

# KPN

Sustainability Report 2011 – Sustainably connected



KPN, a leading supplier of ICT services in the Netherlands, offers consumers fixed and mobile telephony, internet and television. In the business market, KPN provides a broad range of ICT products and services, making it the market leader in the Netherlands. And thanks to our successful Challenger strategy and multi-brand policy, our market share in the German and Belgian mobile markets has grown steadily in recent years.

KPN has a clear aim of being the best-in-class service provider. We aim to offer products and services that are simple to use and help customers achieve personal goals or business objectives. We've been bringing people together for over 125 years. Our technologies and our services enable people to share the special moments in their lives. That's where our strength lies.

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### How to read this document

This Sustainability Report describes KPN's role in society and provides a record of our efforts, performance and challenges. The first two chapters are devoted to the interaction between the ICT industry and society. They describe the social relevance of the industry in general and of KPN in particular. You will read how, based on its strategic reorientation, KPN has arrived at a renewed focus in its social policy. Chapter 1 sets out our views on the newly raised issues such as the quality of our infrastructure, healthcare, privacy and safety. It will also feature our most important stakeholder: the customer. The following chapters feature the objectives, efforts and results relating to the CSR themes we have been basing ourselves on until now. In conclusion, we give details of the stakeholders that make our services possible: our employees and our suppliers.

A photograph of two men in business attire. One man, on the left, has long brown hair and is wearing a dark suit jacket over a light blue shirt. The other man, on the right, has shorter brown hair and is wearing a light-colored plaid blazer over a dark shirt. They are both looking down at a laptop screen, which is partially visible in the bottom right corner of the frame.

WE HELP  
OUR  
CUSTOMERS  
TO MEET  
THEIR PERSONAL  
GOALS OR  
BUSINESS  
OBJECTIVES

TO MAKE A DIFFERENCE FOR OUR CUSTOMERS AND SOCIETY, WE HAVE TO IMPROVE RELENTLESSLY, DOING THINGS BETTER TODAY THAN YESTERDAY, AND EVEN BETTER TOMORROW



Eelco Blok, CEO

2011 was in many ways both turbulent and inspiring. We announced our strategy for 2011–2015, in which our ambition to become the best service provider in the Netherlands takes center stage. And we continued with our successful Challenger strategy in Germany and Belgium. Through our high quality networks we will give even more value to customers and society.

The departure of Ad Scheepbouwer in April signaled the start of my period as CEO. Mr. Scheepbouwer's retirement marked an impressive ten-year period in which KPN was transformed into one of the best-performing telecom companies in Europe.

I am proud to have the opportunity of steering the KPN ship. More than ever before, we want to gain a reputation as a genuine service provider that puts its customers first, while remaining one of the best-performing telecom companies. The contribution of teamwork cannot be overemphasized; I am convinced that all KPN employees together determine KPN's successes. KPN is a healthy company with stretching customer and social ambitions.

For KPN Group, the first part of 2011 was dominated by the preparations for the 2011–2015 strategy that we presented in May. In the months leading up to it we held extensive discussions with customers, employees, shareholders and analysts. This consultation process gave us valuable and refreshing insights, helped us to see our Company in the way others look at us and confirmed our view that a new direction is absolutely essential if we are to remain successful in the years ahead. The 2011–2015 strategy is one of evolutionary change, preserving the strengths of our heritage. The new direction of our Company will enable us to respond to market trends and the wishes of our customers. Additionally, we plan to make our position in society even stronger. As part of our ambition to

become the best service provider in the Netherlands and to continue to be a strong Challenger abroad, we have expanded our investment programs, focusing on a turnaround in the Netherlands to improve our quality, service and technology.

The ailing economy had an adverse effect on our sector. In the business market, companies postponed or reduced their ICT investments. In the consumer market, our market shares and revenues were under pressure. We saw a further rise in the use of mobile apps, so consumers sent considerably fewer SMS messages and made fewer calls. With our new mobile tariffs, we were the first Dutch provider to respond to that trend. Some of the initial results of the new propositions are positive, however more time must elapse before their impact is fully visible. The sharp growth in the number of Interactive TV and the Fiber-to-the-Home customers was positive, thanks in part to several product and service innovations. The explosive growth in data traffic brings us commercial opportunities on the one hand, and makes our climate neutrality target for 2020 a great challenge and an absolute necessity. In 2011, compliance was an important theme both inside and outside KPN, including an investigation by NMa and increased OPTA supervision. For 2012, we decided to intensify our compliance programs.

The growth figures for our mobile activities in Germany and Belgium were once again excellent: more customers, higher service revenues and increased market shares. This success is the result of the Challenger strategy that we introduced five years ago, enabling the two countries to generate between them 30%

of the total sales of the KPN Group in 2011. In the years to come we will continue our Challenger strategy so as to further strengthen our position. And, we see opportunities to apply some of the Challenger mentality in the Netherlands as well. In November, we confirmed this intention by appointing Thorsten Dirks to the Board of Management. He made a substantial contribution to the Challenger formula in Germany.

KPN has some of the best networks in the sector and we aim to utilize the quality of our networks to support our customers. Guaranteed security of ICT facilities is becoming increasingly crucial, and we are helping organizations to empower their people to be able to work independently of time and place, which is the norm at KPN. Despite the economic downturn, companies' interest in green ICT and energy-saving ICT applications has remained high. In the Netherlands and Belgium we only purchase green power. And thanks to the many KPN employees acting as volunteers, we have brought thousands of people in touch with one another via the KPN Mooiste Contact Fonds.

We signed on to the United Nations Sustainability Platform, the Global Compact, herewith taking on the obligation to contribute towards achieving the Millennium Development Goals for 2015 set by the United Nations.

Those activities and our recalibrated social ambitions, which we aim to gear more closely to our everyday operations, confirm our role in society and the contribution we want to make. Our financial results and corporate social responsibility go hand-in-hand with this. Thanks to the wide range of our products and services, we make a vital contribution to the Dutch economy, of which we are very proud. The unique combination of our staff, our knowledge and our resources will enable us to make a difference for our customers and society; we have to improve relentlessly, doing things better today than yesterday and doing them even better tomorrow and thereafter.

#### **Felco Blok**

Chairman of the Board of Management and CEO

#### **KPN's strategy 2011–2015 targets three principles:**

**1**

##### **STRENGTHEN**

We will strengthen our market positions in the Netherlands by an enhanced focus on product and service quality, a more efficient organization and a tighter policy on costs.

**2**

##### **SIMPLIFY**

We will create a nimble organization by simplifying the organizational structure and by offering a clearer set of products and services in both the business and consumer markets in the Netherlands.

**3**

##### **GROW**

We aim to increase our customer base for fixed and mobile telephony and we see particularly good opportunities for the fiber network. We will continue our Mobile International Challenger strategy in the coming years.

KPN obtains first prize in the 2010 Transparency Benchmark of the Ministry of Economic Affairs, Agriculture and Innovation, winning De Kristal, the award for the most transparent social report in the Netherlands.

At the Annual General Meeting of Shareholders, Eelco Blok is appointed KPN's new CEO, in succession to Ad Scheepbouwer who led the Company for the previous ten years. Eelco Blok announces that improving customer service is one of the key areas he will focus on.



Based on the principles Strengthen, Simplify and Grow, Eelco Blok announces the strategy for 2011–2015. Greater customer satisfaction and a leading role in the radically changing ICT market are top priority.



KPN is the first telco to participate in the Climate Savers Program of the World Wildlife Fund. In this program, companies agree ambitious targets on energy savings and the use of renewable energy. In 2011 KPN uses 100% renewable electricity in the Netherlands and Belgium.

Roll-out of the mobile broadband networks is accelerated to support the growing data use by customers in Belgium and Germany.

Accelerated change in customer behavior in the mobile market, increasing price pressure and rationalization in the business market and insufficient cost reductions adversely impacted performance in the Netherlands. KPN has to issue an adjusted EBITDA outlook for 2011.



JANUARY

FEBRUARY

MARCH

APRIL

MAY

JUNE

2011 was an eventful year for KPN, alternating between news of major and minor importance. We published our strategy for the coming years, we announced an outlook adjustment and our activities were frequently the subject of public debate. These two pages feature a selection of KPN news.



KPN welcomes its 500,000th customer for Interactive TV. At the beginning of 2011, customer numbers stood at only 300,000. KPN now has a TV market share of 17%.

KPN acquires the high frequency license for the Belgian market, allowing it to pursue its roll-out of fast data services for customers and partners. The license lasts for 15 years and takes effect on July 1, 2012.

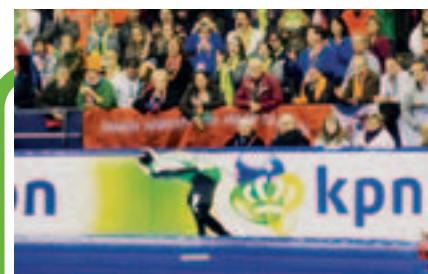
KPN announces new mobile propositions for consumers, in a move marking KPN's response to the sharp rise in mobile internet usage. Later in the year, KPN also announces new tariffs for the business market.

Getronics disappears as a separate brand name in the Netherlands. The Getronics activities are rebranded to KPN Corporate Market.

NMa starts an investigation regarding possible collusion of mobile operators on propositions in the mobile market.

Regulator OPTA announces to put KPN on close supervision further to alleged violations of obligations based on the Telecommunications Act.

In the third quarter of 2011, E-Plus welcomes its 22 millionth customer. Our German subsidiary continues the rapid upward trend of the last few years.



KPN wins the Sponsor of the Year trade prize, testimony to the fact that various forms of sponsorship across a variety of categories can create effective mutual reinforcement. In the 'community' category, KPN's Mooiste Contact Fonds obtains the First Prize.

In November, KPN announces its intention to acquire four fiber service providers and also confirms new arrangements to expand its stake in Reggefiber in the coming years. The number of households that KPN can serve with fiber services has grown sharply. In December, KPN connects its 100,000th fiber customer.

JULY

AUGUST

SEPTEMBER

OCTOBER

NOVEMBER

DECEMBER



In a world in which communication is ever more advanced, more accessible and faster, we aim to go on doing what we have been doing well for over 125 years: enabling contact, empowering people to connect with each other.

Our mission is to provide our millions of consumer and business customers with high quality communication products and services.

We deploy a multi-brand policy to meet the needs of different customer groups. This permits us to differentiate by price, product and service and allows the customer to select the brand and tariff that suits them best. In addition, we offer our business customers a wide range of ICT services, whether they are a locally based small or medium enterprise business or a multinational corporation operating across the globe.

Satisfied customers create the basis for profitable growth, which in turn allows us to create value for our shareholders. We believe that, with proud and motivated staff, we can achieve excellent quality and great customer satisfaction. Only then can we offer our customers the best products and services.

We are very aware of our responsibility to society. An optimally functioning and reliable ICT infrastructure is crucial for the efficient running of a modern society: without the internet everything grinds to a halt. This places a major social responsibility on KPN. Security and privacy are top priorities. We also realize that we can use our technology to enable contact for those for whom contact is not, or no longer, a given.

We promote the New Way of Working, i.e. flexible working hours and location, and so helping our customers save time and money. We have made the New Way of Working KPN's standard approach to work, as much as possible, in the same way as we make unceasing efforts to save energy and to ensure its renewable sourcing.

#### **Organizational structure**

KPN's organizational structure that was in place until the end of 2011 is shown over these two pages.

In the summer of 2011, we began work on the detailed arrangements for the plans for a new divisional structure which we implemented on January 1, 2012. The new divisional structure is run by the Executive Committee where all Dutch and international operations are represented. The new structure will facilitate a more direct and efficient management and is in line with the strategic plans for a simpler organization that enables us to respond better to changes in the ICT world. A key change is the split of the Consumer Segment into two new Segments, Consumer Residential (internet, television and fixed telephony) and Consumer Mobile (mobile telephony and mobile internet). ITNL and Wholesale & Operations are combined into the segment NetCo.

#### **KPN GROUP IN 2011**

##### **→ The Netherlands**

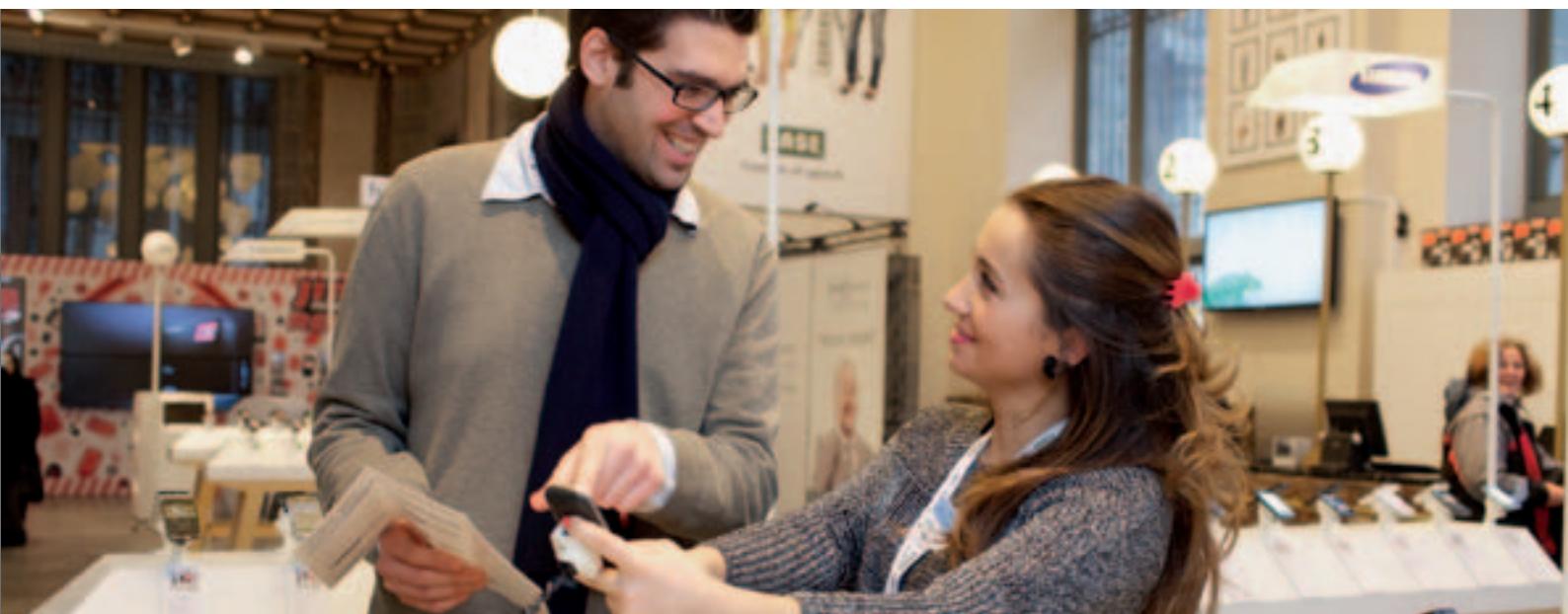
##### **Consumer:**

With fixed and mobile telephony, internet and television, KPN offers consumers a wide range of communication, information, entertainment as well as commercial services.

##### **→ Mobile International**

##### **Germany:**

E-Plus is the successful Challenger network operator with its own brands (such as E-Plus and BASE) and partner brands in Germany.



#### **Business:**

KPN offers its small and medium sized business customers a complete portfolio of services, from fixed and mobile telephony and internet to data networks, workspace management and data centers.

#### **Wholesale & Operations:**

Wholesale & Operations is responsible for KPN's operational activities for the Dutch networks (both fixed and mobile) and for KPN's wholesale customers in the Netherlands.

#### **KPN Corporate Market:**

KPN Corporate Market (formerly Getronics in the Netherlands) offers KPN's largest corporate customers global ICT services and is the market leader in the Netherlands in the area of end-to-end infrastructure and network-related ICT solutions.

#### **iBasis:**

Via iBasis, KPN is a leading player in the international wholesale voice market. iBasis carries international phone calls worldwide.

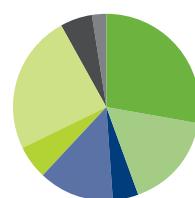
#### **Belgium:**

KPN Group Belgium is the successful Challenger network operator with its own brands (such as BASE) and partner brands in Belgium.

#### **Rest of the World:**

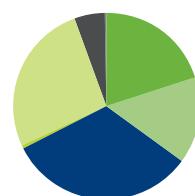
KPN Spain, KPN France (sold in December) and Ortel Mobile are virtual network operators offering mobile services through own brands and partner brands. Ortel Mobile focuses principally on the multicultural market segments in the Netherlands, Germany, Belgium, France and Spain, and recently started operating in Switzerland.

#### **Revenues**



**€13,022m**  
(2010: €13,324m)

#### **EBITDA**



**€5,138m**  
(2010: €5,476m)

Consumer	20%
Business	15%
Wholesale & Operations	33%
Corporate Market (Getronics)	0%
iBasis	1%
Germany	26%
Belgium	5%
Rest of World	0%



WE TAKE PRIDE IN OUR NETWORKS THAT ARE RECOGNIZED AS THE MOST STABLE IN THE NETHERLANDS

### The KPN organization

KPN is a public limited company formed under Dutch law ('naamloze vennootschap') with a two-tier structure consisting of the Supervisory Board and the Board of Management. The Board of Management manages KPN's strategic, organizational and financial matters and appoints senior management. The Supervisory Board is charged with the supervision and advisory of the Board of Management. Membership of the Board of Management went through a number of changes in 2011: Eelco Blok took over the chairmanship from Ad Scheepbouwer in April. In November, Thorsten Dirks became a member of the Board of Management. After having been a member for five years, Baptiest Coopmans announced his intention to leave KPN on April 1, 2012. CFO Carla Smits-Nusteling announced at the beginning of January 2012 that she has decided to pursue her career outside KPN, effective April 1, 2012. On December 31, 2011, the members of the Board of Management were Eelco Blok (CEO), Carla Smits-Nusteling (CFO), Thorsten Dirks and Baptiest Coopmans.

### Customer is king

In the 2011–2015 strategy, service provision is the focal point for everything we do. We plan to continue improving our service, cut waiting times and solve problems in one go. In short, we want to show customers that they are welcome and valued at KPN. For that reason, our staff members with direct customer contact will determine the success of KPN more than ever before. Our 1,600 retail staff, 3,000 contact center agents and 450 service engineers are the public face of KPN in the Netherlands. Via our website and social media we approach our customers in a personal way.

The Net Promoter Score (NPS), with which we measure customer satisfaction, helps us to make continuous improvements to our service. The NPS figure shows the degree to which potential and current customers allow themselves to be influenced by the recommendations and experiences of existing customers when it comes to choosing brands or products. The growing popularity of social media platforms and comparison websites reinforce this. We view customer satisfaction as being so important that the NPS is one of the criteria used to determine the bonuses paid to employees.

### Strong brands

We have a varied customer base, which calls for a suitable range of products and services. For this reason KPN has, alongside the KPN brand, a number of other consumer brands: Hi, Telfort, XS4ALL and Simyo. German customers may choose from BASE, E-Plus, Simyo, Ay Yildiz and more. Belgian customers may choose, for example, BASE and Simyo. With Ortel Mobile we serve our mobile customers in the Netherlands, Germany, Belgium, Spain, France and Switzerland. In the business market we also have a number of strong brand cards, such as XS4ALL, Atlantic Telecom, Yes Telecom, Gemnet and Talk&Vision. Globally, we are one of the largest providers of wholesale telephony services to other companies with our iBasis brand.

### Our products and services

For consumers at home, the fixed line telephone connection serves as the basis for our fixed services: internet, interactive television and fixed telephony. KPN also offers television across the ether with Digitenne. With the roll-out of fiber in the Netherlands by Reggefiber, more and more households are taking advantage of this advanced technology.

KPN has 35 million mobile customers in Europe who may choose between various types of mobile subscriptions. Thanks to the very rapid growth in smartphone ownership and smartphone features, mobile internet usage has become commonplace, driving explosive growth in data usage. We are responding to this with new mobile propositions for the consumer and business markets.

In the business market, we help small and large companies with total ICT solutions. We offer them total integration of speech, data, fixed and mobile services. KPN also offers government and the healthcare and education sectors an array of ICT applications.

KPN Corporate Market (previously known as Getronics in the Netherlands) assists multinationals with services such as workspace management, connectivity solutions and data centers. We work using the Global Service Delivery Model that is designed to furnish an excellent, high-quality service across the world.

### **Everything depends on the quality of our networks**

We take pride in our networks that are recognized as the most stable networks in the Netherlands. It forms the backbone for all KPN's mobile and fixed services. This has led us to invest EUR 1.5 billion, out of total Capex investment of 2.0 billion, in our Dutch, German and Belgian networks in 2011, anticipating in particular the major growth in data traffic, especially in mobile data traffic.

With the roll-out of the fiber network with our partner Reggefiber, the infrastructure in the Netherlands will change to a hybrid infrastructure over the coming years. Using fiber as the main data conduit, KPN can offer greater bandwidth and very high data speeds. At several locations in the Netherlands we can now achieve 500 Mb per second, much more than cable could ever offer. We believe in fiber as the network of the future. That is why, at the end of 2011, we announced our intention to take over four fiber service providers and confirmed new arrangements to expand our stake in our fiber partner Reggefiber in the coming years.

Because a major part of the Netherlands has yet to gain fiber access, the existing copper network remains indispensable for the time being for the purposes of delivering fixed services. We have made major upgrades to our copper network over recent years to enable high data speeds and we will continue to do so.

### **Team KPN**

We are convinced that the synergy of all individual employees determines success: team sense, team spirit and team work are the key words. As an employer, KPN looks for commitment and professionalism from its employees. We offer employees a package of modern working conditions, with the New Way of Working.

