale of E-Plus.

5) Deferred tax charged to equity relates mainly to movements in the revaluation of the stake in TEFD, the hedge reserve and pensions.

6) Due to the actual sale of E-Plus in 2014, the deferred tax asset in the Netherlands in relationship with this sale is partially reclassified from other temporary differences to tax loss carry forward.

7) The decrease in the DTA for pension provisions relates to implementation of the CDC pension plans and the related releases in the pension provisions.

Deferred tax liabilities

Taxable temporary differences						
	Deferred liability due to losses in German permanent establishment	Software development	Accelerated depreciation ¹	Other ^{2,3}	Offset against deferred tax assets	Total
Balance as of December 31, 2012	205	228	305	187	-714	211
Income statement (benefit)/charge	—	-45	-61	-113	—	-219
Tax payable due to E-Plus loss recapture	-205	—	—	—	—	-205
Changes in consolidation	—	—	—	5	—	5
Reclassification	—	—	—	-9	156	147
Transfer to current tax	—	—	—	88	—	88
Tax charged to equity	—	—	—	-15	—	-15
Transferred to held for sale	—	—	—	-3	—	-3
Balance as of December 31, 2013	—	183	244	140	-558	9
Income statement (benefit)/charge	—	20	-72	-105	—	-157
Changes in consolidation	—	—	—	51	—	51
Reclassification	—	—	—	-1	78	77
Transfer to current tax	—	—	—	89	—	89
Tax charged to equity	—	—	—	-17	—	-17
Balance as of December 31, 2014	—	203	172	157	-480	52

1) Relates to property, plant and equipment in the Netherlands.

2) Other taxable temporary differences at December 31, 2014 include intangible fixed assets of EUR 77 million (2013: EUR 65 million), property plant and equipment of EUR 32 million (2013: EUR 40 million) and provisions for early retirement of EUR 13 million (2013: EUR 19 million).

Tax loss carry forward

	December 31, 2014		December 31, 2013	
	Tax loss carry forward	Recognized deferred tax assets	Tax loss carry forward	Recognized deferred tax assets
Koninklijke KPN – corporate tax ¹	2,842	624	84	9
BASE Company – corporate tax	175	63	173	63
Other	446	73	275	26
Total continuing operations	3,463	760	532	98
Remaining E-Plus – trade tax ²	2	–	794	82
Remaining E-Plus – corporate tax ²	7,459	–	6,883	45
Total KPN Group	10,924	760	8,209	225

- 1) Part of the tax loss carry forward are pre-consolidation losses ('voorvoegingsverliezen') limited in their use as such losses may only be compensated by taxable income generated by the specific company itself. Part of the tax book loss which is recognized as a result of the sale of E-Plus to Telefónica Deutschland is included in this amount. This total tax book loss amounts to EUR 5 billion and, to the extent this loss cannot be carried back to earlier years, it is expected to offset KPN's taxable income in the Netherlands in the current and coming years
- 2) The tax loss carry forward relate to the remaining German entities within the KPN Group after the sale of E-Plus. At the closing date of the sale of E-Plus the remaining deferred tax assets for losses carry forward were no longer recognized. E-Plus has been classified as 'disposal group held for sale' as of July 23, 2013 and upon that classification an impairment of deferred tax assets for tax losses carry forward of EUR 747 million was recorded (as 'loss for the period from discontinued operations') resulting from changes in expectations of future taxable income in the German legal entities remaining within the KPN Group. On August 29, 2013, the Foundation Preference Shares B KPN obtained an interest in KPN's issued share capital equal to 50% minus one share which resulted in a change of control from a German tax perspective and expiration of 50% of the available losses carry forward in Germany. This triggered a permanent partial release of recognized deferred tax assets for tax loss carry forward of EUR 99 million as loss for the period from discontinued operations.

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

The expiration of the available tax loss carry forward and recognized tax assets at December 31, 2014 is as follows:

	Tax loss carry forward	Maximum deferred tax asset	Recognized deferred tax asset ¹
2015	7	2	1
2016	10	2	2
2017	26	6	6
2018	7	2	1
2019	28	7	5
Later	3,032	767	680
Unlimited	7,814	1,293	65
Total Group	10,924	2,079	760

- 1) Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the tax loss carry forward can be utilized.

The expiration of the available tax loss carry forward and recognized tax assets at December 31, 2013 was as follows:

	Tax loss carry forward	Maximum deferred tax asset	Recognized deferred tax asset ¹
2014	4	1	–
2015	10	2	1
2016	11	2	2
2017	20	5	4
2018	29	7	1
Later	117	38	25
Unlimited	341	105	65
Total continuing operations	532	160	98
Discontinued operations unlimited ²	7,677	1,212	127
Total Group	8,209	1,372	225

- 1) Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the tax loss carry forward can be utilized.
- 2) The amount of tax loss carry forward contains EUR 6,657 million, which relates to the above-mentioned impairment of deferred tax assets of EUR 747 million.

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Notes to the Consolidated Statement of Profit or Loss

[8] Earnings per share

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

	2014	2013
Profit for the year from continuing operations in millions of EUR	239	293
Profit (loss) for the year from discontinued operations in millions of EUR	-823	-508
Profit (loss) for the year in millions of EUR	-584	-215
Profit attributable to non-controlling interests [21]	14	7
Profit (loss) attributable to equity holders [20]	-598	-222
Weighted average number of subscribed ordinary shares outstanding	4,258,098,273	3,536,302,579
Dilution effects:		
– options and non-vested shares	4,123,850	4,090,205
Weighted average number of subscribed ordinary shares outstanding including dilution effects	4,262,222,123	3,540,392,784
Earnings per share after taxes attributable to equity holders for the year in EUR		
– basic continuing operations ¹	0.04	0.07
– fully-diluted continuing operations ¹	0.04	0.07
– basic discontinued operations ¹	-0.19	-0.14
– fully-diluted discontinued operations ¹	-0.19	-0.14
– basic total, including discontinued ¹	-0.15	-0.07
– fully-diluted total, including discontinued ¹	-0.15	-0.07

1) Historic EPS and number of weighted average number of shares (non-diluted and fully-diluted) restated following the rights issue based on the adjustment of the historical share price (adjustment factor of 0.60628).

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

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

The profit attributable to equity holders used for calculations on a diluted basis is equal to the profit attributable to equity holders used for calculations on a non-diluted basis. Dividend on the perpetual hybrid bonds is deducted from the profit attributable to equity holders since the perpetual hybrid bonds represent equity but do not constitute profit attributable to equity holders.

[9] Dividend per share

During 2014, KPN paid an interim dividend of EUR 0.02 per share, in total EUR 85 million. KPN intends to pay a total dividend per share of EUR 0.07 in respect of 2014.

Notes to the Consolidated Statement of Financial Position

[10] Intangible fixed assets

Amounts in millions of EUR	December 31, 2014	December 31, 2013
Goodwill	1,454	1,169
Licenses	1,564	1,729
Software	675	610
Other intangibles	299	135
Total intangible assets	3,992	3,643

Other intangibles mainly relate to customer relationships and trade names. In 2014, this includes the customer base of Reggefiber for an amount of EUR 195 million (refer also to Note 31).

Statement of changes in goodwill

Amounts in millions of EUR	2014	2013
Cost	1,921	5,914
Accumulated impairments	-752	-757
Balance as of January 1	1,169	5,157
Investments ¹	281	—
Disposals	—	-5
Exchange rate differences	4	-2
Subsequent purchase price adjustments	—	5
Transferred to held for sale	—	-3,986
Closing net book value	1,454	1,169
Cost	2,217	1,921
Accumulated impairments	-763	-752
Balance as of December 31	1,454	1,169

1) Increase mainly due to purchase price allocation of Reggefiber (EUR 269 million).

For goodwill impairment testing, KPN's cash-generating units are deemed equal to KPN's operating segments. Allocation of goodwill is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The allocation of goodwill to cash-generating units is made in accordance with KPN's internal structure, and is shown below (refer also to Note 35):

Amounts in millions of EUR	December 31, 2014	December 31, 2013
Consumer Mobile	270	270
Consumer Residential	167	167
NetCo ¹	481	211
Business ²	354	343
Belgium	96	96
iBasis ³	86	82
Total	1,454	1,169

1) Increase mainly due to purchase price allocation of Reggefiber (EUR 269 million).

2) Increase due to purchase price allocation of MSBN BV, Telenetix BV and Argeweb BV.

3) Change in goodwill relates to exchange rate differences.

KPN obtained full control and Reggefiber has been consolidated (in full) in the Financial Statements of KPN as of November 1, 2014. The purchase price and the allocated fair value have been determined on a provisional basis. For the purpose of impairment testing, the acquired goodwill (EUR 269 million) has provisionally been allocated to KPN's cash-generating unit NetCo (refer also to Note 31).

As of December 19, 2014, Yes Telecom acquired a 100% share in mobile virtual network operator MSBN B.V. and in Telenetix B.V., which delivers IT Services to MSBN B.V. resulting in goodwill of EUR 6 million. As of August 12, 2014, KPN acquired a 100% share in hosting company Argeweb B.V. resulting in goodwill of EUR 5 million.

In 2013, a purchase price adjustment of EUR 5 million was recognized related to the acquisitions of Edutel, XMS, KickXL and Concepts ICT from Reggeborgh in 2012. In 2013, no acquisitions were made. The disposal of EUR 5 million in 2013 relates to the sale of Multiconnect. The transfer to held for sale of EUR 3,986 million relates to E-Plus.

Refer to Note 31 for further information on business combinations.

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Notes to the Consolidated Statement of Financial Position

Goodwill impairment test

Goodwill is impaired if the recoverable amount of the cash-generating unit to which it is allocated is lower than the book value of the cash-generating unit concerned including goodwill. A detailed review has been performed of the recoverable amount of each cash-generating unit. For all cash-generating units, the recoverable amount is based on their value-in-use, which was determined by using the discounted cash flow method. Key assumptions used in the cash flow projections are estimated EBITDA, estimated capital expenditures, the estimated change in working capital and the pre-tax weighted average cost of capital (WACC) used for discounting the cash flow projections. The cash flow projections for the first five years are management's best estimate based on the most recent business plans, historical growth rates and EBITDA margins. KPN believes the period used in the projections to be a suitable timescale for reviewing and considering the annual performance before applying a fixed terminal value multiple to the final year cash flows of the detailed projection. For all cash-generating units, the impairment test in 2014 resulted in positive headroom as per December 31, 2014.

Significant cash-generating units

The key long-term assumptions used in the impairment test are summarized in the table below:

	Sales growth	Capex intensity	EBITDA margin	Discount rate
Consumer Mobile 2014	0%	0%-1%	16%-21%	8.0%-8.5%
Consumer Mobile 2013	0%	3%-5%	13%-16%	8.5%-9.0%
Consumer Residential 2014	0%	8%-10%	21%-31%	8.0%-8.5%
Consumer Residential 2013	0%	10%-13%	19%-22%	8.5%-9.0%
NetCo 2014	0%	30%-36%	58%-68%	8.0%-8.5%
NetCo 2013	0%	28%-35%	52%-62%	8.5%-9.0%
Business 2014	0%	2%-4%	15%-20%	8.0%-8.5%
Business 2013	0%	4%-5%	20%-23%	8.5%-9.0%

Other cash-generating units

The key long-term assumptions used in the impairment test are summarized in the table below:

	Sales growth	Capex intensity	EBITDA margin	Discount rate
Belgium 2014	0%	10%-20%	24%-29%	9.0%-9.5%
Belgium 2013	0%	15%-25%	25%-27%	9.5%-10%
iBasis 2014	0%	0%-1%	1%-3%	14%-16%
iBasis 2013	0%	0%-1%	1%-3%	16%-17%

Sensitivity to changes in key assumptions

The expected future cash flows used in the impairment analysis are based on management's estimates. Events amongst others in technology and telecommunications markets as well as the financial markets and the overall economy may have an impact on the estimated future cash flows of KPN's businesses.

Since the headroom of the Dutch cash-generating units is more than sufficient, no sensitivity analysis is disclosed for these significant cash-generating units. The following table gives an indication of value change of the other cash-generating units as per year end 2014:

Amounts in millions of EUR	Sales growth		Capex intensity		EBITDA margin		Discount rate	
Increase / (decrease)	-0.5pps	+0.5pps	-0.5pps	+0.5pps	-0.5pps	+0.5pps	-0.5pps	+0.5pps
Value change Belgium	(40) – (45)	50 – 55	15 – 20	(15) – (20)	(15) – (20)	15 – 20	55 – 60	(50) – (55)
Value change iBasis	0 – (3)	0 – 3	10 – 13	(10) – (13)	(10) – (13)	10 – 13	2 – 5	(2) – (5)

Considering the margin between the recoverable and carrying amount of Belgium (more than EUR 100 million) and iBasis (approximately EUR 10 million), negative sensitivities will decrease the available headroom and may eventually result in an impairment.

Statement of changes in intangible fixed assets with finite lives

Amounts in millions of EUR	Licenses	Computer software	Software in development	Customer relationships	Trade names	Other	Total
Balance as of January 1, 2013	2,191	679	159	148	55	69	3,301
Investments	1,558	373	-20	–	–	3	1,914
Disposals	–	-4	–	–	–	–	-4
Change in consolidation	–	–	–	2	-4	–	-2
Reclassification	44	6	–	1	1	-44	8
Amortization	-295	-396	–	-49	-8	-6	-754
Impairment	–	-2	-56	–	–	–	-58
Transferred to held for sale (net)	-1,769	-122	-7	-4	-18	-11	-1,931
Closing net book value	1,729	534	76	98	26	11	2,474
Cost	2,595	1,359	76	377	81	72	4,560
Accumulated amortization/ impairments	-866	-825	–	-279	-55	-61	-2,086
Balance as of December 31, 2013	1,729	534	76	98	26	11	2,474
Investments	–	364	15	–	–	10	389
Change in consolidation ¹	–	10	–	204	–	–	214
Reclassification	–	27	9	–	–	–	36
Amortization	-165	-353	–	-42	-3	-6	-569
Impairment	–	-3	-4	–	–	–	-7
Exchange rate differences	–	–	–	–	1	–	1
Closing net book value	1,564	579	96	260	24	15	2,538
Cost	2,588	1,429	96	407	62	81	4,663
Accumulated amortization/ impairments	-1,024	-850	–	-147	-38	-66	-2,125
Balance as of December 31, 2014	1,564	579	96	260	24	15	2,538

1) The change in consolidation mainly relates to the customer base of Reggefiber (EUR 195 million), which is amortized over a period of 14 years starting on November 1, 2014.

Licenses

Amounts in millions of EUR	December 31, 2014	December 31, 2013
NetCo	1,322	1,465
Belgium	242	264
Total	1,564	1,729

Both the decreases at NetCo and Belgium relate to regular amortizations, mainly amortizations of 4G licenses.

At the end of 2014, the book value of Computer software and Software in development included internally generated software in the Netherlands for EUR 203 million (2013: EUR 167 million).

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Notes to the Consolidated Statement of Financial Position

[11] Property, plant and equipment

Statement of changes in property, plant and equipment

Amounts in millions of EUR	Land and buildings	Plant and equipment	Other tangible non-current assets	Assets under construction	Total
Balance as of January 1, 2013	671	6,573	94	557	7,895
Investments	48	1,621	38	17	1,724
Disposals	-2	-5	—	—	-7
Depreciation	-83	-1,426	-42	-7	-1,558
Impairments and retirements	-1	-24	-1	-9	-35
Reclassifications	—	-14	-3	9	-8
Change in consolidation	—	-3	—	—	-3
Transferred to held for sale (net)	-37	-2,448	-6	-177	-2,668
Closing net book value	596	4,274	80	390	5,340
Cost	1,914	9,553	241	397	12,105
Accumulated depreciation/impairments	-1,318	-5,279	-161	-7	-6,765
Balance as of December 31, 2013	596	4,274	80	390	5,340
Investments	46	1,055	11	-69	1,043
Disposals	-1	—	—	—	-1
Depreciation	-73	-1,093	-32	—	-1,198
Impairments and retirements	-2	-23	-3	-16	-44
Exchange rate differences	—	2	—	—	2
Reclassifications	—	-26	-1	-30	-57
Change in consolidation ¹	3	1,515	3	—	1,521
Closing net book value	569	5,704	58	275	6,606
Cost	1,910	11,289	239	285	13,723
Accumulated depreciation/impairments	-1,341	-5,585	-181	-10	-7,117
Balance as of December 31, 2014	569	5,704	58	275	6,606

1) The change in consolidation mainly relates to the consolidated fiber network of Reggefiber as of November 1, 2014.

Property, plant and equipment primarily concerns assets located in the Netherlands (2014: approximately 92%; 2013: approximately 90%) and Belgium (2014: approximately 8%; 2013: approximately 10%). Assets under construction mainly relate to the construction of mobile networks.

The book value of property, plant and equipment of which KPN as the lessee is the beneficial owner under financial lease programs amounted to EUR 90 million (2013: EUR 102 million).

The book value of property, plant and equipment of which KPN is the lessor under operating lease programs amounted to EUR 213 million (2013: EUR 319 million). The decrease in the book value of property, plant and equipment of which KPN is the lessor under operating lease programs is caused by depreciation charges of plant and equipment. The future minimum lease payments receivable related to these operating leases are EUR 26 million (2013: EUR 117 million) in total, of which EUR 25 million (2013: EUR 97 million) matures within one year and the remaining EUR 1 million (2013: EUR 20 million) matures within one to five years.

Sensitivity analysis

At the end of 2014, the book value for copper and fiber cables is EUR 1,959 million, which is included in plant and equipment. The current depreciation rates for these investments are based on estimates and judgment about the useful lives of these assets. For copper cables, KPN estimates that the current useful life is 10 years. If the useful life was set at 20 years, the depreciation charge for 2014 would be EUR 84 million lower. For fiber cables, KPN estimates that the current useful life is 30 years. If the useful life was set at 40 years, the depreciation charge for 2015 would be EUR 16 million lower.

[12] Investments in associates and joint ventures

Amounts in millions of EUR	2014	2013
Balance as of January 1	320	326
Additions	–	7
Addition through business combination [31]	17	–
Disposal through business combination [31]	-288	–
Income from associates and joint ventures	-6	-7
Dividend received	-1	-1
Transferred to held for sale	–	-3
Other changes	–	-2
Total changes	-278	-6
Balance as of December 31	42	320

KPN holds interests in several legal entities. At December 31, 2014, investments in associates and joint ventures include NTT Data Getronics (30%) for an amount of EUR 17 million (2013: EUR 17 million) and Glasvezel Netwerk Amsterdam BV (70%) for an amount of EUR 17 million (part of the acquired net assets of Reggefiber, refer to Note 31). At December 31, 2013, investments in associates and joint ventures included Reggefiber (EUR 293 million) in which KPN had a 51% interest. On October 31, 2014, KPN obtained control and Reggefiber has been consolidated (in full) in the Consolidated Financial Statements of KPN as of November 1, 2014. This acquisition has been accounted for as a step acquisition under which an existing investment is treated as if it had been sold. KPN's 51% stake in Reggefiber had a carrying value (based on equity method) of EUR 288 million at November 1, 2014 and was awarded a fair value of EUR 330 million in the purchase price allocation at that date. The fair value step-up of EUR 42 million has been recorded as a gain in other financial results (refer to Note 6). For information on the purchase price allocation of Reggefiber and the impact on the consolidated financial results of KPN, refer to Note 31.

Loans to associates and joint ventures as of December 31, 2014, mainly concerned loans for an amount of EUR 18 million provided to Glasvezel Netwerk Amsterdam BV. At December 31, 2013, this included shareholder loans to Reggefiber for EUR 453 million.

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

Amounts in millions of EUR	December 31, 2014 ²	December 31, 2013
Current assets	11	91
Non-current assets ¹	25	894
Current liabilities	7	65
Non-current liabilities	4	687
Total revenues	38	204
Total operating expenses	-38	-164
Profit or loss after taxes	–	-6

1) Including EUR 47 million goodwill at Reggefiber at December 31, 2013.

2) Amounts exclude Reggefiber.

The difference in value between the assets and liabilities of the table above and the investment value is the goodwill paid by KPN which is included in the book value of the associates and joint ventures.

[13] Available-for-sale financial assets

Amounts in millions of EUR	2014	2013
Balance as of January 1	20	35
Decrease due to sale	–	-23
Increase due to purchase	2,530	–
Fair value adjustment recorded in other comprehensive income	163	8
Balance as of December 31	2,713	20

Following the sale of E-Plus to Telefónica Deutschland at October 1, 2014, KPN obtained a stake of 20.5% in Telefónica Deutschland initially valued at EUR 2,528 million. The stake is accounted for as an 'available-for-sale financial asset' because KPN has no significant influence in Telefónica Deutschland. The fair value of the stake is based on Telefónica Deutschland's share price and adjusted quarterly. At December 31, 2014, the fair value of the stake amounted EUR 2,692 million.

Furthermore, KPN holds a 4% equity share in Jasper Wireless amounting to EUR 8 million (2013: EUR 10 million), a privately held company that provides a global machine-to-machine platform. In addition, KPN holds an equity stake of approximately 11% in TecnoCom, a listed Spanish ICT services company, amounting to EUR 11 million (2013: EUR 10 million).

In the second quarter of 2013, the equity stake in Compucom, a privately held IT outsourcing company in North America, was sold, which caused a decline of EUR 23 million.

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

Amounts in millions of EUR	2014	2013
Balance as of January 1	122	154
Current portion of non-current receivables	88	84
Gross	210	238
Additions	139	46
Redemptions	-16	-31
Change in consolidation	-162	—
Transferred to held for sale	-1	-43
Other changes	1	—
Total gross at December 31	171	210
Current portion of non-current receivables	31	88
Balance as of December 31	140	122

During 2014, KPN posted collateral of EUR 94 million (2013: EUR 6 million), according to pre-agreed settlement schedules of KPN's derivatives portfolio. For more information, refer to Note 30. Change in consolidation relates to prepayments to Reggefiber. For more information, refer to Note 31.

The balance as of December 31 included the following:

Amounts in millions of EUR	2014	2013
Accrued income and prepayments	37	112
Receivables from financial leases	2	3
Cash collateral on derivatives	100	6
Other loans	1	1
Total	140	122

Accrued income and prepayments mainly consist of prepaid rent recognized at nominal value. The gross amount with respect to receivables from financial leases amounts to EUR 3 million (2013: EUR 4 million), which fully matures within five years. The short-term portion of the financial leases amounting to EUR 1 million (2013: EUR 1 million) is classified as current trade and other receivables.

[15] Inventories

Amounts in millions of EUR	December 31, 2014	December 31, 2013
Resources, parts, tools and measuring instruments	53	50
Finished goods	18	21
Total inventories, gross	71	71
Provision for obsolescence	-10	-11
Total inventories, net	61	60

During 2014, a net amount of EUR 7 million (2013: EUR 8 million) was recorded as an expense for inventories carried at net realizable value. The expense is included in the line 'cost of materials' in the Consolidated Statement of Profit or Loss.

The transition expenses relating to fixed-price contracts involving managed ICT services are included under finished goods and amount to EUR 4 million at the end of 2014 (2013: EUR 4 million).

[16] Trade and other receivables (current)

Amounts in millions of EUR	December 31, 2014	December 31, 2013
Trade receivables	515	690
Social security and other taxes	6	3
Other receivables	36	181
Accrued income	295	244
Prepayments	147	96
Total	999	1,214
	December 31, 2014	December 31, 2013
Trade receivables – gross	610	802
Provision for doubtful trade receivables	-95	-112
Total	515	690

The carrying amounts of trade and other receivables approximate to their fair value. Trade and other receivables are non-interest-bearing.

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

Amounts in millions of EUR	2014	2013
Balance as of January 1	112	150
Addition through statement of profit or loss	9	36
Usage	-26	-6
Other movements	–	4
Transferred to held for sale	–	-72
Balance as of December 31	95	112

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

Amounts in millions of EUR	December 31, 2014		December 31, 2013	
	Gross	Provision	Gross	Provision
Consumer Mobile	50	13	56	14
Consumer Residential	33	8	50	12
Business Segment	273	14	332	19
NetCo Segment	101	31	118	44
iBasis Segment	45	6	133	5
Belgium Segment	97	14	96	12
Other	11	9	17	6
Total	610	95	802	112

For a discussion of KPN's policies to reduce credit risk on trade receivables as well as concentration of the credit risk, reference is made to Note 30 'Capital and Financial Risk Management'. Postpaid mobile services are considered to have the highest credit risks within the business of KPN (Belgium, part of Business and Consumer Mobile Segments). Overall, concentrations of credit risk with respect to trade receivables are limited due to the Group's large and unrelated customer base. The provision for doubtful trade receivables is predominantly collectively determined based on aging and is reviewed periodically.

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

Amounts in millions of EUR	December 31, 2014		December 31, 2013	
	Gross	Provision	Gross	Provision
Amounts undue	308	2	332	10
Past due 0-30 days	113	2	152	6
Past due 31-60 days	30	3	52	8
Past due 61-90 days	17	3	33	6
Past due 91-180 days	48	15	108	17
Past due 181-270 days	13	6	17	11
Past due 271-360 days	13	6	16	6
More than one year	68	58	92	48
Total	610	95	802	112

[17] Other current financial assets

At December 31, 2014, other current financial assets consist of held-to-maturity investments including bank deposits with initial maturities longer than three months, amounting to EUR 300 million (December 31, 2013: nil). These are classified as short-term investments in KPN's Net Debt definition. Refer to Note 30 for further information.