### **Skilled, fit and talented**

We believe it is important for employees to continue to develop themselves and to keep their knowledge and skills sharp and up-to-date. We therefore offer them the possibility of adding to or enlarging their skill set within a specific area of skills. All members of staff coming under the KPN's collective labor agreement in the Netherlands also receive their own annual deployability budget they may use for their permanent development. We invest in keeping all our staff members fit. Any KPN employee may have his physical and mental fitness tested and – dependent on the result – improve his health.

We run a talent program in order to attract and hold on to graduates and those with higher professional education. We have also a diversity program to improve the male-female balance within our Company.

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## **OUR CORE VALUES**

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### **Personal, Simplicity, Trust**

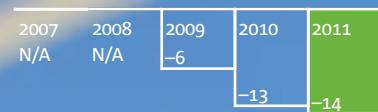
In our aim of being the best service provider, three core values are a common theme throughout the Group: personal, simplicity and trust.

We strive for a simple organization that contributes to an uncomplicated, easy-to-understand range of products and services and optimal service levels. Every employee having direct client contact is expected to be available, accessible and clear. We give our customers help that is personalized, dedicated and that creates trust. We do what we promise our customers. And through our socially responsible activities, we demonstrate our involvement in society.



# Putting KPN's 2011 performance in perspective

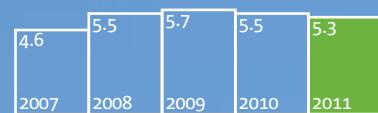
**Customer satisfaction<sup>1</sup>**  
(NPS)



**Reputation**  
(Ranking in the Netherlands)



**Energy consumption**  
(in petajoule)



## Performance indicators

Every year, KPN sets itself a number of specific objectives. We measure our performance using financial and non-financial Key Performance Indicators (KPIs), which help us to manage the organization. They also form the basis for the variable remuneration granted to the Board of Management and to senior executives. In 2011, we introduced customer satisfaction, reputation and energy consumption as new, non-financial KPIs that help us in monitoring if we are on track to achieve our ambition to become the best service provider in the Netherlands in 2015.

Furthermore, as part of this ambition, we aim to increase our 'First time right' score. We are developing a measurement tool to monitor 'First time right' performance in the end-to-end service chains.

## Customer satisfaction

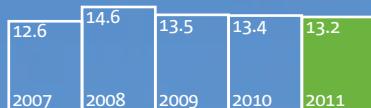
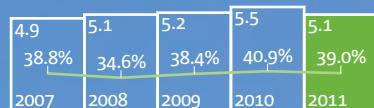
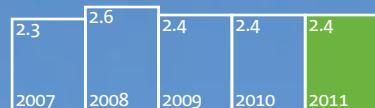
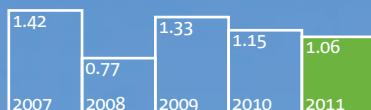
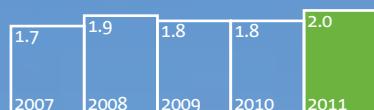
In 2009, we introduced the Net Promoter Score (NPS) as a tool for measuring customer satisfaction. We regularly survey a representative customer group in the Consumer and Business Market in the Netherlands to calculate this score. The key question asked is whether customers would recommend KPN to friends or family.

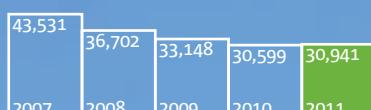
## Reputation

An excellent reputation is a prerequisite for us to become the best service provider in the Netherlands. KPN uses RepTrak to monitor this KPI. RepTrak maintains a list of Dutch companies and their reputational scores.

## Energy consumption

As a major energy consumer, KPN will do everything in its power to increase its energy efficiencies. With the sharp rise in data usage, setting energy consumption as a KPI is as logical as it is imperative and efficient energy consumption is indispensable. We see it as our responsibility to inform customers about cutting down on energy consumed by our ICT equipment.

**Revenues and other income**  
 (in billions of EUR)

**EBITDA (in billions of EUR)**  
**EBITDA margin**

**Free cash flow**  
 (in billions of EUR)

**Earnings per share<sup>2</sup>**  
 (EUR)

**Capital expenditure**  
 (in billions of EUR)

**Net debt/EBITDA**

**Number of FTEs as of December 31**


1) No data available prior to 2009.

2) Earnings per share in 2007 and 2009 include tax gains of EUR 1.2 billion and EUR 0.7 billion, respectively, regarding recognition of additional deferred tax assets at E-plus.

**Financial KPIs**

Healthy financial management of the business is critical to success and financial KPIs are heavily weighted in the scale of management compensation. Revenues and other income, EBITDA, EBITDA margin, free cash flow and the number of full-time employees paint a picture of the size of the business and of our financial performance.

Significant market shares	2011	2010
Broadband Netherlands <sup>1</sup>	40%	41%
TV Netherlands <sup>1</sup>	17%	15%
Mobile Netherlands <sup>2</sup>	46%	47%
Mobile Germany <sup>2</sup>	15.9%	15.7%
Mobile Belgium <sup>2</sup>	~19%	>18%

- 1) Based on subscriber numbers at year-end  
 2) Based on service revenues

**Prospects for 2012**

To strengthen our activities in 2012 we are going to expand and accelerate the initiatives and investments that we announced in May 2011, thereby responding to the changing market conditions. Consequently, 2012 will be a year of transition for our Dutch operations. At the end of 2012, we aim to stabilize our market share in the Dutch mobile consumer market, while it is expected that the broadband market share will bottom-out. The objective of the investments is to achieve a sustainable profit level in the future for our Dutch operations. Additionally, we will continue to target quality improvements and simplification. In so doing we aim to raise customer satisfaction and our reputation to a higher level. Due to market trends – which are putting our revenue model under pressure – and our decision to speed up investment, profit and cash flow in the transitional year

2012 will be lower than in 2011. At the same time, the general macroeconomic picture is very turbulent and uncertain. This increases the need to maintain a good balance between strategic investments, remuneration to shareholders and a solid financial position.

In May 2011, one month after taking up his duties as CEO, Eelco Blok presented the KPN strategy for 2011–2015, based on three principles: strengthen, simplify and grow.

#### New opportunities, new ambitions, major challenges

We use this corporate strategy to respond to the trends and new technologies in the telecom industry. Customers are communicating more and more via social media and increasingly advanced apps. Mobile internet is growing explosively, as is data usage, and the telecom and ICT landscape is continuously developing.

Paralleling this, we observe trends in society that significantly impact our industry. ICT is the vital artery of our economy with more and more information, often confidential, being processed across the internet. This places still higher requirements on continuity, security safeguards and network privacy and the internet, whether mobile or fixed. There is an aging population, placing greater strains on healthcare. ICT can play an ever increasing part in creating greater efficiency in this industry. People want to work efficiently, free of the boundaries of time and place, and to combine private and business tasks. Here too, ICT has an important part to play.

Against the background of these developments, the 2011–2015 strategy is directed at improving our quality, service and technology. In this way, we want to become the best service provider in the Netherlands and strengthen our market positions. The focus with Mobile International will be on balancing revenue growth and EBITDA margin and continued investment in the mobile broadband network.

We think and operate through the perspective of our customers' needs in our quest to realize our ambitions. Our aim is to offer an excellent service, delivering high-quality products and services. The KPN network, the Company's backbone, is at the heart of this and we shall continue investing in our copper, fiber and mobile networks.

KPN will modify its organizational structure to realize all its plans and to achieve greater vigor and efficiency. Employees will be given greater responsibility and an enhanced role to provide customers with an even better service. A rigorous and responsible approach to costs is a key part of the new strategy: investing where indispensable, saving where possible. Our employees play a crucial role in our aim of becoming the best service provider, they embody the three core values of personal, simple and trustworthy. Our aim is for these characteristics to distinguish us as a service provider. This leads to our conviction that teamwork forms the basis of success.

We focus on our core qualities and outsource non-core operations to specialized companies, in the Netherlands and abroad. This will result in the reduction of between 4,000–5,000 FTEs at KPN by 2015. Some of these will be recreated by our partners. Employees whose tasks are relocated abroad, for example to India, will be given assistance and counseling in their search for new employment.

Our role in society plays an important part in achieving our objectives. In line with the new strategy, we decided in 2011 to expand our social focus.

Alongside our efforts in the New Way of Working, Responsible Energy Use and People Connected we see our social contribution as coming mainly from our network. With the quality of our network and with a focus on optimal security and privacy, we want to promote innovation and efficiency in healthcare.

#### KPN speeds up implementation of its strategic plans

When KPN's annual results were presented on January 24 of this year, CEO Eelco Blok focused on the changing external environment. Counterbalancing the successes of Interactive TV and fiber services and the strong growth in the German and Belgian markets, performance in the Netherlands did not meet our expectations. Declining market share in the mobile telephony and broadband markets in the Netherlands, and tough conditions in the business market have impacted our financial results.

To tackle these developments, KPN is accelerating its investment strategy in 2012 to strengthen the market positions in the Netherlands. Additional investments will be made in the mobile and fixed networks (copper and fiber). This decision benefits not only the service we provide to the customer, but also enables us to compete with the cable companies and other mobile providers. Major cost reductions are also an absolute necessity if we are to make the organization more efficient. This means that the number of jobs will still have to be cut by 4,000–5,000 by the year 2015, but we have accelerated the reduction program. Furthermore, there will be no repurchase program in 2012. Through these measures, we are adopting our plans so that KPN will come out of the 2012 transition year a stronger company.

WITH OUR  
STRATEGY  
WE ARE FIT  
TO RESPOND  
TO NEW  
TRENDS AND  
TECHNOLOGIES



On May 10, we presented our Strengthen, Simplify, Grow strategy and ambitions towards our goals in 2015. In 2011 we made the first steps towards these goals with our strategic initiatives.

## STRATEGY 2011–2015 AT A GLANCE

### Strategic initiatives

<b>Consumer Wireline</b>	<ul style="list-style-type: none"> <li>• Improve, innovate and differentiate TV and broadband propositions</li> <li>• Improve customer service and delivery processes</li> <li>• Expand addressable market with VDSL upgrades and Ftth roll-out in promising areas</li> <li>• Target commercial investment using a regional approach</li> </ul>
<b>Consumer Wireless</b>	<ul style="list-style-type: none"> <li>• Further development of data-centric propositions</li> <li>• Convergence of Fixed and Mobile offerings</li> <li>• Expansion of distribution footprint</li> <li>• Growth in value-added services (e.g. apps)</li> </ul>
<b>Business / Corporate Market</b>	<ul style="list-style-type: none"> <li>• Focus market footprint on the Netherlands</li> <li>• Develop SME/SoHo Challenger brand and improve distribution via Business Centers</li> <li>• Continued investment in fixed, mobile, and data center infrastructure</li> <li>• Invest in growth areas (unified communications, secure managed devices, private Cloud and service aggregation)</li> <li>• Targeted focus on verticals such as health and financial services</li> </ul>
<b>Germany</b>	<ul style="list-style-type: none"> <li>• Grow Challenger model through value for money data offerings and private label smartphone offerings</li> <li>• Roll-out mobile broadband network (HSPA+) and start with LTE pilots</li> <li>• Continue multi-brand strategy via own brands and partner brands</li> <li>• Further exploit regionalized commercial approach</li> </ul>
<b>Belgium, Rest of World, iBasis</b>	<ul style="list-style-type: none"> <li>• Grow Challenger model through value for money data offerings in Belgium</li> <li>• Accelerate growth of Ortel Mobile and assess options for KPN Spain</li> <li>• Focus on scale of iBasis in wholesale voice and build VAS capabilities for long-term value creation</li> </ul>
<b>Cost Leadership</b>	<ul style="list-style-type: none"> <li>• Start offshoring and outsourcing initiatives (back office, network and IT)</li> <li>• Accelerated implementation of efficiency programs to reduce FTEs</li> </ul>
<b>Simplification, quality and reputation</b>	<ul style="list-style-type: none"> <li>• Simplify invoices and letters to customers</li> <li>• Reduce delivery times for broadband and TV</li> <li>• Improve help desk experience and provide online self-care environment on KPN.com</li> <li>• Introduce XL-stores as local service points as well as 'in-home' integration services formula</li> </ul>
	<ul style="list-style-type: none"> <li>• Commitment to minimum credit ratings of Baa2 and BBB</li> <li>• Net debt / EBITDA ratio between 2.0x and 2.5x</li> </ul>



## Objectives and ambitions 2015

- Regain broadband market share of >45%
- Growth of TV market share
- Increase in the number of Revenue Generating Units per connection from 1.9 to ~2.4
- Improve quality
- Successful migration of voice-centric to data-centric propositions
- Sustained mobile market share in the Netherlands of >45%

## Status 2011

- Broadband market share remained under pressure
- Improved TV proposition and continued growth of TV market share
- Copper network prepared for pair bonding, commercial launch in Q2 2012
- FttH roll-out on track
- Market position remained under pressure
- New data-centric propositions launched in September with positive initial results
- Expansion of own distribution, 11 new shops opened

- Step-by-step integration of Business and Corporate Market
- Remain a leading business and ICT player in the Netherlands

- Getronics rebranded to KPN Corporate Market in the Netherlands
- Agreement to sell Getronics International to focus on core footprint
- Continued impact from migration from legacy to IP-based portfolio
- Business market size declining due to price pressure, continued rationalization and macroeconomic impact
- Significant steps in outsourcing and offshoring in Corporate Market

- Growth of service revenue market share to >20%
- EBITDA margin of 35%–40%

- Mobile broadband network roll-out ahead of schedule
- Focus on strengthening backhaul, with backhaul sharing on regional level
- Successful expansion of addressable market by developing new regions with additional shops

- Growth of service revenue market share in Belgium to 20%–25%
- EBITDA margin of 35%–40% in Belgium
- Accelerated growth of Orel Mobile
- Maintain Top 5 position for iBasis

- Mobile broadband network roll-out accelerated in Belgium
- Data growth in Belgium via own and partner brands
- KPN France sold

- Reduction of 4,000–5,000 FTEs through outsourcing and offshoring
- Capex efficiency and procurement savings with annual savings of ~EUR 100 million as of 2012
- Improve cost flexibility in the Netherlands

- Accelerated restructuring program reducing ~1,400 FTEs at KPN Corporate Market

- Increased ‘First time right’ score in service chains to 85–95%
- Large step-up in customer satisfaction
- Reduce number of customer complaints
- Top 10 reputation ranking in the Netherlands

- Initial progress in 2011: improving delivery process in IPTV, less calls to call centers and simplified letters to customers

- Commitment to attractive dividend policy
- Returning excess cash to shareholders
- Sustainable financial framework

- € 0.85 dividend proposed for 2011
- EUR 1 billion share repurchase program finalized in September
- Net debt / EBITDA at 2.3x at year-end 2011

# OUR ROLE IN SOCIETY

ICT IS VITAL TO A THRIVING,  
SUSTAINABLE SOCIETY



# 1. OUR ROLE IN SOCIETY

## KEY SOCIAL OBJECTIVES AND RESULTS

Theme	KPI	Result 2011	Target 2012	Target 2013 and beyond
<b>Transparent, reliable service provider in the Netherlands</b>	Net Promoter Score (NPS)	-14	-7	+15 in 2015
	Reputation based on position in the RepTrak	Position 12	–	Position 10 in 2015
<b>The New Way of Living and Working</b>	Percentage growth in the Netherlands of the use of services that make The New Way of Living and Working possible	71% in comparison with 2010	10% in comparison with 2011	–
<b>Energy-efficient</b>	Own energy consumption KPN Group (in petajoules)	-4% growth in comparison with 2010	Max. 3% growth in comparison with 2010	Max. 5% growth in comparison with 2010 in 2013
	Energy consumption in the value chain	KPN Reduction meter developed	Customers: apply and measure effects of KPN Reduction meter	In 2020, save as much energy annually in the value chain as KPN itself uses
		–	Suppliers: develop technique for measuring CO <sub>2</sub>	
<b>New themes:</b> <ul style="list-style-type: none"><li>• Best ICT infrastructure</li><li>• Healthcare of the future</li><li>• Security and privacy</li></ul>	New themes in 2012	New themes for 2012 determined	Set targets for 2013 and beyond in consultation with our stakeholders	–
<b>Our people</b>	Percentage of women in senior management at KPN Nederland	17%	18%	–
	Percentage of women in middle management at KPN Nederland	17%	18%	–

## 1.1 OUR VISION: ICT IS VITAL TO A THRIVING, SUSTAINABLE SOCIETY

KPN aims to be the best service provider. We offer products and services that are simple to use and that help customers achieve their personal or business goals and wishes. We've been bringing people together for over 125 years. Our technology and our services enable people to share the special moments in their lives. That's where our strength lies.

As the best service provider, KPN wants to be closely and actively linked to society. This is the core of our new strategy. Our social themes, in which our size and our ICT portfolio can make a difference, contribute to that strategy. Over the past years we have expended much effort into three CSR themes that manifest this strategic direction: New Way of Working, Responsible Energy Use and People Connected. Within KPN Nederland, we have made the New Way of Working our standard approach to work and at the same time we have promoted this in society. With our second theme, Responsible Energy Use, this year we achieved 100% procurement of green electricity in the Netherlands and Belgium. Our proprietary metering tool, the KPN Reduction meter, allowed our clients to see immediately that the New Way of Working saves time, energy and money. KPN Mooiste Contact Fonds was the vehicle we chose to manifest our third theme, People Connected. As in previous years, thousands of KPN volunteers lent a helping hand to those the KPN Mooiste Contact Fonds is designed to help. They too discovered for themselves how ICT helps promote contact between people.

Our listings on the Dow Jones Sustainability Europe Index and the Transparency Benchmark (first position in 2010, fourth position in 2011) show that we are on the right track in the area of sustainability. The CSR themes we chose in 2007 were primarily targeted at the way we run our business. As we pursued these paths, the very maturity of these themes opened up scope for linking our CSR themes to our corporate strategy. This year, KPN's position in society played a key part in the Company's

strategic development. We asked ourselves the following questions. What are the new expectations and possibilities in society that are open to KPN today? Which are the issues facing society where KPN can truly make a difference? How can a renewed social policy make a contribution to corporate strategy?

Taking the perspective of our strategic reorientation we took our three original CSR themes and recalibrated them in line with the following social themes:

- Best ICT infrastructure
- Healthcare of the future
- The New Way of Living and Working
- Energy-efficient
- Security and privacy.

These social themes are important both to society and to KPN's business success. This new social policy takes us towards a phase in which, to a greater extent than before, we will be confronted by dilemmas that relate to an organization moving from being a technical network operator to a transparent service provider.

### **Transparent, reliable service with the best ICT infrastructure**

The core of our new strategy is our aim of becoming the best service provider: the one with the best network and the best service. That is also how we want society to see us: as a transparent and reliable service provider that is closely linked to society and that delivers on its promises to customers. The promises we make to our customers relate to the quality of our service. Clarity, honesty and reliability are the guiding principles. We want to offer our customers and other stakeholders transparency. A significant characteristic of our company, the largest network in the Netherlands, places an additional responsibility on us. ICT is playing an ever-growing part in society. Whether for citizens, government, consumers or companies, internet-based services are becoming increasingly crucial to society. As the largest service provider in the Netherlands, much of that responsibility lies with us.

Figure 1: Social themes



A good ICT infrastructure stimulates the economy. A number of recent studies show that access to the internet and to mobile telecom services contribute to economic development. Additional broadband connections create more jobs and a more innovative economy. KPN aims to make a contribution here by offering the best network in the Netherlands. For this reason, we invest about EUR 1 billion each year in ICT infrastructure in the Netherlands. By way of comparison, the Dutch authorities invest EUR 2.5 billion each year in highway maintenance and new roads.

We want the quality of our network to qualify us as the partner of choice for organizations and industries in which reliability, security and privacy are of critical importance. Those organizations include financial institutions, healthcare organizations, the police and government. Over 90% of all companies use the internet for services such as online banking. By offering safe and reliable ICT services, we wish to ensure that these organizations and industries are in a position to fulfill their vital role in society.

### Healthcare of the future

In the healthcare sector, we see major options for promoting innovation and for keeping healthcare accessible and affordable. ICT can play a crucial role in these vital innovations whether in the domestic environment of the healthcare customer or in the professional environment of the healthcare dispenser. The fact is that, faced with an ever-growing aging population triggering an increase in demand for healthcare services this industry is facing enormous challenges in coping with the forecast labor shortage. Despite all the options offered by ICT, we believe the process of change is proceeding too slowly. This may be the consequence of the multiplicity of players required to arrive at the optimal design of a care facility. Healthcare institutions, healthcare professionals, insurers, technology operators and customers need to innovate collectively so as to achieve changes for the entire health industry. Lack of overall guidance and control blocks speedy implementation of technological innovation. In the light of the social urgency, society cannot permit itself such delay. KPN wishes to commit itself to achieving the desired acceleration. Our network, technical skills and connections

with virtually all healthcare players places upon us the responsibility of putting the promise of ICT into practice. This has forced us to focus in particular on measures designed to enhance the customer's autonomy and self-care, while at the same time skilled professionals must be accessible to them.

### The New Way of Living and Working

We play a major social role for our customers in their working environment. We want to enable them to work when and where they want. This allows them to achieve a work-life balance that fits today's society: the New Way of Working. But it is also a new way of living in relation to work, that is why we increasingly refer to the New Way of Working as the New Way of Living and Working. This results in clear advantages for both the individual and society. Research performed by accountancy firm PwC in 2011 showed that if 20% of the labor population in the Netherlands works one day a week from home by 2015, this will yield EUR 2 billion yearly. If the same percentage works from home for two days each week, the benefit amounts to EUR 3 billion. The number of cars on the road then falls by 180,000 every week day, meaning less congestion, reduced air pollution and fewer traffic victims. Less money needs to be invested in roads and offices. The New Way of Living and Working is an attractive proposition for companies as well. Productivity and efficiency increase while the costs of office space fall.