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Notes to the Consolidated Statement of Financial Position

[18] Cash and cash equivalents

At December 31, 2014, cash and cash equivalents amounted to EUR 1,976 million (EUR 3,946 million at December 31, 2013). The decrease in KPN's cash and cash equivalents mainly related to bond redemptions and redemption of Preference Shares B in the first half year of 2014 (EUR 1.7 billion), the bond tender executed in Q4 2014 (EUR 2.0 billion) and the consolidation of Reggefiber and related refinancing in Q4 2014 (EUR 1.3 billion). This was partly offset by the cash proceeds from the sale of E-Plus.

KPN's cash and cash equivalents as of December 31, 2014 consisted of highly liquid instruments, mainly deposits, repurchase agreements, interest-bearing bank accounts and money market funds. KPN's cash balances have been invested with a wide range of strong counterparties. As of December 31, 2014, cash and cash equivalents included EUR 100 million in repurchase agreements which are fully collateralized. The fair value of the collateral amounted to EUR 103 million. The collateral consists of sovereign, supranational and agency debt with a minimum credit rating of A and corporate debt with a minimum rating of BBB, denominated in major currencies such as EUR, GBP and USD. In case of counterparty default, the collateral ownership would transfer to KPN and can be converted to cash.

Cash and cash equivalents as at December 31, 2014 were for more than 99% (2013: 99%) denominated in the functional currency of the related entities. The effective interest rate on the outstanding bank deposits and money market funds as at December 31, 2014 was approximately 0.01%.

On December 31, 2014, KPN's total outstanding bank guarantees amounted to EUR 20 million (2013: EUR 52 million), which were issued in the ordinary course of business.

Amounts in millions of EUR	December 31, 2014	December 31, 2013
Cash	426	821
Short-term bank deposits, repurchase agreements and money market funds	1,550	3,125
Total cash and cash equivalents	1,976	3,946

Net cash and cash equivalents

As of December 31, 2014 KPN's net cash and cash equivalents position amounted to EUR 1,945 million as presented in the Cash Flow Statement:

Amounts in millions of EUR	December 31, 2014	December 31, 2013
Cash and cash equivalents	1,976	3,946
Bank overdraft	-31	-326
Net cash and cash equivalents	1,945	3,620

[19] Non-current assets, liabilities and disposal groups held for sale

Amounts in millions of EUR	December 31, 2014	December 31, 2013
Intangible assets (including goodwill)	–	5,976
Property, plant and equipment	–	3,132
Other non-current assets	1	515
Current assets	7	401
Fair value adjustment of disposal group	–	-555
Total assets held for sale	8	9,469
Non-current liabilities	2	318
Current liabilities	11	1,220
Total liabilities directly associated with the non-current assets and disposal groups classified as held for sale	13	1,538

KPN has classified SNT Deutschland as 'asset held for sale' as of December 31, 2014. The classification as held for sale resulted in a total impairment of the book value of EUR 13 million of which EUR 5 million is recorded under the other operating expenses, EUR 6 million is recorded in depreciation, amortization and impairments, and EUR 2 million is part of the tax expense. At December 31, 2013, non-current assets, liabilities and disposal groups held for sale consisted of E-Plus.

E-Plus

On July 23, 2013, KPN announced it had entered into a transaction to sell and transfer 100% of its interest in E-Plus to Telefónica Deutschland. Since that date, E-Plus has been presented as disposal group held for sale and measured at fair value less costs to sell. Given the significance of E-Plus to KPN, E-Plus was considered a 'discontinued operation'. All assets and liabilities of E-Plus have been presented separately on KPN's Statement of Financial Position as of July 23, 2013 as 'non-current assets of disposal groups classified as held for sale' and 'liabilities directly associated with non-current assets and disposal group held for sale' until completion of the sale (October 1, 2014). The assets and liabilities of E-Plus continued to be accounted for in accordance with the relevant IFRS standards as before July 23, 2013 except that non-current assets held by E-Plus were no longer amortized or depreciated as of July 23, 2013. Results from E-Plus are reported as 'profit/loss (-) for the period from discontinued operations', separate from the results from KPN's continuing operations as if E-Plus was classified as a discontinued operation as of January 1, 2013. Cash flows from E-Plus are reported as 'cash flows from discontinued operations' separate from cash flows from KPN's continuing operations as if E-Plus was classified as a discontinued operation as of January 1, 2013.

The sale of E-Plus was completed on October 1, 2014 and on that date KPN sold and transferred 100% of its interest in E-Plus to Telefónica Deutschland. KPN received EUR 5 billion on a cash and debt free basis and a 20.5% stake in Telefónica Deutschland, initially valued at EUR 2,528 million on October 1, 2014, based on the share price of Telefónica Deutschland at completion of the sale. The 20.5% stake in Telefónica Deutschland is accounted for as a non-current available-for-sale financial asset. Refer to Note 13 for more information. KPN provided a call option to Telefónica to acquire a 2.9% stake in Telefónica Deutschland from KPN, one year after the sale of E-Plus (September 30, 2015), either partially or in full. The exercise price for the 2.9% stake amounts to EUR 510 million, plus interest at 2.27% from October 1, 2014 and reduced by any dividend payments on the 2.9% stake. Based on its fair value, for this call option KPN recognized a liability of EUR 5 million on October 1, 2014 (refer to Note 27). At year end 2014, KPN made a best estimate of the expected deal proceeds for the sale of E-Plus, including the Net Debt/Working Capital settlement that will be finalized in 2015. The upside and downside risk amounts to approximately 10% of the 'Total loss for the period from discontinued operations' for the year 2014.

The following table presents the assets and liabilities of E-Plus at divestment date:

Amounts in millions of EUR	October 1, 2014
Intangible assets	6,047
Property, plant and equipment	3,709
Other non-current assets	46
Current assets	469
Non-current liabilities	-373
Current liabilities	-1,152
Fair value adjustment of disposal group	-1,756
Net assets and liabilities	6,990

The following table summarizes the results of E-Plus included in the Consolidated Statement of Profit or Loss as 'profit for the period from discontinued operations'.

Amounts in millions of EUR	2014	2013
Revenues and other income	2,352	3,096
Operating expenses	-1,621	-2,686
Finance income and expenses	-23	-28
Share of the loss of associates and joint ventures	-4	-10
Income taxes	-515	-411
Result for the period from discontinued operations before impairment and tax effects resulting from the transaction	189	-39
Impairment disposal group	-1,265	-555
Transaction costs	-46	-
Call option	2	-
Impairment German deferred tax assets	-	-747
Income tax benefit Dutch fiscal unity	297	932
Tax effect resulting from the change of control	-	-99
Total profit (loss) for the period from discontinued operations	-823	-508

The net cash flows of the disposal group 'E-Plus' are as follows:

Amounts in millions of EUR	2014	2013
Cash flow from operating activities	312	927
Cash flow from investing activities	4,163	-660
Cash flow from financing activities	-251	-172
Total net cash (outflow)/inflow from discontinued operations	4,224	95

[20] Equity attributable to equity holders

For a breakdown of equity attributable to equity holders, reference is made to the Consolidated Statement of Changes in Group Equity. The total distributable reserves at December 31, 2014 amounted to EUR 4,004 million (2013: EUR 3,970 million). For further details of the non-distributable reserves, reference is made to the Corporate Financial Statements.

Share capital

After an amendment to the Articles of Association on March 21, 2014, KPN's authorized capital stock totals EUR 720 million divided into 9 billion ordinary shares of EUR 0.04 each and 9 billion preference shares B of EUR 0.04 each. As of December 31, 2014, a total of 4,270,254,664 ordinary shares were outstanding and fully paid-in. Dutch laws prohibit KPN from casting a vote on shares KPN holds (treasury shares). The ordinary shares and preference shares B carry the right to cast one vote each. For a description of the preference shares B, please see 'Foundation Preference Shares B KPN' hereafter. The ordinary shares are registered or payable to bearer. Shareholders may request the Company to convert their registered shares to bearer shares but not vice versa.

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On April 25, 2013, KPN set the terms of its EUR 3 billion rights issue, which was announced on February 20, 2013 and approved by the Annual General Meeting on April 10, 2013. KPN announced a 2 for 1 rights issue of 2,838,732,182 new ordinary shares with a nominal value of EUR 0.24 at an issue price of EUR 1.06 through the granting of transferable subscription entitlements to holders of ordinary shares in KPN's issued and outstanding share capital pro rata to their shareholdings. The issue price represented a discount of 35.1% to the theoretical ex-rights price (TERP), based on the closing price of EUR 2.78 per ordinary share on April 24, 2013. At the end of the subscription period, the take-up amounted to 97.4% of the offer shares. The remaining offer shares were placed with institutional investors through a rump placement. Payment, delivery and start of trading of the offer shares occurred on May 17, 2013. The net proceeds from the rights issue amounted to EUR 2,957 million.

Share premium

The additional paid-in capital is exempt from Dutch tax up to an amount of EUR 10,598 million (2013: EUR 9,744 million).

Other reserves

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

Amounts in millions of EUR, unless indicated otherwise	Number of treasury shares	Treasury shares reserve	Hedge reserve	Fair value reserve available-for- sale financial assets	Currency translation reserve	Total other reserves
Balance as of January 1, 2013	12,156,391	-138	-239	3	13	-361
Addition (net)	—	—	-155	—	—	-155
Exchange differences	—	—	—	—	-1	-1
Balance as of December 31, 2013	12,156,391	-138	-394	3	12	-517
Addition (net)	—	—	1	122	—	123
Exchange differences	—	—	—	—	6	6
Balance as of December 31, 2014	12,156,391	-138	-393	125	18	-388

Hedge reserve

Amounts in millions of EUR	December 31, 2014	December 31, 2013
Effective portion cash flow hedges	-438	-437
Amortizable part [6]	-86	-87
Hedge reserve	-524	-524
Tax effect	131	130
Hedge reserve, net of tax	-393	-394

[..] Bracketed number refers to the related Note.

Treasury shares and treasury shares reserve

Until 2011, KPN purchased shares in its own capital for delivery upon exercise of share options by management and personnel under the share option and performance share plans (see Note 3). Votes on purchased shares may not be cast and they do not count towards determining the number of votes required at a General Meeting of Shareholders. In 2014 and 2013, no shares were purchased.

Treasury shares are accounted for at cost, representing the market price on the acquisition date. The proceeds at delivery of the treasury shares are recognized directly in the other reserves. In the event that more options are exercised than available as treasury shares for option plans, KPN anticipates providing shares for equity-settled plans through the purchase of shares in the market. All rights with respect to repurchased treasury shares are suspended until those shares are delivered.

Foundation Preference Shares B KPN

KPN has granted a call option, which is not limited in time, to the Foundation Preference Shares B KPN (the Foundation), to acquire a number of preference shares B in KPN, which have the same voting rights as ordinary shares, not exceeding the total issued amount of ordinary shares, minus one share and minus any shares already issued to the Foundation. Upon exercise of the call option, 25% of the nominal value of the preference shares B needs to be paid by the Foundation. KPN's Board of Management can decide to request the Foundation to pay the remainder. Such decision is subject to the approval of the Supervisory Board.

It is noted that contractually, KPN also has a put option to sell to the Foundation a number of its preference shares B, not exceeding the total issued share capital before such issue or, subject to prior approval by the General Meeting of Shareholders, such larger number as the parties may agree. However, since October 12, 2006, the authority of the Board of Management to issue preference shares B under this put option has expired. This expiration does not affect the obligation to issue preference shares B upon exercise of the call option by the Foundation.

On August 29, 2013, the Foundation exercised its call option and obtained 4,258,098,272 newly issued preference shares B in KPN, in order to safeguard the interests of KPN and its stakeholders as América Móvil announced its intention to make a public offer for all KPN shares on August 9, 2013, without prior consultation of KPN. Following a subsequent request by the Foundation, KPN's Extraordinary General Meeting of Shareholders granted the requested approvals to cancel all outstanding preference shares B on January 10, 2014,

which cancellation became effective on March 21, 2014. The cancellation resulted in a repayment to the Foundation of the payment made, amounting to 25% of the nominal value of the preference shares B, increased by an amount similar to a dividend in proportion to the time the shares were outstanding. The right granted to the Foundation to acquire preference shares is unconditional and continuous, and the Foundation is therefore entitled to acquire Preference Shares B in the future.

Under IFRS, the Preference Shares B do not meet the definition of equity and therefore the paid up amount was presented as a current liability (EUR 255 million) at December 31, 2013. Dividends due are recorded as financial expenses. KPN is of the opinion that neither the put option nor the call option represent a significant fair value as mentioned in IAS 1, paragraph 31 due to the fact that the put option can no longer be exercised by KPN and the fact that the Preference Shares B, issued after exercise of the call option, bear interest linked to EURIBOR. The options are therefore not accounted for in the annual accounts nor is any additional information disclosed as meant in IFRS 7.

[21] Non-controlling interests

In 2012, KPN acquired a stake in GroupIT B.V. of 12.5% at fair value with a right to acquire the remaining stake and thus obtained the control over GroupIT B.V. The amount of non-controlling interests at December 31, 2014 includes the 87.5% stake of other shareholders in GroupIT B.V. for an amount of EUR 58 million (2013: EUR 53 million).

[22] Borrowings

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

Amounts in millions of EUR	December 31, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Eurobonds EUR	6,175	6,856	8,835	9,481
Eurobonds GBP	1,883	2,199	2,107	2,263
Global Bonds USD	1,117	1,170	1,037	937
Hybrid Bonds (GBP and USD)	1,000	1,052	905	947
Financial lease obligations	95	88	105	99
Bank overdraft	31	31	326	326
Preference Shares B	—	—	255	255
Other loans	140	160	93	96
Total borrowings	10,441	11,556	13,663	14,404
— of which: current	1,044	1,061	2,008	2,022
— of which: non-current	9,397	10,495	11,655	12,382

The fair value for Eurobonds and Global Bonds is based on the listed price of the bonds.

KPN's weighted average interest rate on the borrowings outstanding before swaps at December 31, 2014 was 5.8% (2013: 5.6%). The EUR perpetual hybrid bonds, classified as equity, have been included in this calculation. The weighted average interest rate after swaps was 5.3% (2013: 5.2%). Excluding all hybrid bonds, the average interest rate on the senior bond portfolio after swaps at December 31, 2014 was 5.0% (2013: 5.0%).

For further details on borrowings, including a redemption schedule, reference is made to Note 30 'Financing Risk Management – Liquidity Risk'.

Bonds

On November, 7 2014, KPN completed a tender offer, in which KPN repurchased an aggregate principal amount of EUR 1.8 billion of eight of its Eurobonds with maturities between 2016 and 2024. The total cash-out for the tender amounted to EUR 2.0 billion, which was financed with available cash.

The following table shows the original principal amount, the repurchased principal amount and the principal amount outstanding after the tender:

Amounts in millions in EUR, unless stated otherwise	Original principal amount	Repurchased principal amount	Principal amount outstanding after tender offer	Carrying value after tender offer December 31, 2014
Eurobond 2008-2016	925	280	645	646
Eurobond 2006-2016	GBP 275	GBP 140	GBP 135	GBP 135
Eurobond 2006-2017	1,000	250	750	749
Eurobond 2007-2019	GBP 250	GBP 154	GBP 96	GBP 95
Eurobond 2010-2020	1,000	277	723	795
Eurobond 2012-2021	750	389	361	359
Eurobond 2012-2022	750	134	616	613
Eurobond 2009-2024	700	93	607	705

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Refer to Note 6 and Note 27 for information on the related finance costs and derivatives.

On May 30, 2014, KPN redeemed EUR 650 million of the Eurobond 2007-2014, in accordance with the regular redemption schedule.

On February 4, 2014, KPN redeemed EUR 750 million of the Eurobond 2009-2014, in accordance with the regular redemption schedule.

On September 16, 2013, KPN redeemed EUR 545 million of the Eurobond 2008-2013, in accordance with the regular redemption schedule.

On March 18, 2013, KPN redeemed EUR 540 million of the Eurobond 2006-2013, in accordance with the regular redemption schedule.

Hybrid bonds

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

On March 28, 2013, KPN issued a USD 600 million hybrid bond with a 7% coupon (swapped to EUR 465 million and a 6.34% coupon for a period of 10 years).

The EUR 1.1 billion hybrid bond is a subordinated bond with a perpetual maturity, while the GBP 400 million and USD 600 million hybrid bonds are subordinated bonds with 60-year maturities. The EUR, GBP and USD hybrid bonds can, at KPN's discretion, first be redeemed in September 2018, March 2020 and March 2023 respectively. KPN may, at its discretion and subject to certain conditions, elect to defer payments of interest on these hybrid bonds. The ratings for the hybrid bonds are BB by Standard & Poor's, Ba2 by Moody's and BB by Fitch Ratings. The rating agencies recognize 50% of the hybrid bonds as equity. The hybrid bonds are for 50% treated as equity and 50% as debt in KPN's gross and net debt definitions. The EUR hybrid bond is classified as equity in the Consolidated Statement of Financial Position (classified as perpetual hybrid bonds), while the GBP and USD hybrid bonds are classified as liabilities in the consolidated statement of financial position (classified as Borrowings). The hybrid bonds have been listed on Euronext Amsterdam.

Preference Shares B

On August 29, 2013, the Foundation Preference Shares B exercised its call option to subscribe for preference shares B in KPN for a total consideration of EUR 255 million. According to IFRS, the paid-up value is classified as current liability on KPN's balance sheet.

On March 21, 2014, KPN canceled the Preference Shares B against repayment to the Foundation Preference Shares B of the paid-up amount of EUR 255 million. The cancellation was approved by the Extraordinary General Meeting of Shareholders on January 10, 2014.

Financial lease obligations

As of December 31, 2014, the financial lease obligations amounted to EUR 95 million. Refer to Note 30 for more information.

Credit rating

KPN maintains credit ratings from Standard & Poor's, Moody's and Fitch. As of December 31, 2014, KPN had a credit rating of Baa3 with a stable outlook by Moody's, BBB- with a stable outlook by Standard & Poor's and BBB- with a stable outlook by Fitch. The table below shows the adjustments to the credit ratings during 2014 and 2013.

Credit rating agency	Rating as at December 31, 2014	Current outlook	Adjustments 2014	Adjustments 2013
Standard & Poor's	BBB-	Stable	• None	<ul style="list-style-type: none"> February 8: rating changed to BBB- with stable outlook from BBB with credit watch negative July 26: outlook changed to positive from stable August 15: rating on credit watch positive November 6: rating changed to BBB- with stable outlook from BBB- with credit watch positive
Moody's	Baa3	Stable	• March 28: rating changed to Baa3 with stable outlook from Baa2 with negative outlook	• February 6: Baa2 rating confirmed with negative outlook following review for downgrade
Fitch	BBB-	Stable	• None	• None

[23] Provisions for retirement benefit obligations

The provisions for retirement benefit obligations consist of the net defined benefit liability regarding pension plans and early retirement plans which are accounted for as defined benefit plans. These plans are described below.

KPN PF and KPN OPF

KPN's main pension plan in the Netherlands covers most employees who are subject to KPN's collective labor agreement and is externally funded through 'Stichting Pensioenfonds KPN' ('KPN PF'). The pension plan for senior management with an individual labor agreement in the Netherlands is externally funded through 'Stichting Ondernemingspensioenfonds KPN' ('KPN OPF').

The benefits provided under these plans are based on the employee's years of service and compensation level and consist of a defined benefit average pay plan for the salary up to EUR 45,378 per annum and a defined contribution part for the salary exceeding EUR 45,378 per annum. Furthermore, employees can opt to participate in an individual pension saving scheme. For accruals as of January 1, 2014, the retirement age has been increased from 65 to 67. Indexation of the pension benefits is conditional and depends on the fund's financial position.

These plans were accounted for as a defined benefit plan. The premiums KPN had to pay were based on the cost of accrual of pension benefits and a long-term horizon regarding the desired coverage ratio. Furthermore, KPN was required to make recovery payments when the coverage ratio of these plans was below approximately 105%.

In 2014, the implementation of a Collective Defined Contribution pension plan ('CDC pension plan') was approved for both the KPN PF plan and the KPN OPF plan as of January 1, 2015. The new plans became effective as of January 1, 2015. The agreement entails the following:

- KPN's only obligation is to pay a contribution level that is an annual fixed percentage of the pensionable base to the KPN PF and KPN OPF.
- the contribution level is fixed for a period of 5 years, commencing January 1, 2015.
- KPN is released from its obligation to make recovery payments.
- KPN made a one-off lump-sum cash payment of EUR 200 million to the KPN PF and EUR 30 million to the KPN OPF at the end of 2014.

At the date of approval of the introduction of the new CDC pension plans, an amendment was recorded of the then existing pension plans and reduced the net defined benefit liability, in KPN's Consolidated Statement of Financial Position, with EUR 467 million (EUR 451 million for KPN PF and EUR 16 million for KPN OPF). This release was recorded as a reduction of the pension expenses. Under the new CDC pension plans, as of January 1, 2015, KPN will have no other obligation than to pay the annual contribution and therefore these plans will be accounted for as defined contribution plans. The annual contribution, which is a fixed percentage of the pensionable base, will be reassessed after 5 years and will only be based on the cost of future benefit accrual. The risks related to past benefit accrual and the financial position of the pension funds are borne by the (former) employees. At December 31, 2014, after the lump-sum cash payments of EUR 230 million, the remaining pension provision relating to the KPN PF and KPN OPF were fully released (plan settlement). The plan settlement did not have a net impact on KPN's profit or loss.

SVG

'Stichting Voorzieningsfonds Getronics' (SVG) is the administrator of a number of pension plans of (former) employees of KPN Corporate Market BV (formerly Getronics) and related companies in the Netherlands. Retirement benefits are accrued by means of an individual savings account. For accruals as of January 1, 2013, the retirement age has been increased from 65 to 67. The annual accrual of the individual savings accounts is based on a defined contribution plan. At retirement age the accrued capital is converted into defined pension benefits. Indexation of the pension benefits is conditional and depends on the fund's financial position. KPN accounted for these plans as defined benefit as KPN was exposed to certain (limited) risks due to a guaranteed return on investments of the individual savings accounts.

In 2014, the board of the SVG and KPN reached an agreement to abolish the guaranteed return on investments and to transfer the active members to the KPN pension funds as of January 1, 2015. The active members will accrue benefits under the new CDC pension plan. As part of the agreement, KPN made a lump-sum payment of EUR 5 million. These amendments removed KPN's exposure to risks and benefits of the SVG plans, except for the obligation to pay to the SVG administration expenses for participants who are employed by KPN or certain of its previously divested entities. The amount of administration expenses is linked to the value of the individual savings accounts and therefore the SVG plans will continue to be accounted for as a defined benefit plan. The release of the pension provision due to these amendments was EUR 10 million which was recorded as a reduction of the pension expenses. The pension provision remaining for the SVG plans at December 31, 2014 was EUR 18 million and is only for KPN's obligation to reimburse administration expenses. KPN has no other obligation or risks related to these plans.

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Getronics UK

The Getronics UK operations were divested in 2012. The closed and frozen pension plan of the UK operations remained with KPN and is accounted for as a defined benefit plan. The assets of the plan are held separately from those of KPN in an independently administered fund. The plan operates under the regulations of the UK Pensions Regulator. The plan's trustees are responsible for the stewardship of the plan. This includes the investment strategy, the investment of assets, the appointment of professional advisors, the consultation with the Pensions Regulator and KPN management, the collection of contributions, the payment of the plan expenses and the payment of benefits. The deficit in the plan's funding must be recovered by the investment returns in the plan's assets and the monthly contributions by KPN, agreed upon between the pension fund and KPN based on a triennial valuation performed by an independent qualified actuary.

The UK pension plan exposes KPN to a number of risks which can have an impact on the future contributions by KPN and the liability recorded in its balance sheet. The most significant risks are summarized below:

- Asset volatility: the pension plan's assets are invested in equity securities and therefore the plan's funding level is exposed to equity market risks.
- Interest rate risk: a decrease in interest rates will increase the plan's liabilities and increases the plan's deficit.
- Inflation risk: indexation of the accrued benefits is unconditional and is based on a combination of consumer and retail price indices and therefore the plan is exposed to inflation risk.
- Life expectancy: the plan provides benefits for the life of the members, so increases in life expectancy will result in an increase in the plan's liabilities.

Getronics US

The Getronics US operations were divested in 2008. The closed and frozen pension plan of the US operations remained with KPN and is accounted for as a defined benefit plan. The assets of the plan are held separately from those of KPN in an independently administered fund. The plan operates under the provisions of Employee Retirement Income Security Act (ERISA). The plan's Administrative and Benefits Committee is responsible for the proper running of the plan. This includes the collection of contributions, the investment of assets and payment of benefits. Until the plan is fully funded to 100% of liabilities, US funding rules require minimum quarterly contributions by KPN to recover to a fully funded position. No indexation of accrued benefits applies to this plan.

The US pension plan exposes KPN to a number of risks which can have an impact on the future contributions by KPN and the liability recorded in its balance sheet. The most significant risks are summarized below:

- Asset volatility: the pension plan's assets are predominantly invested in equity securities and therefore the plan's funding level is exposed to equity market risks.
- Interest rate risk: a decrease in interest rates will increase the plan's liabilities, although this will be partially offset by an increase in the value of the plan's bond holdings.
- Life expectancy: the plan provides benefits for the life of the members, so increases in life expectancy will result in an increase in the plan's liabilities.

KPN uses the funding relief provided by US law which reduces the magnitude and volatility of minimum required contributions by valuing the plan's liabilities, for funding purposes, with a discount rate that is based on a corridor around a 25-year average corporate bond yield. The contributions are determined by an independent qualified actuary on the basis of an annual valuation.

Other

KPN has a number of other funded plans in the Netherlands, which are closed to new entrants, and in Belgium. The risks related to these plans are limited because the obligations are insured at external parties. The pension plans of E-Plus have been transferred to Telefónica Deutschland with the sale of E-Plus on October 1, 2014.

KPN also has a number of early retirement plans, all in the Netherlands, which are unfunded. The risks related to these plans are also limited because of their short duration.

Net defined benefit liability (asset)

The balance sheet position can be broken down as follows:

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability (asset)	
Amounts in millions of EUR	2014	2013	2014	2013	2014	2013
Balance as of January 1	9,453	9,771	-8,435	-8,216	1,018	1,555
Included in profit or loss:						
– Operating expense:						
current service costs	97	117	–	–	97	117
past service cost (gain) ²	-477	23	–	-49	-477	-26
settlements	-8,524	–	8,524	–	–	–
administration cost	–	–	10	9	10	9
– Interest costs (income)	269	276	-246	-235	23	41
Total	-8,635	416	8,288	-275	-347	141
Included in OCI						
Remeasurements loss (gain):						
– Actuarial loss (gain) arising from:						
demographic assumptions	-3	-64	–	–	-3	-64
financial assumptions	1,609	-294	–	–	1,609	-294
experience adjustment	-107	-91	–	–	-107	-91
– Return on plan assets excluding interest income	–	–	-1,458	72	-1,458	72
– Effect of movements in exchange rates	55	-16	-40	10	15	-6
Total	1,554	-465	-1,498	82	56	-383
Other						
Employer's contribution	–	–	-411	-244	-411	-244
Employees' contribution	29	32	-29	-32	–	–
Benefits paid	-269	-241	269	241	–	–
Transferred to held for sale	–	-60	–	9	–	-51
Balance as of December 31	2,132	9,453	-1,816	-8,435	316	1,018
Of which:						
KPN PF	–	6,690	–	-6,045	–	645
KPN OPF	–	772	–	-733	–	39
SVG	1,288	1,147	-1,270	-1,125	18	22
Getronics UK	385	296	-252	-226	133	70
Getronics US	279	218	-195	-159	84	59
Other	180	330	-99	-147	81	183
Total	2,132	9,453	-1,816	-8,435	316	1,018

1) Includes E-Plus until 'held for sale' classification as of July 23, 2013.

2) In 2014, amendment gains were recorded for KPN PF (EUR 451 million), KPN OPF (EUR 16 million) and SVG (EUR 10 million). For an explanation, see the description of the pension plans above. In 2013, KPN and the trade unions agreed to amend the pension arrangements of KPN PF and KPN OPF to reflect new fiscal legislation. The retirement age for new benefit accruals as of January 1, 2014, has been increased to 67 and the annual accrual rate has been decreased from 2.25% to 2.15%. As a result of these amendments, KPN's net defined benefit liability decreased by EUR 28 million. A corresponding gain has been recognized in the Consolidated Statement of Profit or Loss in 2013. Past service cost (gain) also includes the effects of the merger in 2013 of the SNT pension fund with KPN PF. As a result of the merger, the SNT plan is accounted for as a defined benefit plan leading to a past service cost of EUR 2 million.

The measurement date for all defined benefit plans is December 31.

Defined benefit obligations

Actuarial assumptions

The key actuarial assumptions used in the calculation of the defined benefit obligations are as follows:

	December 31, 2014					December 31, 2013			
	SVG	Getronics UK	Getronics US	Other	KPN PF/OPF	SVG	Getronics UK	Getronics US	Other
Discount rate (%)	1.4	3.3	3.2	1.4	3.2	3.1	4.7	4.0	1.8
Expected salary increases (%)	n/a	n/a	n/a	1.9	2.0	2.0	n/a	n/a	2.0
Expected benefit increases/indexation (%)	0.5	3.0-2.0	n/a	0.2	1.6	0.6	3.2-2.5	n/a	1.0
Life expectancy for pensioners at the age of 65 (years):									
– Male	22.0	23.0	21.2	22.2	21.9	22.3	23.0	20.3	22.7
– Female	23.2	25.0	23.3	23.4	23.6	23.2	25.0	22.6	23.8

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For the amendment calculation of KPN PF in 2014, a discount rate of 2.2% and expected benefit increases/indexation of 1.0% were used (all other assumptions unchanged compared to December 31, 2013). The discount rate is based on yield curves of AA corporate bonds with maturities equal to the duration of the benefit obligations and in the applicable currency. At December 31, 2014, the (weighted) average duration of the defined benefit obligation was 18 years. Assumptions regarding life expectancy are based on published statistics and mortality tables that include allowances for future improvement in mortality. The mortality table used in the Netherlands is the projected table AG 2014 which includes projected improvement rates varying by year of birth, corrected for fund specific circumstances. For example, the life expectancy at the age of 65 is expected to increase in the next 20 years with approximately 2 years. The mortality table used in the UK is the S1PXA 90% loading/ CMI 2013 projection with a 1.0% long term improvement and in the US the RP-2014 Generational Scale MP table.

Sensitivity analysis

The table below shows the approximate impact on the defined benefit obligation as at December 31, 2014 of a change in the key actuarial assumptions of 0.5% and in the case of life expectancy of a change of 1 year.

Amounts in millions of EUR	Increase	Decrease
Discount rate	-62	70
Expected salary increases	2	-2
Expected benefit increases	38	-35
Life expectancy	20	-20

The sensitivities in the table above were estimated by actuaries based on the defined benefit obligations per December 31, 2014 and exclude plans in SVG because there is no (net) impact on the net defined benefit liability in KPN's Consolidated Statement of Financial Position and no associated risk for KPN. If more than one of the assumptions change, the impact would not necessarily be equal to the total impact of changes in those assumptions in isolation.

Plan assets

The assets of all defined benefit pension plans at December 31, 2014 and 2013 consisted of the following (in millions of EUR):

	December 31, 2014				December 31, 2013			
	Quoted	Unquoted	Total		Quoted	Unquoted	Total	
Equity securities								
– Europe	217	–	217		1,301	–	1,301	
– North America	385	–	385		1,556	–	1,556	
– Asia	18	–	18		669	–	669	
– South America	101	–	101		88	–	88	
– Other	67	–	67		165	–	165	
– Total	788	–	788	44%	3,779	–	3,779	45%
Fixed Income securities including inflation linked bonds (per Standard & Poor's rating)								
– AAA	124	–	124		772	–	772	
– AA	195	–	195		292	–	292	
– A	156	–	156		549	–	549	
– BBB	89	–	89		742	–	742	
– < BBB	127	–	127		314	–	314	
– no rating	97	–	97		136	217	353	
– Total	788	–	788	44%	2,805	217	3,022	36%
Real estate ¹	–	25	25	1%	127	397	524	6%
Commodities ²	7	–	7	–	299	–	299	3%
Derivatives ³	–	43	43	2%	–	476	476	6%
Other (including insurance contracts)	54	111	165	9%	193	142	335	4%
Total	1,637	179	1,816	100%	7,203	1,232	8,435	100%

1) At December 31, 2014, all investments in real estate are located in Europe (2013: 90%).

2) Includes investment funds which invest in financial instruments related to commodities such as energy, agricultural products and precious metals.

3) Includes interest rate swaps, interest rate swaptions and put options on equity securities. Reference is made to the description of the strategic investment policies for an explanation of the use of these financial derivatives.

Strategic investment policies

The strategic investment portfolios at the end of 2014 of the defined benefit plans (before hedging) were as follows:

	SVG	Getronics UK	Getronics US	Other plans (weighted average)
Equity securities	37%	100%	65%	–
Fixed income securities (including inflation linked bonds)	59%	–	35%	–
Real estate	4%	–	–	–
Other	–	–	–	100%
Total	100%	100%	100%	100%

The SVG's investment strategy is determined based on an asset-liability management (ALM) study in consultation with investment advisers and within the boundaries given by the regulatory body for pension funds (in the Netherlands, the regulatory body is 'De Nederlandsche Bank'). The SVG uses interest rate swaps to mitigate the interest rate risk on the obligations (on local funding basis). Around 60% of the interest rate risk is effectively hedged. Currency risks on the main foreign currencies are fully hedged for the total portfolio. The risks of a decline in equity prices are not hedged. A decline in the value of the SVG's assets has no risk for KPN as KPN has no other obligation than to reimburse administration expenses related to the SVG plans.

In the UK, a roadmap is in place to shift from investments in equity securities to fixed income securities, when the coverage ratio reaches certain thresholds. In the US, KPN seeks to grow the funded status of the main pension plan to a level of 95% to 100% of the economic value of the plan's liability value within a five-to-seven year time period. The Getronics UK and US pension funds do not hedge interest rate risks, currency risks and equity risks.

As the pension funds mainly invest in the global investment funds, a minor part of these investments could be related to KPN equities.

Expected contributions and benefits

In 2014, the total employer's contributions and benefit payments for all defined benefit plans (including for the whole year KPN PF and KPN OPF whose plans were transferred into (collective) defined contribution plans) amounted to EUR 411 million, consisting of EUR 235 million settlement payments for KPN PF, KPN OPF and SVG, EUR 84 million for employer's defined benefit premiums (an amount of EUR 17 million was prepaid in 2013), EUR 55 million benefit payments for unfunded plans and a EUR 37 million guarantee payment at SVG. The contributions for defined contribution plans amounted to EUR 3 million (excluding discontinued operations).

The amount of employer's contributions in 2015 for the remaining defined benefit pension plans is estimated to be EUR 44 million for both funded and unfunded plans. The total amount of employer's premiums to be paid in 2015 for the defined contribution plans is estimated to be EUR 91 million. Due to the transfer to collective defined contribution arrangements, KPN is no longer obliged to make recovery payments as of January 1, 2015 for KPN PF and KPN OPF.

[24] Provisions for other liabilities and charges

Amounts in millions of EUR	December 31, 2014	December 31, 2013
Restructuring provision	76	95
Asset retirement obligations	67	66
Other provisions	61	122
Balance	204	283
– of which: non-current	136	163
– of which: current	68	120

Restructuring provision

The restructuring provision consists of the following components:

Amounts in millions of EUR	2014	2013
Personnel (redundancy obligations)	35	50
Contractual obligations	41	45
Restructuring provision	76	95

Of the restructuring provision, an amount of EUR 45 million has a term of less than one year (2013: EUR 60 million), EUR 18 million of provisions has a term of between one and five years (2013: EUR 35 million) and EUR 13 million has a term of more than five years.

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The movements in the restructuring provision are as follows:

	Personnel	Contractual	Total
Balance as of January 1, 2013	111	51	162
– of which: current portion	111	20	131
Additions	109	18	127
Releases	-11	–	-11
Usage	-151	-17	-168
Transferred to held for sale	-8	-7	-15
Balance as of December 31, 2013	50	45	95
– of which: current portion	50	10	60
Additions	84	15	99
Releases	-12	-3	-15
Usage	-83	-15	-98
Transferred to held for sale	-4	-1	-5
Balance as of December 31, 2014	35	41	76
– of which: current portion	35	10	45

Personnel (redundancy obligations)

During 2014 and 2013, KPN continued to substantially reduce its staff. The restructuring provision relating to FTE reduction amounted to EUR 35 million as at December 31, 2014. A total amount of EUR 84 million is added to the restructuring provision.

Asset retirement obligations

Amounts in millions of EUR	2014	2013
Balance as of January 1	66	303
Additions	1	–
Usage	-1	-2
Changes in assumptions	5	-29
Release	-4	-54
Unwinding of discount and changes in discount rate through profit or loss	1	4
Transferred to held for sale	-1	-156
Balance as of December 31	67	66
– of which: current	1	2

The asset retirement obligations at December 31, 2014 amounted to EUR 67 million (2013: EUR 66 million), of which EUR 17 million (2013: EUR 31 million) has a term of less than five years. The main assumptions of calculation for the asset retirement obligations relate to the estimated costs of removal, discount rate and estimated period of removal, which vary per type of asset. The discount rate for 2014 is 1.5% (2013: 2.5%).

As defined in the Telecommunications Act, the obligation for landlords to tolerate cables which are part of a public electronic communications network terminates as soon as those cables have been idle for a continuous period of 10 years. In that situation, a public electronic communications network supplier is required to remove cables on request by a landlord. Due to the fact that the date when the cables will become idle is uncertain and KPN is not able to predict whether and when a landlord will place a request for removal, KPN is not able to make a reliable estimate of the impact and no provision was recognized at December 31, 2014.

Other provisions

The movements in other provisions are as follows:

Amounts in millions of EUR	2014	2013
Balance as of January 1	122	108
Additions	32	87
Usage	-97	-53
Transferred to held for sale	–	-20
Other movements	4	–
Balance as of December 31	61	122
– of which: current	22	57

Other provisions relate to various risks and commitments, claims and litigations (refer to Note 32) and onerous contracts. Of the Other provisions, approximately EUR 22 million had a term of less than one year (2013: EUR 57 million), EUR 3 million had a term of between one and five years (2013: EUR 34 million) and EUR 36 million had a term of more than five years (2013: EUR 31 million).

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

Amounts in millions of EUR	December 31, 2014	December 31, 2013
Non-interest-bearing accruals	21	26
Deferred income	27	31
Cash-settled share plans	3	1
Other payables	13	19
Total	64	77

Deferred income concerns amounts received in advance for deferred connections fees and other revenues that will be recognized in the future.

[26] Trade and other payables (current)

Amounts in millions of EUR	December 31, 2014	December 31, 2013
Trade payables	819	1,091
Deferred income	309	351
Accrued interest	268	395
Accrued expenses	879	748
Social security and other taxes payable	223	230
Other payables	61	112
Total	2,559	2,927

Deferred income (current) mainly concerns amounts billed in advance for fixed fees and subscriptions that will be recognized within 12 months.

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Notes to the Consolidated Statement of Profit or Loss

[27] Derivative financial instruments

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

Amounts in millions of EUR	December 31, 2014	December 31, 2013
Assets	328	117
Non-current	328	117
Current	—	—
Liabilities	-198	-763
Non-current	-191	-753
Current	-7	-10
Total derivative financial instruments	130	-646
— of which: call/put arrangements Reggefiber Group B.V. (net)	—	-334
— of which: designated in a hedge relationship	131	-310
— of which: call option Telefónica Deutschland	-3	—
— of which: forward exchange contracts	1	-1
— of which: other derivative financial instruments not designated in a hedge relationship	1	-1

The ineffective portion of the fair value hedges and cash flow hedges during 2014 recognized in the Consolidated Statement of Profit or Loss resulted in a loss of EUR 7 million (2013: EUR 3 million gain).

In 2014, the call/put arrangements regarding Reggefiber Group B.V. were exercised (2013: EUR 334 million net liability). Refer to Notes 30 and 31 for more information.

KPN reports its derivatives positions on the balance sheet on a gross basis. Part of the derivatives portfolio is subject to master netting agreements that allow netting under certain circumstances. If netting had been applied, the total derivatives asset position would be EUR 161 million and the total derivatives liability position would be EUR 31 million at December 31, 2014 (asset position of EUR 20 million and liability position of EUR 666 million at December 31, 2013).

The call option KPN provided to Telefónica to acquire a 2.9% stake in Telefónica Deutschland from KPN, exercisable for EUR 510 million one year after the sale of E-Plus, either partially or in full, is recognized as a non-current liability of EUR 3 million as of December 31, 2014 (refer to Note 19).

Bonds denominated in foreign currency

All bonds denominated in foreign currencies are hedged with cross-currency swaps. The swaps are used to mitigate the exposure on currency risk and interest rate risk. KPN hedged the currency exposure by effectively fixing the counter value in foreign currency to Euro and by hedging the interest rate exposure by swapping the fixed interest rates in foreign currency to fixed rates in Euro. The hedges are until maturity of the underlying senior bonds, or until the first call date in case of the hybrid bonds.

For these hedges, KPN meets the criteria of, and also applies, cash flow hedge accounting. KPN determines the effectiveness of the hedges at inception and on a quarterly basis. KPN uses the dollar offset method for its cash flow hedges related to cross-currency swaps.

An overview of the cross-currency swaps at December 31, 2014 and December 31, 2013 is presented below (in millions):

Nominal (receive)	Coupon (receive)	Nominal (pay)	Coupon (pay)	Maturity date	Fair value in EUR ¹
2014					
GBP 135	5.75%, annual	EUR 158	4.89%, annual	March 18, 2016	16
GBP 96	6.0%, annual	EUR 123	4.58%, annual	May 29, 2019	1
GBP 400	6.875%, annual	EUR 460	6.78%, annual	March 14, 2020	35
USD 600	7.0%, semi-annual	EUR 465	6.34%, semi-annual	March 28, 2023	-15
GBP 400	5.0%, annual	EUR 467	5.02%, annual	November 11, 2026	-5
GBP 850	5.75%, annual	EUR 971	5.73%, annual	September 17, 2029	14
USD 1,000	8.375%, semi-annual	EUR 756	8.56%, semi-annual	October 1, 2030	-154
Total					-108
2013					
GBP 275	5.75%, annual	EUR 328	4.89%, annual	March 18, 2016	3
GBP 250	6.0%, annual	EUR 290	5.12%, annual	May 29, 2019	8
GBP 400	6.875%, annual	EUR 460	6.78%, annual	March 14, 2020	-5
USD 600	7.0%, semi-annual	EUR 465	6.34%, semi-annual	March 28, 2023	-65
GBP 400	5.0%, annual	EUR 467	5.02%, annual	November 11, 2026	-36
GBP 850	5.75%, annual	EUR 971	5.80%, annual	September 17, 2029	-63
USD 1,000	8.375%, semi-annual	EUR 756	8.56%, semi-annual	October 1, 2030	-244
Total					-402

1) Negative amounts are liabilities.

Following the bond tender in November 2014, KPN settled a cross-currency swap with a notional of GBP 140 million related to the GBP 2016 bond and a cross-currency swap with a notional of GBP 250 million related to the GBP 2019 bond. KPN terminated hedge accounting for these two swaps. The remaining outstanding notional of the GBP 2019 bond of GBP 96 million has been fixed with a new swap to a counter value of EUR 123 million with a fixed EUR coupon of approximately 4.58% per annum. KPN applies hedge accounting for this new swap.

Part of KPN's derivatives portfolio contains reset clauses or collateral postings at pre-agreed dates (reference is made to Note 30).

Bonds denominated in EURO

Since 2011, the Eurobonds with maturities on September 21, 2020 (notional EUR 1.0 billion before the tender offer), October 4, 2021 (notional EUR 500 million) and September 30, 2024 (notional EUR 700 million before the tender offer) have been swapped to a floating rate based on three-month Euribor using fixed-to-floating interest swaps. At inception, the first two years have been fixed with a floating-to-fixed interest rate swap. In subsequent quarters, KPN entered into additional forward starting swaps to maintain a horizon of fixed interest rates of at least one year.

For the fixed-to-floating interest rate swaps, KPN meets the criteria of, and also applies, hedge accounting. KPN determines the effectiveness of these fair value hedges at inception and on a quarterly basis, based on a regression method.

KPN is not allowed to apply hedge accounting for the above-mentioned floating-to-fixed swaps, which are held at fair value through profit and loss. During 2014, KPN booked a loss in the Consolidated Statement of Profit or Loss of EUR 1 million (2013: EUR 17 million gain).

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Notes to the Consolidated Statement of Profit or Loss

An overview of the interest rate swaps at December 31, 2014 and December 31, 2013 is presented below (in millions).

Nominal	Currency	Maturity date	Pay	Receive	Hedge accounting	Fair value in EUR
2014						
710	EUR	September 21, 2020	Floating	Fixed	Fair value	75
500	EUR	October 4, 2021	Floating	Fixed	Fair value	66
595	EUR	September 30, 2024	Floating	Fixed	Fair value	97
Total						238

Nominal	Currency	Maturity date	Pay	Receive	Hedge accounting	Fair value in EUR
2013						
1,000	EUR	September 21, 2020	Floating	Fixed	Fair value	43
500	EUR	October 4, 2021	Floating	Fixed	Fair value	26
700	EUR	September 30, 2024	Floating	Fixed	Fair value	23
Total						92

Nominal	Currency	Maturity date	Pay	Receive	Hedge accounting	Fair value in EUR
2014						
710	EUR	September 21, 2016	Fixed	Floating	None	-4
600	EUR	September 30, 2015	Fixed	Floating	None	-3
500	EUR	October 4, 2016	Fixed	Floating	None	-3
Total						-10

Nominal	Currency	Maturity date	Pay	Receive	Hedge accounting	Fair value in EUR
2013						
1,000	EUR	September 21, 2016	Fixed	Floating	None	-5
700	EUR	September 30, 2015	Fixed	Floating	None	-4
500	EUR	October 4, 2016	Fixed	Floating	None	-3
Total						-12

Reggefiber

As of December 31, 2014, Reggefiber has floating-to-fixed interest rate swaps with a notional of EUR 26 million. These swaps are related to an amortizing floating-rate loan and are held at fair value through profit and loss in KPN's Consolidated Financial Statements.

Foreign exchange contracts

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

Amounts in millions of EUR	Contract volume 2014	Fair value 2014	Contract volume 2013	Fair value 2013
Term shorter than 1 year	114	1	104	-1
Term longer than 1 year	—	—	—	—
Total	114	1	104	-1

For further details on derivative financial instruments, reference is made to Note 30.

Other Notes to the Consolidated Financial Statements

[28] Net cash flow used in investing activities

In 2014, the amount of acquisitions of subsidiaries, associates and joint ventures in the Consolidated Statement of Cash Flows mainly consisted of the acquisition of an additional 49% of the shares in Reggefiber for a total amount of EUR 771 million less cash acquired of EUR 40 million (refer also to Note 31).

Disposals of subsidiaries, associates and available-for-sale financial assets in 2013 related to the sale of Infrastructure Services & Partners B.V. (EUR 26 million) and Compucom (EUR 27 million).

The proceeds from the sale of E-Plus in 2014 of EUR 4,516 million (net of cash transferred) are included in net cash flow from investing activities from discontinued operations (refer also to Note 19).

Investments in intangible assets (excluding software) in 2013 includes a payment of EUR 1,352 million relating to obtained frequency licenses in the Dutch spectrum auction, which took place at the end of 2012.

Loans to associates and joint ventures in 2014 and 2013 mainly concerned shareholder loans provided to Reggefiber until consolidation as of November 1, 2014.

Held-to-maturity investments in 2014 are bank deposits with initial maturities of longer than three months (refer also to Note 17).

[29] Net cash flow used in financing activities

On December 1, 2014, KPN early redeemed EUR 499 million of loans outstanding at Reggefiber.

On November 7, 2014, KPN completed a tender offer, in which KPN repurchased an aggregate principal amount of EUR 1,799 million of eight of its Eurobonds with maturities between 2016 and 2024. Including tender premiums and fees, the bonds were repurchased for a total amount of EUR 2,034 million (excluding accrued interest of EUR 52 million). KPN also settled certain interest rate swaps and cross-currency swaps related to the Eurobonds maturing in 2016, 2019, 2020 and 2024, which resulted in a cash inflow of EUR 76 million (including accrued interest of EUR 4 million). The tender was financed with available cash.

Scheduled bond redemptions and the issuance of hybrid bonds resulted in net financing cash flows during 2013 and 2014. Reference is made to Note 22 for further details.

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Other Notes to the Consolidated Financial Statements

[30] Capital and Financial Risk Management**Capital management****Financing policy**

KPN is committed to strive for the right balance between a prudent financing policy, investments in the business and shareholder remuneration. KPN is committed to an investment grade credit profile. It is KPN's policy to utilize its excess cash for operational and financial flexibility, (small) in-country mergers and acquisitions and/or shareholder remuneration.

The table below shows the calculation of KPN's Net Debt/EBITDA ratio, which is based on numbers including E-Plus until its sale on October 1, 2014. Therefore, a number of corrections were made to the borrowings in Note 22 (which excludes E-Plus) in order to arrive at the Net Debt for the Net Debt/EBITDA calculation.