The New Way of Living and Working inspires new approaches to offices and work. Offices become meeting places and temporary work spaces. Total office capacity is better distributed across all knowledge workers irrespective of the organization for which they work. The average amount of office space required per employee falls thanks to the New Way of Working, a development that reduces the demand for total office capacity. This can put a hold on new office construction, thereby reducing the amount of countryside needing to be sacrificed. At the same time it now seems that the New Way of Working is easier to apply in new build and this may help promote new build.

The New Way of Living and Working will therefore remain one of our social themes over the coming years. Over the past years we have placed the emphasis on developing our portfolio and applying it within our own organization, over the coming years our emphasis will shift to promoting the New Way of Living and Working among our customers. Naturally, we want our own approach to business management to act as a template for the New Way of Living and Working. The primary focus over the coming years will move towards the behavioral and cultural aspects, with less focus on ICT itself. We want to inculcate among our managers a positive approach to the New Way of Living and Working and encourage them to rely more specifically on results and less on employee presence.

### Energy-efficient

The energy and climate challenge remains on society's agenda. Energy shortages, energy security and climate change are topics that affect us, our customers and society. We are sticking to the target we set ourselves in 2008, to be climate neutral by 2020. The sharp growth in data traffic makes this a challenging task.

Figure 2: Approach to social themes



We think it even more important to contribute to the energy savings our customers can achieve. We do this, for example, by using energy-efficient data centers, by making use of teleconferencing (less vehicle usage) and by stimulating working at home (less office space). In this area too, our interest is shifting over the coming years from managing our own business to managing that of our customers.

### Security and privacy

When recalibrating the social themes in 2011, we pinpointed security and privacy as a new social theme given the steadily higher demands in these areas. More and more data, often containing many personal details, is being sent by internet. Society entrusts the careful and safe processing of this data to ICT service suppliers. We want to offer this confidence at all times to our customers.

To our regret it was discovered in January 2012 that a digital break-in had taken place: one or several hackers had succeeded in accessing a single server domain within KPN's ICT network in the Netherlands. Needless to say, KPN deeply regrets this situation. We took immediate steps to protect our customer data and to ensure that we can continue to provide our services securely and without interruption. KPN is cooperating fully with the authorities to track down the hacker(s). Additional measures have been taken to protect systems and data even better. KPN has consistently disclosed details of its conduct on the matter to government and other relevant parties such as the National Cyber Security Center (NCSC), the Dutch telecommunications regulator (OPTA), the Dutch Data Protection Authority (CBP), the Ministry of Economic Affairs, Agriculture & Innovation, the Ministry of Security & Justice and the Public Prosecution Service (OM). Based on an in-depth analysis of the hack, KPN will determine how its clients and servers can be better protected against attacks in the future.

We want to be leading in these five social themes. We also observe a second category of social issues in which we conduct ourselves in a demonstrably socially responsible manner but where we do not by definition wish to take the leading role. There is a third category of social issues to which our contribution is limited. We follow these carefully but do not see an active, solution-oriented role for KPN in them. Figure 3 illustrates this.

Sections 3, 4 and 5 of this report provide details of our progress in achieving the targets relative to the three CSR themes we set ourselves in the 2010 Sustainability Report. This section features the initiatives and targets for the new social themes we have outlined. Next year's report will provide details in line with these new themes.

## 1.2 EMBEDDING CORPORATE SOCIAL POLICY WITHIN THE ORGANIZATION

In 2011 we worked on embedding CSR even further into the KPN Group. The Board of Management, the Executive Committee and the task force 'KPN in society' (formerly called the CSR Steering Committee) jointly draw up the CSR policy and CSR targets. KPN in society is chaired by a member of the Board of Management, has a coordinating task and meets every six weeks.

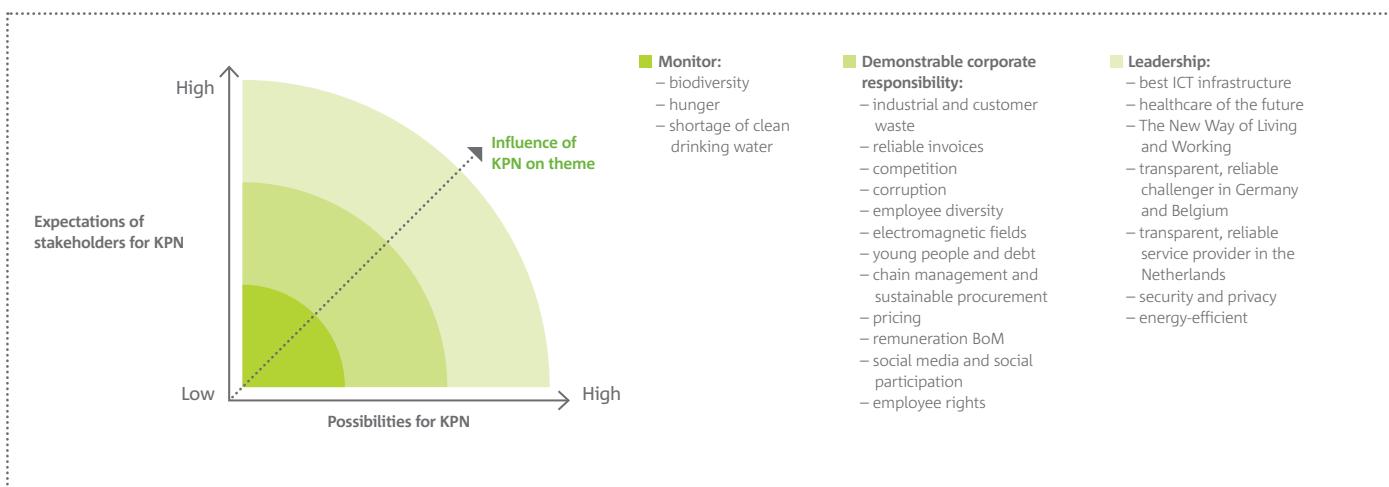
Five project teams, one for each social theme, operate under this task force. They develop plans and ensure implementation of ongoing activities. E-Plus has its own CSR Steering Committee that tailors KPN's CSR policy to the German market and target groups. E-Plus and KPN Group Belgium each have their own CSR manager who facilitates the project teams in Germany and Belgium respectively.

Every quarter, the Board of Management reviews the progress achieved towards the goals set out in the Sustainability Report. The Supervisory Board also regularly reviewed CSR issues in 2011.

Organization of CSR was given sharper definition in Germany in 2011. This was reflected in the publication of the first social report issued by E-Plus, specifically targeted at the German market and society. Next year, E-Plus will draw up this report in accordance with the guidelines of the Global Reporting Initiative and an external audit will be performed. A member of the E-Plus Board of Management heads up the CSR program.

In organizational terms we ensured that our approach to embedding CSR was better aligned with our company. Each member of the Executive Committee (ExCo) has been made responsible for a social theme to be made visible both inside and outside KPN.

**Figure 3: Assessment of relevance of social themes for the telecom industry**



Extending this approach, in 2011 we improved the linkage between the management of our CSR policy and our reputation management. A task force, Reputation, has been set up to cover this. In order to link reputation and CSR through better organizational coherence, the Reputation task force is chaired by a member of the Board of Management. The Director Corporate Communications is secretary of both task forces, in which senior managers from Human Resources, Marketing, Customer Affairs and Public Affairs take part.

Non-financial targets have been part of the criteria for long-term bonus awards made to senior executives since January 1, 2011. Achieving the energy-saving targets earns 12.5% of the bonus and a further 12.5% can be earned by improving KPN's reputation. This underlines our desire both to obtain good financial results and to develop a long-term relationship with society. The section on Remuneration in our Annual Report goes into this in greater detail. The Annual Report also describes KPN's risk management, including the key risks to which attaining the targets are subject. CSR risks are weighed up and assessed in the light of their importance relative to other business risks.

#### Dow Jones Sustainability Index

We treat our listing and our score on the Dow Jones Sustainability Index (DJSI) as a major indicator of the degree to which our sustainability policy is embedded within the Company. In 2010 we were listed on both the DJSI Europe and the DJSI World indices. Our target was to maintain these listings in 2011. We succeeded in doing so on the DJSI Europe listing, but lost the DJSI World listing. Although our score was higher than in the previous year, the keener rates of improvement posted by other telecommunications corporation meant that we were unable to maintain our listing. Nonetheless, our increased score demonstrates that we have further improved ourselves in the field of sustainability. Our target for 2012 is to maintain our listing on the DJSI Europe.

The DJSI scores show that we improved our performance in the areas of environment (climate policy, environmental/energy management), society (social responsibility and employee development), stakeholder policy and supplier management. Because we failed to achieve our targets for service quality in 2010, we failed to score points for this key component in the Index. Improving the quality of service is part of the 2011–2015 corporate strategy.

#### Integrated reporting

Further embedding of CSR within the organization is also evidenced by the ever closer paths of the Annual Report and this Sustainability Report. As of today there is a single introduction, a single section on strategy and integrated communication, such as a single internet version of both reports. However, for 2011, we have decided not to issue a single integrated report in the light of the differing readerships. We certainly think that efficiency advantages can be obtained from further integration of the reports, and we will review the matter in 2012.

We have already integrated parts of the data stream that we need for our Sustainability Report into our financial reporting. This year we have been able to report part of the data set out in this report under the regime of reasonable assurance. Our 2011 Annual Report describes at various points the initiatives and results achieved in the area of sustainability.

### 1.3 DIALOGUE WITH OUR STAKEHOLDERS

Renewal of our core social themes was not an exercise we conducted alone: we set the priorities in the context of a dialog with the community at large.

#### The CSR Advisory Board

In 2011 we launched a major initiative: we set up an Advisory Board tasked with advising the Company on corporate social responsibility. The four Board members are drawn from the world of science, the investment community and well-respected figures in the field of sustainability. The Board met twice with the CSR Steering Committee to discuss KPN's social policy. The Board felt comfortable with the result of KPN's strategic orientation and made four suggestions:

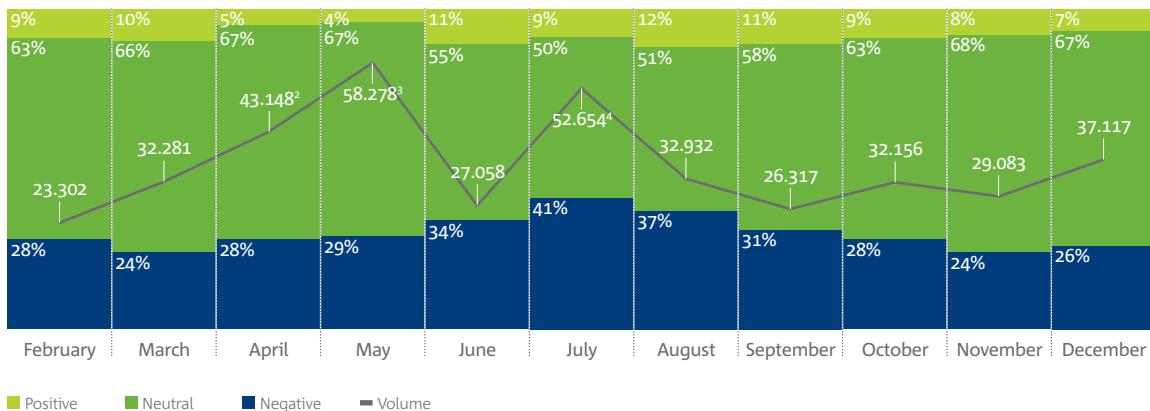
- Put a clearer emphasis in the policy on the social contribution that is made by providing a service and fortify the linkage with the added value, both commercial and business, that KPN enjoys.
- Make absolutely certain that management focuses its attention on security and privacy given the ever-increasing importance of these themes.
- Make sure that procurement is demonstrably sustainable, that supply chain management is socially responsible and that suppliers are monitored for respect for human rights. Given that KPN will be outsourcing more and more, this is increasingly important.
- Direct more focused communication to customers about sustainability and what KPN has achieved in the area of sustainability. Customers should be able to judge and value KPN for what it does in this field.

#### Customers

We researched the views of 1,300 consumers, both KPN and non-KPN customers, to identify the social themes they considered important and the significance they put on KPN making a contribution to that theme. The survey showed that they placed importance on the issues of a transparent and reliable service provider, security and privacy, customer focus and saving energy. While two-thirds of the respondents placed importance, or even great importance, on KPN actively shaping CSR policy, only 12% cited an example of KPN. We read this as a sign confirming our need to communicate far more over the coming years to our customers about our social endeavors. Renewal of our social policy is the first step in this direction.

BASE, our German and Belgian brand, runs regular panel discussions with customers about subjects such as rates and issues concerning young people.

Figure 4: KPN sentiment and buzz volume in social media in the Netherlands<sup>1</sup>



1) Measurements started in February.

2) Profit warning and new strategy.

3) Discussions on Deep Packet Inspection (DPI).

4) Announcement new subscriptions.

## Shareholders

The Annual General Meeting provided us with a forum for a dialog on CSR. A Dutch lobby group for sustainable development (Vereniging van Beleggers voor Duurzame Ontwikkeling or VDBO) made a plea for more explicit reporting about our foreign subsidiaries. This year's report devotes greater attention to them than was the case in former years. We were asked to raise our target of 50,000 for the collection of used mobile telephones and used smartphones. However, as our priority and social influence bear more strongly on the implementation of other CSR themes, the target figure remains unchanged. The VDBO also called on us to make increased efforts in the direction of supplier sustainability policies. This is set out in the section headed 'Our People and Suppliers'. We asked a number of shareholders whether they thought KPN's renewed social policy was logical and benefited KPN; they did.

## Dialog with suppliers

This year we organized a dialog with several suppliers, major business customers and social bodies. The report (in Dutch) can be found on [www.kpn.com/csr](http://www.kpn.com/csr). The dialog focused on the statement that "sustainable selling is sustainable purchasing". One of the conclusions for KPN was that sustainability had to be given greater attention in the retailing channels and in marketing communications. This would enable KPN to empower its customers to rate sustainability as a criterion when selecting an ICT service provider. We are investigating how best to follow up on this recommendation. In our marketing and general communications, statements about sustainability compete with other relevant issues such as price, subscription type and special offers. But, given the increasing interest in sustainability, on behalf of both KPN and customers, our aim is for more social themes to be a visible part of our marketing strategy in 2012.

## Stakeholder dialog: privacy and net neutrality

We ran a fifth social dialog to review our privacy policy. April 2011 saw commotion in the media about the application of Deep Packet Inspection (DPI), a technique for analyzing data traffic in widespread use in the ICT industry, so igniting a debate within the industry about

internet neutrality. Usage of DPI revealed a dilemma of freely available internet against payment for specified services so that a provider can continue investing in good ICT infrastructure. We received many questions on the subject from the media and Bits for Freedom, a social organization, joined the debate.

In a dialog with stakeholders and external specialists we examined the crux of the dilemma; the rapid increase in mobile data traffic and free applications replacing text messages (WhatsApp, pinging) oblige us to ask ourselves how we could finance our network investments. We publicized the question of whether we would be obliged to offer some subscriptions that would block specified free services, while offering them as part of more expensive subscriptions. This, however, is at odds with the principle of net neutrality which holds that a provider may impose no restrictions on internet offerings.

Stakeholders indicated they attached great importance to net neutrality. As an alternative solution to the question of financing the investments needed for the very significant growth in data traffic, much of it for mobile usage, KPN launched subscriptions with rates that varied in line with quantity and speed of data usage. We were advised in the stakeholder dialog of June 30, 2011 to communicate these new variants of subscriptions actively to the press and to our customers. Net neutrality remains our leading principle and this has now been set down in the Dutch Telecommunications Act.

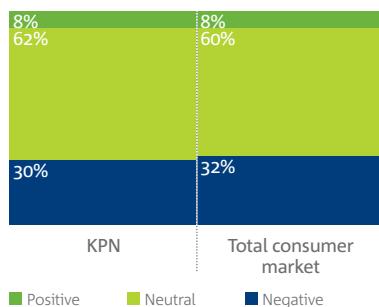
## Social media

For us, a stakeholder dialog means above all listening carefully. All the more true given the speed at which possibilities and expectations develop within our industry. Privacy, net neutrality and revenue models are rightly the subject of wide-ranging discussion. We sometimes find it difficult to satisfy all expectations, for example, when these are based on circumstances derived from the past that have since drastically changed. We notice this when analyzing social media such as Facebook, Hyves and Twitter. These highly accessible means of communication enable people to air their opinion in every conceivable way. In early 2011, we began following in a structured fashion what was being said

about KPN in social media. We track customer complaints and observations to take fast action. The section 'Quality of Service' provides more details. Social media also gave us a picture of how KPN 'lives' in terms of both content and emotion in society at large.

Every week we analyze what social media users are saying about us and whether the general direction is positive, neutral or negative. In 2011 we used this technique to analyze 400,000 postings about KPN. 8% of the reports were positive about KPN and 30% negative. The remaining 62% of the reports were neutral in character. This was average, relative to the competition. In the course of the year several changes could be observed in the sentiments expressed in the postings. The adjusted EBITDA outlook, the debate about Deep Packet Inspection and the new subscription variants generated a negative sentiment online. Negative comments also followed the on-site investigations carried out by the Netherlands Competition Authority. The launch of Interactive TV online, free Spotify and the "Playlist of your life" promotion generated positive reactions in social media. We are also aware that those participating in social media and discussion forums do not necessarily provide a representative picture of the way society as a whole views us.

**Figure 5: KPN sentiment and sector sentiment (consumer) in social media the Netherlands**



Social media are very good at communicating to specified target groups. Hi, our young people's brand, has a much visited page on Facebook and in the fourth quarter of 2011 we launched a Facebook page for the KPN brand. Telfort is also active in this social medium and within E-Plus a stakeholder dialog was pursued via social media in 2011.

#### Employee dialog: TEAMKPN Online

In-house social media is the vehicle used to promote an active dialog amongst KPN employees. KPN's communications platform is designed to create room for dialog, discussion and interaction, the most important preconditions being 24/7 accessibility for all and transparency. TEAMKPN Online is the social media platform that serves as the basis for all in-house communication. Employees can locate their peers by skill, department, interest or other subjects. Specified themes are actively moderated and hence attract more comment. Managers or other interested parties are encouraged to join in and give their opinions.

Other companies often ask us to come and talk to them at conventions and training courses about TEAMKPN Online. This feature also attracts many outsiders to come and take a look at it on-site. About half of all KPN employees in the

Netherlands have an active profile on TEAMKPN Online. In total these generate some 500,000 page views per month. TEAMKPN Online makes it easier for people to locate each other and that leads to speedier problem-solving.

TEAMKPN Online played a part in the formulation of the new 2011–2015 strategy. The Board of Management used a strategic online dialog to find out what employees thought was important in a new corporate strategy.

## 1.4 OUR INFRASTRUCTURE

We want both society and our customers to be able to rely on KPN offering excellent service in addition to the best network. This positions us as the logical partner for those industries that place the highest demands on the reliability, quality and security of ICT networks. These include government, the police, the healthcare industry and financial institutions. These industries, that process large volumes of confidential information, are vital to keep the community operating effectively.

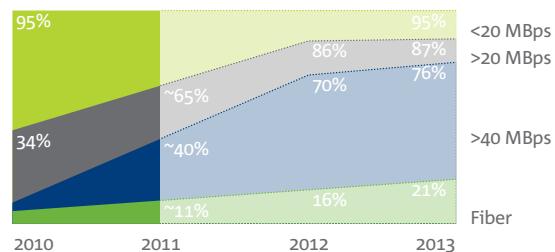
Each year, we invest about EUR 1 billion in maintaining and improving our Dutch ICT infrastructure. We made major investments in extending the capacity of the network so as to cope with the explosive growth in data traffic. This led us, amongst other things, to expand the number of mobile transmission masts from 4,800 to 5,200. Almost 98% of the Dutch territory enjoys UMTS coverage from KPN, a figure that is the highest amongst all the telecommunications operators. We also ensured that all KPN's frequencies were activated on all masts, allowing us to increase the number of 'lanes' for data traffic.

In 2011 we also took measures on the fixed network to deal with the growth in data traffic. An increasing number of customers have HD television and watch films pulled down from the 'Cloud'. In both cases, greater capacity from the fixed network is required. We also put in place a duplicate television network to create a back-up in case a connection should fail.

We invest large sums in order to bring higher internet speeds to large groups in the Netherlands. Our target for 2012 is for 70% of the Netherlands to have a minimum speed of 40 MB per second (Mbps) at its disposal. The figure at the close of 2011 was 40%.

**Figure 6: Percentage coverage by minimum internet speeds in the Netherlands<sup>1</sup>**

Where this concerns our own fixed networks, KPN has



<sup>1)</sup> Network capacity based on 7.4 million consumer addresses (source: Index by Statistics Netherlands).

chosen a twin-track strategy to offer these services to an increasing number of customers. We are upgrading the copper network and are rolling out the fiber network on

a regional basis thanks to our joint venture with Reggefiber. In 2011 we put in place almost 400,000 new fiber connections, thereby taking the total of fiber-connected households to over 800,000 in 2011.

We monitored on a permanent basis whether these efforts truly lead to the desired quality and whether we in fact have the best ICT infrastructure in the Netherlands. We do this in two ways. Firstly, we check actual quality by reference to technical parameters. This includes factors such as disruptions, speed, coverage ratios, download speed on smartphones, mobile dropped-call ratios and the time it takes to download a home page. We seek continual improvement across these parameters which are monitored by an external, independent agency every quarter. We succeeded in doing so yet again in 2011. Secondly, the customer's experience of our network is just as important. We measure this using the same methodology as that used in the Net Promoter Score where we are focused on ensuring that our network is ranked as the best.