Amounts in millions of EUR	2014	2013
Total borrowings (carrying values, excluding derivatives, excluding E-Plus) [22]	10,441	13,663
Financial leases E-Plus	–	352
Bank overdraft (included in net cash and cash equivalents) [18]	-31	-326
Perpetual hybrid bonds (issued in EUR)	1,100	1,100
50% equity credit for hybrid bonds	-1,013	-1,013
Cash collateral on derivatives	-100	-6
Difference between carrying value and nominal value	-821	-367
Adjusted gross debt	9,576	13,403
Cash and cash equivalents (including held for sale)	1,976	3,946
Bank overdraft	-31	-326
Net cash and cash equivalents	1,945	3,620
Short-term investments	300	–
Net Debt	7,331	9,783
Normalized EBITDA	2,662	3,994
Net Debt/EBITDA	2.8x	2.4x

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

KPN defines EBITDA as operating result before depreciation and impairments of property, plant and equipment and amortization and impairments of intangible assets. Note that KPN's definition of EBITDA deviates from the literal definition of earnings before interest, taxes, depreciation and amortization and should not be considered in isolation or as a substitute for analyses of the results as reported under IFRS. In the Net Debt/EBITDA ratio, KPN defines Net Debt as the nominal value of interest-bearing financial liabilities excluding derivatives and related collateral, representing the net repayment obligations in EUR, taking into account 50% of the nominal value of the hybrid capital instruments, less net cash and short-term investments, and defines normalized EBITDA as a 12-month rolling total excluding restructuring costs, incidentals and major changes in the composition of the Group (acquisitions and disposals).

Shareholder remuneration policy

KPN is committed to strive for the right balance between a prudent financing policy, investments in the business and shareholder remuneration.

KPN did not pay dividends over 2013, nor did it return excess cash to shareholders in another way.

KPN recommenced dividend payments subsequent to the sale of E-Plus. KPN declared an interim dividend in respect of 2014 of EUR 0.02 per share, or in total EUR 85 million, which was paid on October 13, 2014. KPN intends to pay a total dividend per share of EUR 0.07 in respect of 2014. The final dividend of EUR 0.05 per share is expected to be paid in April 2015. KPN announced it would pay a total dividend per share of EUR 0.08 in respect of 2015.

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

Financial risk management

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

The financial risks are managed by KPN's Treasury department under policies approved by the Board of Management. These policies are established to identify and analyze financial risks faced by KPN, to set appropriate risk limits and controls, and to monitor adherence to those limits. Treasury manages these risks in close cooperation with the Group companies, business operations and other corporate departments. During 2013 and 2014, several Treasury policies were reviewed and approved by the Board of Management. KPN's key treasury risks are the following:

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

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

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

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

Amounts in millions of EUR	December 31, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Fair value through profit and loss:				
Derivatives – non-current [27]	328	328	117	117
Derivatives – current [27]	–	–	–	–
Loans and receivables:				
Non-current receivables from financial leases [14]	2	2	3	3
Loans to associates and joint ventures [12]	19	19	453	453
Trade receivable [16]	514	514	690	690
Other receivables [16]	36	36	181	181
Other current financial assets [17]	300	300	–	–
Cash and cash equivalents [18]	1,976	1,976	3,946	3,946
Subtotal	3,175	3,175	5,390	5,390
Available-for-sale financial assets [13]	2,713	2,713	20	20
Total	5,888	5,888	5,410	5,410
Financial liabilities				
Fair value through profit and loss:				
Derivatives – non-current [27]	191	191	753	753
Derivatives – current [27]	7	7	10	10
Subtotal	198	198	763	763
Loans and borrowings:				
Borrowings [22]	10,441	11,556	13,663	14,404
Trade payables [26]	819	819	1,091	1,091
Other payables and accrued expenses and interest [26]	1,208	1,208	1,255	1,255
Subtotal	12,468	13,583	16,009	16,750
Total	12,666	13,781	16,772	17,513

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

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Other Notes to the Consolidated Financial Statements

The following table presents the Group's financial assets and liabilities that were measured at fair value at December 31, 2014.

Amounts in million of EUR	Level 1	Level 2	Level 3	Total Balance
Assets				
Financial assets at fair value through profit and loss:				
Derivatives (cross-currency interest rate swap)	–	74	–	74
Derivatives (interest rate swap)	–	238	–	238
Other derivatives	–	1	15	16
Available-for-sale financial assets:				
Listed securities	2,703	–	–	2,703
Unlisted securities	–	–	10	10
Total assets	2,703	313	25	3,041
Liabilities				
Financial liabilities at fair value through profit and loss:				
Derivatives (cross-currency interest rate swap)	–	182	–	182
Derivatives (interest rate swap)	–	13	–	13
Other derivatives	–	3	–	3
Total liabilities	–	198	–	198

The following table presents the Group's financial assets and liabilities that are measured at fair value at December 31, 2013.

Amounts in million of EUR	Level 1	Level 2	Level 3	Total Balance
Assets				
Financial assets at fair value through profit and loss:				
Derivatives (cross-currency interest rate swap)	–	13	–	13
Derivatives (interest rate swap)	–	93	–	93
Other derivatives	–	–	11	11
Available-for-sale financial assets:				
Listed securities	10	–	–	10
Unlisted securities	–	–	10	10
Total assets	10	106	21	137
Liabilities				
Financial liabilities at fair value through profit and loss:				
Derivatives (cross-currency interest rate swap)	–	415	–	415
Derivatives (interest rate swap)	–	13	–	13
Other derivatives	–	1	334	335
Total liabilities	–	429	334	763

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices. If applicable, these instruments are included in Level 1.

An instrument is included in Level 2 if the financial instrument is not traded in an active market and if the fair value is determined by using valuation techniques based on maximum use of observable market data for all significant inputs. For the derivatives used for hedging purposes, KPN uses the estimated fair value of financial instruments determined by using available market information and appropriate valuation methods, including relevant credit risks. The estimated fair value approximates to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. KPN has its derivative instruments outstanding with financial institutions that had a credit rating equivalent to A3 or higher with Moody's at December 31, 2014.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3 and the fair value is estimated using models and other valuation methods. To the extent possible, the assumptions and inputs used take into account market pricing information and expectations. However, such information is by its nature subject to uncertainty. Changes arising as new information becomes available could impact income or other comprehensive income.

The valuation of available-for-sale unlisted securities is based upon a discounted cash flow model.

Other derivatives under financial liabilities at fair value through profit and loss in 2013 are the call/put arrangements of Reggefiber Group B.V. consisting of a call/put option to acquire an additional 9% stake in Reggefiber and a put option held by Reggeborgh to sell the remaining 40% of its shares in Reggefiber to KPN. These options are valued using a binomial tree approach and depend on the business performance of Reggefiber under various scenarios with different probabilities (combination of penetration rates, Capex per home passed), the probability of approval by Dutch competition authority ACM, discount rates and the conditions of the call/put arrangement itself. Based on realized business performance and management's best estimate of the likelihood of possible scenarios and expected business performance, the value of the call/put arrangements at October 31, 2014 (the date control of Reggefiber was obtained after regulatory approval to acquire an additional 9% stake in Reggefiber through exercise of the call option) was EUR 493 million, at December 31, 2013, EUR 334 million and at January 1, 2013 EUR 278 million (liability). During 2014, the change in the value of the call/put arrangements resulted in a loss of EUR 159 million in the Consolidated Statement of Profit or Loss (2013: EUR 56 million). These options have been exercised in 2014 (refer to Note 31).

The following table presents the net changes in 'other derivatives' in Level 3:

Amounts in million of EUR	2014	2013
Balance as of January 1	334	278
Losses recognized in profit or loss [6, 31]	159	56
Exercise [31]	-493	—
Balance as of December 31	—	334

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

For other financial assets and liabilities, the following methods and assumptions were used to determine fair value:

- Borrowings: based on the listed price of the bonds.
- Cash, cash equivalents, other current financial assets, accounts receivable and payable, Preference Shares B: as the maturity of these financial instruments is short, the carrying value approximates to fair value.

Listed securities in 2014 includes KPN's 20.5% share in Telefónica Deutschland (refer to Note 13).

Credit and counterparty risk

KPN's financial assets are subject to credit risk and counterparty risk. Credit risk arises from the possibility of asset impairment occurring when counterparties are unable to meet their obligations in transactions involving financial instruments.

KPN sets limits for the maximum exposure per counterparty and investment periods, which are primarily based on minimum credit ratings.

These policies have been reviewed and updated in 2014. It is KPN's policy to invest cash balances with counterparties with a minimum credit rating equivalent to A3 at Moody's. Cash balances used for working capital purposes can also reside at (local) banks with lower credit ratings. Following the policy update in 2014, KPN is allowed to invest excess cash with tenors up to 12 months, subject to certain conditions. Capital preservation is the main priority when investing excess cash.

KPN spreads its cash and cash equivalents balances and derivatives over several counterparties. Separate limits are set for counterparties with limited credit risk such as the Dutch State. As of December 31, 2014, KPN only invested in deposits with maturities up to four months, AAA-rated money market funds and repurchase agreements with maturities up to three months. The majority of the cash balances at year end 2014 was invested in institutions with a credit rating equivalent to A3 at Moody's or stronger.

It is KPN's policy only to engage into new derivative transactions with counterparties with a minimum credit rating equivalent to A2 at Moody's.

During 2014 and 2013, KPN monitored counterparty risk on a regular basis, based on the counterparty's credit ratings and other metrics.

These other metrics include Credit Default Swap (CDS) levels of the counterparties, levels of government ownership and the level of systemic importance to the banking system. In addition, KPN monitors concentration risk on investments in money market funds through the percentage of the total fund size owned.

Credit risk on trade receivables is controlled using restrictive policies for customer acceptance. Credit management is focused on mobile services as the credit risk is considered to be the highest within this part of KPN's business. Before accepting certain new customers in this segment, KPN requests credit watchers to provide credit management reports. In addition, KPN keeps track of the payment performance of customers. In case customers fail to meet set criteria, payment issues have to be solved before a new transaction with these customers will be entered into.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large and unrelated customer base. The Board of Management believes there is no additional credit risk provision required in excess of the allowance for doubtful receivables (see Note 16). Receivables relating to integrated, outsourced and managed ICT solutions are monitored on an individual basis. Reference

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is made to 'Significant Accounting Policies – trade and other receivables'.

KPN takes into account credit risk for the valuations of its derivatives portfolio, based on IFRS 13. As at December 31, 2014, KPN recorded a loss of EUR 7 million in the Comprehensive Statement of Income, related to interest rate swaps recorded as fair value hedges (2013: gain of EUR 3 million). As at December 31, 2014, and December 31, 2013, KPN recorded no gain or loss in Other Comprehensive Income, related to cross-currency swaps recorded as cash flow hedges.

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. As at December 31, 2014, KPN has parent guarantees (based on Article 403, Part 9, Book 2 of the Dutch Civil Code) and bank guarantees outstanding to third parties for various Dutch wholly-owned subsidiaries.

Maximum exposure to credit risk

As KPN does not provide financial guarantees other than to wholly-owned subsidiaries, the carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at reporting date amounts to the total of the financial assets including cash (EUR 5,888 million at December 31, 2014 and EUR 5,410 million at December 31, 2013).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations associated with financial instruments as they become due.

The Group's approach to managing liquidity is to ensure sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group. This means that KPN secures its bond redemptions well ahead. KPN has a EUR 2 billion syndicated credit facility maturing in 2018, with 14 banks, all of which have a rating of Baa2 or higher with Moody's as at December 31, 2014. As of December 31, 2014, and December 31, 2013, KPN had no drawings on its credit facility.

The table below provides a maturity analysis of the financial liabilities based on the remaining contractual maturities as of December 31, 2014.

Amounts in millions of EUR	Borrowings				Derivatives		Trade and other payables and accrued expenses	Total
	Bonds and loans ¹	Interest on bonds and loans ²	Financial lease obligations	Other debt	Derivatives inflow (including interest)	Derivatives outflow (including interest)		
2015	1,004	476	12	32	-288	231	1,759	3,226
2016	823	435	10	5	-461	382	–	1,194
2017	755	383	8	–	-276	212	–	1,082
2018	5	348	7	–	-276	212	–	296
2019	879	347	7	–	-400	335	–	1,168
2020 and subsequent years	6,352	1,944	51	–	-5,270	4,692	–	7,769
Contractual cash flows	9,818	3,933	95	37	-6,971	6,064	1,759	14,735

1) The GBP and USD hybrid bonds are included with final maturities in 2073 (redemption of EUR 1,008 million). The EUR perpetual hybrid bond is not included as it has no stated maturity date. Please see Note 22 for more information on the hybrid bonds.

2) Interest payments on the GBP and USD hybrid bonds (EUR 70 million per year until the first call date in 2018) are not included. KPN may, at its discretion and subject to certain conditions, elect to defer payments of interest on these hybrid bonds. Any arrears of interest must be paid at redemption at the latest, the amount of which cannot be reliably measured because of the duration of the hybrid bonds.

The undiscounted value of the financial lease obligations amounts to EUR 95 million at December 31, 2014 (2013: EUR 105 million). The financial lease obligations primarily include lease obligations for buildings leased by KPN (see also Note 11) and handsets. In some of these lease arrangements for buildings, an option is included to extend the lease term.

The table below provides a maturity analysis of the financial liabilities based on the remaining contractual maturities as of December 31, 2013.

Amounts in millions of EUR	Borrowings			Derivatives		Trade and other payables and accrued expenses	Total
	Bonds and loans ¹	Interest on bonds and loans ²	Financial lease obligations	Other debt ³	Derivatives inflow (including interest)	Derivatives outflow (including interest)	
2014	1,400	619	14	595	-300	261	4,540
2015	1,000	542	12	13	-299	256	1,524
2016	1,255	502	9	13	-625	574	1,728
2017	1,000	423	8	6	-275	226	1,388
2018	–	375	7	647	-275	226	980
2019 and subsequent years	7,939	2,246	55	–	-5,406	5,224	10,058
Contractual cash flows	12,594	4,707	105	1,274	-7,180	6,767	20,218

- 1) The GBP and USD hybrid bonds are included with final maturities in 2073 (redemption of EUR 915 million). The EUR perpetual hybrid bond is not included as it has no stated maturity date. Please see Note 21 for more information on the hybrid bonds.
- 2) Interest payments on the GBP and USD hybrid bonds (EUR 63 million per year until the first call date in 2018) are not included. KPN may, at its discretion and subject to certain conditions, elect to defer payments of interest on these hybrid bonds. Any arrears of interest must be paid at redemption at the latest, the amount of which cannot be reliably measured because of the duration of the hybrid bonds.
- 3) Including redemptions on bank overdraft facilities, Preference Shares B, spectrum payments and the Reggefiber call/put arrangements. The Reggefiber call/put arrangements assume exercise of option 2 for EUR 161 million in 2014 and the put arrangement in 2018 for a fixed cash out of EUR 647 million. The timing of the cash out regarding the Reggefiber call/put options as shown above is indicative as the timing of the exercise of these options is uncertain. See Note 12 for an explanation of the Reggefiber option triggers and the related cash flows. At December 31, 2013, the Reggefiber call/put arrangements were valued at a negative amount of EUR 334 million and included in the Consolidated Statement of Financial Position under derivative financial instruments (see Note 27).

Part of KPN's derivatives portfolio contains reset clauses or collateral postings at pre-agreed dates, in order to mitigate counterparty exposure during the life of the swap. These reset clauses will result in early Euro settlement obligations in cash with the swap counterparty, which could lead to additional cash inflows or outflows before maturity. During 2014, KPN posted collateral of EUR 94 million (2013: EUR 6 million), according to pre-agreed settlement schedules. In order to reduce liquidity risks, the reset clauses or collateral postings of these derivatives are spread over different points in time and are not more frequent than every two years per swap, except for one counterparty.

With regard to other purchase and capital commitments, reference is made to Note 32.

Available financing sources 2014

As of December 31, 2014, KPN held a net cash and cash equivalents position amounting to EUR 1,945 million and short-term investments of EUR 300 million. In principle, net cash and cash equivalents and short-term investments are at disposal to KPN on a group level, except for limited amounts of cash held at local subsidiaries.

In addition to the available cash and cash equivalents and short-term investments, cash flows from operations and cash flows from any further sales of non-core assets, KPN has the following financing resources available:

EUR 2.0 billion multi-currency revolving credit facility

KPN has a EUR 2.0 billion Revolving Credit Facility with 14 relationship banks and a final maturity in July 2018. The credit facility does not contain any financial covenants.

As of December 31, 2014 and December 31, 2013, KPN had no drawings on its credit facility.

Overdraft facilities

During 2014, KPN had four uncommitted overdraft facilities with four banks of EUR 50 million each. The overdraft facilities may be canceled at any time and do not have a specified maturity date. In 2013, KPN drew on these facilities from time to time. As of December 31, 2014 and 2013, there were no amounts drawn under any of the overdraft facilities, except for bank overdrafts under cash pool agreements.

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KPN updated its GMTN program in April 2014. The program does not contain any commitment from investors to provide funding to KPN. Funding will be available subject to market conditions and other factors at the relevant time.

Capital Resources Covenants

KPN's existing capital resources contain the following covenants as at December 31, 2014, which could trigger additional financial obligations or early redemption of the outstanding indebtedness.

All of KPN's senior bonds issued after January 1, 2006 (EUR 6.7 billion at December 31, 2014) and the EUR 50 million private placement issued in 2012 contain a change of control clause by means of which KPN may be required to redeem such outstanding bonds early, in the event that (i) certain changes of control occur and (ii) within the change of control period a rating downgrade to sub-investment grade occurs in respect of that change of control. The change of control period ends 90 days after the change of control event occurs.

KPN's hybrid bonds contain a change of control clause by means of which KPN has the option to repurchase the hybrid bonds at par. A 5% interest step-up applies if a rating downgrade occurs during the change of control period.

In addition, many of KPN's capital resources contain a covenant prohibiting KPN from entering into any amalgamation, demerger, merger, corporate restructuring or reorganization, unless prior written consent has been given by a majority of the lenders or bondholders or the resulting company assumes all of the rights and obligations with respect to the loans or bonds.

As of December 31, 2014, one of the subsidiaries at Reggefiber had notes outstanding issued in 2013 with final maturity in 2023, which are subject to financial covenants customary in project financing. There have been no covenant breaches since the notes were issued in 2013.

Market risk

KPN is exposed to various kinds of market risks in the ordinary course of business. These risks include:

- Foreign currency exchange rate risks;
- Interest rate risks; and
- Other market price risk.

KPN has established policies that deal with the use of derivative financial instruments in order to reduce foreign currency exposure and to manage the interest rate profile. KPN's centralized Treasury department matches and manages intercompany and external foreign currency exposures reported by the various business operations and Group companies. Hedges are applied on a full coverage basis, if economically feasible.

In line with these policies, derivative financial instruments are used solely for the purpose of hedging underlying exposures to foreign currency exchange rate risk and interest rate risk. Contracts related to derivative financial instruments are entered into for periods consistent with the underlying exposures (if economically feasible) and do not constitute positions independent of these exposures. None of these financial instruments are used for trading purposes or taken as speculative positions.

KPN's policy in principle is to apply hedge accounting for derivative financial instruments related to interest-bearing debt and foreign exchange risk for bonds that are not denominated in Euro. Management has set up a policy to apply hedge accounting only when certain criteria are met regarding formal designation and documentation of the hedge relationship, the risk management objective, the strategy for undertaking the hedge and the effectiveness of the hedge. As a consequence, KPN tests effectiveness of the hedge relationship at inception and every quarter. Reference is made to Note 27.

Foreign currency exchange rate risks

The Group's primary activities are denominated in Euro. Accordingly, the Euro is the Company's functional currency, which is also the Group's presentation currency. Items included in the financial information of individual entities in the Group are measured using the individual entity's functional currency, which is the currency of the primary economic environment in which the entity operates.

Currency exchange risk is the risk that the future cash flows will fluctuate because of changes in foreign exchange rates. The risk mainly results from settlement of international telecommunications traffic and purchase of goods and equipment and primarily consists of pound sterling and US dollar exposure. Foreign currency exchange rate risks related to bonds that are not denominated in Euro are hedged into Euro in line with KPN's hedging policies.

As a result of currency fluctuations, the value of subsidiaries operating outside the Eurozone markets could fluctuate and affect KPN's financial position and equity positions from year to year. These translation exposures are not hedged.

Group companies and business operations are obliged to hedge their firm commitments and highly predictable anticipated transactions in non-functional currencies by forward contracts transacted with KPN's Treasury department. Accordingly, Treasury matches and manages the intercompany and external exposures using forward exchange contracts. KPN does not apply hedge accounting for these hedge instruments.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Consolidated Statement of Profit or Loss.

As of December 31, 2014 more than 99% of cash and cash equivalents was denominated in the functional currency of the related entities. At December 31, 2014 more than 97% of the net amount of trade receivables and more than 95% of the amount of trade payables was outstanding in the functional currency of the related entities.

Reference is made to Note 6 for the recognized exchange rate differences in the Consolidated Statement of Profit or Loss.

Foreign exchange

As of December 31, 2014, KPN carried out a sensitivity analysis with regard to changes in foreign exchange rates for entities with a functional currency different from Euro. All changes in foreign exchange rates and resulting sensitivities have an impact on the profit or loss statement and equity, but do not have an impact on the cash flow statement. The results of the analyses are shown in the table below, indicating the hypothetical impact on equity and profit or loss:

Amounts in millions of EUR	Change	2014	Total 2013
Change in FX rate	+20%-point	1	8
	+10%-point	0	5
	-10%-point	-2	-3
	-20%-point	-3	-8

Interest rate risk and interest rate profile

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. Borrowings, derivatives, cash and cash equivalents are subject to interest rate risk. As KPN has a mix of financial instruments bearing a floating or a fixed interest rate, KPN is subject to risk from movements in interest rates. An unfavorable interest rate movement would result in additional financial expenses.

Since 2011, the Eurobonds with maturities on September 21, 2020 (notional EUR 1.0 billion before tender offer), October 4, 2021 (notional EUR 500 million) and September 30, 2024 (notional EUR 700 million before tender offer) have been swapped to a floating rate based on three-month Euribor using fixed-to-floating interest swaps. KPN swapped part of the floating rate exposure back to fixed rates, by entering into forward starting swaps to maintain a horizon of fixed interest rates of at least one year. Following the bond tender in November 2014, part of these swaps have been settled. Please refer to Note 27 for further information.

With regard to interest rate risk exposure, KPN periodically evaluates the desired mix of fixed and floating interest rate liabilities. Any interest exposure longer than one year is considered to be fixed. As of December 31, 2014, all of KPN's interest-bearing gross debt excluding bank overdraft was at fixed interest rates (2013: 100%). With a view to the existing and forecasted debt structure, KPN's Treasury department could enter into additional future derivative instruments to adjust the mix of fixed and floating interest rate liabilities.

Other market price risk

KPN does not enter into commodity contracts other than for its own use to meet the Group's expected usage. KPN has entered into energy contracts for own use with a nominal amount of approximately EUR 30 million at December 31, 2014 (2013: EUR 30 million). Reference is made to Note 31.

Sensitivity analysis

As of December 31, 2014, KPN carried out a sensitivity analysis with regard to interest rate risk on interest-bearing assets and liabilities. With all other variables held constant, each adverse change of 100 basis points in six month Euribor would hypothetically on balance not result in higher interest costs per annum (2013: none) because all interest-bearing liabilities carried a fixed interest rate.

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Cash flow hedges

As of December 31, 2014, KPN carried out a sensitivity analysis with regard to interest rate risk and currency on the cash flow hedges. KPN applies cash flow hedges on all bonds not denominated in Euro. With all other variables held constant, KPN calculated the hypothetical impact of changes in interest rates based on various scenarios. This would hypothetically result in a higher or lower value on the balance of the hedge reserve, which is included in equity attributable to equity holders. In a similar way, KPN calculated the hypothetical impact of changes in the EUR/USD rate and the EUR/GBP rate, holding all other variables constant. The results of the analyses are shown in the table below, indicating the hypothetical impact on the balance of the hedge reserve as at December 31, 2014 and December 31, 2013:

Amounts in millions of EUR	Change	GBP		USD		Total	
		2014	2013 Restated ¹	2014	2013 Restated ¹	2014	2013 Restated ¹
Change in interest rate	+2%-point	18	-2	-44	-61	-26	-63
	+1%-point	9	-2	-24	-33	-16	-35
	-1%-point	-8	4	29	39	21	43

Amounts in millions of EUR	Change	GBP		USD		Total	
		2014	2013	2014	2013	2014	2013
Change in FX rate	+20%-point	152	108	137	98	289	206
	+10%-point	83	59	74	54	157	112
	-10%-point	-101	-72	-91	-65	-192	-137
	-20%-point	-228	-162	-205	-147	-433	-309

1) Amounts do not correspond to the 2013 Financial Statements and reflect updated methodology.

Prospective effectiveness testing indicates that all cash flow hedges are expected to be highly effective. As a consequence, the expected impact on the Statement of Profit or Loss is immaterial.

Fair value hedges

As of December 31, 2014, KPN carried out a sensitivity analysis with regard to interest rate risk on the fair value hedges. KPN applies fair value hedge accounting on Euro-denominated bonds that are swapped from a fixed rate to a floating rate. With all other variables held constant, KPN calculated the hypothetical impact of changes in interest rates based on various scenarios. The expected impact on the Cash Flow Statement and the Statement of Profit or Loss is immaterial, since the hedges are expected to be highly effective. This would result in minimal hedge ineffectiveness and volatility of KPN's financial result.

Derivatives held at fair value

As of December 31, 2014, KPN carried out a sensitivity analysis with regard to the interest rate swaps for which no hedge accounting is applied. All changes in interest rates and resulting sensitivities have only profit or loss impact and no cash flow impact.

Impact profit or loss amounts in millions of EUR	Change	2014	2013
Interest rate swaps (floating-fixed)			
Changes in EUR interest rates	+2%-point	28	78
	+1%-point	14	39
	-1%-point	-15	-42

For a sensitivity analysis on interest rate risk with regard to pensions, reference is made to Note 23.

Offsetting financial assets and financial liabilities

(a) Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements:

As at December 31, 2014 Amounts in millions of EUR	Related amounts not set off in the balance sheet					
	Gross amount of recognized financial assets	Gross amounts of recognized financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Financial instruments	Cash collateral received	Net amount
Cash & cash equivalents	1,976	–	1,976	-31	–	1,945
Derivative financial instruments	328	–	328	-167	–	161
Trade receivables	593	-79	514	-13	–	501
Total	2,897	-79	2,818	-211	–	2,607

As at December 31, 2013 Amounts in millions of EUR	Related amounts not set off in the balance sheet					
	Gross amount of recognized financial assets	Gross amounts of recognized financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Financial instruments	Cash collateral received	Net amount
Cash & cash equivalents	3,946	–	3,946	-23	–	3,923
Derivative financial instruments	117	–	117	-97	–	20
Trade receivables	753	-63	690	-14	–	676
Total	4,816	-63	4,753	-134	–	4,619

(b) Financial liabilities

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

As at December 31, 2014 Amounts in millions of EUR	Related amounts not set off in the balance sheet					
	Gross amount of recognized financial liabilities	Gross amounts of recognized financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Financial instruments	Cash collateral paid	Net amount
Derivative financial instruments	198	–	198	-168	-100	-70
Trade payables	864	-45	819	-13	–	806
Accrued expenses	913	-34	879	–	–	879
Total	1,975	-79	1,896	-181	-100	1,615

As at December 31, 2013 Amounts in millions of EUR	Related amounts not set off in the balance sheet					
	Gross amount of recognized financial liabilities	Gross amounts of recognized financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Financial instruments	Cash collateral paid	Net amount
Derivative financial instruments	763	–	763	-97	-6	660
Trade payables	1,131	-40	1,091	-14	–	1,077
Accrued expenses	770	-22	748	–	–	748
Total	2,664	-62	2,602	-111	-6	2,485

For the financial assets and liabilities summarized above, each agreement between KPN and the counterparty allows for net settlement of the relevant financial assets and liabilities when both parties elect to settle on a net basis. If parties choose not to settle on a net basis, the financial assets and liabilities will be settled on a gross basis.

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[31] Business combinations and other changes in consolidation**Reggefiber**

On January 2, 2014, the option to acquire an additional 9% of the shares in Reggefiber Group B.V. (Reggefiber) from joint venture partner Reggeborgh was exercised. On October 31, 2014, after obtaining regulatory approval, KPN acquired the additional 9% stake, bringing its total ownership to 60%, and obtained control. Therefore, Reggefiber has been consolidated (in full) in the financial statements of KPN as of November 1, 2014. The exercise price of this option was EUR 161 million, which was paid at the end of 2014.

This acquisition of Reggefiber has been accounted for as a step acquisition in accordance with the requirements of IFRS 3. In measuring the goodwill, KPN's 51% stake in Reggefiber was remeasured to fair value as of November 1, 2014 and the corresponding gain of EUR 42 million was recognized in the Consolidated Statement of Profit or Loss as Other financial results (refer to Note 6) which was partly offset by the release of the related hedge reserve from equity (via Other Comprehensive Income) of EUR 7 million. Immediately before the acquisition, the options 2 and 3 were valued at their fair value based on a 100% probability. The step-up for options 2 and 3 compared with their value at January 1, 2014 was EUR 159 million and has been recognized in the Consolidated Statement of Profit or Loss as Other financial results (refer to Note 6).

Reggeborgh held an option to sell the remaining 40% of its shares in Reggefiber to KPN. On November 18, 2014, KPN reached an agreement with Reggeborgh to acquire the remaining 40% stake in Reggefiber and obtain 100% ownership. The acquisition price of the 40% stake in Reggefiber was agreed at EUR 610 million, which was paid at the end of 2014. This resulted in a book gain of EUR 25 million recorded under Other financial results (refer to Note 6). On December 1, 2014, KPN became the 100% shareholder of Reggefiber. No non-controlling interest in Reggefiber's equity or profit or loss was recognized for the period between November 1, 2014 (date of obtaining control) and December 1, 2014 (date of obtaining full ownership).

The following table summarizes the fair value of assets acquired and liabilities assumed, the total consideration and the goodwill at the date control over Reggefiber was obtained (November 1, 2014):

All amounts in EUR millions.

Recognized amounts of identifiable assets acquired and liabilities assumed

Intangible assets [10] ¹	203
Property, plant and equipment [11] ²	1,523
Deferred tax assets	86
Other non-current assets	35
Net cash and cash equivalents acquired	40
Trade and other receivables	37
Non-controlling interest	1
Deferred tax liabilities [7]	-49
Non-current borrowings (including loans from Group companies)	-857
Current borrowings	-522
Derivative financial instruments	-17
Trade and other payables and deferred income	-116
Total identifiable net assets	364

Consideration

Fair value of KPN's 51% stake	330
Price paid for the acquisition of the 9% share (option 2)	161
Discounted value of the exercise price of Reggeborgh's option to sell the remaining 40% share (option 3)	635
Fair value of option 2 and 3 [30]	-493
Total consideration	633

Goodwill

269

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

1) Includes customer base for EUR 195 million

2) Includes fiber network for EUR 1,518 million

The consolidation of Reggefiber fits perfectly in KPN's hybrid upgraded copper/Fiber-to-the-Home (FtTH) strategy and marks another important step to strengthen KPN's commitment to FtTH in the Netherlands. This, together with the operational synergies, will provide further support for the execution of KPN's strategy in the Netherlands. Reggefiber will be integrated into KPN's cash-generating unit NetCo. The goodwill arising from this business combination is non-deductible for tax purposes. It is expected to contribute to the net increase of KPN's customer base and has provisionally been allocated to KPN's cash-generating unit NetCo.

The purchase price allocation remains provisional until November 1, 2015 and may be subject to alterations based on additional information about facts and circumstances that existed at November 1, 2014.

Following its consolidation as of November 1, 2014, Reggefiber has contributed EUR 1 million to KPN's consolidated revenues and other income and a profit of EUR 1 million to KPN's (net) loss attributable to equity holders. Had KPN obtained 100% ownership of Reggefiber before January 1, 2014, the KPN Consolidated Statement of Profit or Loss in 2014 would have shown pro-forma total revenues and other income of EUR 8,088 million and a pro-forma loss attributable to equity holders of EUR 521 million.

Other changes in consolidation

On December 19, 2014, KPN acquired a 100% share in mobile virtual network operator MSBN B.V. and Telenetix B.V., which delivers IT services to MSBN B.V. Furthermore, on August 13, 2014, KPN acquired a 100% stake in hosting provider Argeweb B.V. These acquisitions are on an aggregate level considered not material for KPN, therefore disclosures are limited. In 2013, no new businesses were acquired.

As of July 23, 2013, E-Plus had been presented as disposal group held for sale and discontinued operation and was sold in 2014 (see Note 19). In March 2013, Infrastructure Services & Partners was sold and deconsolidated from that date, with no significant impact.

[32] Commitments, contingencies and legal proceedings

Commitments

Amounts in millions of EUR				Amounts due by period	
	Less than 1 year	1-5 years	More than 5 years	Total December 31, 2014	Total December 31, 2013
Capital and purchase commitments	1,451	425	19	1,895	1,706
Rental and operational lease contracts	171	397	263	831	937
Guarantees	19	31	144	194	318
Other	1	—	—	1	13
Total commitments	1,642	853	426	2,921	2,974

Capital and purchase commitments

The capital and purchase commitments mainly relate to contractual obligations with regard to network operations and mobile handsets.

Rental and operational lease contracts

For buildings, the majority of contracts included rental fees that are subject to a yearly indexation. Some contracts give KPN an option to buy the property when the landlord wants to sell that property.

For site rentals and mobile towers, the majority of agreements included an option for renewal of the contract and rental fees that are subject to a yearly indexation percentage. In addition, the majority of contracts can be canceled by KPN only, with a notice period of 12 months.

The minimum non-cancelable sublease amounts expected to be received amount to EUR 4 million (2013: EUR 8 million). These amounts mainly relate to subleases of buildings, site sharing arrangements and lease handsets.

The total net costs of operating leases and rental contracts amounted to EUR 235 million in 2014 (2013: EUR 354 million) and is included in 'cost of work contracted out and other expenses' and 'other operating expenses' in the Consolidated Statement of Profit or Loss. The operating lease and rental commitments mainly relate to property, plant and equipment.

Guarantees

These commitments consist of financial obligations of Group companies under certain contracts guaranteed by KPN. A total amount of EUR 179 million relates to parent guarantees (2013: EUR 254 million).

Contingent assets

In 2003, BASE Company launched a damages claim against Belgacom Mobile (Proximus), claiming that the latter had abused its dominant position by applying very low on-net-rates. In 2004, Mobistar launched a similar claim. In 2007, the Commercial Court determined Belgacom Mobile's dominant position in the retail market until the end of 2004, and ordered an expertise. In a preliminary report of October 2, 2009, the court experts concluded that Proximus had indeed abused its dominance and that, for the period 1999-2004, this abuse had resulted in damages of EUR 824 million for BASE Company and of EUR 357 million for Mobistar. In a second preliminary report of December 9, 2010, the damages for BASE Company were increased to EUR 1,329 million and for Mobistar to EUR 510 million. These amounts were exclusive of interest. Following the publication of the second preliminary report, Proximus requested the court to remove the experts from the case arguing that the experts are biased and/or incompetent. In first instance, the court denied said request, but in appeal it decided to remove the experts from the case. As a result hereof, a new expertise was started in 2014. On January 2, 2012, Proximus also appealed the original decision of the Commercial Court of 2007. The oral hearings at the Court of Appeal of Brussels took place in November and December 2014. A judgment by the Court of Appeal is expected during the first quarter of 2015.

Contingent liabilities

In KPN's Articles of Association and in a further decision by the Board of Management, which was approved by the Supervisory Board, KPN has indemnified the members and former members of KPN's Board of Management and Supervisory Board, as well as a number of KPN's officers and directors and former officers and directors, against liabilities, claims, judgments, fines and penalties incurred by such

FINANCIAL STATEMENTS — CONSOLIDATED FINANCIAL STATEMENTS**Other Notes to the Consolidated Financial Statements**

officer or director as a result of any threatened, pending or completed action, investigation or proceeding (whether civil, criminal or administrative) brought by a third party in relation to acts or omissions in or related to her capacity as officer or director. The indemnification does not apply to claims and expenses reimbursed by insurers, nor to an officer or a director adjudged to be liable for willful misconduct ('opzet') or intentional recklessness ('bewuste roekeloosheid').

As defined in the Telecommunications Act, the obligation for landlords to tolerate cables which are part of a public electronic communications network terminates as soon as those cables have been idle for a continuous period of 10 years. In that situation, a public electronic communications network supplier is required to remove cables at the request of a landlord. Although KPN currently records a provision for its future obligations to dismantle and remove certain other elements of its network, such as technical buildings, towers, and rooftop equipment, KPN has determined no such provision is appropriate for installed fiber cables, given that the date when such cables may be deemed idle is uncertain.

In KPN's judgment, it has not been able to make a reliable estimate of the impact of such obligations, and no provisions have been made.

Legal proceedings

KPN is involved in a number of legal proceedings that have arisen in the ordinary course of its business. The outcome of legal proceedings can be extremely difficult to predict with certainty, and KPN can offer no assurances in this regard. Below is a description of legal proceedings that KPN considers material.

KPNQwest

KPN is involved in several legal proceedings related to the bankruptcy of KPNQwest.

On September 13, 2006, KPN was served with a writ of summons by Citibank N.A. and Cargill Financial Markets Plc. claiming EUR 183 million (following adjustments), from various former officers and former shareholders, including KPN, of KPNQwest. Citibank and Cargill claim compensation for damages on a EUR 525 million syndicated loan provided to KPNQwest in 2002 on the basis of misrepresentation and concealment by former management and former shareholders when the loan was provided to KPNQwest. Citibank acted as agent of the syndicate and as a 14.7% principal lender of the syndicated loan. Cargill claims that it acquired 85.3% of the claim by assignments of its part in the syndicated loan by other original lenders. The District Court of Amsterdam dismissed all the claims of Citibank and Cargill on April 25, 2012. Citibank and Cargill have appealed the decision.

Reggefiber

In 2009, cable operators Ziggo and UPC, as well as other telecommunications providers in the Netherlands, filed a suit in the administrative District Court of Rotterdam, seeking to challenge the ACM's 2008 approval of KPN's entry into the Reggefiber joint venture. Plaintiffs claimed that, by allowing the joint venture, competition in various fixed-line services, including fiber, cable and copper, would be restricted. In an interim court ruling by the administrative District Court of Rotterdam on November 18, 2010, the court held that the ACM had provided insufficient evidence for a part of its competition analyses. In particular, the ACM had not adequately demonstrated the potential effects on competition regarding non-price effects (such as the quality and roll-out of fiber) in its assessment or remedies. The District Court then allowed the ACM to submit additional evidence and, after further consideration, it held on May 10, 2012 that the Reggefiber joint venture could continue despite its annulment of the ACM decision.

Ziggo appealed the District Court's decision on June 15, 2012 to the Trade and Industry Appeals Tribunal (College van Beroep voor het bedrijfsleven (CBb)), claiming, among other things, that the Reggefiber joint venture should have been assessed in a second phase inquiry by the ACM to take into account the effects on the market as well as the effectiveness of the remedies. A decision in response to Ziggo's appeal is expected sometime in 2015. As the joint venture has been terminated on December 1, 2014 and KPN obtained a license from the ACM to acquire sole control over Reggefiber, the outcome of this proceeding may no longer affect KPN.

On October 31, 2014, the ACM approved the acquisition of sole control by KPN. Vodafone appealed the ACM decision at the administrative District Court of Rotterdam. This could result in the confirmation, amendment or annulment of the license from the ACM for the acquisition of sole control by ACM over Reggefiber. There are no precedents where a license has been annulled, but this could eventually result in an obligation on KPN to release control over Reggefiber.

[33] Related-party transactions

KPN enters into agreements and transactions with shareholders, joint ventures and associated undertakings for various business purposes, including providing services or financing of operating activities. KPN also enters into such transactions in the ordinary course of business with certain companies or organizations over which KPN, members of the Supervisory Board or Board of Management may have a significant influence. These related-party transactions are described below. KPN considers none of these transactions to be material on an individual basis, except for the transactions with shareholders. Transactions between Group companies are not included in the description as these are eliminated in the Consolidated Financial Statements.

Transactions with shareholders

In 2013, a 2 for 1 rights issue of 2,838,732,182 new ordinary shares with a nominal value of EUR 0.24 took place at an issue price of EUR 1.06 through the granting of transferable subscription entitlements to holders of ordinary shares in KPN's issued and outstanding share capital pro rata to their shareholdings. For further information about the rights issue, see Note 20.

On August 29, 2013, the Foundation Preference Shares B KPN exercised its call option and obtained 4,258,098,272 newly issued preference shares B. These shares reflected an interest in KPN's outstanding shares of 50% minus one share. In compliance with the statutory arrangement, 25% of the nominal value of these shares (EUR 255 million) was paid to KPN in cash. On March 21, 2014, the preference shares B were canceled against repayment of the paid-up amount. For more information about the issue of the preference shares B, see Note 20.

América Móvil, S.A.B. de C.V. ('AMX') published on February 10, 2015, in its fourth quarter 2014 report, that it owned 21.4% of KPN's ordinary share capital at December 31, 2014.

The total value of sales transactions by the continuing operations of KPN in 2014 with AMX, its subsidiaries, joint ventures and associated companies amounted to approximately EUR 12 million (2013: EUR 6 million) and the total value of purchase transactions amounted to approximately EUR 35 million (2013: EUR 21 million). The total trade receivables and payables as of December 31, 2014 amounted to approximately EUR 3 million and EUR 6 million respectively (December 31, 2013: EUR 3 million and EUR 6 million respectively).

Pursuant to the Dutch Financial Supervision Act ('Wet op het financieeltoezicht' or 'Wft'), legal entities as well as natural persons must immediately notify the Dutch Authority for the Financial Markets (AFM) when a shareholding equals or exceeds 3% of the issued capital.

On March 21, 2014, Discovery Capital Management, LLC notified that it held 3.77% of the shares and voting rights related to KPN's ordinary share capital. On October 1, 2014, Franklin Mutual Series Fund, Inc. notified that it held 3.63% of the shares and voting rights related to KPN's ordinary share capital. To KPN's knowledge, no other shareholder owned 3% or more of KPN's issued share capital as at December 31, 2014.

KPN did not enter into agreements with AMX or other shareholders which could have a material impact on KPN's Financial Statements. On February 20, 2013, KPN and AMX entered into a relationship agreement, governing the long-term relationship between both parties. In accordance with best practice provision III 6.4 of the Dutch Corporate Governance Code, the relationship agreement was approved by KPN's Supervisory Board. On July 29, 2013, the relationship agreement was terminated by AMX.

Transactions with joint ventures and associated companies

Associated, non-consolidated companies and joint ventures of KPN sell goods and provide services to consolidated KPN companies. In addition, consolidated KPN companies sell goods or provide services to these associated companies and joint ventures (see Notes 12 and 13).

The total value of sales transactions by the continuing operations of KPN in 2014 with joint ventures and associated companies, including Reggefiber until November 1, 2014, amounted to approximately EUR 58 million (2013: EUR 63 million) and the total value of purchase transactions amounted to approximately EUR 153 million (2013: EUR 138 million). The total trade receivables and payables as of December 31, 2014 amounted to approximately EUR 13 million and EUR 1 million respectively (December 31, 2013: EUR 17 million and EUR 36 million respectively).

During 2014 KPN acquired the remaining shares in Reggefiber Group B.V. and obtained 100% ownership (refer to Note 31).

Transactions with directors and related parties

For details of the relation between directors and the Company, reference is made to the 'Remuneration Report' on pages 90 to 100 of this Integrated Annual Report. Directors in this respect are defined as key management and relate to those having authority and responsibility for planning, directing, and controlling the activities of an entity, either directly or indirectly. At KPN, key management consists of the members of the Board of Management.

The Company has not been, and is not now, a party to any material transactions, or proposed transactions, in which members of the Supervisory Board or Board of Management or close members of their families had a direct or indirect material interest in 2014.

The total value of sales transactions by the continuing operations of KPN in 2014 with parties in which members of the Supervisory Board or Board of Management or close members of their families had a direct or indirect material interest amounted to approximately EUR 14 million (2013: EUR 24 million) and the total value of purchase transactions amounted to approximately EUR 17 million (2013: EUR 9 million), all in the ordinary course of business. The total trade receivables and payables as of December 31, 2014 amounted to approximately EUR 3 million and less than EUR 1 million respectively (December 31, 2013: EUR 5 million and EUR 5 million respectively).

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[34] Subsequent events

On January 9, 2015, the Supervisory Board appointed Mr. Frank van der Post to the Board of Management of KPN as Chief Commercial Officer as from March 1, 2015, after having informed the Extraordinary General Meeting of Shareholders of the intention to appoint Mr. Frank van der Post.

On February 3, 2015, KPN announced that it reached an agreement to sell its German subsidiary SNT Deutschland AG ("SNT") to LIVIA Group, for an undisclosed consideration. The transaction is in line with KPN's strategy to focus on its core footprint. SNT provides contact center outsourcing solutions to business clients. In 2014, SNT generated revenues of approximately EUR 90 million with approximately 2,900 FTEs. KPN expects to close the transaction in the first quarter of 2015, subject to customary closing conditions.

[35] Segment reporting

KPN's segment reporting is driven by the internal structure and reporting to KPN's Chief Executive Officer (CEO), who is KPN's chief operating decision-maker according to IFRS 8. KPN's operating segments are summarized below.

In 2014, KPN made the following organizational changes:

- IT Solutions, the segment with focus on datacenters, consulting services and workspace solutions, has been integrated into the Business Segment as of January 1, 2014. The internal reporting structure was changed and comparative segment information has been restated accordingly.
- Germany Segment included E-Plus, Blau Mobilfunk and Magnum – a challenger network operator with its own brands and partners in Germany. E-Plus classified as 'disposal group held for sale' as of July 23, 2013. The sale was completed at October 1, 2014. E-Plus has been eliminated from the segment disclosures in this Note. The remaining activities of KPN's Germany segment do not qualify for separate disclosure and have therefore been merged into Mobile International Other Segment as of January 1, 2014. Comparable information has been restated. Refer to Note 19 for more information on E-Plus.

The Netherlands

The Netherlands consists of the following:

- Consumer Mobile Segment – providing mobile telephony and mobile data. KPN offers retail customers a broad package of services in the areas of communication, information, entertainment and commercial services;
- Consumer Residential Segment – providing internet and TV and fixed telephony. KPN offers retail customers a broad range of services in the areas of communication, information, entertainment and commercial services;
- Business Segment – KPN offers its business customers (small, medium-sized, large and corporate) a complete portfolio of service from fixed and mobile telephony and internet to a range of end-to-end solutions in infrastructure, workspace management and data network and datacenter services;
- NetCo Segment is responsible for KPN's operational activities for the Dutch networks (both fixed and mobile), IT services and for KPN's wholesale customers; and
- The Netherlands' Other Segment.

Mobile International

Mobile International comprises:

- Belgium Segment, consists of BASE Company, a challenger network operator with own brands and partners in Belgium; and
- Mobile International Other Segment, including continuing operations from KPN's Germany activities.

iBasis Group

Through iBasis, KPN is a leading player in the international wholesale voice market. iBasis carries international phone calls worldwide.

Other activities Segment

Other activities comprise the results of KPN's Corporate Center (support) and the call center activities of SNT Germany.

Due to the fact that KPN neither allocates interest expenses to all segments nor accounts for taxes in the segments, the disclosure is limited to operating profit for the year.

The basis for inter-segment pricing for wireless services is as follows:

1. KPN's mobile terminating services are regulated in some aspects. The price level of the mobile terminating services to external wholesale operators has been set in consultation with and approved by the Dutch competition and telecommunications regulators. The mobile terminating tariffs are applied on a non-discriminatory basis within the segment Consumer, Business and NetCo and to other (external) operators; and
2. Roaming tariffs between KPN's Mobile operators are based on bilateral agreements and contain generally similar terms as bilateral agreements with third parties.
3. The basis for inter-segment pricing within the Netherlands, other than mentioned in categories 1) and 2) above can be described as follows:
 - For identical products which are also sold to external parties, KPN uses wholesale prices;
 - For non-regulated retail products which do not fall within the scope of category 3, KPN uses cost-based prices; and
 - For regulated retail products which do not fall within the scope of category 3, KPN uses external purchase costs and an additional charge which is equal to a predetermined percentage of the difference between the gross external retail revenues and external purchase costs; this method is also referred to as 'retail-minus'.

The Netherlands

Amounts in millions of EUR, unless otherwise stated	Consumer Mobile		Residential		Business		NetCo		Other (including eliminations)		Total the Netherlands	
	2014	2013	2014	2013	2014	2013 (restated)	2014	2013	2014	2013 (restated)	2014	2013
Statement of Profit or Loss												
External revenues ¹	1,346	1,440	1,800	1,839	2,695	2,972	494	482	2	3	6,337	6,736
Other income	2	—	—	—	5	25	—	4	76	1	83	30
Inter-division revenues	59	70	116	123	220	204	1,768	1,857	-2,128	-2,218	35	36
Total revenues	1,407	1,510	1,916	1,962	2,920	3,201	2,262	2,343	-2,050	-2,214	6,455	6,802
Total operating expenses excluding depreciation, amortization and impairments	-1,216	-1,100	-1,512	-1,587	-2,330	-2,495	-1,021	-1,046	2,074	2,181	-4,005	-4,047
EBITDA²	191	410	404	375	590	706	1,241	1,297	24	-33	2,450	2,755
Depreciation, amortization and impairments	-166	-242	-299	-297	-206	-221	-938	-907	-21	-12	-1,630	-1,679
Operating profit	25	168	105	78	384	485	303	390	3	-45	820	1,076
Total assets	1,261	1,805	1,940	2,003	3,478	3,492	11,498	10,081	-447	-286	17,730	17,095
Total liabilities	1,179	1,492	1,824	1,929	3,054	3,171	11,457	10,083	-447	-287	17,067	16,388
Other												
Investments in intangible assets	1	60	6	54	37	84	319	1,439	270	—	633	1,637
Investments in property, plant and equipment	17	170	179	221	53	81	623	672	19	—	891	1,144
Investments in associates and joint ventures	—	—	—	—	—	—	17	294	—	—	17	294
Results associates and joint ventures	—	—	—	—	—	1	-4	-3	—	—	-4	-2
Employees end of period (FTEs)	1,194	1,296	3,054	3,167	6,516	7,259	2,168	2,113	1,180	612	14,112	14,447
Employees average (FTEs)	1,245	1,320	3,111	3,342	6,887	8,020	2,141	2,562	896	512	14,280	15,756

1) External revenues mainly consist of rendering of services.