## 1.5 HEALTHCARE OF THE FUTURE

The healthcare sector faces major challenges. Life expectancy and average age are both on the rise and this creates rising demand for the provision of healthcare. It is forecast that, if the current strategy remains unchanged, by 2025 a quarter of the Dutch labor force will be employed in the healthcare industry in order to keep the service at the desired level of quality. Since 1972, healthcare expenditures have been increasing ceaselessly and will continue to rise sharply over the coming decades.

In addition to the social imperative, healthcare consumers look for greater transparency in the care they receive coupled to a greater degree of independence. People want to go on living at home for longer or want to leave hospital sooner to recover at home.

As the largest service provider in the Netherlands, we believe that we are the best qualified party to promote innovative solutions for improving quality and efficiency in the healthcare sector. KPN Nederland has a business unit targeted at offering services to this industry. In 2012, we will perform a detailed review of our position in the Dutch healthcare sector and will set targets for the coming years.

### Solutions for healthcare institutions

Our most significant contribution to the healthcare industry lies in innovative ICT services that both reduce the load on the healthcare supplier and raise the quality for the user. The point of departure we have taken is that of giving back to the healthcare supplier as much time as possible so that they can offer more actual care. For this, we have a triple track approach:

- ZorgSlim: using more ICT as a means of saving on labor (more time for healthcare).
- ZorgSamen: improved mutual communications (fewer errors in healthcare).
- ZorgVrij: enhanced patient comfort (from supply to demand).

### ZorgSlim: more time for healthcare

As is the case for other knowledge workers, the New Way of Working and Living also offers healthcare professionals options permitting them to use their time more effectively and more efficiently. Not all tasks need necessarily be

carried out on healthcare premises. They can be offered from home or from another location. This may save on travel time for both patient and healthcare professional. This means that healthcare providers must be able to access safely their data files and applications from locations other than the practice or the healthcare institution. Over the past years, some 350 pharmaceutical chemists and general practitioners have concluded mobile telephone subscriptions that include a secure access facility. This allows them to work from home and when traveling – between making house calls, say. A service has been in existence for quite some time that enables secure access from home in a way that is comparable to using a pin code for internet banking from home. This service, which some 600 healthcare providers now use, relies on the home internet connection and equipment. It allows us to offer healthcare providers a safe way of working: at any time, from any place and with any device. We expect usage of these services to take off seriously over the coming years.

### ZorgSamen: fewer errors in healthcare

Two-thirds of Dutch hospitals are connected to ZorgConnect, the closed network that KPN has developed for the healthcare sector. ZorgConnect offers a menu of services that participants can take on the basis of their own needs, the purpose being that of fostering information exchange among healthcare professionals. This yields quality improvement and diminishes the likelihood of error. It can also promote speed of diagnosis and treatment. In the diagnostic area there are multiple options for, say, exchanging x-ray photographs or other diagnostic tools. Remote second opinions also become a possibility.

The E-Zorg network has been designed to facilitate the exchange of healthcare information between pharmaceutical chemists and general practitioners. Some two-thirds of all general practitioners and all pharmaceutical chemists are connected to the closed environment of E-Zorg, for sending prescriptions directly from GP to chemist, for exchanging patient files between GPs, for sending mail to GPs and for exchanging medication data between chemist and hospital.

### ZorgVrij: from supply to demand

Our third track targets the healthcare consumer, the client, for whom we want to combine care with comfort. KPN ZiekenhuisMedia is one of the initiatives that we further developed in 2011. It is an interactive service allowing patients to receive their medical information by audio-visual means, such as a treatment they are to follow. ZiekenhuisMedia allows patients to watch an instructional clip at whatever time that suits them. Because the clip can be watched more frequently (with partner, friends or family), patients can ask the specialist more pertinent questions. In 2011 we put this service into operation at six hospitals, and we want to increase this number in 2012.

A second initiative that we further developed within ZorgVrij in 2011 is KPN's DiabetesStation. There were about one million diabetes patients in the Netherlands in 2011. The Diabetes Fonds is assuming this number will double by 2025. Such rapid growth means that good healthcare cannot be guaranteed if the strategy remains unchanged. We can avoid this thanks to DiabetesStation. DiabetesStation allows patients to perform most of the measurements themselves, as a result of which they can better manage their condition. The data is transferred to the ICT systems of the hospital or GP. This can be done

using multi-lingual variations with interactive clips, meaning that such clips can be used in any environment in today's multicultural community. The time saved allows the doctor or nurse to devote greater attention to customized treatment of the patient. The DiabetesStation has been developed in the context of a Public-Private Partnership with the Erasmus MC and KPN's subsidiary, IPT Telemedicine. KPN supplies the technical expertise and builds the stations. Last year we installed the first DiabetesStation in the Netherlands, following which we evaluated the findings of users and physicians involved in 2011. Based on this we are planning to position more such stations in the Netherlands and abroad in 2012. These e-health services give physicians more time for treating and devoting attention to the patient.

The role of ICT in monitoring thrombosis patients is another example permitting us to illustrate innovation in healthcare. There are 370,000 thrombosis patients in the Netherlands. The fluctuating pathology of thrombosis means that patients frequently need to have their blood checked at a thrombosis service. In 2011, 200 patients of a GP practice in Heerlen were the first to have access to a virtual thrombosis service. This service makes it unnecessary to go to a particular location to have one's blood sampled. The ICT component of the virtual thrombosis service consists of four parts: the very secure environment of Getronics Trusted Services (GTS), the Telepas, the Telepas card reader and a Tele-ID application. Using the Telepas, card reader and ID application the patients may themselves transmit their blood levels from their homes through a protected website. The GP has access to the patient data and can respond immediately. The virtual thrombosis service extends to the provisions of items such as computers and dongles, so minimizing client stress.

In addition to these ICT services in healthcare institutions, we also take part in projects promoting healthcare facilities in a residential environment. In 2011, we continued to work on further development of the Lokafoon: a warning system in the form of a watch for those with incipient dementia. The Lokafoon, that saw its first use in 2011, enables remote supervision and increases the user's freedom of movement. A family member or friend receives a text message if the user goes beyond, say, the municipal limits. An online map shows where the Lokafoon user is located. By the end of 2011 the system numbered 2,500 users, and we are looking to double the number in 2012.

We are developing these initiatives together with other healthcare parties (insurers, suppliers, patient organizations, and institutions), for we are very sensitive to the point that launching new facilities means a different way of working for those involved. In this way, we are seeking to strengthen our market leadership position in the Netherlands.

### **Collaboration in the field of healthcare**

As one of the initiative-takers behind eHealthNu, we made a major commitment in 2010 to self-care management. Dozens of partners and participants who have since then been connected up to this open platform are looking to remove a number of stubborn barriers that stand in the way of remote care and autonomous healthcare management programs. The barriers can be in the areas of financing, culture and support from professionals, together with legal and regulatory provisions. Philips, Menzis,

Achmea, TNO, Rabobank and the Zorginnovatieplatform ([www.ehealthnu.nl](http://www.ehealthnu.nl)) joined forces in 2009. eHealthNu is targeting nationwide availability of e-health services by 2020. We are developing services for patients with specific conditions, such as chronic coronary problems, that allow them to monitor themselves.

Our experience with the KPN Mooiste Contact Fonds has given us good knowledge of the sector. Three quarters of the initiatives taken by the fund are directed at healthcare. The section entitled 'People Connected' provides further details about the fund.

Naturally, we realize that we are under an obligation to create an attractive and healthy working environment for our employees. Only then can we be a credible and reliable partner in healthcare. To this end we started a vitality program in 2011, one of the objectives being significantly lower rates of sick leave. The paragraph entitled 'Our People' gives further details on this program.

### **1.6 SECURITY AND PRIVACY**

KPN customers must have the assurance that the internet operates safely and that the privacy of their data is assured at all times.

#### **Security**

There are many aspects to ICT security and the internet. Take words and images on the internet, for example. Specific content and activities on the web, such as child pornography, illegal gaming sites and the illegal distribution of music and films, are banned by law. And often the content shown must be especially secure. Hackers must find it impossible to hack into websites and data dispatched must only be accessible by the intended receiver. KPN, as the Netherlands' biggest service provider, has a major responsibility in this matter.

If the authorities order us to assist in tracing operations, we are obliged to lend assistance. Examples may include listening into telephone conversations or tapping data traffic. We ourselves take initiatives and use our ICT knowledge to combat unlawful conduct on the internet. In 2008 a code of conduct for the industry was drawn up defining intervention, where appropriate, in cases of unmistakable and unlawful infringements of copyright or trademark rights. Persons observing a breach of his rights on the internet can report this to KPN. We contact the person said to be in infringement and in so doing we check whether rights have indeed been breached. If so, then the infringer is asked to modify their website. These matters are almost always resolved without recourse to the courts. There were only a handful of cases in 2011.

We now see a switch in the debate from individual trademark breaches to cracking down on intermediaries such as hosting organizations. This would often concern issues of trademark rights relating to music, images or film. Certain disputes were taken to court. Cable operator Ziggo and KPN subsidiary XS4ALL applied to the courts for a review of an order issued by BREIN, the copyright holders' organization, to shut down The Pirate Bay website. Such cases define for the community at large the boundaries that ICT service providers must adhere to in law in cases where, say, issues of copyright or trademark are at issue.

In order to prevent the illegal downloading of music and films, we offer consumers legal and easily accessible alternatives. In autumn 2011, we launched the Spotify service that allows KPN internet customers to listen to music at no charge.

Although we cannot be held liable for content placed on the internet, we can make available our knowledge and experience to take measures against incorrect or malicious content on the internet. We do this by participation in the internet Security Platform (Platform Internet Veiligheid) on which the Dutch Ministry of Safety and Justice and the Ministry of Economic Affairs, Agriculture and Innovation are also represented.

KPN sponsors the Mijn Kind Online foundation which was founded in 2004 by KPN and Ouders Online, the largest community in the Netherlands for parents on the internet. The foundation is a knowledge and advice center regarding young people, the media and new media.

Within the Platform Internet Veiligheid, we are members of the Anti-Child Pornography Task Force. An example of our involvement is a survey conducted into the effect of a digital curtain cutting off access to child pornography sites. The government wanted a safety cordon placed around websites hosted from abroad. Together with Meldpunt Kinderporno, a site for reporting child pornography, we used our research to show that these sites might be withdrawn from view by such a measure but the source would not be eliminated. This would even hamper the fight against child pornography. After discussions with various experts, the Dutch authorities decided against blocking the sites. Similar discussions are being held in a European context. We take part in them and see these issues as important elements of the European Digital Agenda.

Hi, our young people's brand, devoted especial attention in 2011 to secure internet usage and developed a special information package for schools. There are special pages on Hi's website devoted to secure internet usage. KPN offers and promotes to its customers MyBee: a children's free web browser in which parents can let their children surf the net in safety. In 2011 MyBee was downloaded almost 70,000 times.

#### **Network security**

In 2011 we put much effort into combating botnets: attempts by hackers to use software permitting the hacker to take remote control of a user's computer operating system. Together with other operators, we made major efforts to track down these botnets. If a large quantity of spam mail is coming from a single IP address it is likely that this IP address has been hacked. In such a case, we contact the customer and place the computer in digital quarantine. The customer can clean up his files and once again secure his computer. Situations like these occur thousands of times a year. To avoid this we regularly warn our customers of the danger of botnets and the need for optimal security to protect both computers and the network.

In September 2011, the security of many government websites and systems could not be assured after the websites of DigiNotar had been hacked. The digital security certificates turned out to be vulnerable to simple hacking attempts with the result that many government websites no longer satisfied the required standard of security. This prompted us to make a thorough check of our own systems

as KPN Corporate Market issues similar security certificates. After the hacker attack on DigiNotar, the Ministry of the Interior and Kingdom Relations designated us as one of the alternative companies for DigiNotar.

Our investigation showed that there were no reasons for believing that the internet environment in which we were creating new certificates had in fact been penetrated. The subsequent, more intensive investigation that we commissioned showed that a server may have been used to mount an attack on third parties a few years earlier. This prompted us to take the precautionary measure of halting the process of application for and issue of new certificates for a few days. Only after external investigation had shown that it was impossible to use the website in question to gain access to the security certificate production environment and that this had not happened in the past, did we start issuing certificates again. We took care to ensure that all relevant bodies were kept fully informed of the progress and results of the different investigations.

Combating cybercrime remains of crucial importance for KPN, as KPN CEO Eelco Blok's chairmanship of the Cyber Security Council underlines.

We will pursue these activities in 2012.

#### **Privacy**

Privacy policy is taking on an increasing significance for ICT companies because more and more confidential information is being sent across the internet. KPN has set down its privacy policy as part of its Business Control Framework, which takes as its starting point the Dutch Telecommunications Act and the Personal Data Protection Act. In some areas KPN is, in the Netherlands, in advance of certain EU legislation, such as our Data Leaks Reporting Point (Meldplicht Datalekken). We also respond to what society expects of us by communicating in a concrete, clear and transparent fashion about how we deal with personal data.

As part of our program of upgrading our privacy policy we appointed privacy officers in our largest Dutch operating units and at E-Plus in 2011. Acting as the point of contact for employees and management, they answered between 30 and 40 questions every day in 2011. At the close of 2011, we appointed a corporate privacy officer for the KPN Group. This executive is tasked with monitoring KPN's compliance with legal and regulatory requirements and with its in-house policy, and advises management on privacy-related issues and incidents. The corporate privacy officer reports to the Group compliance officer who in turn reports to the CEO.

In 2011 we recorded 425 incidents having a possible connection with our privacy rules. In each case we assessed the cause and, where necessary, took measures. In cases where a customer's personal data may have been at issue and we feared the customer's personal private life had been compromised we informed the customer concerned.

In 2011 we repeated the e-learning program for privacy awareness for all KPN employees in the Netherlands. This was supplemented by target group training sessions for those KPN units where privacy is of special importance, such as departments performing market analysis, customer service and retail. We deployed in-house communications media to highlight privacy issues at different times in order

to keep reminding employees of the crucial importance of this topic. We organized special employee workshops at which privacy case studies were examined and we developed a Q&A application for privacy that we put on the intranet.

In May 2011, a discussion arose in the media about KPN's use of Deep Packet Inspection (DPI). This technology enables the analysis of data traffic for various purposes.

- Charging: proper routing for traffic payment issues. MMS usage is not posted twice and customers can upgrade their prepaid data credit balance without charge.
- Network management: transparent network load to allow this to be calculated in network maintenance.
- Analysis of the data traffic: monitoring of data usage to be able to respond to developing products and services. Individual user data is not analyzed.

For analyzing mobile network data traffic we have been using a technique comparable to DPI since November 2010. This was prompted by the launch of the iPhone as major use of this smartphone was expected to put a heavier load on the network. The technique enables the distinction of data traffic by category, which is unconnected to the content of the data traffic. We can see, for example, that WhatsApp or other apps are being used, but we cannot read the messages. The data volume alone is analyzed; the number of messages sent is not counted.

At a meeting held with investors and analysts we made no secret of the fact that we were applying the DPI method, a disclosure that provoked much discussion in the media. KPN was criticized after the media suggested that we would access the content of the data traffic. We responded by stating that this was not so: We use DPI only to ensure that our investments and our service remain in sync with the characteristics of network usage.

Following the reports in the media, three independent investigations were performed with a view to determining whether we were operating in breach of privacy. The Dutch Public Prosecutor and OPTA concluded that KPN was not operating in breach of privacy legislation. At the time this report was being written the result of the investigation by the Dutch Data Protection Authority had yet to be published. Our own investigation has thrown up no trace of infringements of policy, codes of conduct or of procedures.

The debate about DPI has taught us the importance of being aware of the speed with which privacy issues can affect public perceptions even though these may be unconnected to what we actually do. Our aim is therefore to be even more transparent and clear about the way in which we safeguard our customers' privacy.

We consider it important that we share our views on privacy with those parties for whom privacy is crucial. This has led to KPN taking part in organizations involved in privacy issues as well as industry-wide associations covering the same subject, such as the privacy committee of VNO-NCW, the Dutch employers' federation and ICT-Office. We review privacy issues regularly with government, the regulators and social bodies.

So as to gain an understanding of whether our privacy policy has triggered greater awareness of the topic amongst our staff at the close of both 2010 and of 2011, we conducted surveys measuring privacy perception at KPN Nederland. They show that our employees have become more aware of the privacy theme. 87% of the employees, which is more than a year earlier, believe they work in line with KPN's privacy statement. A majority believes that KPN is making sufficient efforts to protect its customers' personal data. One-third of the employees believe that KPN should be more transparent towards its customers in terms of how personal data is used. Almost half of the staff believe KPN is sufficiently transparent.

We shall repeat this survey in 2012 with the object of securing further improvement.

## 1.7 COMPLIANCE AND INTEGRITY

### Compliance, integrity and compliance with the Dutch Telecommunications Act

In 2011, we transferred our most important operations in the field of compliance and risk management to a new department, KPN Group Compliance & Risk Management. We believe this will lead to an improved execution of risk assessments across the entire Group. It will also make it easier to gain a picture of how law and regulation are being implemented and of compliance and integrity issues. Employees of all business units now have a single address to which to direct inquiries about risk management. Nine people work in Group Compliance. Group Compliance has stationed business compliance officers drawn from its own ranks at major business units at KPN Nederland, E-Plus and KPN Group Belgium to act as points of contact for compliance and integrity issues. The Dutch business units also have their own risk management departments charged with shaping the execution of compliance and integrity policies. KPN Nederland reports each quarter to OPTA, the lead regulator.

### Integrity and ethics: corporate culture

KPN has a Company Code and other internal codes. Based on our core values – Personal, Simplicity, Trust – these lay down the approach we must take to each other and to our stakeholders.

Every year we draw up a checklist of how the integrity of the organization has developed. This involves putting all our employees into several dilemma scenarios. One such scenario might be the tension between commercial targets and compliance with the rules. Reporting abuse and fear for the consequences of a report are also monitored.

The integrity measurement survey we performed in 2010 prompted us to place special focus on certain topics in 2011. We did so using blogs and 'statements of the week' on our in-house social media platform. Our own whistleblower policy was one such topic. Based on the integrity measurement survey of 2011 we will put special focus on the following topics in 2012: the Dutch Telecommunications Act, the whistleblower policy and the tension between commercial targets and compliance with the rules. An additional integrity workshop was organized for senior management in 2011. The major theme was that of promoting exemplary conduct by senior management and leadership integrity.

In December the Netherlands Competition Authority (NMa) carried out investigations at the premises of KPN, T-Mobile and Vodafone. The NMa stated that it suspected that the providers had made agreements between themselves about consumer tariffs for mobile telephony and internet. At the time this report was written nothing was known about the results, even provisional, or the anticipated duration of the investigation. KPN is of course cooperating fully with the investigation.

### **Knowledge of the rules**

KPN has incorporated content of the Telecommunications Act, the Data Protection Act and competition law in its in-house codes. There are other internal codes covering safety and information security, and we apply a fraud policy. Supplemental to these codes are a whistleblower policy, an integrity review protocol and a code covering insider trading. These last three are featured together with our Company Code on [www.kpn.com/corporate](http://www.kpn.com/corporate) (only in Dutch).

KPN Nederland employees must know the content of these codes and conduct themselves accordingly. We use conventional courses and e-learning to make this as easy as possible. 74% of Dutch employees had taken note of the Company Code by the close of 2011. There are no figures for employees outside the Netherlands. In 2011, we expanded the training program with e-learning about the privacy rules. In addition to this training program, specific courses were given on particular subjects such as regulations forbidding telephone canvassing and competition law. In 2012, fraud and corruption will be given more attention across the entire KPN Group following the coming into force of the British Bribery Act 2010.

### **Sanctions**

In 2011, KPN was issued with six definitive and non-appealable sanctions. These sanctions totaled EUR 8.2 million. Three sanctions were issued by Dutch regulators and three by German regulators. Four related to failures of compliance with telecommunications or consumer protection legislation. The largest penalty (EUR 7.9 million) related to the decision taken in 2011 by the Netherlands Competition Authority in what has been called 'the dealer compensation scheme' dating back to 2001. There was also an environment-related penalty of less than EUR 1,000. KPN Group is still conducting objection and appeal procedures against six sanctions imposed for alleged breaches of the Dutch Telecommunications Act. Their values vary between EUR 500,000 and some millions of euros and they were imposed during or before 2011.

In addition to these matters, in 2011 KPN Nederland was involved in nine legal actions relating to its having been deemed a party enjoying significant market power in a market, or relating to obligations thereby having been imposed or relating to compliance therewith.

In 2011 the Dutch Advertising Code Committee issued its verdicts on 16 complaints about advertising statements made by KPN Nederland. In ten cases the Advertising Code Committee ruled that these advertising statements were in breach of the Dutch Advertising Code.

### **Management of compliance risks and incidents**

KPN has a procedure in place designed to minimize the risks of a breach of the rules. We identify new compliance risks, we update known risks and we formulate new measures to minimize compliance risks. For this reason, in 2011 we adopted additional rules in respect of roaming, privacy and telephone canvassing. Every quarter the business units report on the degree to which compliance risks are managed.

KPN offers its employees a variety of in-house reporting options which they may use to report, openly or anonymously, suspicions of breaches of the rules or of abuse. Potential breaches of the Telecommunications Act are always reported to OPTA and investigated internally.

In 2011 there were 18 instances in which the whistleblower policy was applied. On three occasions they concerned reports of suspicions of theft or embezzlement. Three cases involved suspicions of fraud. Allegations of abuse and misconduct were at issue in six cases, while there were six cases of reports of another nature.