2) Earnings before interest, tax and depreciation, amortization and impairments.

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Mobile International

Amounts in millions of EUR, unless otherwise stated	Belgium		Other (including eliminations)		Total Mobile International		iBasis	
	2014	2013	2014	2013	2014	2013	2014	2013
Statement of Profit or Loss								
External revenues ¹	701	720	104	131	805	851	773	777
Other income	2	—	—	-1	2	-1	—	—
Inter-division revenues	8	8	5	12	13	20	175	192
Total revenues	711	728	109	142	820	870	948	969
Total operating expenses excluding depreciation, amortization and impairments	-562	-536	-119	-134	-681	-670	-925	-940
EBITDA²	149	192	-10	8	139	200	23	29
Depreciation, amortization and impairments	-166	-151	-6	-10	-172	-161	-9	-12
Operating profit	-17	41	-16	-2	-33	39	14	17
Total assets	1,406	2,047	1,359	10,937	2,765	12,984	386	389
Total liabilities	370	410	276	26,369	646	26,779	232	253
Other								
Investments in intangible assets	36	226	1	50	37	276	—	—
Investments in property, plant and equipment	141	160	2	409	143	569	8	7
Investments in associates and joint ventures	2	2	—	—	2	2	—	—
Results associates and joint ventures	—	-2	-5	-11	-5	-13	—	—
Employees end of period (FTEs)	808	889	56	65	864	954	311	332
Employees average (FTEs)	849	892	59	119	908	1,011	322	331

1) External revenues mainly consist of rendering of services.

2) Earnings before interest, tax and depreciation, amortization and impairments.

KPN Total

Amounts in millions of EUR, unless otherwise stated	Other activities Segment		Total segments		Eliminations		Consolidated	
	2014	2013	2014	2013	2014	2013	2014	2013
Statement of Profit or Loss								
External revenues ¹	84	79	7,999	8,443	—	—	7,999	8,443
Other income	-1	—	84	29	—	—	84	29
Inter-division revenues	-2	-1	221	247	-221	-247	—	—
Total revenues	81	78	8,304	8,719	-221	-247	8,083	8,472
Total operating expenses excluding depreciation, amortization and impairments	322	-179	-5,289	-5,836	221	247	-5,068	-5,589
EBITDA²	403	-101	3,015	2,883	—	—	3,015	2,883
Depreciation, amortization and impairments	-9	-5	-1,820	-1,857	—	—	-1,820	-1,857
Operating profit	394	-106	1,195	1,026	—	—	1,195	1,026
Balance sheet								
Total assets	-2,325	-4,596	18,556	25,872	—	—	18,556	25,872
Total liabilities	-4,019	-22,851	13,926	20,569	—	—	13,926	20,569
Other								
Investments in intangible assets	1	1	671	1,914	—	—	671	1,914
Investments in property, plant and equipment	2	3	1,044	1,723	—	—	1,044	1,723
Investments in associates and joint ventures	23	24	42	320	—	—	42	320
Result associates and joint ventures	3	8	-6	-7	—	—	-6	-7
Employees end of period (FTEs)	3,184	3,216	18,471	18,949	—	—	18,471	18,949
Employees average (FTEs)	3,200	3,124	18,710	20,222	—	—	18,710	20,222

1) External revenues mainly consist of rendering of services.

2) Earnings before interest, tax and depreciation, amortization and impairments.

Geographical information

Amounts in millions of EUR	Financial year	Total non-current assets ¹	Total intangible assets	Total property, plant and equipment	Revenues and other income
Regions					
The Netherlands	2014	13,013	3,393	6,072	6,417
	2013	9,146	3,055	4,809	6,765
Belgium	2014	887	417	508	706
	2013	876	403	511	726
The Americas	2014	66	98	20	773
	2013	60	94	17	777
Other	2014	-612	84	6	187
	2013	-758	91	3	204
Consolidated	2014	13,354	3,992	6,606	8,083
	2013	9,324	3,643	5,340	8,472

1) Excluding deferred tax assets, pensions and financial instruments.

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Corporate Statement of Profit or Loss

For the year ended December 31

Amounts in millions of EUR	2014	2013
Income from subsidiaries after taxes	-14,402	403
Other income and expense after taxes	13,804	-625
Profit (loss) attributable to equity holders	-598	-222

In 2014, Income from subsidiaries after taxes includes a loss of EUR 14.3 billion, and Other income and expense after taxes a gain of this same amount, due to debt restructurings within KPN Group mainly relating to the sale of E-Plus.

Corporate Statement of Financial Position

Before appropriation of results

Assets

Amounts in millions of EUR	December 31, 2014	December 31, 2013
NON-CURRENT ASSETS		
Financial fixed assets		
Investments in subsidiaries	30,170	25,968
Loans to subsidiaries	–	5,748
Other financial fixed assets	4,355	426
Total non-current assets [A]	34,525	32,142
CURRENT ASSETS		
Accounts receivable from subsidiaries	462	623
Other receivables and accrued income [B]	54	13
Other current financial assets	300	–
Cash and cash equivalents	1,693	3,175
Total current assets	2,509	3,811
TOTAL	37,034	35,953

[..] Bracketed letters refer to the Notes to the Corporate Statement of Financial Position.

Equity and Liabilities

Amounts in millions of EUR	December 31, 2014	December 31, 2013
Subscribed capital stock	171	1,025
Additional paid-in capital	9,847	8,993
Treasury shares reserve	-138	-138
Perpetual hybrid bonds	1,089	1,089
Hedge reserve	-393	-394
Legal reserves	398	255
Retained earnings	-5,803	-5,358
Profit (loss) current year	-598	-222
Total equity attributable to equity holders [C]	4,573	5,250
PROVISIONS		
Provisions for retirement benefit obligations	66	847
Other provisions	35	109
Total provisions [D]	101	956
NON-CURRENT LIABILITIES		
Loans [E]	17,171	12,348
Derivative financial instruments	186	419
Other long-term liabilities	52	50
Total non-current liabilities	17,409	12,817
CURRENT LIABILITIES		
Accounts payable to subsidiaries	13,421	14,339
Other current liabilities [F]	1,134	2,176
Accruals and deferred income	396	415
Total current liabilities	14,951	16,930
TOTAL	37,034	35,953

[..] Bracketed letters refer to the Notes to the Corporate Statement of Financial Position.

FINANCIAL STATEMENTS — CORPORATE FINANCIAL STATEMENTS

General Notes to the Corporate Financial Statements

With reference to the Corporate Statement of Profit or Loss of Koninklijke KPN N.V., use has been made of the exemption pursuant to Article 402, Part 9, Book 2 of the Dutch Civil Code.

For the principles for the recognition and measurement of assets and liabilities and determination of the result for its Corporate Financial Statements, Koninklijke KPN N.V. applies the option provided in Article 362 sub 8, Part 9, Book 2 of the Dutch Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as 'Accounting policies') of the Corporate Financial Statements of Koninklijke KPN N.V. are the same as those applied for the Consolidated Financial Statements under IFRS. The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS). Reference is made to the Notes to the Consolidated Financial Statements.

Investments in consolidated subsidiaries are measured at net asset value. Net asset value is based on the measurement of assets, provisions and liabilities and determination of profit based on the principles applied in the Consolidated Financial Statements.

Investments in which the Company has significant influence on the financial and operational policies, but not control (associates), are accounted for using the equity method. Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company's share of profit or loss of the investment after the date of acquisition. The Company's investments in associates include goodwill identified on acquisition.

Notes to the Corporate Statement of Financial Position

[A] Financial fixed assets

Amounts in millions of EUR	Group companies	Loans to Group companies	Other financial fixed assets	Total
Balance as of January 1, 2013	25,433	5,622	569	31,624
Exchange rate differences	-1	–	–	-1
Income from Group companies after taxes	384	–	–	384
Capital contributions	1	–	–	1
Received/paid dividends	-4	–	–	-4
New loans	–	126	–	126
Withdrawals/redemptions	–	–	-2	-2
Change in derivative financial instruments	–	–	-122	-122
Other	155	–	-19	136
Total changes	535	126	-143	518
Balance as of December 31, 2013	25,968	5,748	426	32,142
Exchange rate differences	6	–	–	6
Income from Group companies after taxes	-14,402	–	–	-14,402
Capital contributions	17,430	–	–	17,430
Received/paid dividends	-4	–	–	-4
New loans	–	–	95	95
Acquisition ¹	–	–	2,528	2,528
Fair value adjustment ¹	–	–	163	163
Withdrawals/redemptions	–	-5,748	-1	-5,749
Change in derivative financial instruments	–	–	207	207
Other ²	1,172	–	937	2,109
Total changes	4,202	-5,748	3,929	2,383
Balance as of December 31, 2014	30,170	–	4,355	34,525

1) The acquisition and fair value adjustment relates to the 20.5% stake in Telefónica Deutschland.

2) The amount in line item Other of Financial fixed assets mainly relates to an increase in deferred tax assets of EUR 1.1 billion relating to the sale of E-Plus.

[B] Other receivables

Amounts in millions of EUR	December 31, 2014	December 31, 2013
Accrued income	11	11
Current income tax receivables	39	–
Other receivables	4	2
Total	54	13

[C] Equity attributable to equity holders

For a breakdown of equity attributable to equity holders, reference is made to the Consolidated Statement of Changes in Group Equity and the Notes thereto.

Legal reserves

Legal reserves (net of tax) are presented below:

Amounts in millions of EUR	Revaluation reserve property, plant and equipment	Cumulative translation adjustments	Capitalized software development costs	Fair value reserve available-for-sale financial assets	Other non-distributable reserves	Total
Balance as of January 1, 2013	69	13	171	3	48	304
Exchange rate differences	–	-1	–	–	–	-1
Addition/(release) retained earnings	-16	–	-37	–	5	-48
Balance as of December 31, 2013	53	12	134	3	53	255
Exchange rate differences	–	6	–	–	–	6
Addition/(release) retained earnings	-13	–	28	–	–	15
Other	–	–	–	122	–	122
Balance as of December 31, 2014	40	18	162	125	53	398

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Notes to the Corporate Statement of Financial Position

Pursuant to Dutch law, limitations exist relating to the distribution of equity attributable to equity holders. Such limitations relate to the subscribed capital stock of EUR 171 million (2013: EUR 1,025 million) as well as to legal reserves required by Dutch law as presented above. The total distributable reserves at December 31, 2014 amounted to EUR 4,004 million (2013: EUR 3,970 million). Dutch law also requires that in determining the amount of distribution, the Company's ability to continue to pay its debt must be taken into account, including the EUR perpetual hybrid bonds which are classified as equity under IFRS.

Retained earnings

Movements in retained earnings were as follows:

Amounts in millions of EUR	
Balance as of January 1, 2013	-6,468
Profit for the year 2012	763
Dividend perpetual hybrid bond (net of tax)	-25
Actuarial gain/loss pensions and other post-employment plans	321
Release/addition legal reserves	48
Other	3
Balance as of December 31, 2013	-5,358
Loss for the year 2013	-222
Dividend perpetual hybrid bond (net of tax)	-76
Dividend ordinary shares	-85
Actuarial gain/loss pensions and other post-employment plans	-50
Release/addition legal reserves	-15
Other	3
Balance as of December 31, 2014	-5,803

Retained earnings can be reconciled with the Consolidated Statement of Financial Position as follows:

Amounts in millions of EUR	December 31, 2014	December 31, 2013
Retained earnings as per Consolidated Statement of Financial Position	-6,146	-5,340
Revaluation reserve	-40	-53
Capitalized software development costs	-162	-134
Other non-distributable reserves	-53	-53
Loss for the year	598	222
Retained earnings as per Corporate Statement of Financial Position	-5,803	-5,358

[D] Provisions

Movements in provisions were as follows:

	Retirement benefit obligations	Other provisions	Total
Balance as of January 1, 2013	1,181	27	1,208
Additions/Releases to income	110	84	194
Additions/Releases directly to equity	-227	—	-227
Usage	-217	-2	-219
Balance as of December 31, 2013	847	109	956
Additions/Releases to income	-362	7	-355
Additions/Releases directly to equity	-67	—	-67
Usage	-352	-81	-433
Balance as of December 31, 2014	66	35	101

The provisions for retirement benefit obligations at December 31, 2014, relates to early retirement plans. The KPN PF and KPN OPF pension plans were transferred into collective defined contribution plans as of January 1, 2015. The provision for these plans were released in 2014. For details, reference is made to Note 23 to the Consolidated Financial Statements. The decrease in other provisions mainly relates to usage regarding the KPNQwest legal proceedings and the OT2010 penalty.

Non-current liabilities

[E] Loans

Loans include bonds outstanding for EUR 8,175 million (2013: EUR 10,579 million), hybrid bonds outstanding for EUR 1,000 million (2013: EUR 905 million), and loans from subsidiaries for EUR 7,996 million (2013: EUR 863 million).

Loans from subsidiaries have maturity dates in 2014 and bear fixed interest rates.

For more information on the bonds outstanding, refer to Note 22 to the Consolidated Financial Statements.

[F] Other current liabilities

Amounts in millions of EUR	December 31, 2014	December 31, 2013
Current portion of loans	999	1,399
Income tax payable	–	81
Social security and other taxes payable	111	124
Bank overdrafts	14	306
Other debt	–	256
Derivative financial instruments	10	10
Total	1,134	2,176

[G] Commitments and contingencies

Amounts in millions of EUR	December 31, 2014	December 31, 2013
Commitments by virtue of guarantees	179	254

KPN has issued several declarations of joint and several liabilities for various Group companies in compliance with Section 403, Book 2 of the Dutch Civil Code. These declarations of joint and several liabilities for Group companies are included in a complete list of subsidiaries and participating interests, which is available at the offices of the Chamber of Commerce in The Hague.

Directors' remuneration

Reference is made to Note 3 to the Consolidated Financial Statements on employee benefits.

The Hague, February 25, 2015

Supervisory Board	Board of Management
J.B.M. Streppel	E. Blok
P.A.M. van Bommel	J.C. de Jager
C.J. García Moreno Elizondo	J.F.E. Farwerck
D.J. Haank	
O. Von Hauske Solis	
C.M. Hooymans	
D.W. Sickinghe	
C.J.G. Zuiderwijk	

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Independent Auditor's Report

To: the General Meeting and Supervisory Board of Koninklijke KPN N.V.

Report on the financial statements 2014

Our opinion

In our opinion

- the consolidated financial statements give a true and fair view of the financial position of Koninklijke KPN N.V. as at December 31, 2014 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the corporate financial statements give a true and fair view of the financial position of Koninklijke KPN N.V. as at December 31, 2014 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2014 of Koninklijke KPN N.V., The Hague ('the company'). The financial statements include the consolidated financial statements and the corporate financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2014;
- the following statements for 2014: the consolidated statement of profit or loss and the consolidated statements of other comprehensive income, changes in group equity and cash flows; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The corporate financial statements comprise:

- the corporate statement of financial position as at December 31, 2014;
- the corporate statement of profit or loss for the year then ended; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the corporate financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in 'Our responsibilities for the audit of the financial statements' of our report.

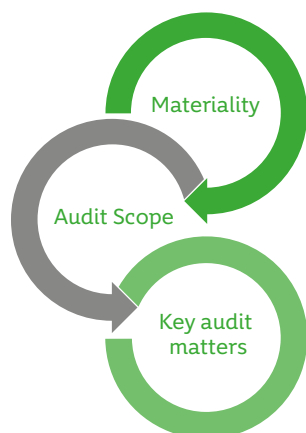
We are independent of Koninklijke KPN N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. Apart from the key audit matters, which are explained in the table below, other points of focus in our audit included, amongst others, the assumptions and methodologies used by management in its goodwill impairment testing, derivatives and hedge accounting, revenue recognition and valuation of the telecom network. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that may represent a risk of material misstatement due to fraud.

**Materiality**

- Overall materiality: EUR 40 million which represents 0.5% of total revenues.

Audit Scope

- We conducted audit work in the Netherlands, Belgium, Germany and the United States of America.
- A site visit was conducted to iBasis in the United States of America.

Key audit matters

- Best estimate sales proceeds concerning E-Plus includes uncertainty regarding net debt / working capital settlement;
- Appropriateness of valuation of deferred tax assets regarding tax loss on sale of E-Plus;
- Business combination related to Reggefiber including option valuation;
- Pension plan amendments appropriately accounted for;
- Rationalization of internal controls framework in transition during 2014.

Materiality

The scope of our audit is influenced by the application of materiality. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	EUR 40 million (2013: EUR 50 million).
How we determined it	0.5% of total revenues.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, based on our analysis of stakeholders and in the absence of indicators that an alternative benchmark would be appropriate. In previous years we have based materiality on an average of 5% of profit before tax and 0.5% of total revenues. However, given the large fluctuation in profit before tax (adjusted for one-off items), we did not consider profit before tax an appropriate benchmark for 2014 and thus applied the materiality percentage 0.5% of total revenues (a generally accepted practice).

We also take misstatements and/or possible misstatements into account that, in our judgment, are material for qualitative reasons.

We agreed with the Supervisory Board that we would report to them misstatements identified during our audit above EUR 2 million (2013: EUR 2.5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

Koninklijke KPN N.V. is head of a group of entities. The financial information of this group is included in the consolidated financial statements of Koninklijke KPN N.V.

Considering our ultimate responsibility for the opinion on the company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances, transactions or disclosures was considered necessary.

The group audit focused on the Dutch segments 'Consumer Mobile', 'Consumer Residential', 'Business Market' and 'NetCo' as well as the segments Belgium (BASE Company) and 'iBasis' (United States of America). The group's accounting process is structured around a local finance function for each of these segments. These functions maintain their own accounting records and controls and report to the Corporate Control team in the Netherlands through an integrated consolidation system.

Due to their significance and / or risk characteristics we performed full scope audit procedures on the financial information of the finance functions of all above mentioned segments in the Netherlands. For the segments in Belgium and the United States of America we used component auditors from other PwC network firms who are familiar with local laws and regulation to perform detailed audit procedures to obtain sufficient coverage for financial statement line items from a consolidated financial statement perspective. In view of the de-consolidation of E-Plus, we instructed the German PwC network firm to perform procedures of a review type nature on the Q1 and Q2 2014 E-Plus reporting set.

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Independent Auditor's Report (continued)

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those locations to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole. The group engagement team visits the component teams on a rotational basis.

In the current year the group engagement team also visited the United States of America finance function and the US PwC network firm who undertook the audit of iBasis Inc.

The group consolidation, financial statement disclosures and a number of complex items were audited by the group engagement team at the company's head office. These included purchase price allocation, taxation, goodwill impairment, pensions, derivative financial instruments, hedge accounting and share-based payments.

By performing the above-mentioned procedures at components, combined with additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the Supervisory Board, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
<p>Best estimate sales proceeds concerning E-Plus includes uncertainty regarding net debt / working capital settlement</p> <p>The sale of E-Plus was completed on October 1, 2014 and related disclosures are included in the significant accounting policies and in the notes to the consolidated statement of financial position in Note 19.</p> <p>The result from discontinued operations is based on the expected sales proceeds, including the settlement of the net debt/working capital, which has not been finalized as at December 31, 2014. Based on an internal analysis of the net debt /working capital items, management determined a best estimate to establish an adjustment to the sales proceeds to account for the outcome of the settlement process. This was important to our audit as the remaining uncertainty amounts to approximately 10% (positive or negative) of the 2014 total loss for the period from discontinued operations.</p>	<p>The impact of the E-Plus transaction is primarily reflected in the result from discontinued operations and financial asset classified as available for sale (20.5% stake in Telefónica Deutschland). Our audit procedures included, amongst others, checking the cash receipt and ownership of the 20.5% stake and agreeing the value to the quoted share price of Telefónica Deutschland at completion date. The expected deal proceeds are impacted by the outcome of the net debt/working capital settlement, for which management has recorded an adjustment to the sales proceeds based on its best estimate. Therefore we have also assessed the supporting documentation relating to this adjustment and challenged the interpretations and judgments used by management in determining its best estimate. We assessed the adequacy of the disclosures and appropriateness of the accounting position taken in the financial statements by management.</p>
<p>Appropriateness of valuation of deferred tax assets regarding tax loss on sale of E-Plus</p> <p>At December 31, 2014, the deferred tax assets are valued at EUR 1.3 billion and related disclosures are included in the summary of significant accounting policies and in the notes to the consolidated statement of financial position in Note 7. This was significant to our audit because the assessment process is complex and judgmental and is based on assumptions that are affected by expected future market or economic conditions. The main element in the deferred tax assets is related to the discontinuance of the German activities based on an agreement with the Dutch tax authorities, as the sale of E-Plus resulted in a tax loss ('stakingsverlies' and future liquidation loss) which can be off-set against future taxable profits in the Netherlands.</p>	<p>Our audit procedures included, amongst others, using internal tax specialists to assist us in verifying and interpreting the agreement ("vaststellingsovereenkomst") reached with the Dutch tax Authorities and evaluating the assumptions, such as expected future taxable income and methodologies used by the company. This entailed reviewing the company's latest tax planning strategy and ascertaining that it was derived from the latest approved strategic business plan, which is subject to an internal management review process. We discussed and challenged the business plan to determine the appropriateness that the deferred tax assets may be recoverable within the statutory limited timeframe of 9 years and assessed the adequacy of disclosures on the plan's assumptions and sensitivities.</p>

Key audit matter

How our audit addressed the matter

Business combination related to Reggefiber including option valuation

The company acquired control over, and therefore consolidated Reggefiber as of November 1, 2014. The related disclosures are included in the summary of significant accounting policies and in the notes to the consolidated statement of financial position in Notes 6, 12, 27, 30 and 31. The acquisition is material, complex and contains significant judgment in relation to the purchase price allocation. The company, assisted by its external valuation specialists, determined the fair value of Reggefiber and its identifiable assets and liabilities based on a management cash flow forecast for the strategic plan period, which included a number of assumptions such as the expected roll-out, penetration rate, ODF tariff and WACC. The purchase price allocation resulted in goodwill of EUR 269 million.

Our audit included assessing the re-measurement of the options and the company's 51% stake (both prior to conversion) as a result of the step acquisition as well as the purchase price allocation, as prepared by the company and its external valuator. We challenged the roll out assumptions and the 60% penetration rate used by management by reviewing roll out plans, performing look back procedures on the company's relative success in meeting expected penetration rates in the past, and tested the reasonableness of ODF tariff and WACC by making use of our internal valuation specialists. We also assessed the adequacy of disclosures concerning the assumptions and sensitivities, and the appropriateness of the accounting position taken in the financial statements by management.

Pension plan amendments appropriately accounted for

The company reached agreement with the relevant representatives to convert the company's main pension plans from a defined benefit plan to a collective defined contribution plan as from January 1, 2015. The disclosures are included in the summary of significant accounting policies and in the notes to the consolidated statement of financial position in Note 23. The plan amendments resulted in a total gain of EUR 477 million, a settlement lump sum payment of EUR 235 million to the pension fund and removal of the pension provision for these plans as at December 31, 2014. This was important to our audit as accounting for these plan amendments and timing of the settlements is complex.

We have involved our internal pension specialists in assessing the appropriateness of the accounting for the plan amendments and settlements. In particular the re-measurement of the pension obligation just prior to the plan changes in accordance with IAS 19R – *Employee Benefits* involved significant judgment in relation to the discount rate, salary increase and indexation rate used, which our internal pension specialists considered to assess whether these factors were within reasonably acceptable ranges. We also read the plan amendments to determine that they meet the criteria to qualify as defined contribution plans going forward under IFRS and verified the appropriateness of the accounting, including the impact on OCI, for the plan amendments in 2014.

Rationalization of internal controls framework in transition during 2014

In 2014 the company undertook a rationalization of its internal controls framework. Management used a top down risk based approach resulting in more focus on review controls (i.e. analytical monitoring controls) which are primarily detective type controls while at the same time abandoning a number of process controls in the new internal controls framework. This was important to our audit as the company concluded that a number of (new) key controls, in particular for several revenue processes, had not been implemented or were deficient as at December 31, 2014. Additional testing of compensating controls that are no longer formally included in the new internal controls framework, but are still in operation, and additional substantive test of details have been performed by the company to sufficiently mitigate the risk of material error in the financial statements. The company has made disclosures in its Risk Management and Compliance section regarding the implementation of its new internal controls framework.

As part of our audit of the financial statements we obtained an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. As a result of certain new key controls in the revenue cycle yet to be implemented and other deficiencies noted, we performed additional controls testing on compensating controls, not formally included in the new internal controls framework, that still worked effectively, or alternatively, performed required additional substantive tests of details to obtain sufficient appropriate audit evidence on the relevant financial statement line item for revenues. Management agreed that the control deficiencies should be addressed as soon as possible and has an action plan in place.

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Independent Auditor's Report (continued)

Responsibilities of the Board of Management and the Supervisory Board

The Board of Management is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Report by the Board of Management in accordance with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the Board of Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Management should prepare the financial statements using the going concern basis of accounting unless the Board of Management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Board of Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit has been performed with a high but not absolute level of assurance which makes it possible that we did not detect all errors and frauds.

A more detailed description of our responsibilities is set out in the appendix to our report.

Report on other legal and regulatory requirements

Our report on the Report by the Board of Management and the other information

Pursuant to the legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the Report by the Board of Management and other information):

- we have no deficiencies to report as a result of our examination whether the Report by the Board of Management, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed; and
- we report that the Report by the Board of Management, to the extent we can assess, is consistent with the financial statements.

Our appointment

We have been appointed as the auditors of Koninklijke KPN N.V. since its incorporation in 1989 and our engagement has been renewed annually by the shareholders representing a total period of uninterrupted engagement appointment of 26 years. Due to the mandatory firm rotation we will rotate off after this year.

The Hague, February 25, 2015
PricewaterhouseCoopers Accountants N.V.

Original has been signed by M. de Ridder RA

Appendix to our auditor's report on the financial statements 2014 of Koninklijke KPN N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgment and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among others of:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Management;
- Concluding on the appropriateness of the Board of Management's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company ceasing to continue as a going concern;
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

OTHER INFORMATION

Proposed appropriation of result

On outstanding Class B preferred shares, a dividend is paid out equal to the average of the 12-month Euribor increased by 1%. If the 12-month Euribor is no longer determined, the dividend on preference shares will be calculated based on the yield on State loans (article 35 sub 1, Articles of Association). Subsequently, subject to the approval of the Supervisory Board, the Board of Management will determine what proportion of net income remaining after payment of the dividend on any Class B preferred shares will be appropriated to the reserves (article 35 sub 2, Articles of Association). The part of the profit remaining after the appropriation to the reserves shall be at the disposal of the general meeting (article 35 sub 3, Articles of Association). The Board of Management, with the approval of the Supervisory Board, may also appropriate the complete profit to the reserves.

On February 25, 2015, the Board of Management, with approval of the Supervisory Board, has allocated the loss of EUR 598 million to the Other reserves. In October, 2014, an interim dividend of EUR 0.02 was paid to all holders of ordinary shares, amounting to a total of EUR 85 million (including dividend tax). In 2013, no dividend was paid to holders of ordinary shares.

The Board of Management, with the approval of the Supervisory Board, will propose to the AGM to determine the total dividend over 2014 at EUR 0.07 per ordinary share, of which EUR 0.02 has already been paid as an interim dividend.

Subsequent events

Reference is made to Note 34 Subsequent events in the Consolidated Financial Statements.

Legal structure

The following table sets out the name and jurisdiction of incorporation of, and our direct ownership and voting interest (if different) in, our principal operating subsidiaries and other principal interests as of December 31, 2014.

Name of subsidiaries and other principal interests	Country of incorporation	Percentage ownership/ voting interest
KPN B.V.:	The Netherlands	100.0
– KPN EuroRings B.V.	The Netherlands	100.0
– XS4ALL Internet B.V.	The Netherlands	100.0
– iBasis Inc.	USA	100.0
– Telfort Zakelijk B.V.	The Netherlands	100.0
– Reggefiber Group B.V.	The Netherlands	100.0
KPN Telecommerce B.V.:	The Netherlands	100.0
– SNT Deutschland AG	Germany	100.0
KPN Mobile N.V.:	The Netherlands	100.0
– KPN Mobile International B.V.	The Netherlands	100.0
– BASE Company N.V.	Belgium	100.0
Getronics N.V.:	The Netherlands	100.0
– KPN Corporate Market B.V.	The Netherlands	100.0
– Getronics Finance Holdings B.V.	The Netherlands	100.0
Telefónica Deutschland Holding AG	Germany	20.5

APPENDICES

Appendix 1. Analysis of adjusted results 2014

The following table shows the key items between reported and adjusted revenues (including other income). E-Plus continued to be included in KPN's segment reporting until the third quarter of 2014¹.

Adjusted revenues and other income is derived from revenues (including other income) and is adjusted for the impact of incidentals. Incidentals are non-recurring transactions which are not directly related to day to day operational activities over EUR 5 million unless significant for the specific reportable segment.

Revenues and other income (in EUR m)	FY 2014 reported	Incidentals	FY 2014 adjusted	FY 2013 reported	Incidentals	FY 2013 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Germany (incl. discontinued operations)	2,428	–	2,428	3,197	29	3,168	-24%	-23%
Belgium	711	2	709	728	–	728	-2.3%	-2.6%
Other	33	–	33	41	–	41	-20%	-20%
Mobile International	3,172	2	3,170	3,966	29	3,937	-20%	-19%
Consumer Mobile	1,407	–	1,407	1,510	7	1,503	-6.8%	-6.4%
Consumer Residential	1,916	–	1,916	1,962	13	1,949	-2.3%	-1.7%
Business	2,920	10	2,910	3,201	23	3,178	-8.8%	-8.4%
NetCo	2,262	17	2,245	2,343	-13	2,356	-3.5%	-4.7%
Other	-2,050	30	-2,080	-2,214	–	-2,214	-7.4%	-6.1%
The Netherlands	6,455	57	6,398	6,802	30	6,772	-5.1%	-5.5%
iBasis	948	–	948	969	–	969	-2.2%	-2.2%
Other activities	81	–	81	78	–	78	3.8%	3.8%
Intercompany revenues	-221	–	-221	-247	–	-247	-11%	-11%
KPN Group	10,435	59	10,376	11,568	59	11,509	-9.8%	-9.8%
Of which discontinued operations	2,352	–	2,352	3,096	29	3,067	-24%	-23%
KPN Group continuing operations	8,083	59	8,024	8,472	30	8,442	-4.6%	-5.0%

The following table specifies the revenue incidentals in more detail.

Revenue incidentals (in EUR m)	Segment	FY 2014	FY 2013
Phase out SNOW	Belgium	2	–
Sale of fixed assets (hardware)	Business	5	–
Tax settlement related to 2013	Other (the Netherlands)	30	–
Change in provision	NetCo	17	-13
Impact disposal of subsidiaries	Business	–	23
Adjustment deferred revenues	Germany, Consumer Residential, Mobile, Business	5	49
KPN Group		59	59
Of which discontinued operations		–	29
KPN Group continuing operations		59	30

1) Reference is made to Note 19 of the financial statements for further information on the sale of E-Plus and the impact on KPN's financial information.

The following table shows the key items between reported and adjusted EBITDA. E-Plus continued to be included in KPN's segment reporting until the third quarter of 2014².

Adjusted EBITDA is derived from EBITDA and is adjusted for the impact of restructuring costs and incidentals. Incidentals are non-recurring transactions which are not directly related to day to day operational activities over EUR 5 million unless significant for the specific reportable segment.

EBITDA (in EUR m)	FY 2014 reported	Incidentals	Restructuring	FY 2014 adjusted	FY 2013 reported	Incidentals	Restructuring	FY 2013 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Germany (incl. discontinued operations)	729	8	-12	733	963	66	—	897	-24%	-18%
Belgium	149	-3	-4	156	192	6	—	186	-22%	-16%
Other	-8	—	-3	-5	4	12	—	-8	n.m.	-38%
Mobile International	870	5	-19	884	1,159	84	—	1,075	-25%	-18%
Consumer Mobile	191	—	-1	192	410	7	-7	410	-53%	-53%
Consumer Residential	404	—	-8	412	375	13	-17	379	7.7%	8.7%
Business	590	10	-26	606	706	13	-47	740	-16%	-18%
NetCo	1,241	17	-4	1,228	1,297	9	-10	1,298	-4.3%	-5.4%
Other	24	30	-15	9	-33	—	-32	-1	n.m.	n.m.
The Netherlands	2,450	57	-54	2,447	2,755	42	-113	2,826	-11%	-13%
iBasis	23	—	—	23	29	—	—	29	-21%	-21%
Other activities	403	472	-23	-46	-101	-77	-9	-15	n.m.	>100%
KPN Group	3,746	534	-96	3,308	3,842	49	-122	3,915	-2.5%	-16%
Of which discontinued operations	731	8	-12	735	959	66	—	893	-24%	-18%
KPN Group continuing operations	3,015	526	-84	2,573	2,883	-17	-122	3,022	4.6%	-15%

The following table specifies the EBITDA incidentals in more detail.

EBITDA incidentals (in EUR m)	Segment	FY 2014	FY 2013
Tax settlement related to 2013	Other (The Netherlands)	30	—
Phase out SNOW	Belgium	-3	—
Volume discount hardware	Germany	8	—
Change in provisions	NetCo, Business, Other	17	-78
Sale of fixed assets (hardware)	Business	5	—
Release of pension provision	Other activities	477	—
Adjustment deferred revenues	Germany, Consumer Residential, Mobile, Business	5	49
Impact disposal of subsidiaries	Business	—	23
Release of asset retirement obligation	NetCo, Belgium, Germany	—	48
Release accruals	NetCo	—	7
Book loss related to asset held for sale classification SNT Deutschland	Other activities	-5	—
KPN Group		534	49
Of which discontinued operations		8	66
KPN Group continuing operations		526	-17

2) Reference is made to Note 19 of the financial statements for further information on the sale of E-Plus and the impact on KPN's financial information.

Appendix 2. Overview of main CSR targets and achievements⁶

Theme/KPI	Target 2014	Result 2014	Result 2013
Transparent and reliable service provider			
Net Promotor Score (NPS)	-5 ¹ Consumer Mobile: -3 Consumer Residential: -1 Business Market: -12	-3 Consumer Mobile: 2 Consumer Residential: 2 Business Market: -13	-10 Consumer Mobile: -6 Consumer Residential: -5 Business Market: -18
Weighted downtime reduction	N/a	N/a	N/a
Best-in-class networks			
% of the Netherlands that agree that KPN has the best ICT Infrastructure	50%	Consumers: 47% best fixed network, 46% best mobile network ² Business: 74% fixed network and 68% mobile network ²	Consumers: 46% best fixed network, 52% best mobile network ² Business: 64% best fixed network, 58% best mobile network ²
# of households with more than 100 Mb connection	N/a	4 million	N/a
Dropped-call rate nationwide: decrease spread of dropped-call rate (DCR per week)	N/a	> 77,000 customers with underperformance ³	N/a
Healthcare of the Future			
# of healthcare locations connected	4,500	4,297	4,319
# of healthcare customers provided with personal comfort services	42,000	38,696	~40,000
# of chronically ill children provided with a KPN Classmate	550	540	192
The New Way of Living & Working			
% of KPN employees in the Netherlands who feel they can work in line with The New Way of Living & Working	90%	78% ⁴	74%
Growth in the Netherlands of the use of services that make The New Way of Living & Working possible	20% compared with 2013	43% compared with 2013 ⁷	5% compared with 2012
Energy efficient			
% reduction of CO ₂ emissions KPN Group compared with 2005	96%	98%	94%
Energy savings by customers as % of KPN Group's own energy use	Improve calculations current products / services in scope Extend savings calculation to more products / services	30%	CO ₂ saving calculated for 8 services in NL
CO ₂ -emission in the value chain (scope 3 in GHG protocol)	Extend calculations to KPN Group	Calculations of KPN NL improved	First calculation based on GHG protocol NL
	Define targets for 2015 on up- and downstream reduction emissions	Preparation to extend calculations to KPN Group in 2015	
% reduction of energy consumption of KPN Group compared with 2010	11%	16%	12%
Privacy & Security			
% of Dutch people who believe their data is safe with KPN	70%	69%	69%
# of customers that choose opt-in for sharing personal data on traffic and roaming with KPN	250,000	156,677	N/a
# of KPN E-ID users	N/a	N/a	N/a
Our people			
Overall % of women at KPN in the Netherlands ⁹	25% or higher	24% ⁹	24% ⁹
Employee survey score on Engagement and Sustainable employability ¹⁰	Engagement: > 63% Sustainable employability: >56%	Engagement: 70% Sustainable employability: 56%	Engagement: 63% ¹⁰ Vitality: 56% ¹⁰
Sustainable employability: % of employees with a new job < 1 year after leaving KPN	N/a	~80%	N/a
Suppliers			
% realized improvements on corrective action plans	N/a	N/a	N/a
# of sustainable solutions with impact > 1 year including a cost saving for KPN.	5	5	5

1) The 2014 target was defined during 2014, based on the average of the defined targets for Consumer Mobile, Consumer Residential and Business Market.

2) A substantial number of people has no opinion about who has the best network. We excluded this group of respondents from the scores.

3) Underperformance is internally defined by an exact percentage of dropped-calls per user that is acceptable (supported by own research). Due to competitive advantage, we do not share this percentage.

4) This target is lower than 2014, due to the sale of part of the healthcare portfolio (including HealthcareMedia) to SPIE Nederland.

5) As of 2014, employees who, by the nature of their work, cannot work in line with the New Way of Living & Working are excluded from the measurement.

6) For a full overview of all CSR targets and achievements, see Appendix 8 in the online version.

Result 2012	Target 2015	Target 2016 and beyond	Sections
-11 Consumer Mobile: -6 Consumer Residential: -10 Business Market: -17	3 Consumer Mobile: 7 Consumer Residential: 7 Business Market: -6		Quality and reputation, Customer loyalty, p. 31-32.
N/a	-30%		Netco, p. 60-63.
Consumers: 51% best fixed network, 51% best mobile network ²	60%		Netco, p. 60-63.
N/a	> 5.6 million		Netco, p. 60-63.
N/a	~25% reduction of customers with underperformance ³ compared to 2014		Netco, p. 60-63.
4,038	4,700		Business, Healthcare of the future, p. 57-59.
~21,000	31,000 ⁴		Business, Healthcare of the future, p. 57-59.
216	1,250		Quality and reputation, Sponsoring, p. 32-33.
76%	90%		Our people, p. 34-37.
17% compared with 2011	40% compared with 2014		Business, The New Way of Living & Working, p. 59.
93%	100%	Remain climate neutral for own operations	Environment, p. 40-43.
KPN Bespaarmeter implemented, no results measured	More products calculated to realize 10% more savings compared with 2014	Save as much energy with our products as our own energy consumption (PJ) in 2020	Environment, p. 40-43.
N/a	Define targets both on upstream and downstream emission reduction where possible		Environment, p. 40-43.
			Environment, p. 40-43.
9% ⁷	17%	19% in 2016	Environment, p. 40-43.
66%	70%		Privacy & Security, p. 44-47.
N/a	300,000		Privacy & Security, p. 44-47.
N/a	8,000		Privacy & Security, p. 44-47.
23.4% ⁹	30%	30%	Our people, p. 34-37.
N/a	1) Overall engagement: > 70% 2) Working environment: > 61% 3) Strategy & Leadership: > 41%		Our people, p. 34-37.
N/a	80%		Our people, p. 34-37.
N/a	30%	>30%	Our suppliers, p. 38-39.
N/a	5		Our suppliers, p. 38-39.

7) Unweighted average of mature and growth services categories.

8) Energy saving accounted for a part of the reduction in comparison with 2010. The remaining reduction was the result of the sale of Getronics International in 2012.

9) Results are based on the employee population of KPN in the Netherlands in line with the population for the public commitment 'Talent to the Top'.

10) In 2014, sustainable employment is measured and included in the target instead of vitality. The target for 2015 is based on three main attributes of our employee engagement study. The results of previous years are adjusted based on the results of the employee population still working for KPN in order to improve comparability (employees who left KPN are retrospectively excluded from the results of previous years)

Appendix 3. Scope, reporting process and materiality determination

Scope sustainability information

The purpose of the sustainability information in our Integrated Report (including the GRI index and social and environmental figures appendices as published on our website), covering the calendar year 2014, is to inform our stakeholders about our role in society, in connection with our main strategic objectives and targets. We regard as stakeholders all people and organizations affected by our operations or with whom we maintain a relationship, such as customers, employees, shareholders, banks, suppliers, journalists, partners and social organizations.

The scope of the sustainability information in this report, GRI index and social and environmental figures (appendices) covers the KPN Group including subsidiaries in which KPN has a majority shareholding. Unless stated otherwise, references to KPN should be read as referring to the KPN Group. In this report (including the GRI index and social and environmental appendices published on our website), KPN the Netherlands refers to all the activities of the KPN Group in the Netherlands. Outside the Netherlands, our principal divisions are BASE Company, iBasis, Ortel Mobile and SNT. For our non-financial information, we include new acquisitions in our report as of the first full year of ownership. Non-financial information for divestments that occurred during the reporting year is excluded for the full year. The data in this report refers to KPN's performance and not to that of our subcontractors, unless stated otherwise. The full scope of the financial information is reported in the Consolidated Financial Statements (p. 104-173).

This report specifically reviews developments and performance in 2014 and is based on topics identified as highly material for KPN. Aspects of a more static nature (such as our management approaches to our CSR themes and our stakeholders) or with less reporting priority (such as our impact on biodiversity and the list of external memberships) are included in the GRI index (www.kpn.com/annualreport) or reported on <http://corporate.kpn.com/dutch-society.htm>.

Reporting process sustainability information

The Integrated Report is published on February 26, 2015. For this report, we have applied the guidelines from the Global Reporting Initiative (GRI). Furthermore, we use the International Integrated Reporting Council (IIRC) Integrated Reporting (IR) framework as a guideline for our Integrated Report. The sustainability information in this report is presented in accordance with the comprehensive option of GRI G4. This means that KPN reports on all general standard disclosures and all specific standard disclosures related to identified material topics. The process for defining the material topics and report content, as well as the list of material topics, is described in the materiality determination (see 'materiality determination' in this appendix). The results of this assessment (list of material topics for KPN, including their reporting priority) determine which GRI indicators are set out in the Integrated Report and which indicators are featured only on our website or in our GRI index. The overview can be found in the GRI index. In addition to these GRI G4 guidelines, KPN has taken as its point of orientation the pilot version of the Telecommunications Sector Supplement, as published by GRI in 2003, in determining material topics.

The GRI Index specifies the aspect boundaries and omitted indicators where relevant (including clarifications). In the Integrated Report, there are no departures of any significance from the GRI standard disclosures. This report shows the performance indicators applicable to the KPN Group. Where relevant, the appendices contain specified

data per KPN business unit: KPN the Netherlands, BASE Company, and other subsidiaries of the KPN Group. Where available and relevant, the report includes data for previous years. Quantitative data concerning the workforce and financial results set out in this report has been collected using our financial data management system. The remaining data set out in this report has been collected using a standardized questionnaire that was completed by the responsible KPN business units. The Internal Audit and Corporate Control departments used consistency and availability of supporting evidence as the basis for their assessment of the data reported at group level. Validation criteria set out in advance were also used to assess the data.

In order to provide our stakeholders comfort over the reliability of our reporting, we engaged PricewaterhouseCoopers Accountants N.V. (PwC) to provide reasonable assurance on KPN's Dutch net CO₂ emissions (excluding scope 3 emissions) and the underlying energy consumption (see table p. 43). Limited assurance is provided on all other metrics in the scope of PwC, including the information in the appendix Environmental figures to the Integrated Annual Report on www.kpn.com/annualreport (see also page 101-103). Reasonable assurance is obtained through audit work, while other elements of the report have been reviewed. Review work provides only limited assurance because exhaustive gathering of evidence is not required. The assurance work is performed in accordance with the Assurance Standard 3810N 'Assurance Engagements Relating to Sustainability Reports' as drawn up by the professional body of Dutch Accountants (NBA).

The key social and environmental figures, which are available in the appendices (appendix 5 and 6) on www.kpn.com/annualreport, are also part of this report. Partly, they provide more detailed numbers on key figures that reflect on highly material topics within the report (such as CO₂ emissions and electricity consumption). Partly, they provide quantitative information (multiple years) on medium material topics which are represented qualitatively within the report or information requested by some external benchmarks. All information in the sustainability appendices is covered by the external assurance.

Calculation methodology energy saving by ICT services

We used calculations to estimate the energy saving impact of several of our products and services. The results are presented in the chapter Environment of this Integrated Report. Three services were identified with the highest savings impact: Teleworking (enabled by KPN connectivity services, Conferencing (using KPN's Conference Card) and KPN's Colocation and Hosting services. For Teleworking and Conferencing, the reduction in energy consumption is primarily caused by avoided travel (by car or by public transport). For colocation and hosting, the reduction is caused by the better cooling energy efficiency (PUE) of the KPN datacenters compared with the (average) cooling energy efficiency of ICT rooms at the customers' premises. In all calculations, the rebound effects are also taken into account. For instance, when working at home in the case of Teleworking, extra electricity and gas for heating are used. The savings calculation model has been developed by Ecofys during a project with KPN end 2013 to make the first calculation (for 2013). This calculation model is further refined, improved and extended (calculating energy, cost and carbon savings) in 2014. For each service, the input variables are defined (the so-called reference values) and with this data the savings are calculated. For each service in scope, the installed base volumes of delivered products and services is the key variable in the reference values. These are reported by the KPN organization (Product management and/or

Operations). All other variables in the reference values needed inputs for the savings calculation, such as average home-work distance (km), average car fuel consumption (km/liter), transport mode (% by car, % by public transport, % walking) and so on.

These reference values are based on several sources:

- Actual measurements (by KPN, by customers or other sources)
- Publicly available data and statistics from governments¹, research institutes, and sector organizations (e.g. GeSI², ITU³)
- External expertise from consultancy firms⁴
- Scenario analyses based on KPN's savings calculation tool⁵
- Expert judgments (KPN product management and other sources)

Some reference values need further measurement and research. For example, we want to ask our Conferencing customers to respond to some questions after a meeting: with how many persons they were attending the meeting, how many travel kilometers were avoided and by which travel mode. We will continue to improve the quality of the critical reference values to make the calculation results more robust. This savings calculation model can also be used by our sales employees to calculate the expected energy, cost and carbon savings of our products and services, together with our customers.

Calculation and determination of reported emissions

In the Integrated Report, KPN reports the CO₂ emissions in accordance with the method of the Greenhouse Gas Protocol and the ISO 14064-1 standard. KPN uses the operational control approach when reporting CO₂ emissions. Two of the six greenhouses gases are most relevant to KPN, carbon dioxide (CO₂) and hydrofluorocarbons (HFCs). Where available, we have taken CH₄ and N₂O into consideration in our greenhouse gas emissions information. We use the term 'CO₂ emissions' to refer to the greenhouse gas emissions reported on. These are stated in CO₂ equivalents.

The KPN emissions report is subdivided as follows:

Scope 1 – Direct emissions due to:

- Fuel consumption of the lease vehicle fleet (employees' passenger vehicles and commercial vehicles)
- Heating of buildings (gas)
- Consumption of hydrofluorocarbons (HFCs) for air conditioning and/or cooling
- Fuel consumption of emergency power generators

Scope 2 – Indirect emissions due to:

- Electricity consumption of the fixed and mobile networks, datacenters, offices and shops
- District heating
- District cooling

Scope 3 – Other indirect emissions due to:

- Emissions in our upstream value chain (during the production phase of our products, services and equipment at our suppliers)
- Emissions in our downstream value chain (during the use phase including recycling and disposal of the products, services and equipment).

In 2013, we performed an impact assessment on all 15 GHG scope 3 categories for our operations in the Netherlands. The result was that five categories were not applicable; for the remaining ten categories the emissions have been calculated. We were supported by the consultancy and expertise of Ecofys⁶ in this process. The calculations are based on the Greenhouse Gas Protocol scope 3 standard⁷. The results and next steps are presented in the chapter Environment.

82% of our scope 3 emissions are upstream emissions. The majority of the upstream emissions are calculated based on procurement data (supplier spend) combined with emission factors obtained from the Environmentally Extended Input Output data (EEIO) approach. We use the emission factors (g CO₂ per GBP spend) published by DEFRA⁸. We convert the GBP values to Euros and take inflation into account. We used the ISIC guidance (International Standard Industrial Classification of All Economic Activities)⁹ for the correct mapping of specific suppliers or supplier categories to a category in the supply chain emission factors list of DEFRA, when applicable.

The downstream emissions account for 18% of the total scope 3 emissions. The downstream category with the largest impact is Downstream Leased assets. This calculation is based on the total annual electricity consumption of our installed equipment at the customer premises (such as modems for internet access and set-top boxes). This equipment remains the property of KPN and is returned at its end of life. Emissions of transportation of this equipment (forward to customer and backward to KPN) are accounted in the category Downstream transportation and distribution. In this category, all our activities of our Logistic Service Partners (LSPs) are accounted for. The emission calculation is based on EEIO using the supplier spend and the corresponding emission factor. The second downstream impact category is Use of sold product (accounts for 2% of scope 3 emissions).

The three highest impact categories are Purchased goods and services (43%), Capital goods (26%) and Downstream Leased assets (15%). So 84% of the emissions are based on spend data (EEIO) and installed base data. These calculations are based on actual available data within KPN and include almost no assumptions. The remaining 16% of the scope 3 emissions are calculations with several estimates and assumptions, which are made based on publicly available or own measured data and expert judgment. We will try to further improve the quality of these assumptions and estimations to improve the robustness of the calculations.