# QUALITY OF SERVICE

BETTER SERVICE IS CRUCIAL FOR KPN

## 2. QUALITY OF SERVICE

### OBJECTIVES AND RESULTS

	<b>Result 2010</b>	<b>Target 2011</b>	<b>Result 2011</b>	<b>Target 2012</b>	<b>Target 2013 and beyond</b>
<b>Transparent, reliable service provider in the Netherlands</b>	Score -13 of Net Promoter Score	Score -5 of Net Promoter Score	Score -14 of Net Promoter Score	Score -7 of Net Promoter Score	Score +15 of Net Promoter Score in 2015
	Loyalty leader in 11 of the 24 product market segments (NPS)	Loyalty leader in 16 of the 25 product market segments (NPS)	Loyalty leader in 13 of the 25 product market segments (NPS)	-	-
	-	-	Recommendation score of 6.4	Recommendation score of 6.7	Recommendation score of 7.0 in 2015
	-	-	Position 12 in RepTrak in the Netherlands	-	Position 10 in RepTrak in the Netherlands in 2015

#### 2.1 OUR VISION: BETTER SERVICE IS CRUCIAL FOR KPN

Over the coming years we wish to achieve a sharp increase in the quality of the service we provide in the Netherlands, because quality improvement is a precondition for us to increase our market share. Our focus on quality also brings with it major value creation. Yet the most important reason is simply this: we want to do a better job for ourselves and for everybody else. Not because competition or the 'market' obliges us to do this, but because this creates the basis for achieving the key target we have set ourselves: to become the best service provider in the Netherlands.

The customer decides whether we are the best service provider. His or her experience of the service provided serves as the direction we must follow on the road to improvement. One of the tools we use to determine whether we succeed in achieving this goal is the Net Promoter Score (NPS). This is a measure of client loyalty that applies to all business units.

In 2011 we set ourselves the target of taking the loyalty leader position in 16 out of the 25 product market segments, in other words: of attaining the top score. We also wanted to attain a NPS score that was eight percentage points higher than the figure we achieved in 2010. Unfortunately we failed to achieve this target. We were loyalty leader in 13 of the 25 product market segments and our overall NPS score fell by one point to -14 points. Our NPS score having stabilized and not grown further can be explained by the fact that brand preference is 'merely' a reflection of customer satisfaction, while NPS measurements go further than this. NPS asks the customers whether they would recommend KPN to others.

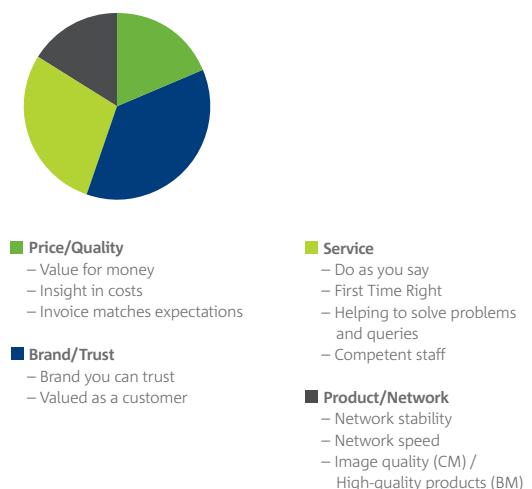
We have investigated the question of why we failed to achieve our NPS targets. On the one hand, the reason lies in a number of events in the ICT industry that generated major media attention. On the other hand, our service provision can and must be further improved.

#### Brand image and price perception

The ICT industry is changing very fast. This calls for unremitting change in order to safeguard the continuity of the industry. We find ourselves regularly obliged to make choices about revenue models, privacy protection and data traffic. Each change has consequences for the parties involved which were used to the existing situation. Sometimes that leads to very lively debates. Communication is crucial to winning confidence and communication in the industry is in need of improvement.

At the close of 2010, media reports about KPN were negative in the light of our minutes-based invoicing system rather than a seconds-based one. Spring 2011 saw a debate about net neutrality and subscription variants for mobile data, while the issue of Deep Packet Inspection (DPI) also garnered much interest. In the business market our intention of extending the notice period from one month to one year was badly received. These subjects had a negative effect on our image and on our NPS, given that brand image and price perception account for about half of the NPS result. We see the same effect from initiatives that customers rate positively.

**Figure 7: NPS drivers**



### Product, network and service

The NPS scores also serve to highlight the areas where we can improve our services, and this is another reason why we pursued our program of quality improvement in 2011. Management and coordination functions are dealt with at a high level: the Quality steering committee that is chaired directly by the Board of Management. The steering committee, on which all business units are represented, reviews quality progress every week.

At the close of 2010 and during the first quarter of 2011, the emphasis was on investigating and determining those aspects that make up quality. Despite differences between the market segments we can apply most improvements to both the consumer market and the business market. This is in line with our brand approach: in our marketing and communication we want a single KPN brand to come more and more to the fore.

The managers of these units are responsible for the execution and results of the Company-wide improvement program that the steering committee has developed. The Board of Management assesses the progress of the improvement initiatives each month.

## 2.2 IMPROVEMENT INITIATIVES

Below are some examples to illustrate our intention of improving our services.

### Avoiding network and equipment faults

Between 10% and 20% of our clients' queries or complaints are about faults. Some of these concern a fault within the client's own equipment but sometimes the cause is to be found in the network. Our aim is to bring the number of faults down and to resolve them more rapidly by deploying additional capacity and improving the provision of usage information.

Over the past year, we have made major improvements to the process of replacing defective modems and other peripherals in the consumer market. Customers were previously obliged to hand in their defective apparatus at the Post Office, but practice showed that only a quarter of the customers did so. The new exchange system calls for us to collect without charge the defective equipment directly from the customer's home or business premises. This is beneficial for us as well, because the equipment, once repaired, is often reusable. Cost reductions and environmental savings go hand in hand.

### Queries and complaints

Our analysis showed that customers with a complaint or query would regularly be put through to a series of different departments at KPN. To avoid this we want to design our processes in such a way that the customer is immediately and in one go helped by the first KPN employee. Our in-house term for this is the First Time Right approach. We began large-scale implementation of this approach in the second quarter of 2011.

A second initiative is targeted at customers who call us several times over a short period. We ourselves contact these "frequent callers" who have not been given the right assistance for far too long. This shows the customers that we take the initiative. We ensure that the right departments work together to resolve the problem as quickly as possible and inform the customer about our progress. The customer is assigned a single contact person. We have observed that this way of working increases customer satisfaction.

### Delivery times

A third element we wish to improve is the delivery times of services that we offer across the fiber or copper network such as internet, television and fixed-line telephony. Our aim is to bring delivery times down to a few days in the course of 2012, where it currently stands at over two weeks.

Customers also considered the time needed to repair a mobile phone or smartphone – an average of two weeks – to be too long. We have now brought this down to one week. Combining this with a number of services, we have succeeded in halving the delivery time for an order for a business ADSL service from 16 to eight working days.

### Service engineers

Our service engineers do not always succeed in resolving the problem in the course of their first visit to the customer. The reason would often lie in restrictive responsibility given to the engineer and insufficient information. The service engineer might also lack the

right equipment. We have therefore enlarged the scope of their responsibilities with a view to speedier and more effective resolution of faults.

In the interests of better preparation, we also want to ensure that our service engineers are given better advance information about the customer's query or complaint. Customer communication was improved in 2011. Service engineers now leave the customer with a business card when they leave. If the problem has not been fully resolved, the customer knows whom to call. We have very specifically tightened up the clauses in our contracts defining the quality of service that we expect in cases where the works to be performed are outsourced. The First Time Right approach applies to this service as well and we expect to score a higher percentage in 2012.

### Moving house and migration

In 2011 we paid an extra degree of attention to improving our service for clients moving house. This program, which has now been completed, has allowed us to bring down the advance notice requirement for moving house from four to two weeks in most cases.

In 2011 a new area of attention gained greater visibility: consumers who wished to switch from a consumer to a business contract. Complaint reports revealed that this process did not always run smoothly. By way of example: KPN Consumer Market sent a customer a letter regretting the decision that had prompted him to leave KPN while shortly before KPN Business Market had welcomed him as a new customer. We have now created a transfer service to avoid this embarrassing kind of error.

### Clearer information

Studies have showed us how to clarify and simplify the information we give our customers. This has prompted us to carry out an in-depth examination of the written communications we provide to customers, from invoices, letters of confirmation and user manuals to FAQ information. Our first step was to assess this information for consistency and clarity following which we went to work on simplifying it.

### Web care, online customer self-help service and social media

Our customers feel that the internet customer service needs improvement. Our first task will be to add some functionalities to [www.kpn.com](http://www.kpn.com), KPN's #1 contact and sales channel in the Netherlands so that customers can do more themselves. We have already upgraded the online customer self-help service on our website.

In the fourth quarter of 2010, we launched the web care team that tracks all the reports circulating about our products and services in social media. We use the weekly analyses they prepare to improve our business. We use the information from the analysis to optimize the help we give to customers who come to us with queries and complaints. Where possible or necessary, we make direct and proactive contact with individual customers. In 2011, we were able to deal with 5,500 problems and queries in this way.

We want to use our young people's brand, Hi, to stay close to this target group with a strong and ever-present dialog. Our target is for Hi to become the most social telecom brand in the Netherlands. In 2009 Hi began using social media, in 2010 we were mainly listening, learning and

experimenting. We also constructed a Hi community that we expanded and activated in 2011. In addition to monthly Hidols sessions during which marketing executives go out on the road with young people, Hi has built many connections using social media. Our young people's brand has over one 100,000 Facebook friends, the Hi website is visited each month by between 100,000 and 150,000 unique visitors and Hi messages are now read 1 million times a month. Hi also has over 5,000 followers on Twitter. Further improving its online service, on 1 November 2011 Hi opened its own forum on [www.hi.nl/forum](http://www.hi.nl/forum).

### KPN Corporate Market

In 2011 KPN Corporate Market, formerly Getronics, started using a standard benchmark for measuring customer satisfaction: the promoter scores. The scores operate using a ten-point scale. This is the standard technique of measurement used in the major corporate market and facilitates comparison with competitors. We scored 6.4 in 2011.

We renewed and intensified our efforts in the area of quality in 2011 in order to raise our promoter score. Here again, a high-level quality steering committee was appointed, meeting every month. The steering committee focused on analyzing customers. Analysis of the 75 largest customers led us to formulate a number of quality improvements. We also contacted the ten least satisfied customers in order to raise the quality of the service we were giving them.

Our purpose is to achieve a 6.7 recommendation score in 2012 and raise this to 7.0 by 2015. With such results we forecast that KPN Corporate Market will assume a leading position in the area of quality of service relative to its Dutch competitors offering a comparably broad portfolio.

In 2012 we shall further pursue the track we have started down so as to attain this target. We will simplify our internal organization and make it more customer-oriented. A single business unit will take full responsibility for all customer service activities while the customer himself is given a single point of contact within Corporate Market. We are standardizing our services and simplifying our in-house processes. We shall maintain our quality steering committee as well as the Promoter program in 2012.

### 2.3 OUR CORE VALUES: PERSONAL, SIMPLICITY AND TRUST

In 2010 we formulated our brand manifesto in which we put forward our three core values for our customers: personal, simplicity and trust. We aim to deliver on these three values and make sure they shine through everything we do. The new strategy that we launched in May 2011 underscored yet again the importance and relevance of these core values. We have translated these three values into three customer undertakings which we shared with our employees. We will make these tangible to our customers in 2012.

We are aiming to raise the First Time Right percentage in stages. This stood at between 40% and 80% in 2010; we aim to raise it to between 85% and 95% by 2015. Over the same time span we are targeting a reduction in the number of customer calls made to our service desks by 25%. We believe this to be necessary as many customers call because our products or services are unclear or flawed in some way.

These improvement initiatives are also designed to improve our NPS. In 2012, we want to achieve an NPS of -7 which means raising the result by 7 points relative to 2011. In 2015, we are targeting an NPS of +15.

**Figure 8: Net Promoter Score (NPS)**



## 2.4 CHALLENGES AND DILEMMAS

The ICT industry is dominated by large numbers: millions of people use our ICT services. We attempt to satisfy our customers' expectations and wishes. We are encouraged by the fact that, for the vast majority of our customers, we succeed in doing so. Such enormous numbers of customers and our high visibility mean that it is a major challenge for us to satisfy everybody's expectations under every circumstance.

**A visible market leader in difficult public debates**  
Our position as the Netherlands' largest service provider with the most extensive network has led us to assume a prominent if not leading role in the debate within society about ICT. Developments affecting our industry often affect us first. Dutch society justifiably expects us to take on an exemplary, indeed leading, position in order to arrive at a sound ICT policy for the entire country, as the new subscription arrangements and the discussion about net neutrality show. We perceive it as our responsibility to engage in dialog about the future revenue model for the ICT industry, but observe at the same time that this is not always well received by the public at large. Part of the explanation lies in the complex nature of the issue and the lack of clarity surrounding the revenue models of some of the new apps.

Although our participation in tricky public discussions may sometimes depress our customers' perception of KPN and may prejudice our reputation over the short term, we see it as our responsibility to disclose our intentions in dialog with society and to identify the social interest that this serves.

### Young people and debt

The debt issue, particularly among young people, is another dilemma that is closely linked to our services and our customers. The organization tasked to help people manage their financial affairs, the Nationaal Instituut voor Budgetvoortlichting or Nibud, has calculated that 16% of young people in secondary vocational education always exceed their set telephone budget. 12% of young people aged between 12 and 18 often use an amount in excess of what the bundle or credit balance permits.

Self-evidently we are a commercial undertaking and wish to operate successfully and generate revenues, but we find it undesirable for customers to go over budget. This is good neither for the customer, his social environment nor, finally, for KPN. In 2011 we took a variety of steps to prevent or reduce debt among young people. At Hi we launched two apps, Belstatus and MB status, that allow young people to keep track of their credit balance of call units and data consumption at any time. These were the first apps of this type in the Netherlands and they were downloaded 142,000 times in 2011.

KPN views cutting off customers who do not or no longer pay their bills as a last resort. Before deciding to cut a customer off we send reminder text messages and letters with payment details. If he has not paid after receiving several warnings we cut the customer off in one direction: he can no longer call, send text messages or go online, but he can still receive telephone calls. This prevents the accumulation of further debt. If a customer has not paid after three months, the cut-off is made complete and any unpaid bills are forwarded to a collection agency. In 2011 we were eventually obliged to perform 6,700 cutoffs of customers under the age of 21 who were calling using KPN or Hi. This happened 4,700 times in 2010.

Over the past years the age of children with a mobile telephone has gone down. This took us into a rather difficult internal debate: while there is a need in the market, children are a vulnerable target group where caution is of the essence. This thinking led us to launch Hi PrePay Young, a prepaid subscription for children aged between 6 and 12, in June 2011. Hi PrePay Young has a number of extra features protecting children from unpleasant financial surprises. We use film clips and games to get the message across that call credits can run out. There are also tips and tricks they can use to make smarter and better use of call credits. The subscription also blocks calls to commercial 0906 and 0909 numbers as well as all paid text messages.

Hi PrePay Young works together with Nibud. In 2011, Hi PrePay Young was a partner in 'Money Week' in which, together with bodies such as Rabobank, Consumentenbond and Ouders&Coo, we advised the audience about how to manage their money.

# THE NEW WAY OF LIVING AND WORKING

SAVING MONEY, TIME AND ENERGY  
ALL WITHIN A SINGLE CONCEPT





### 3. THE NEW WAY OF LIVING AND WORKING

#### OBJECTIVES AND RESULTS

	<b>Result 2010</b>	<b>Target 2011</b>	<b>Result 2011</b>	<b>Target 2012</b>	<b>Target 2013 and beyond</b>
<b>Engaging in debate with society</b>	KPN participated 50 times in debates with society about the New Way of Working	50% of the 500 largest organizations in the Netherlands consider KPN Corporate Market opinion leader for the New Way of Working	No reliable measurement	–	–
<b>The New Way of Working at KPN</b>	No reliable data for % peak-hour kilometers	Develop a technique for measuring CO <sub>2</sub> savings for the New Way of Working	KPN Reduction meter developed	–	–
	10,407 KPN Netherlands employees can work in accordance with the New Way of Working	11,000 KPN Netherlands employees can work in accordance with the New Way of Working	11,540 KPN Netherlands employees can work in accordance with the New Way of Working	85% of KPN Nederlandse employees feel they can work in accordance with the New Way of Working	–
<b>The New Way of Working at customers</b>	Sharp increase in number of contact persons (outside of ICT procurement) at business customers	15% growth in usage by customers of 3 typical 'New Way of Working' services	71% growth in usage in the Netherlands by customers of 3 typical 'New Way of Working' services	10% growth in usage in the Netherlands of services that make 'New Way of Living and Working' possible	–

### 3.1 OUR VISION: SAVING MONEY, TIME AND ENERGY ALL WITHIN A SINGLE CONCEPT

The services we provide have helped to make the New Way of Working possible. Our aim is to enable people to arrange their work so that it fits in with their lifestyle, which is why we refer to this concept as the New Way of Working and Living as well. We promote an optimal, productive work-life balance both for our customers and for our own employees whilst saving time and reducing CO<sub>2</sub> emissions.

### 3.2 SOLUTIONS FOR CUSTOMERS

In the areas of teleconferencing, videoconferencing and cloud computing we are well equipped to make the New Way of Living and Working possible for other organizations. Our target for 2011 was to achieve a growth of at least 15% in the services that characterize the New Way of Working. Active promotion of our campaigns for the New Way of Working has allowed us to exceed this target comfortably: we achieved 71% in 2011.

We wanted half of the five hundred largest organizations to rate KPN as the opinion leader in the area of the New Way of Working in 2011, but we were unable to measure this reliably.

In 2011 we placed a greater emphasis on linking the advantages to be gained from the New Way of Working. We developed our proprietary metering tool, KPN Reduction meter ([www.kpnbespaarmeter.nl](http://www.kpnbespaarmeter.nl)) that allows companies and other organizations to see how they can use ICT to make savings. The KPN Reduction meter analyzes the benefits in terms of saving energy, time and money. The tool calculates the savings in terms of work space, mileage traveled and time. The tool goes on to calculate the savings organizations will make if they transfer to KPN their total ICT system, including cloud computing, housing and hosting. This highlights the benefits to be obtained from our green data centers and the green network. In 2012, we intend to make active use of the KPN Reduction meter on the market.

In 2011 we carried out a study in collaboration with partners such as Telewerkforum, Rabobank, Philips and TNO to find out whether the New Way of Working has a positive effect on productivity, vitality and the environment. The findings were positive. The major conclusions of the study were that managers and hierarchical superiors who know how to motivate people contribute the most to company objectives. ICT tools had a positive influence on employee enthusiasm and productivity. We intend to make this investigatory tool available to Dutch companies and organizations in 2012.

In the first quarter of 2011, our advertising campaigns highlighted the practical savings to be gained from the New Way of Working and the advantages entrepreneurs can reap from working anywhere they choose. Our various campaigns promoting the New Way of Working prompted dozens of customer queries.

In 2011 we also approached the wholesale market about switching to the New Way of Working. We started a new web site, [www.hetnieuwewerkenbeweging.nl](http://www.hetnieuwewerkenbeweging.nl), in which we invited organizations to visit our Experience Center in Zoetermeer to experience the New Way of Working for themselves. Last year about one hundred organizations took us up on the invitation, visited the Experience Center and experienced for themselves the benefits of the New Way of Working.

In 2011 we assisted major customers in launching the New Way of Working within their organizations. We introduced the office concept of an online workplace (WerkplekOnline) to ten thousand employees of PostNL, thanks to which this company reaps major energy savings each year. Similar projects were also implemented at Achmea and the Ministry of the Interior and Kingdom Relations.

We continued to take a visible part in the debate within society about the New Way of Working. We share our experience on a platform designed to facilitate knowledge exchange among 50 trend-setting employers (B50). These employers intend to be or already are in the forefront of taking a smart approach to work and travel. A smart approach to work and travel helps improve accessibility in the Netherlands. It also contributes to the competitive position of the Netherlands, to improving its ranking as a desirable business location and to increasing rates of workforce participation. In this context we carried out a study into the options of swapping work places: the 'working while traveling' initiative or Werken Onder Weg.

As board member of an organization that promotes the benefits of an information society, ECP-EPN, Platform voor de Informatiesamenleving, we promote the New Way of Working. This is a platform on which government, businesses and social organizations exchange knowledge and work together to promote the development of the information society in the Netherlands. In 2011, the platform commissioned a study designed to identify the areas that would potentially benefit from large scale introduction of the New Way of Working. If by 2015 20% of the workforce population in the Netherlands works from home one day a week, this will yield almost EUR 2 billion yearly. If two days a week are spent working at home, the savings amount to almost EUR 3 billion. The key reason for this is that 180,000 cars get taken off the road every working day: less mileage traveled, less pollution and a fall in the costs of office space.

As a member of ICT-Office, a trade association for the ICT industry, KPN took the initiative to set up Binas, a reference work that tracks the environmental effect of ICT products and services. This enables the ICT industry to draw up a record of its contribution to the environment and to ensure honest, transparent information. We use these figures in our customer communications such as the KPN Reduction meter referred to above.

At the close of 2011, we organized a stakeholder dialog about the New Way of Working in which the stakeholders left us with five key messages:

- Take a leading part in the New Way of Working, for which a new and broader definition is needed. Place greater emphasis on the cultural aspects;
- Link more closely the New Way of Working to the promises made to customers;
- Use the technology that drives the New Way of Working. Connectivity and sustainability (i.e. energy) distinguish KPN from other providers;
- Show that KPN is ready by launching an ambitious communications program directed at the world outside that also discusses being an attractive employer;
- There is a lack of awareness, or insufficient awareness, of many of the good things that KPN does.