For details of the individual scopes, we refer you to the environmental indicators (EN3 to EN7, E16 and E17) in the 2014 GRI index on www.kpn.com/annualreport.

1) For example, Mobiliteitsbalans 2013, Ministry of Infrastructure & Environment, <http://www.kimnet.nl/publicatie/mobiliteitsbalans-2013>

2) GeSI SMARTer2020: The Role of ICT in Driving a Sustainable Future <http://gesi.org/SMARTer2020>

3) Methodology for Environmental Life Cycle Assessment of ICT goods, networks and services <http://www.itu.int/ITU-T/recommendations/rec.aspx?rec=12207>

4) Huge emissions saving potential from flexible working, Ecofys report, <http://www.ecofys.com/en/news/179/>

5) Savings calculations tool for 8 services developed in 2012 together with Ecofys, www.kpnbespaarmeter.nl

6) <http://www.ecofys.com/en/publication/ict-footprint>

7) <http://www.ghgprotocol.org/standards/scope-3-standard>

8) Indirect emissions from the supply chain (Table 13), version March 2014 Statistics UK Carbon Footprint DEFRA (Department for Environment, Food and Rural Affairs) <https://www.gov.uk/government/statistics/uks-carbon-footprint>

9) ISIC Rev4 <http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=27>

Appendix 3. Scope, reporting process and materiality determination

Methodology

The energy targets for KPN are related to different base years. The base year 2005 (for targets on improving energy efficiency and reducing absolute electricity consumption) were determined at the start of the energy efficiency program in 2008. Most of the targets that were introduced after 2010 have 2010 as a reference year (due to data availability), with the exception of the Belgium targets (base year 2009).

1. Activities

Emissions (CO₂ and HFCs) are calculated based on all the activities of the KPN Group. Most of the emissions relate to activities that use energy, such as the electricity consumption of the networks, transport, and heating and/or cooling buildings. As virtually all the emissions are of CO₂, details of this are given below. KPN reports on a number of ratios, which are included in the figures in the chapter Environment and in appendix 6 on Environmental figures. The footnotes show the denominator used.

2. Emission factors

The CO₂ emissions are calculated by multiplying the consumption data for each activity by the CO₂ emission factors for each unit of consumption. These emission factors are updated annually. KPN uses a monitoring protocol for the carbon footprint reporting. In this protocol, all sources for used emission factors are specified. The emissions factors are checked and updated annually when necessary. The most important sources for our emissions factors are IEA (International Energy Agency) and DEFRA.

3. Accuracy

The accuracy of the consumption data is a key factor in the reliability of the CO₂ emissions calculations. In the data collection process, a number of factors affect the accuracy of the collected data. In general, the data originating from direct measurements and recordings, such as summaries from energy and other suppliers and direct invoices, are the most accurate. Data may also be estimated or calculated, using assumptions and expert opinions. The materiality of all KPN units and subsidiaries is determined every year on the basis of sales and number of FTEs (>=1% of the total).

As electricity providers estimate our electricity consumption for a part of our network operations (approximately 20% of total consumption), and not in all cases perform a meter reading annually, some uncertainty exists about the accuracy and completeness of our energy consumption. As this uncertainty cancels out over the years as actual meter readings are processed by our energy suppliers, we use energy consumption data from invoices as a basis to report our energy consumption and greenhouse gas emissions.

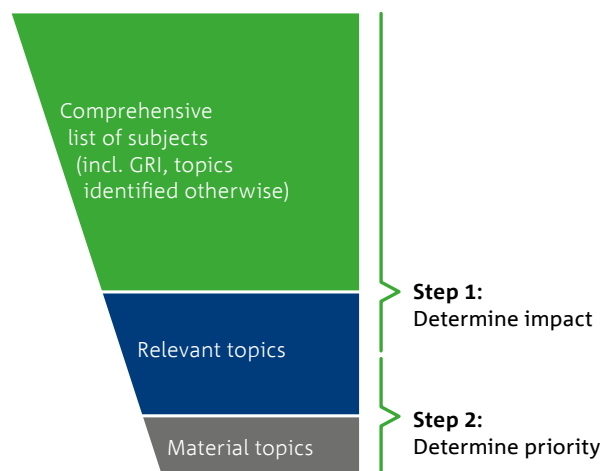
For the data collection and auditing, KPN employees use several internal audit measures to minimize the risk of incomplete and incorrect reporting of consumption data.

Materiality determination

The annual materiality assessment is the basis for determining the report content and is performed before the Integrated Report is compiled. The assessment is approved by the Board of Management. The process consists of three steps:

Step 1: Identification of relevant aspects and other topics

The goal of the first step is to create a gross overview of relevant CSR topics. In this process, KPN annually updates a comprehensive list of topics based on GRI guidelines and the pilot version of the



Telecommunication Sector Supplement, as published by GRI in 2003. Where relevant, missing topics are added, including topics identified during media scans and stakeholder dialogues. Following the update of the list, KPN assesses the relevance of each of the topics. Relevant topics are those on which KPN has or can have an impact (inside the organization and in the value chain or society). This is determined based on stakeholder input and KPN's own experience. The outcome is an overview of all relevant topics.

Step 2: Determining reporting priority

The second step aims to assess the reporting priority of all relevant topics, which is presented graphically and used not only to determine the contents of the Integrated Report but also as input to determine our (CSR) strategy, policies and approach.

KPN determines the reporting priority by reviewing all relevant topics on: (1) significance of the topic for KPN and (2) significance of the topic for key stakeholders. This review is performed using nine criteria, which are relevant to KPN and based on GRI G4. The priority determination is performed twice a year: a preliminary review and a final review including all inputs from stakeholder dialogues and stakeholder surveys performed throughout the year in order to validate the outcomes. The result of this second step is an overview of all material topics for KPN, which is supported by current stakeholder expectations. The materiality chart combines the two aspects schematically. The combination of the horizontal axis (significance to KPN) and the vertical axis (significance to stakeholders) determines the degree of influence that the topic has on our reputation and therefore the reporting priority. KPN divides the results into three categories:

- Highly material topics: we aim to fulfill a leading role on these topics and translate them into our six CSR themes and two additional themes. We report on these topics in our Integrated Report.
- Medium material topics: we want to demonstrate our social responsibility regarding these topics. We report on them in our GRI index, additional policy document and/or on our website.
- Low material topics: these are topics we monitor, but do not report on.

Our materiality determination is based on the complete list of general and sector-specific aspects provided by GRI G4. The highly material and medium material aspects were translated into topics relevant for KPN. In order to see which GRI aspects are translated into KPN topics, please see the cross-reference on the next page.

Materiality assessment



For more information on material topics and KPN's performance, please refer to our GRI Index.

Highly material topic KPN	Corresponding GRI G4 aspects
Financial performance	Economic performance
Sustainable employment	Employment
Privacy & Security	Security ICT infrastructure, Customer privacy
Climate & energy	Energy, Emissions
Impact of ICT applications on societal issues	Impact of ICT applications, Products and services
Diversity	Diversity and equal opportunity
Innovation & investments	ICT infrastructure investments, Investment
Indirect economic impacts	Indirect economic impacts
Reorganization	Labor/management relations
Compliance	Anti-competitive behavior, Compliance, Anti-corruption, products and services compliance

Medium material topic KPN	Corresponding GRI G4 aspects
Training	Training and education
Customer loyalty	Product and services labeling
Safe customer behavior	Secure use of products and services, Customer health & safety
Sustainable suppliers	Supplier environmental assessment, Supplier human rights assessment and Supplier labor practices assessment
Electromagnetic fields and radiation	Electromagnetic fields and radiation
Human rights and discrimination	Investment, Non-discrimination, Freedom of association and collective bargaining, Child labor, Forced or compulsory labor
Digital participation	Digital divide
Health & vitality	Occupational health & safety
Equal remuneration	Equal remuneration for women and men
Ethical complaints & procedures	Labor practices grievance mechanisms, Human rights grievances mechanisms
Marketing communications	Marketing communications
Resource use	Materials
Car fleet	Transport

The KPN labeling of low material topics corresponds with GRI G4 aspects one-to-one.

Step 3: Implementation

Based on the priority outcomes of the materiality determination (approved by the BoM), we determine the topics to be addressed in the report, including the scope and aspect boundaries of all material topics. Business units are informed on new and altered topics to be acted and reported on, to prepare reporting systems, enhance internal mechanisms, develop reporting definitions and, where relevant, targets. Timelines are developed and new/altered topics are included in the relevant reporting process mechanisms (financial/HR data management systems or CSR questionnaires).

Appendix 4. Glossary of terms

2G

Second Generation Mobile System, which is based on the GSM universal standard.

3G

Third Generation Mobile System, which is based on the UMTS universal standard.

4G

Fourth Generation Mobile System, a standard for wireless communication delivering high-speed data for mobile phones and data terminals.

A

Access lines

Access lines are the total number of traditional voice and VoIP connections provided to customers of KPN's Business segment as of the end of the specified period.

ACM

The Dutch Competition Authority (Autoriteit Consument en Markt or 'ACM') acts as a regulator in the Netherlands and is responsible for monitoring compliance with anti-trust rules.

ADR

American Depository Receipt.

Adjusted revenues and adjusted EBITDA

Adjusted revenues and adjusted EBITDA are derived from revenues (including other income) and EBITDA, respectively, and are adjusted for the impact of restructuring costs and incidentals. Incidentals are non-recurring transactions which are not directly related to day-to-day operational activities over 5 million unless significant for the specific reportable segment.

ADSL (Asymmetric Digital Subscriber Line)

With ADSL, transmissions from provider to user take place at a higher speed than from user to provider. ADSL allows high-speed digital communication, including video signals, across an ordinary twisted-pair copper phone line. An ADSL modem is required.

ARPU (Average Revenue Per User)

ARPU is the sum of connection fees, monthly fixed subscription revenues, traffic revenues and gross service provider revenues less related discounts during a one-month period, divided by the average number of customers during that month. Gross service provider revenues represent revenues generated by third-party providers. KPN accounts for the net part as gross service provider revenues.

B

BCF (Business Control Framework)

The Business Control Framework contains all corporate policies and guidelines that are mandatory for KPN segments and entities. It forms the cornerstone of the governance of the KPN Group.

BiPT (Belgisch instituut voor Postdiensten en Telecommunicatie)

The Belgian Institute for Postal Services and Telecommunications operates as the telecommunications regulator in Belgium.

Broadband

Broadband refers to telecommunication that provides multiple channels of data over a single communications medium, typically using some form of frequency or wave division multiplexing.

BYOD (Bring Your Own Device)

The technology of Bring Your Own Device (BYOD) enables employees to use their own devices (laptops, tablets and smartphones) at the office.

C

CBb (College van Beroep voor het bedrijfsleven)

The Trade and Industry Appeals Tribunal in the Netherlands.

CDMA

Code Division Multiple Access.

CDP

The CDP (formerly Carbon Disclosure Project) is a joint initiative of investors worldwide that questions and benchmarks listed companies on their approach to climate change.

Churn

The number of mobile customers no longer connected to a mobile operator's network divided by the operator's customer base.

CISO (Chief Information Security Office)

CISO is responsible within KPN for the security of the IT and TI architecture. Part of this office are the CISO REDteam, KPN's ethical hacking team and the CERT (Computer Emergency Response Team) that acts in case of a (potential) cyber attack.

Climate neutral

For KPN, climate neutral means operating with zero net CO₂ emissions.

Cloud services

Cloud services are standardized IT capability (services, software or infrastructure) delivered via internet technologies in a pay-per-use, self-service way.

CO₂

Carbon dioxide is a gas that is created when fossil fuels such as oil and coal are burned. Carbon dioxide is a greenhouse gas.

Committed ARPU

Committed ARPU is the monthly fixed fees KPN receives per user, which are included in the customer's bundle.

Conflict minerals

Conflict minerals are minerals mined under conditions of armed conflicts and human rights issues. These minerals are used in a variety of products, including consumer electronic devices such as mobile phones.

CSAM

Child Sexual Abusive Material

CSR (Corporate Social Responsibility)

Corporate Social Responsibility, to KPN, is the integrated vision of entrepreneurship, in which the company takes responsibility and creates value in economic (Profit), ecological (Planet) and social (People) terms. We incorporate CSR into our business and by doing so, take our social responsibility and contribute to societal challenges.

Customer base

Customer base is the total number of subscribers.

D

DEFRA

UK Department for Environment Food & Rural Affairs. DEFRA published conversion factors to calculate greenhouse gas emissions.

DJSI (Dow Jones Sustainability Index)

The Dow Jones Sustainability Index is a collection of indices that track the performance of companies that are frontrunners in terms of CSR. The DJSI is based on an analysis of corporate economic, environmental and social performance. There are several sub-indices based on geographical parameters.

Drop call rate

The drop call rate is the fraction of telephone calls which are cut off unexpectedly as a result of technical issues, measured as a percentage of all calls.

DSL (Digital Subscriber Line)

DSL is a technology for bringing high bandwidth information to homes and small businesses over ordinary copper PSTN lines. The widely used term xDSL refers to different variations of DSL, such as ADSL, HDSL, VDSL and SDSL.

DTA (Telecommunicatiewet)

The Dutch Telecommunications Act.

E

EBITDA

Operating result before depreciation and impairments of PP&E and amortization and impairments of intangible assets.

EEIO (Environmentally-extended input output data)

EEIO models estimate energy use and/or GHG emissions resulting from the production and upstream supply chain activities of different sectors and products. The resulting EEIO emissions factors can be used to estimate cradle-to-gate GHG emissions for a given industry or product category. EEIO models are derived by allocating national GHG emissions to groups of finished products based on economic flows between industry sectors.

E-TASC

E-TASC is a worldwide self-audit system for suppliers in the ICT-sector.

E-VPN (Ethernet Virtual Private Network)

E-VPN is a VPN that connects two or more offices using IP-VPN and extends the benefits of ethernet technology that has traditionally been confined to the LAN.

F

Fiber-optic cable

Fiber-optic cable is a transmission medium composed of extremely pure and uniform glass. Digital signals are transmitted across fiber-optic cable as pulses of light. While signals transmitted over fiber-optic cable travel at the same speed as those transmitted over traditional copper cable, fiber-optic cable benefits from greater transmission capacity and lower distortion of signals transmitted.

FTE (full-time equivalent)

The equivalent of the number of employees with a full-time contract.

FttH (Fiber-to-the-Home)

FttH is defined as an access network architecture in which the final part of the connection to the home consists of optical fiber.

FttO (Fiber-to-the-Office)

FttO is fiber connection for business customers to the customers' offices.

FttHA (Fiber-to-the-Home activated)

Homes activated is the number of homes that are connected to fiber and have a subscriber with a service provider.

FttHP (Fiber-to-the-Home passed)

Homes passed is the number of homes that a service provider has capability to connect through fiber in a service area.

G

GHG (Greenhouse Gas) Protocol

The Greenhouse Gas Protocol Initiative is a multi-stakeholder partnership of business, non-governmental organizations (NGOs), governments, and others that develop internationally accepted GHG accounting and reporting standards for organizations.

GHz

GHz is one billion hertz (a unit of frequency).

Green electricity

Green electricity is electricity from renewable sources. KPN only uses wind energy and electricity from biomass that does not compete with food production.

GRI (Global Reporting Initiative)

The Global Reporting Initiative is an organization that publishes international guidelines for CSR reporting.

GRIP

GRIP is the integrated risk management system of KPN. It is an acronym for Governance & Compliance, Risk management, Internal control and Processes.

GPRS

GPRS is an application that enables data packet switching via GSM networks as well as via existing voice communication. GPRS is based on and complements GSM.

H

Hertz

Hertz is a unit of frequency of one cycle per second.

HSDPA (High-Speed Downlink Packet Access)/HSPA+ (Evolved High-Speed Packet Access)

HSDPA and HSPA+ are mobile telephony protocols that, as an evolution of UMTS, are designed to increase the available data rate by a factor 5 or more.

I

i change

The interactive coaching program for companies and their employees, that supports people in changing their behavior in health-related areas.

ICT

Information and Communication Technology.

IPTV

IPTV is a system through which television services are delivered using the internet protocol suite over a packet-switched network such as the internet. iTV ('Interactieve TV') is KPN's IPTV offering in the Netherlands.

IP-VPN (Internet Protocol – Virtual Private Network)

Offers a secured and private network using IP-based infrastructure.

ISDN (Integrated Services Digital Network)

A worldwide digital communications network evolving from existing telephone services. A standard ISDN connection consists of three channels, i.e. two B channels to carry data and voice at a speed of 64 Kbps and one D channel to carry control information at a speed of 16 Kbps.

ISO (International Organization for Standardization)

This organization is responsible for international management standards such as ISO 14001, ISO 140064-1, ISO 27001 and ISO 22301 (mentioned in this report).

ISP (Internet Service Provider)

A company that provides individuals and companies access to the internet.

APPENDICES

Appendix 4. Glossary of terms

J

JAC (Joint Audit Cooperation)

The JAC is a cooperation of nine European Telecommunication Operators (including KPN) focusing on the social, ethical, and environmental conditions across their supply chains.

K

KPN Classmate

Through the KlasseContact project of the KPN Mooiste Contact Fonds, chronically-ill children can use an ICT-set (a KPN Classmate) to take a 'virtual seat' in the classroom.

KPN Mooiste Contact Fonds

This KPN foundation supports societal initiatives aimed at stimulating social contact, by combining people and technological resources to the best advantage.

L

LTE (Long-Term Evolution)

LTE, commonly marketed as 4G LTE, is a standard for wireless communication of high-speed data for mobile phones and data terminals.

KPN Mooiste Contact Fonds

This KPN foundation supports societal initiatives aimed at stimulating social contact, by combining people and technological resources to the best advantage.

M

Machine to Machine (M2M)

M2M refers to technologies that allow both wireless and wired systems to communicate between devices of the same ability.

Market share

Market share is the percentage or proportion of the total available market that is being serviced by KPN. These figures are based on externally available market data, which may not be completely accurate. These figures are based on externally available market data, which may not be completely accurate, and may partially be based on estimates.

Mbps (Megabits per second)

Mbps is a unit of data transfer rate equal to 1 million bits per second. The bandwidths of broadband networks are often indicated in Mbps.

MDF (Main Distribution Frame) access

Allows other telecommunication companies to access the local network, enabling them to connect with their customers through our main distribution frame.

MHz (Megahertz)

MHz is one million hertz (a unit of frequency).

MTA/MTR tariff (Mobile Terminating Access tariff)

The tariff charged by mobile operators for the termination of incoming telephone traffic (originating from either a fixed or a mobile network) on their network.

Multi-play

Propositions combining more than one product and / or type of service is considered a multi-play proposition. Triple-play and quad-play propositions are types of multi-play propositions.

MVNO (Mobile Virtual Network Operator)

A mobile operator that does not have its own spectrum or its own network infrastructure. Instead, MVNOs have business arrangements with 'traditional' mobile operators to buy minutes of use to sell to their own customers.

N

Net line gain/loss

Net line gain/loss figures are defined as the difference from one period to the other period in PSTN/ISDN lines plus consumer VoIP plus ADSL only and plus Fiber.

Net adds

Net adds is defined as the difference between the total number of contracts for a specific type of service from one period compared to the previous period.

NPS (Net Promoter Score)

NPS is a tool for measuring customer satisfaction. The key question asked is whether customers would recommend KPN to friends or family.

NWLW (New Way of Living & Working)

The New Way of Living & Working means being able to work without the constraints of time and place with the use of modern technology.

O

Open access

Open access is a model where an operator is required by regulation to provide access to its network to wholesale customers at capped prices.

P

PUE (power usage effectiveness)

An international standard for the calculation of energy efficiency of data centers, which compares the total data center electricity consumption with the electricity consumption of equipment used for customer purposes.

PSTN (Public Switched Telephone Network)

Traditional telephone system that runs through copper cables (voice up to 64 Kbps, data up to 56 Kbps).

R

RepTrak

RepTrak, developed by the Reputation Institute, is a method to calculate a reputation score of companies.

RGU (Revenue Generating Unit)

RGU is the total of all subscribers receiving standard cable, broadband internet or telephony services over KPN's network at a given date. Thus, one subscriber who receives a bundle of KPN's services (telephony, internet and TV) would be counted as three RGUs.

Roaming

Transfer of mobile traffic from one network to another, referring to the exchange of international mobile traffic.

S

SAC/SRC

Subscriber acquisition/retention costs is the amount that is spent to acquire or retain subscribers.

Scope 1

Direct greenhouse gas emissions occurring from sources that are owned or controlled by an organization.

Scope 2

Indirect greenhouse gas emissions from the generation of purchased electricity, heating or cooling consumed by an organization.

Scope 3

Other direct greenhouse gas emissions as a consequence of the activities of the company, but occurring from sources not owned or controlled by an organization.

Service revenues

Service revenues are defined as the aggregate of connection fees, monthly subscription fees and traffic fees. The term service revenues refers to wireless service revenues.

SIM card (Subscriber Identity Module card)

A chip card inserted into a mobile phone, which contains information such as telephone numbers and memory for storing a directory.

Smartphone

A smartphone is a mobile phone built on a mobile computing platform and features high-resolution (touch) screens, web browsers that can access and properly display standard web pages and that has high-speed data access via Wi-Fi and mobile broadband.

SOC (Security Operations Center)

The SOC monitors the high-risk systems of KPN in order to quickly act in case of security risks or incidents.

SoHo/SME

SoHo refers to Small Office/Home Office companies. SME refers to Small and Medium Enterprises.

Spectrum Auction

A spectrum auction is a process whereby a government uses an auction system to sell rights (licenses) to transmit signals over specific bands of the electromagnetic spectrum and to assign scarce spectrum resources.

SROI (Social Return on Investment)

Social Return on Investment is a method for measuring non-financial value (e.g. environmental and social value not currently reflected in conventional financial accounts) relative to resources invested. In the Netherlands, governments include Social Return requirements in tenders. These requirements aim to employ people with a distance to the labor market.

Stakeholder

Stakeholders are the people or organizations with an interest in the company, such as employees, shareholders, suppliers, customers, governments and media.

Subscriber

A subscriber is defined as an end-user with a connection to the mobile or fixed networks and/or service platforms of KPN. The subscriber is included in the subscriber base if there is a direct or indirect (business, wholesale) billing relation, either prepaid or postpaid, with the following exceptions:

- if the connection is owned through wholesale by full MVNOs or fixed line access parties or
- if the connection has been inactive for a specific time period (prepaid or postpaid without contract).



Triple-play

Term used to describe the provision of telephony, internet and television services to a household by a single provider.



UMTS (Universal Mobile Telecommunications System)

Third generation mobile communications systems. UMTS is suited to deliver voice, text, music and animated images. Data can be sent via UMTS at approximately six times the speed of ISDN.



VBDO (Vereniging van Beleggers voor Duurzame Ontwikkeling)

The Dutch Association of Investors for Sustainable Development (VBDO) works to create a sustainable capital market, a market that considers not only financial criteria but also non-financial, social and environmental criteria. VBDO's vision is to increase sustainability awareness among companies and investors.

VDSL (Very-high-bitrate Digital Subscriber Line)

A new DSL technology providing faster data transmission over a single flat untwisted or twisted pair of copper wires. These fast speeds mean that VDSL is capable of supporting high bandwidth applications such as HDTV, as well as telephony services (Voice over IP) and general internet access, over a single connection. VDSL-CO refers to VDSL from the Central Office.

VoIP (Voice over IP)

Voice traffic is transported over an IP-based data network. It enables new ways of communicating, such as combinations of telephony, messaging and videoconferencing.

VoLTE (Voice over LTE)

VoLTE allows the voice service to be delivered as data flows within the LTE data bearer.

VPN (Virtual Private Network)

A virtual network constructed from logic connections that are separated from other users.



WhatsApp

WhatsApp Messenger is a cross-platform instant messaging application for smartphones with internet access.

Wholesale broadband access

Wholesale broadband access is the rental by broadband internet service providers of access to KPN's networks to supply broadband internet access to their end customers. The broadband internet service provider charges its end customer for the combined wholesale broadband access it purchases from KPN along with its service fees.

Wi-Fi

Wi-Fi is a technology that allows an electronic device to exchange data wirelessly over a computer network, including broadband internet connections. Wi-Fi is a trademark of the Wi-Fi Alliance.

WWF Climate Saver

The Climate Savers program is WWF's global platform to engage business and industry in climate and energy. Member companies commit to becoming best in class in reducing GHG emissions and to influencing market or policy developments by promoting their vision and solutions.

COLOPHON

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Maxi offset

Maxi offset is produced by an ISO 14001 accredited manufacturer as an FSC mixed sources product. It is produced with fiber sourced from controlled wood.

Forward-looking statements and management estimates

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

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

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

All market share information in this financial report is based on management estimates based on externally available information, unless indicated otherwise.

The terms 'we', 'our' and 'us' are used to describe the company; where they are used in the chapter 'Segment performance', they refer to the business concerned.

We always aim to further improve our CSR activities and reporting. Therefore, we highly appreciate your feedback, questions and comments on our Integrated Report and CSR activities. Please contact mvo@kpn.com.



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