In 2012 we will continue putting every effort into promoting the New Way of Working amongst companies and organizations. We expect a growth of at least 10%. We will direct our efforts primarily at knowledge workers and the healthcare sector where the New Way of Working lends itself to easy application. We shall specifically target the user, the employee within the organization. We will position the New Way of Working to them as an attractive alternative, our expectation being that demand for the New Way of Working will arise in parallel within the organization.

Another avenue we are examining is improving the linkage between ICT services and hardware. We are exploring the options for ‘bring your own IT’: employees are free to buy their ideal laptop, PC or tablet that is fitted with the employer’s software and applications. This reduces cost and the burden on the environment because the employee no longer needs to have both private and business equipment, and it has the additional advantage of delivering greater convenience. However, it requires a major shift in the way ICT is set up within an organization and raises challenging issues in terms of security. We want to use our ICT knowledge and experience to make the best possible contribution. The study referred to above, conducted with Telewerkforum and TNO, helps us make the argument for these investments. We will communicate this more and more to the market, combined with the benefits in terms of cost and environment upon transfer of their ICT operations to KPN. Customers will then also profit from the advantages of our green, safe and cost-efficient data centers.

### 3.3 THE NEW WAY OF LIVING AND WORKING AT KPN

It should come as no surprise that the New Way of Working is being actively shaped within our own organization. We already employ 11,000 of these ‘New Workers’. In spring 2011, we ran a survey amongst 5,000 KPN employees to evaluate their experience of the New Way of Living and Working. Some 60% of those employees contacted completed the survey. The positive aspects that they cited most frequently were independence, vitality, work-life balance, enjoyment and the resultant challenge. The savings in time and mileage turned out to be significant as well: New Workers save a staggering 131 minutes and 86 miles of rush hour traffic each week. This also constituted a contribution to the 2008 Haaglanden Covenant in which we undertook to cut rush hour mileage by 5% by 2012. Employees rated their physical work station as more than sufficient, but their managers’ style had not changed, or had not changed enough. Nor were employees sufficiently aware of the resources that had become possible thanks to the New Way of Working. We are going to work on this and in the course of the Dutch New Way of Working Week, we will launch an in-house campaign focusing on the resources that are possible thanks to the New Way of Living and Working such as flexible workstations, videoconferencing, cloud computing and teleconferencing.

In Belgium, we made an important step in the New Way of Working in 2011 for which we gained recognition that same year. Getronics Belgium was awarded the prestigious IFMA Facility Award 2011, a prize for the best facility management project of the year. Two years previously, Getronics Belgium relocated to new multi-functional premises that operate according to the principles of the New Way of Working. The premises provide us with annual savings of EUR 1 million.

### 3.4 CHALLENGES AND DILEMMAS

#### **Involvement in the organization**

The New Way of Working has its limits. In one of our call centers we ran an experiment with almost full time working from home. Work productivity may have gone up, but the employees missed personal contact with their colleagues to such a degree that they would not recommend this approach. This means for us that the New Way of Living and Working must not lead to working only at home, but must be combined with working at locations where employees can interact with their colleagues.

#### **Keeping work and private life separate**

We are also aware that the New Way of Working can result in people focusing continuously on their work, making it more difficult for them to keep work and private life separate. We recognize this phenomenon, but do not know how widespread it is. Working with our stakeholders, we intend to start a study in 2012 to investigate and identify the conditions under which the New Way of Working helps promote the work-life balance and when it has the opposite effect.

# ENERGY-EFFICIENT

ICT IS INDISPENSABLE FOR AN ENERGY-EFFICIENT FUTURE





## 4. ENERGY-EFFICIENT

### OBJECTIVES AND RESULTS

	<b>Result 2010</b>	<b>Target 2011</b>	<b>Result 2011</b>	<b>Target 2012</b>	<b>Target 2013 and beyond</b>
<b>Energy consumption KPN Group</b>	–	–	-4% growth in comparison with 2010	Max. 3% growth in comparison with 2010	Max. 5% growth in 2013 in comparison with 2010
<b>Fixed and mobile network in the Netherlands</b>	Electricity consumption identical to 2009	Max. 2% more electricity consumption in comparison with 2010	3% less electricity consumption	–	20% absolute energiereductie t.o.v. 2005 in 2020
	Measures that save 38 GWh	Measures that save 32 GWh	Measures that save 40 GWh	Measures that save 30 GWh	
<b>Mobile network in Germany and Belgium</b>	Annual targets set	Germany: 5% more energy-efficient in comparison with 2009	Germany: 8.6% more energy-efficient in comparison with 2009	Germany: 9% more energy-efficient in comparison with 2009	20% more energy-efficient in 2020 in comparison with 2009
	–	–	–	Belgium: 5% more energy-efficient in comparison with 2009	
<b>Data centers in the Netherlands</b>	23% more energy-efficient in comparison with 2005	24% more energy-efficient in comparison with 2005	27.6% more energy-efficient in comparison with 2005	28% more energy-efficient in comparison with 2005	30% more energy-efficient in 2020 in comparison with 2005
<b>Green electricity</b>	60% green electricity for KPN Group (Netherlands: 77%, Belgium: 34%, Germany: 29%)	The Netherlands and Belgium: 100% green electricity, Germany: 50% green electricity	88% green electricity for KPN Group (Netherlands and Belgium: 100%, Germany: 63%)	91% green electricity for KPN Group (Netherlands and Belgium: 100%, Germany: 75%)	100% green electricity for KPN Group
	–	–	–	The Netherlands : 1% biogas	Biogas wherever possible in 2013
<b>CO<sub>2</sub> emissions</b>	–	–	135 kTon reduction of CO <sub>2</sub> emissions in comparison with 2010	35 kTon reduction of CO <sub>2</sub> emissions in comparison with 2011	Net zero emissions in 2020
<b>Energy consumption in the value chain</b>	12.5 GWh saved at customers	25 GWh structural savings at customers thanks to more energy-efficient equipment	31 GWh structural savings at customers thanks to more energy-efficient equipment	Customers: apply and measure effects of KPN Reduction meter	In 2020: save as much energy annually in the value chain as KPN itself uses
	Green tip in the consumer market	Develop a technique for measuring CO <sub>2</sub> savings for Green ICT	KPN Reduction meter developed	Suppliers: develop technique for measuring CO <sub>2</sub>	
<b>Vehicle fleet</b>	35 kTon CO <sub>2</sub> emissions in the Dutch vehicle fleet	–	3% absolute CO <sub>2</sub> savings in the Dutch vehicle fleet in comparison with 2010	6% absolute energy savings in the Dutch vehicle fleet in comparison with 2010	35% absolute energy savings in the Dutch vehicle fleet in 2016 in comparison with 2010

## 4.1 OUR VISION: ICT IS INDISPENSABLE FOR AN ENERGY-EFFICIENT FUTURE

Our customers can save a lot of energy by using ICT, but the rapid growth of ICT also puts a burden on the environment through higher energy consumption in other parts of the chain. We take our responsibility seriously in terms of greening and minimizing energy consumption – ours, our customers' and our suppliers'. No later than 2020, KPN aims to be climate-neutral, in other words to produce no net CO<sub>2</sub> emissions. The efforts made by our customers and ourselves enable us to put the concept of 'green ICT' into practice: we make our infrastructure ever more energy-efficient, and our customers save energy by using our ICT.

## 4.2 SOLUTIONS FOR CUSTOMERS

### KPN Reduction meter

Smart ICT services and The New Way of Living and Working can make a significant contribution to energy saving. We can save a lot of energy by reducing servers and data storage area. Working from home eliminates travel time and fuel consumption and flexible working reduces the need for office buildings. In 2011 we developed the KPN Reduction meter, an online tool for calculating potential energy, time and cost savings. This enables us to give current and potential customers an understanding of the financial benefits of Green ICT and The New Way of Living and Working. In 2012 we will promote the KPN Reduction meter in the business market in collaboration with the World Wildlife Fund, in the context of the Climate Savers Program.

### Apps for viewing data consumption

Greater capacity is now required of the network because of the growth in data traffic (MBs) with mobile devices such as smartphones and tablets. In our experience, many users are insufficiently aware that MBs cost energy and money. To enhance this awareness KPN, Hi and Telfort have launched special apps with which customers can track of their data consumption. Through these apps we aim to raise the awareness of our customers about network load and their personal costs. A second initiative is the online 'MB Advieswijzer', which customers can use to calculate their mobile internet usage before choosing a subscription. These new tools complement the existing tools that help customers chose a suitable type of subscription and give customers details of their consumption.

## 4.3 SAVING ENERGY AT KPN

### Energy saving

In 2011 we once again made strenuous efforts to save energy within KPN. This is essential, because the sharp increase in data communication means that we consume more energy. Without additional measures, our in-house energy consumption will be around 20% higher in 2015 than in 2010. This is the reason that in 2011 we set up a comprehensive program for those parts of the group that consume the most energy: our networks in the Netherlands, Belgium and Germany, our data centers and our vehicle fleet, which together account for 81% of the energy consumption of the KPN Group. We expect the planned savings to ensure in the coming years that our energy consumption in 2013 is no more than 5% higher than in 2010. The progress of these measures is to be discussed quarterly with the Board of Management.

### Network in the Netherlands

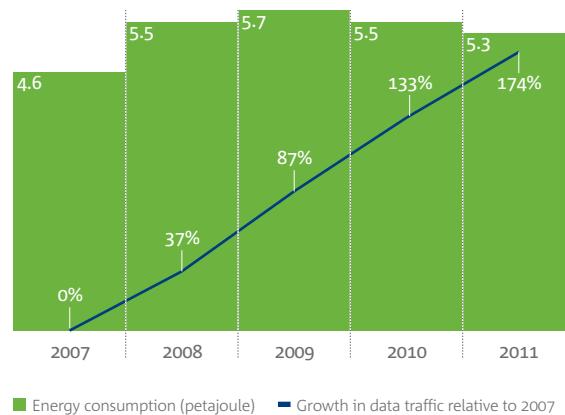
Our network needs to expand in order to facilitate the sharp growth in mobile and fixed internet traffic and in interactive TV. Nevertheless, in 2011 we saved 40 GWh – equivalent to the energy consumption of 11,000 households – by replacing old equipment with new, more energy-efficient devices. This result surpassed our target of 32 GWh and ensured that the energy consumption of our network fell by 3% in comparison with 2010, despite the sharp increase in data traffic in the same period. We therefore realized our target for 2011, namely a maximum 2% increase in energy consumption.

### Networks in Belgium and Germany

Because of the growth in mobile internet traffic we are expanding our networks in Belgium and Germany. We are using more energy-efficient equipment to minimize the increase in energy consumption. We are also using more energy-efficient cooling. As the networks are relatively new and efficient, replacement of equipment by more energy-efficient models is not yet needed there.

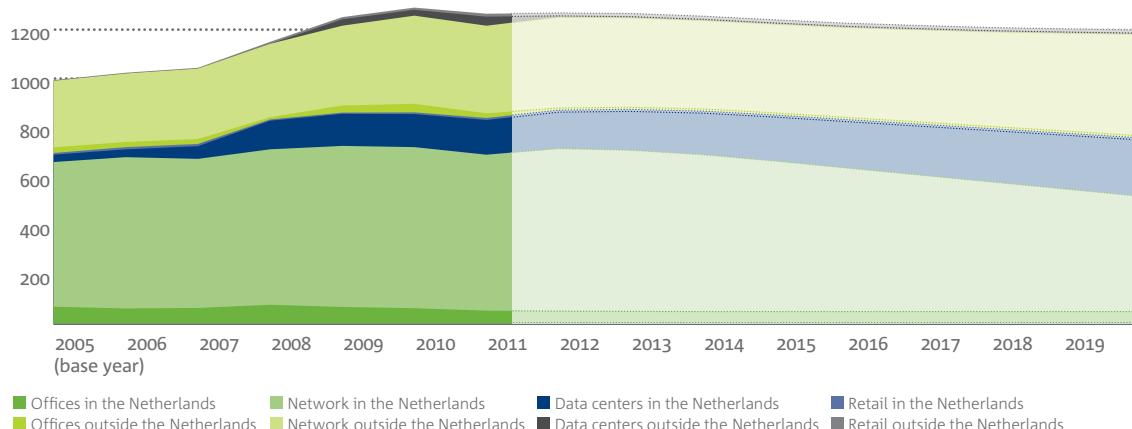
These measures enabled us to surpass our annual energy efficiency targets for Germany in 2011. By the end of 2011 we were operating with 9% greater energy efficiency than in 2009, against a target of 5%. In Belgium we aim to achieve this 5% improvement in energy efficiency in 2012.

**Figure 9: Energy consumption KPN Group and growth in data traffic**



### Data centers in the Netherlands

We measure the energy efficiency of our data centers by calculating the relationship between the energy consumption of the ICT equipment and that of the other energy-consuming equipment, such as cooling, air conditioning, emergency generators and lighting. We use the international benchmark PUE (Power Usage Effectiveness) for this purpose. We have emphasized the relevance of energy saving by also applying the KPN collective energy savings targets to the data centers. The data center managers each have a personal target for the energy performance of their data centers. One of the improvements achieved is higher capacity utilization, which has resulted in improved energy efficiency. We also applied a 'cooling-heating separation technique' in the data centers, which caused a drop in the energy consumption. Additionally, in our data center in Haarlem we began the construction of KyotoCooling, an innovative cooling method that we will go into service in 2012. In

**Figure 10: Realized and target electricity consumption (GWh)**

2011 our efforts led to an improvement in the PUE of all the data centers of almost 28% in comparison with 2005. These developments enabled us to achieve with ease our target of operating at 24% greater energy efficiency in 2011 than in 2005.

In November we underlined our commitment to saving energy in data centers by signing the European Code of Conduct for energy saving in data centers. This obliges us to implement best practices in the domain of energy saving in data centers and to issue reports on the progress.

#### Offices and technical buildings

We continued to introduce The New Way of Living and Working in our own offices. This led to an additional saving of 94,000 square meters of office space, reducing the energy consumption of our offices by 17%.

In 2011, the final parts of our new Teleport building in Amsterdam were completed and taken into use. The transparent glass building with a large indoor garden resembles a self-sufficient island: it heats and cools its entire 25,000 square meters with an independent thermal energy storage facility (TES).

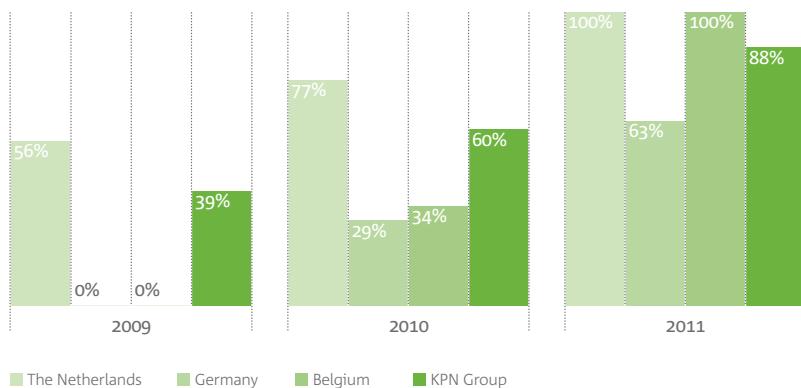
#### Growth in data traffic and energy consumption

We also took steps to cut back unnecessary growth in data traffic. To this end, we reduced the file size of our electronic invoices by a factor of 8 in 2011. Such measures can also be applied successfully by our customers. In 2012, we will explore how this can be done.

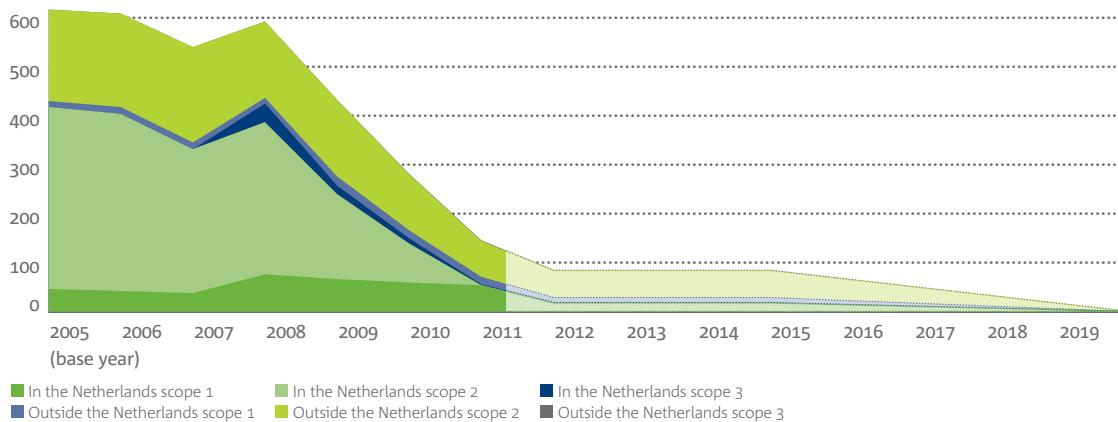
#### Vehicle fleet

Finally, we aim to reduce the energy consumption of our Dutch vehicle fleet. To facilitate this, in 2010 we imposed additional requirements on the maximum CO<sub>2</sub> emission of our vehicles, over and above the criteria that already applied (exclusively A, B or C energy label). We applied these requirements for the first time in 2011, resulting in a reduction of 3% in CO<sub>2</sub> emissions. We have also improved the way we record the use of the vehicles and the kilometers driven, so we now have a better understanding of the pattern of consumption. In 2012 we aim to influence the users' driving style by analyzing consumption figures and giving feedback. Our ultimate goal is to achieve an absolute energy saving of 35% in 2016 in comparison with 2010. We plan to realize 6% of this saving in 2012.

Our total electricity consumption in the Netherlands in 2011 was 840 GWh.

**Figure 11: Green electricity (% of total energy)**

**Figure 12: Realized and target net CO<sub>2</sub> emissions (kTon)**



Scope in accordance with Greenhouse Gas Protocol

### Green electricity

In 2011 we further increased the proportion of green electricity. In the Netherlands, since the beginning of 2011 we have procured only green electricity that is generated virtually entirely in the Netherlands. In Belgium we had already switched to 100% green electricity in 2010. In Germany, 63% of our electricity is green and that percentage will rise to 75% next year.

E-Plus commissioned the first mobile telecommunication mast in Europe that is not connected to the electricity grid. The facility uses only solar and wind energy. The fuel cells that serve as back-up are charged by solar and wind energy. E-Plus is studying the possibility of using this technique elsewhere in its network.

We undertook a new initiative in 2011 to encourage the use of green electricity by KPN employees working from home. We offer them a collective green electricity contract with extra favorable conditions. In addition, we are preparing an offer entailing the installation of solar panels at home. In 2012 we will make this offer to all KPN employees and retired employees in the Netherlands. The Netherlands is one of the countries in which the production capacity of green electricity lags behind the European targets. By promoting the use of green electricity by our company and by our staff we want to encourage producers to install additional capacity.

Now that we have 'greened' the power we consume in the Netherlands and Belgium, we are going to focus in 2012 on replacing natural gas by biogas, which is generated by methods such as the fermentation of agricultural waste. We want 1% of our gas consumption in the Netherlands to be biogas in 2012. We will then be one of the biggest biogas users in the Netherlands. We aim to use biogas wherever we can in 2013. The aim of these targets is to stimulate the development of the green gas market in the Netherlands.

### CO<sub>2</sub> compensation

Even in spite of these efforts, a certain volume of CO<sub>2</sub> emissions remains. The total CO<sub>2</sub> emissions in the Netherlands in 2011 were 56 kTon. KPN will compensate its CO<sub>2</sub> emissions in the Netherlands as from 2012. We will use the Gold Standard climate compensation for this. In 2009 the former Ministry of Housing, Spatial Planning and the Environment called this variant the best form of climate compensation; the World Wildlife Fund also advises the use of this form of compensation.

In 2011 we realized a CO<sub>2</sub> reduction of 135 kTon compared with 2010. We aim to cut this figure by another 35 kTon next year. We expect to have to compensate a further 110 kTon of CO<sub>2</sub> emissions after 2012, so that the KPN Group can be climate neutral in 2020.

### Environmental management

Structural energy and environmental improvements can be realized only if there is a guarantee of adequate management attention within the organization. We therefore introduced the ISO 14001 environmental management system through the organization. E-Plus, Getronics Hungary and Getronics UK had already been ISO 14001-certified and we set ourselves the target of achieving this goal in 2011 for KPN Nederland. We succeeded: in May 2011 we received the certificate, which relates to the whole of KPN Nederland.

## 4.4 TRANSPARENCY AND COLLABORATION

### WWF Climate Savers

In 2011, we started collaborating with the World Wildlife Fund to lessen our impact on the climate. We joined the Climate Savers Program because of our ambition to operate climate neutrally in 2020 and because of the energy savings that we have realized up to now in the network and the data centers. The Climate Savers Program is an international leadership program for companies, designed to show that economic growth and a significant reduction of CO<sub>2</sub> emissions can go hand in hand. By reducing their ecological footprint, these leading companies can prove that they are key players in the transition to a completely sustainable energy supply program.

In 2011 we developed a Climate Savers implementation plan, which shows how we are going to achieve our climate goals and how we can help our customers in this. The plan describes the measures that are outlined in this section. From this partnership also emerged the intention, along with the World Wildlife Fund, to stimulate The New Way of Working, and therefore energy savings, in the Netherlands. Interestingly, a consumer survey revealed that consumers know very little about this initiative, but that they are very positive when they hear about it. We are therefore going to involve it more actively in our marketing next year.

### NABU partnership

E-Plus continued its partnership with the German nature conservation organization NABU. The partnership has several key features; E-Plus champions sustainable procurement. To this end, E-Plus replaced 90% of its plastic SIM card holders with recycled paper in 2011. New mobile phone customers are offered a 'NABU environment tariff', enabling customers to make climate-neutral calls. We expect this service to become commercially viable in 2012.

NABU and E-Plus have drawn up a ranking of mobile phones, based on environment, health and social policy. NABU receives around three euro from E-Plus for every old mobile phone that E-Plus collects. In total, 14,512 phones were collected in 2011. Furthermore, in 2011 E-Plus commissioned the University of Münster to study the relationship between mobile communication and sustainability. These results are expected in 2013 and will be used in shaping the sustainability policy of E-Plus.

### Carbon Disclosure Project

The Carbon Disclosure Project (CDP) is a joint initiative of global investors that asks publicly quoted companies for details of their approach to climate change. Our target for 2011 in the Carbon Disclosure Project was to improve our transparency score (80 points in 2010) and our performance score, and to retain our 'A' ranking. In fact, we did manage to improve our disclosure in 2011. However, because the CDP changed its assessment method and applied the criteria more strictly, we slipped back one point to 79. The stricter method was also instrumental in our performance score dropping to 'B' ranking. Not a single telecom company achieved 'A' ranking in 2011. We succeeded in maintaining our position in the top five of the Telecommunications section of the Global 500 Leadership Index, however. Our goal for next year is to improve our disclosure score and regain the 'A' ranking.

### Newsweek Green Rankings

In 2011 KPN became the second Dutch company, after Philips, to be included in the Green Rankings of the prominent American magazine Newsweek. KPN is the sixth greenest telecom company of the world. The ranking for 2011 lists the five hundred largest companies.

### Chain partnership

A large part of the energy consumption in the ICT chain is affected by user behavior and the capacities of ICT equipment. We are endeavoring to link these together. Consequently, we organized a stakeholder dialog with suppliers and corporate customers in 2011. They encouraged us to share our sustainability performance more actively with customers, so that they can take it into account when making purchasing decisions.

In 2011 we further tightened our energy requirements for consumer equipment. Customers need devices such as modems and routers for fixed internet and interactive TV. KPN often supplies these devices as part of the service, but the customer pays the energy bill. By ratcheting up the purchase specifications for routers and modems, we enabled our customers to save 31 GWh of electricity in 2011. This equates to the electricity consumption of 9,000 households.

In 2011 we analyzed the CO<sub>2</sub> emissions in our chain. This analysis revealed that 67% of the CO<sub>2</sub> emissions can be traced back to ten of our suppliers. Such information helps us to determine where in the chain the CO<sub>2</sub> measures will be the most efficient, so that we can take those measures there.

## 4.5 CHALLENGES AND DILEMMAS

### Data growth and energy consumption

Our greatest challenge in the field of energy is to combine the energy savings targets with the explosive growth in data traffic. It is a tough task to be able to make energy savings, especially at a time when unlimited data traffic and use of internet, both fixed and mobile, are becoming increasingly commonplace. By maintaining a constant dialog with suppliers, customers and employees we aim to ensure that energy forms an integral part of our business operations.

### Recycling old phones

Collecting mobile phones, a few million of which we sell every year, remains a challenge in the telecom sector. We believe that cast-off devices should not end up in the household waste because this makes it impossible to reclaim rare metals. Justifiably, stakeholders hold the sector accountable for this. However, returning them to our shops or elsewhere has had little effect in our industry. We are examining ways of achieving a higher recycling rate.

## Radiation from mobile transmission masts and integration of mobile transmission masts into the landscape

The increase in mobile data traffic necessitates more transmission masts and that raises issues such as integration into the landscape. Transmission masts are not particularly attractive. Nowadays people demand mobile phone services whenever and wherever they want, but would prefer not to look out onto a transmission mast in their immediate vicinity. That is a dilemma for us, because we will never manage to satisfy everyone's interests. We are therefore in regular contact with local stakeholders so as to accommodate as many of their interests and wishes as possible.

Another issue relating to transmission masts is the effect of electromagnetic fields, known popularly as radiation. Reports and results of research into how radiation affects people and nature appeared in 2011. The studies failed to give a clear picture of the effects of radiation. Mobile telecom technology on this scale has been used only for about twenty years. The long-term effects are being studied, but are not yet known. We take our responsibility seriously and abide by the strictest legal standards. Furthermore, we welcome any study that provides new insights and can contribute towards sound decision-making. We listen to and respect the views, wishes and complaints of individuals and organizations, wherever possible in conjunction with the other network operators. In the Netherlands, the Monet organization is the point of contact for mobile telecom sector stakeholders regarding questions and information about transmission masts. The equivalent association in Germany is the Informationszentrum Mobilfunk and in Belgium the Radio Infrastructure Site Sharing platform.



# PEOPLE CONNECTED

OUR STRENGTH LIES IN  
CONNECTING PEOPLE



## 5. PEOPLE CONNECTED

### OBJECTIVES AND RESULTS

	<b>Result 2010</b>	<b>Target 2011</b>	<b>Result 2011</b>	<b>Target 2012</b>	<b>Target 2013 and beyond</b>
<b>Motivating employees in the Netherlands</b>	KPN volunteers lend a hand 2,213 times on Mooiste Contact Fonds projects	KPN volunteers lend a hand 2,000 times on Mooiste Contact Fonds projects	KPN volunteers lend a hand 2,012 times on Mooiste Contact Fonds projects	2,000 KPN volunteers lend a hand on Mooiste Contact Fonds projects	–
<b>Target group coverage in the Netherlands</b>	116 children with autistic traits participate in SociaalOpStap	350 children with autistic traits provided with smartphone with application	441 children with autistic traits provided with smartphone with application	400 children with autistic traits provided with smartphone with application	–
	–	300 KPN volunteers for SociaalOpStap	412 KPN volunteers for SociaalOpStap	–	–
	–	15 meetings at schools for SociaalOpStap	13 meetings at schools for SociaalOpStap	–	–
	192 children with ICT set for KlasseContact	–	282 children with ICT set for KlasseContact	–	–
	Preliminary review of methods available for measuring the contribution made by the KPN Mooiste Contact Fonds to reducing social isolation	Develop a method for measuring the contribution made by the KPN Mooiste Contact Fonds to reducing social isolation	Insufficient data to develop a reliable method	–	–

## 5.1 OUR VISION: OUR STRENGTH LIES IN CONNECTING PEOPLE

For mankind, contact is one of life's essentials. We enable contact through our products and services. On the one hand we ensure that our fixed and mobile networks provide virtually full coverage, on the other hand we make ICT financially accessible for every budget through targeted portfolio management. But our digital participation stretches beyond that. Contact is not yet a given for everyone, despite the availability of ICT. Through no fault of their own, people can sometimes lose contact for all kinds of reasons. We are searching for ways in which ICT can help these people; the KPN Mooiste Contact Fonds and 'Digitale Chancen' in Germany are instrumental in this. We support relatively small projects that have the potential to become big and to which KPN employees can provide voluntary help. The risk of solitude is waiting in the wings for people that having difficulty making contact. We want to contribute towards combating solitude by using our knowledge of and the availability of ICT resources.

In the Netherlands, the elderly are using the internet more and more. Elderly people use the internet mainly for e-mailing and as a source of information about goods and services. In the Netherlands and Germany around 60% of pensioners were online regularly in 2011; that is twice as many as in 2005 in the Netherlands. In other countries the percentage is considerably lower. We are continually developing special services and products for the elderly. For instance, via our subsidiary SimPC computers we offer special internet subscriptions for elderly people. In Germany, we are collaborating with Digitale Chancen to make it easier for people to utilize the opportunities afforded by the digital world.

## 5.2 KPN MOOISTE CONTACT FONDS

The KPN Mooiste Contact Fonds, founded by KPN, runs the projects KlasseContact, Resto VanHarte, SociaalOpStap and GeneratieTV. In 2011, we worked hard to recruit volunteers for the KPN Mooiste Contact Fonds. Our target was for KPN employees to participate as volunteers 2,000 times in 2011. At the end of 2011, 1,528 KPN employees had participated a total of 2,012 times in volunteer projects. This means that 8% of KPN employees in the Netherlands took part.

### KlasseContact

Through KlasseContact we bring chronically sick children in contact with their classmates via ICT-sets. These sets consist of a camera and screen, which are mounted on a chair in the classroom. The class and the sick child can see and hear each other thanks to a laptop with a webcam at home and a screen at school. The child uses a mouse to operate the camera in the class and can therefore decide who or what he/she wishes to see. In 2011, we brought 282 chronically sick children in contact with their classmates via ICT-sets.

Most of the organizational tasks have been transferred to our partner organization Edventure, the Dutch association for educational service agencies. A specialist electrical installation company makes the technical connection. This makes the project less dependent on the KPN Mooiste Contact Fonds, although KPN continues to provide volunteers and finance.

In 2011, in partnership with Erasmus University Rotterdam, we carried out a survey to measure the effect of KlasseContact. Because of the small target group and low response rate the data collected is not representative of all the chronically sick children that use KlasseContact.

Nevertheless, several important conclusions can be drawn:

- Pupils in primary and secondary education are more positive about their contacts with classmates when using KlasseContact.
- The pupils' parents say that KlasseContact has had a positive effect on the social contacts of their child with classmates.

### Resto VanHarte

In 2011, KPN once again gave its support to the Resto VanHarte initiative: affordable neighborhood restaurants that aim to promote social contact in residential areas. For a small sum, local residents can enjoy a meal while getting to know or staying in contact with other locals. As well as making a financial contribution, we ensured that KPN employees could work as volunteers in the restaurant or the kitchen. KPN employees volunteered for this project 552 times in 2011.

In every province, we organized a Resto VanHarte evening at which KPN employees gave a presentation about the opportunities afforded by the internet. This is a way to make people enthusiastic about the internet and to show how it can improve their social life.

Resto VanHarte has become a major initiative, partly thanks to our contribution. The number of restaurants grew last year from 13 to 27. We will be ending our partnership with Resto VanHarte in 2012; the current large number of restaurants allows us to take our leave with a clear conscience, and we will now focus on another social initiative.

### SociaalOpStap

In 2010 we launched SociaalOpStap, an initiative geared to children with autistic traits. These children are generally unable to deal with difficult and unexpected everyday situations. We teach them to cope with these situations by giving them advice on their smartphones. We have developed a special app for this purpose: by typing in a question using keywords the smartphone gives practical tips for dealing with these situations. The KPN Mooiste Contact Fonds and the National Autism Network are working together on this. We are carrying out this project at special schools for autistic children. In addition to making a financial contribution, we make smartphones available free of charge and KPN volunteers help the children to use them effectively.

Having developed the software for this application and carrying out a pilot scheme in 2010, we rolled out SociaalOpStap in 2011. KPN volunteers support the project by spending a day with a child. We want to improve the application so as to get a better understanding of how much ICT contributes to ameliorating the social contacts of children with autistic traits.

Our aim for 2011 was to provide 350 children with a smartphone using the special application; we exceeded this target with a figure of 441. A teaching package has also been developed for schools for children with autistic traits ('Passer' schools).

To enhance the effectiveness still further we will evaluate the usage of the package in 2012. Our aim is that at the end of 2012, all the Passer schools will be using the teaching package and fostering the use of the application. In 2012, we aim to provide 400 children with a smartphone containing the SociaalOpStap application.

SociaalOpStap not only receives the plaudits of children, parents and teachers, but it has also been nominated for the Accenture Innovation Prize and 'Het Pittigste Project'. Additionally, KPN won the IPON Award 2011, which aims to stimulate businesses to innovate and improve their products. ICT companies that focus on educational projects receive the IPON quality mark, which is the only quality mark in our sector. It enables the education sector to see which companies distinguish themselves in term of innovation, quality and originality.

### **GeneratieTV**

In 2011 we launched, together with the Dutch Red Cross, a new initiative geared to elderly people: GeneratieTV. We install a simple TV application in the homes of elderly people, offering them extra contact channels in addition to the familiar TV channels. Using these contact channels they can chat to friends, family or neighbors. Here too, KPN volunteers help the residents of old people's homes and nursing homes to get to grips with this facility and they then keep in regular contact with them. Our aim for 2011 was to recruit 200 KPN volunteers for this project, but managed only 174.

The efforts of volunteers are desperately needed, because the launch of GeneratieTV has proved trickier than we originally thought. Not only has the technology turned out to be complex, but it is also apparent that the rollout occurs in stages. First of all we look for old people's homes and nursing homes that recognize the possibilities and benefits of GeneratieTV, and then we introduce the product to the residents themselves.

### **The KPN Mooiste Contact Fonds in India**

KPN outsources part of its technology and service activities to ICT companies in countries such as India. We expect this outsourcing to increase in the years ahead. We therefore feel it is appropriate for the KPN Mooiste Contact Fonds to contribute towards social development in India and to set up a department of the Fund there. As well as making a financial contribution to an orphanage, in 2012 we want to allocate 20 KPN volunteers to help out for a day in the orphanage in cooperation with the KPN company NetCo. We also want to enhance the understanding of KPN employees of the culture and procedures in India and to increase their involvement. Consequently, we expect KPN employees in the Netherlands to be able to collaborate better with our partners in India.

### **Interchange of knowledge**

Our core competence is connecting people with each other, and we want to use it to expand knowledge about loneliness. We helped to arrange the Anti-Solitude Week for that purpose. In that week, we organized a symposium entitled 'Solitude among young people. Can ICT do anything to help?' In the Netherlands, one in five youngsters experiences feelings of loneliness. Research was carried out on the role that ICT can play in preventing or solving this problem. One of the conclusions was that although ICT does not solve the problem of loneliness, it does offer ways of combating it. The KPN Mooiste Contact Fonds recognizes these results and wants to bring lonely young people closer together via ICT, one of the methods being the project SociaalOpStap.

### **KPN Mooiste Contact Fonds events**

We organize annually two major events related to contact and the fight against loneliness. Every year on June 21 – the longest day of the year – the volunteers of the KPN Mooiste Contact Fonds put together a mega-spectacle: the XL Day. On this special day we invite people, young and old, from throughout the Netherlands to meet one another in a surprising manner. After all, on the longest day people have extra time for special contacts. Thanks in part to the efforts of 450 volunteers, this XL day was once again a success in 2011.

## 5.3 SOCIAL ENGAGEMENT IN GERMANY AND BELGIUM

### E-Plus

E-Plus has also carried out a variety of social projects. For example, E-Plus has become a partner of the 'Digitale Chancen' foundation. The foundation, an initiative of the German Ministry of Economics and Technology, is developing a program to assist people who find it hard to adjust to the digital society. The foundation is oriented mainly to groups such as the young, the elderly and immigrants. To underline its commitment, E-Plus has taken a seat on the board of the foundation. In 2011, five round-table discussions were arranged, covering subjects such as primary education and the information society, and the rights and obligations of children, parents and immigrants in the digital world. With 1,200 volunteers trained in digital connection, 15 million page views and a newsletter with a circulation of 5,000, the foundation increased its ability to reach its target groups. The foundation is continuing its activities in 2012.

### KPN Group Belgium

In common with KPN Nederland, KPN Group Belgium again championed safe internet for children in 2011. Together with five other ICT providers, KPN Group Belgium signed the Child Focus e-safety charter in June. This foundation promotes the interests of missing and sexually exploited children. By signing the charter, content and internet providers undertake to make young people and adults aware of online risks. These ICT companies also want to offer young people a safe internet environment, make technical resources available and cooperate with police and the judiciary in the domain of internet safety. This commitment ensures that children and young adults are better protected against unwelcome or criminal internet content.

The e-safety charter also focuses on commercial aspects: the six companies promise to approach young people commercially in an appropriate manner, so that they do not become victims of the lure of advertising. The signatories carry out regular evaluations and jointly examine what improvements can be made. At the same time Child Focus started a helpline, which can be accessed via the website [www.clicksafe.be](http://www.clicksafe.be), for everyone with questions about the online safety of children and young people.

In 2011, a campaign was started on the Belgian coast for armbands to stop children getting lost. By means of these armbands, which show the parents' mobile phone number, KPN Group Belgium enhances the safety of small children and parents on the beach with the use of mobile telephony. During the year 360,000 armbands were handed out at over 300 distribution points, such as 'IKW-redkers', the Red Cross, tourist offices and deckchair rental companies.

## 5.4 SPONSORSHIP

There are three components to KPN's sponsorship policy: sports sponsorship, cultural sponsorship and social sponsorship. In 2011, we donated more than 10 million euro to social charities. Organizations we supported include the KPN Mooiste Contact Fonds, the KNSB, the football club Standard Liège, De Kindertelefoon, the Rijksakademie and Meldpunt Kinderporno.

### Lead sponsor of the KNSB skating association

Since the summer of 2010, KPN has been lead sponsor of the Royal Dutch Skating Association (KNSB). We consider skating to be a wonderful, typically Dutch sport that fits in with us well. As a major Dutch service provider we have been connecting people for over 125 years. By supporting skating in all its forms, KPN wants to expand the sport still further and connect skaters and skating in the Netherlands. We do this by putting four key beliefs into practice: the sport comes first, we embrace skating in all its forms, we help the KNSB to do what it does best, and we do it all for KPN. Our sponsorship contributes to our customer loyalty, brand empathy and preference among the six million Dutch skating fans in the Netherlands and it makes KPN staff proud.

The KNSB and KPN launched [www.schaatsen.nl](http://www.schaatsen.nl) in 2010. Skating fans can find all the information about their sport on this portal. In 2011 there were more than 600,000 different visitors to the portal. Skating champion Sven Kramer played the lead role in our advertising campaign for Interactive TV. Together with the Fonds GehandicaptenSport we organized the KPN Skating Friends Day for the disabled. Along with their parents and friends they enjoyed a day of skating at FlevOnice in Biddinghuizen. It was a great success: in 2011 the KPN Skating Friends Day drew as many as 2,000 enthusiastic participants. We will organize this day again in 2012.

An example of the splendid combination between skating sponsorship and social engagement is the party that KPN organized in November 2011 for Resto VanHarte visitors, a worthy end to three years of partnership between the KPN Mooiste Contact Fonds and Resto VanHarte. Thanks in part to the efforts of two hundred KPN volunteers, 1,200 guests of Resto VanHarte enjoyed the KPN National Single Distances Speed Skating Championships at the Thialf stadium in Heerenveen.

Children too had a great time in 2011 at the KPN Junior Skating Club. This initiative of the KNSB and KPN makes children aged between 6 and 12 enthusiastic about ice skating and inline skating. The KNSB works with local skating associations on this.

### Cultural sponsorship

KPN supports the Rijksakademie, a fine arts college in Amsterdam. The two organizations support the mission of the Rijksakademie: 'to develop talent at the highest level'. In this way, KPN supports talented young artists in the Netherlands, for instance by refreshing its own art collection with their works. The KPN Kunstprijs (Art Prize) forms part of this partnership. Another example is sponsoring a fellowship for a promising artist.

The Prix de Rome is the oldest and most generous Dutch 'state prize' for artists and architects aged under 35. The prize is oriented to excellence and professionalization in an international context, and to spotting talent and identifying trends in the Netherlands.

### Sponsorship by KPN Group Belgium

For many years, KPN Group Belgium has sponsored the soccer club Royal Standard de Liège. In 2010 we decided to sponsor a second soccer club, Zulte-Waregem. KPN Group Belgium has also been sponsoring the basketball club Okapi Aalstar, a prominent team that plays in the highest basketball league, for several years.

In recent years KPN Group Belgium has become increasingly active in sponsoring cultural events. Many music festivals, such as Suikerrock, Marktrock, the Cactus Festival and the Lokerse Feesten, can count on the support of KPN Group Belgium. KPN Group Belgium also supported the Ghent Flanders Festival and Théâtre de la Place.

### SponsorRingen

Our sponsorship activities have been recognized: KPN was named Sponsor of the Year at the annual SponsorRing awards. The SponsorRing is the prize awarded by the Dutch sponsorship industry to the year's best sponsorship cases. The jury felt that KPN had proved that it is possible to carry out sponsorship successfully in different categories – sport, entertainment and society – which complement the other. The jury chose KPN as Sponsor of the Year because we carry out sponsorship in such a wide-ranging and successful manner.

## 5.5 OTHER SOCIAL INITIATIVES

KPN Nederland supports several customer groups that need extra help in communication, by providing services such as the Tekstelefoon, a special texting service for the deaf and hearing impaired. Besides this, in 2011 KPN supported De Kindertelefoon, which enables children and young people to call the agency free of charge on their mobile phone. The vast majority of the calls to De Kindertelefoon, 96%, are made by mobile phone. We will continue to support De Kindertelefoon in 2012.

Along with our subsidiary SimPC, we provide elderly people with a computer with internet subscription. This makes e-mailing and using the internet simpler for them. SimPC was specially developed for elderly people and consists of a user-friendly computer (the SimTouch), maintenance and support.

## 5.6 CHALLENGES AND DILEMMAS

### Measuring the effect of social projects

Last year we tried to measure the effect of our initiatives relating to loneliness because we believe that our efforts should produce demonstrable results. This turned out to be harder than we expected. We considered it appropriate to give our social partners a role to play in the measurements, since they know the target groups better than anyone. Not every social organization had the capacity to perform this task, a fact that we completely understand, as such measurements are an administrative activity whereas our partners excel in tangible projects. In the end, we were unable to gather sufficient data to publish statistically sound results.

We have decided that in 2012 we will not measure the effects of the KPN Mooiste Contact Fonds in depth, because we want to work with our partners specifically on tangible projects. It is our conviction that our initiatives are valuable for KPN employees and stakeholders, even if the effects are not measured.

### Promoting internet usage

ICT offers society a variety of possibilities and innovations. It is increasingly simplifying the access to information and facilities. At the same time, other forms of service are becoming less essential. More and more people are shopping and banking online. This is reducing the number of opportunities for personal contact between consumers and suppliers of products or services. To function successfully in society, ICT skills are therefore becoming increasingly important. There are signs that certain groups in the community, such as the elderly and non-natives, are having difficulty with these skills, so they risk being put at a disadvantage.

Last year, our policy for digital connection focused mainly on maximum accessibility to ICT facilities and optimal mobile coverage. We are now entering a new phase: how can we further promote internet usage among groups of people for whom this is not self-evident? We aim to research this more in 2012. We are going to take an in-depth look at the problems and find out what contributions we, as a market leader in ICT, can make to solving them.



# OUR PEOPLE AND SUPPLIERS

SUSTAINABLE RELATIONSHIPS MAKE  
US THE BEST SERVICE PROVIDER



## 6. OUR PEOPLE AND SUPPLIERS

### OBJECTIVES AND RESULTS

	<b>Result 2010</b>	<b>Target 2011</b>	<b>Result 2011</b>	<b>Target 2012</b>	<b>Target 2013 and beyond</b>
<b>Our people</b>	74% of the employees agree that KPN Nederland follows CSR principles in its business	70% of the employees agree that KPN Nederland follows CSR principles in its business	69% of the employees agree that KPN Nederland follows CSR principles in its business	69% of the employees agree that KPN Nederland follows CSR principles in its business	In 2013, 70% of the employees agree that KPN Nederland follows CSR principles in its business
	16% of senior management at KPN Nederland are women	17% of senior management at KPN Nederland are women	17% of senior management at KPN Nederland are women	18% of senior management at KPN Nederland are women	–
	16% of middle management at KPN Nederland are women	17% of middle management at KPN Nederland are women	17% of middle management at KPN Nederland are women	18% of middle management at KPN Nederland are women	–
	23% of employees at KPN Nederland are women	–	24% of employees at KPN Nederland are women	–	In 2015, 30% of employees at KPN Nederland are women
<b>Our suppliers</b>	94% of the high-risk suppliers signed the Supplier Company Code	95% of the high-risk suppliers and 80% of the medium-risk suppliers sign the Supplier Company Code	90% of the high-risk suppliers and 73% of the medium-risk suppliers signed the Supplier Company Code	90% of the high-risk and medium-risk suppliers sign the Supplier Company Code	In 2013, 95% of the high-risk and medium-risk suppliers sign the Supplier Company Code
	37% of the high-risk suppliers took part in the self-auditing system	95% of the high-risk suppliers and 50% of the medium-risk suppliers take part in the self-auditing system	50% of the high-risk suppliers and 50% of the medium-risk suppliers took part in the self-auditing system	80% of the high-risk suppliers take part in the self-auditing system	–
	–	5 on-site audits at high-risk suppliers	15 on-site audits at high-risk suppliers	35% of the high-risk suppliers are audited on site	In 2016, 90% of the high-risk suppliers are audited on site

## 6.1 OUR PEOPLE

### Our vision: our people make us the best service provider

The primary responsibility of KPN line management is to create an optimal work climate. The line management is supported in this by the corporate department Human Resources (HR). In 2011, this department devoted a lot of its attention to harmonizing the HR policy throughout the KPN Group. In principle, the same HR policy is being applied everywhere. This is unequivocal and transparent for the KPN employees, enhances efficiency and fosters internal mobility.

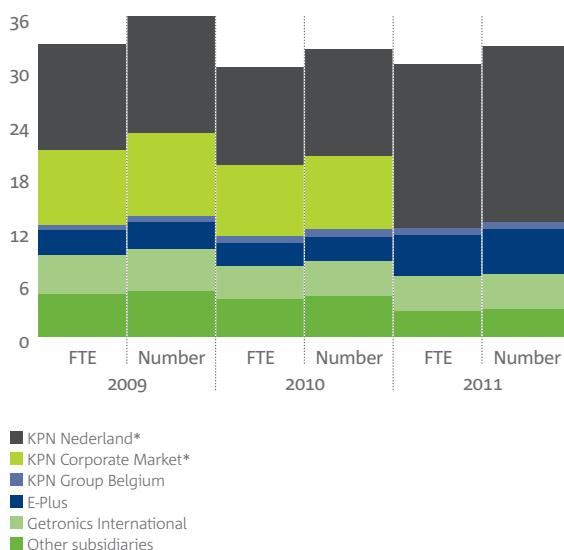
### Leadership, mobility and talent development

In 2010, we concentrated most of our leadership development efforts on training and education. We continued actively on this path in 2011. The key development in leadership relates to the new corporate strategy. Twenty KPN senior managers each took charge of a specific strategy task force, armed with the foundations for the new strategic course. Around 100 managers were involved in developing the new strategy and they put leadership into practice. Among the senior executives, this forged greater cohesion between the various parts of the organization. The formation of the Executive Committee (ExCo), which starts its duties formally on 1 January 2012 and in which all the business segments and several corporate functions are represented, signifies the organizational approach to the strategy.

### Outsourcing policy

In the new strategy we have stated our intention to outsource a number of tasks. We already started this in 2011 by outsourcing various back office functions. Our criterion is that we will outsource tasks that are not among our core activities and that other organizations can perform better and more (cost) effectively. We will pursue this policy in 2012.

**Figure 13: Number of employees and FTEs (x 1,000)**



A lot of our outsourced work originates from KPN Corporate Market (formerly Getronics). In mid-2011 our Indian partner MindTree welcomed its 50th employee for the Offshore Delivery Center. This section of MindTree carries out work for the Desktop Management department, data centers and Getronics UK among others. MindTree, based in Chennai and Bangalore, will contribute increasingly to the service we provide to our customers. We demand the same privacy and safety standards that we demand of our own divisions.

Outsourcing also fits in with our endeavor to make our workforce more flexible. In 2011, we therefore focused on jobs for which we can use our own employees, tasks that agency staff can perform and activities that other personnel can carry out. This enables us to respond better to market developments and therefore to be more in line with the trend in society towards greater flexibilization of the workforce. In areas where we plan to outsource more, such flexibilization demands higher quality of our demand management: to formulate the requirements and wishes with respect to the contractor in an effective and results-specific manner. We will continue to improve this process. A key part of this process is setting social and environmental requirements to be observed by any parties that take over work from us.

In 2011, KPN Corporate Market launched the program 'Quality, Efficiency and Outsourcing', the purpose of which is to further improve the efficiency of our business operations. This program has an effect on the number of jobs at KPN Corporate Market. Specifically for employees of this KPN division we founded FlexforceExternal, which helps employees to find a new job outside KPN.

### Collective Labor Agreement in the Netherlands

Regrettably it was not possible in 2011 to reach agreement with the trade unions on a single Collective Labor Agreement for KPN Nederland, KPN Contact and KPN Corporate Market. We therefore concluded two separate Collective Labor Agreements (one for KPN Nederland and KPN Contact, and one for KPN Corporate Market). Collective Labor Agreement negotiations were delayed considerably because it took a long time to reach a national pension agreement in the Netherlands. We held intensive talks with the works council and the trade unions about the new strategy, the social plan, the new senior management structure and the reorganization. We asked the works council for its advice on the new organization of KPN in the Netherlands and how it should be implemented. Pensions were another key discussion topic and attention was paid to the vitality and deployability of employees.

### The New Way of Working

In 2011 we continued promoting The New Way of Working at KPN in the Netherlands. We have made strenuous efforts in recent years to set up the framework for The New Way of Working, but our main focus in 2011 was on stimulating management skills. Managers were therefore encouraged to make result-oriented agreements with their staff in planning meetings and no longer to place the emphasis on arrangements about working times and places. We also want to find out whether employees feel that KPN managers are actually implementing The New Way of Working accordingly. In 2011, 82% of our employees in the Netherlands gave a positive response to this survey. Our aim is for that figure to grow to 85% in 2012.

### Employee engagement

Every year we carry out an employee engagement survey in all divisions of the KPN Group. Benchmarking this against similar international companies reveals that KPN scores well in terms of the quality of an employee's immediate manager, work environment and teamwork. On the other hand, employees say that we should improve our senior management, as well as externally oriented issues such as the balance between quality/costs and time, innovation in products and service, response to the market, customer focus and external reputation. In general, KPN Corporate Market received a lower score than other divisions of KPN Nederland, which could be explained by the fact that the name of this division changed shortly before the survey started and by the ongoing reorganizations and outsourcing programs.

In 2011 69% of KPN Nederland employees endorsed the statement: 'I think that KPN operates in line with CSR values.' The figure for 2010 was 74%. We believe this drop was caused by the media debates about net neutrality, new subscriptions and price rises, and by the reorganizations.

It emerged from a survey in 2011 that there is a significant relationship between communications about CSR and positive working behavior among KPN employees. Employees feel more committed to their company if the outside world has a positive image of it. The potential offered by The New Way of Working also appears to be a key factor in positive working behavior. For us this underscores once again that our CSR policy has added value and is to the benefit of KPN.

For the fifth successive time E-Plus was on the list of top German employers, due in part to the care taken by E-Plus to provide a suitable work/life balance.

### Diversity

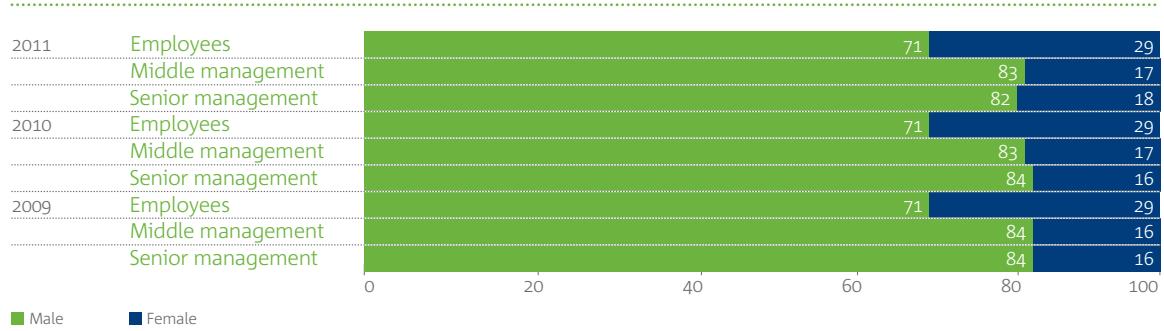
We want our workforce to be reflection of society, so that we are better able to recognize signals and changes in society and to apply them in our company. In addition, KPN wants to be a company where everyone with the same qualities is offered equal opportunities. We believe this will make us a more attractive employer. Moreover, it is essential to retain and recruit highly qualified personnel now and in the future.

KPN Nederland does not currently exhibit a representative social reflection with regard to the gender ratio. We aspire to a workforce that is 30% female in 2015. In 2011 the percentage of women rose slightly to 24%. One of the reasons for such a meager growth is the hiring freeze at several of the larger divisions. Our target was that 17% of our middle and senior management in the Netherlands in 2011 would be women. We achieved that target. In 2010 we took measures aimed at stimulating this, including a coaching program for women, a study of issues that can help or hinder career prospects, and a better supply of information. A number of high-profile top positions were occupied by women in 2011, including several positions on the Executive Committee. There was one female member of the Board of Management in 2011.

Not only do we want to attract women for management jobs, we also want to retain talented women. One of the ways we do this is by defining potential career progression in advance, so that around three years later we can discuss the next suitable management position.

In 2011 we examined whether there are any salary differences between male and female employees of KPN Nederland that would require us to take action. In the Collective Labor Agreement pay scales men earned an

**Figure 14: Gender of employees (in percentages)**



average of 1% more than women. Age and experience account for differences in the non-Collective Labor Agreement scales (senior management). We carried out an in-depth analysis wherever the salary difference in the Collective Labor Agreement scales at segment and scale level was greater than 5%. This showed that the differences are due entirely to variables such as age and length of employment. Consequently, we took no immediate measures to reduce the differences in salary between male and female employees. We will perform the analysis again in 2012. We will continue to prioritize the realization of gender equality within our company.

We want women to be able to resume work in an agreeable and productive manner after childbirth. To get a better picture of this, KPN Nederland measures the exit figures after maternity leave. In 2010, 81% of the focus group remained at work from the end of their maternity leave through the whole of the next calendar year. The figure for 2007 was 56%. We improved the information supply and lactation rooms in 2011.

In 2010 we expanded the diversity policy with a new focus group: people who are at a disadvantage on the labor market because of a physical and/or mental impairment. At the end of 2011, 18 people with health impairments were in the employment of KPN, 16 more than at the end of 2010. These include young people in the Wajong scheme, people on WIA benefit and people without a specific status. We aim to take on more people with an employment disadvantage in 2012. Candidates will be recruited in collaboration with UWV (Employed Persons Insurance Administration Agency) or CAP100, an initiative of the Lucille Werner Foundation, or they may apply independently to KPN. As well as undertaking the above-mentioned activities, KPN wants to convince other employers to do likewise. KPN organized a symposium on this subject in 2011 and we share our experiences in task forces and at symposiums and congresses.

We want to expand our efforts to foster a diverse workforce in 2012. We want to make even greater efforts for people of different cultural backgrounds, for those with a physical impairment and for the elderly. The policy lines of 2011 will be pursued in 2012.

#### **Health and safety, employee vitality**

KPN cares passionately about guaranteeing safe working conditions. The KPN Security department develops and carries out the policy for this. The HR department coordinates and facilitates the health and vitality policy.

#### **Guidance on and prevention of absenteeism**

In 2010 we set up a long-term program to control and prevent absenteeism, with a view to reducing health-related absenteeism. At KPN Nederland (excluding KPN Corporate Market) health-related absenteeism is 4.2%, which is higher than the benchmark we use, the 'Verbaan norm'. Using the Verbaan norm, we have calculated that the absenteeism ought to be 3.4% in this part of KPN. We aim to achieve this percentage at the end of 2012. As a first

step, in 2011 we took a look at which parts of KPN have the highest rate of absenteeism and what the causes are. Seven departments, which between them employ roughly a third of the workforce, exhibit above-average absenteeism. These include departments with a comparatively large number of older employees or where physically demanding work is carried out (e.g. by 'underground mechanics'). In some of these departments we suspect that mental aspects such as work pressure and stress may be the cause.

A steering committee will take measures to reduce health-related absenteeism. Half of the members of committee are KPN staff and half are employees of the Health and Safety Service. The line organization is hierarchically responsible for reducing health-related absenteeism. A monthly progress report is presented to the management.

**Table 1: Health-related absenteeism**

	2009	2010	2011
KPN Nederland	4.4%	4.4%	4.2%
KPN Group Belgium	4.3%	4.7%	3.5%
E-Plus	4.6%	4.9%	6.2%
KPN Corporate Market*	3.6%	4.0%	4.0%

\* Formerly Getronics Nederland

On the basis that preventing health issues is better than curing them, about 800 KPN staff underwent a health check that KPN offers via the intranet in 2011. If the KPN employee's score is green, he or she is living a healthy lifestyle. If the score is orange or red, health recommendations are given. For example, the consequence of an 'orange diagnosis' could be lifestyle coaching provided by KPN. A 'red diagnosis' is followed by care advice, which involves finding the best method of treatment. The outcome of the health check necessitated a further meeting with more than half of the employees. Consequent measures consisted of individual lifestyle coaching or additional medical treatment.

The participants consider coaching to be positive: 90% say they will recommend coaching to colleagues. We compared the lifestyle of the employees before and after the coaching process. This comparison showed that the majority adopted a healthier lifestyle after the coaching. The study demonstrates that a lifestyle improvement is possible and that the employees concerned are now fitter and lead a healthier life.

#### **Vitality policy**

We have been operating various vitality initiatives within KPN for several years. These used to be scattered across the organization and focused mainly on promoting physical well-being and exercise. In 2011 we expanded this policy by adding mental, emotional and spiritual aspects of vitality. After all, every employee has a different approach to vitality.

We will publicize our new vitality policy more explicitly to the staff in 2012, focusing specifically on those employees that have the most to gain by extra vitality initiatives. We will also carry out a vitality scan throughout the organization and, where necessary and possible, we will adjust our policy. Our aim for 2012 is that a few hundred employees will complete the intake for the vitality program.

With a view to interchanging knowledge and experience about fostering health and vitality, KPN is a member of the consortium healthy@work. Along with the Delft University of Technology and the Radboud University Medical Center, we launched a partnership at the TEDx Maastricht congress 'The Future of Health' in 2011. We are going to offer health improvement programs so as to improve the well-being of the staff and the people directly involved. We believe this participation to be important because our role as a partner in healthcare innovation is growing. You can read more about this in the chapter 'Our role in society'. In the Executive Committee, the HR director is responsible for fostering vitality at KPN.

## 6.2 OUR SUPPLIERS

### **Our vision: sustainable value chain management**

KPN encourages suppliers to practice corporate sustainable responsibility in their production. This is laid down in our Supplier Code of Conduct (see [www.kpn.com/supplier](http://www.kpn.com/supplier)), with which all suppliers have to comply. The code is applicable throughout the KPN Group. 1,327 of our suppliers are responsible for 94% of our procurement volume. Within that group we have identified certain risk suppliers: companies in low wage countries in Asia, Africa, Eastern Europe, and Central and South America. We regard them as risk suppliers because good working conditions, environmental protection and compliance with human rights are not self-evident in these countries. In 2011 we introduced a stricter definition of high-risk and medium-risk suppliers. High-risk suppliers – 60 in total – produce goods in low wage countries. Medium-risk suppliers – 15 – provide services in or from low wage countries. The group of risk suppliers has grown because of our stricter criteria. They are responsible for 55% of our procurement expenditure and supply mainly network equipment, computers and software. KPN obliges these companies to comply with the Supplier Code of Conduct and to sign it. This forms an integral part of our procurement process. Up to now, 64 of these 75 high and medium-risk suppliers have signed the Supplier Code of Conduct. We are in discussions with the remaining eleven suppliers.

We have asked the high-risk suppliers to carry out self-assessment via E-TASC, an online tool that questions the suppliers about their approach to social and environmental aspects. Half the high-risk suppliers are members of E-TASC and two-thirds of these have completed the self-assessment.

To complement E-TASC, audits were performed at 15 hardware suppliers in 2011. Visits were made to a total of 22 different production locations. These are carried out by the Joint Audit Cooperation (JAC), in which we participate along with Belgacom, Deutsche Telekom, France Telecom, Telecom Italia, Swisscom and Vodafone. Cooperating with other operators enables us to expand our influence while enhancing the efficiency and clarity of our procurement conditions. In 2012, the scores of suppliers will be evaluated on E-TASC. Suppliers that have not yet provided their data receive priority visits. Pre-announced audits are performed in accordance with a joint JAC audit protocol that is based on international standards, such as ISO 14001, SA 8000 and OHSAS 18001. The principal findings of the audits are violations in the domain of work hours, health and safety, and salary levels. Based on the findings, details of which we will receive in the first quarter of 2012, we will discuss improvement plans with the suppliers. An analysis will then be made of the content and progress of the improvement programs. These programs target an improvement in the social and environmental conditions prevalent in those companies. We have no intention of immediately breaking the ties with suppliers that do not comply with our requirements: we offer them the opportunity to make improvements. The participating JAC companies will discuss their findings in 2012 at a joint meeting of the board chairs or senior management of the audited companies. Fourteen new audits are planned for 2012, as well as nine follow-up audits.

This puts into practice the suggestion made on 7 June 2011 at our suppliers-stakeholders dialog: to act in unison with the sector wherever possible.

One of the dilemmas faced by our sector is how to deal with 'conflict minerals' that are used in the manufacture of ICT equipment. We do not want to use conflict minerals in our mobile phones, but we are still trying to decide exactly how and where to take action. This is a complex issue involving many interests, and we are a small user of these minerals in global terms. This does not discharge us from our responsibility, however. Areas in which conflict minerals, such as tin, tantalum (coltan), gold and wolfram, are extracted include war zones in the Congo. Some of the revenue reaches warring parties in these areas. Together with other international ICT companies that are members of the EICC and GeSI organizations, KPN supports initiatives to prevent human rights violations and the financing of armed conflicts by mineral extraction. A mineral mapping program, which can show systematically the origin of minerals, is currently being drawn up in cooperation with social organizations. KPN can also make use of this program when it has been finalized, thereby responding to the call made by MakeITfair, an organization which is campaigning for the ICT sector to be more transparent about the origin of minerals.

Additionally, we have developed the Sustainability Tool for hardware suppliers. This tool asks them for information about the energy consumption, recyclability, packaging and raw materials consumption of the products they supply. It is our standard practice to use the Sustainability Tool when procuring products. Suppliers are obliged to respond to it. Suppliers then know that we evaluate their bids also on the basis of sustainability aspects. Modems, TVs and other consumer equipment account for almost 0.5% of the electricity consumption in the Netherlands, so we can help our customers make significant energy savings. In 2012 we will apply the Sustainability Tool to the procurement of services as well.

A good relationship of mutual trust with our 25 strategic suppliers is essential. Consequently, every year we evaluate what our suppliers think of us, and where and how we can improve as a buyer. We also evaluate what we think of the performance of our suppliers. A survey carried out in 2011 revealed that 65% of our strategic suppliers are satisfied with KPN as a partner; 18% were dissatisfied. The suppliers say that we communicate well and make clear agreements, but that we could make improvements in the areas of innovation, pro-activity and flexibility. We intend including sustainability in these evaluations in 2012.

To ensure that our entire procurement procedure is sustainable we have set up a Sustainable Procurement steering committee for the whole of the KPN Group, with the corporate procurement officer as chairperson, that reports to the Board of Management. As well as KPN procurement professionals this steering committee comprises sales managers and product developers from all business units of the company. In this way we make certain that attention is paid to energy and other sustainability aspects throughout the chain.

We want to ensure not only that new products are sustainable, but also that discarded products are processed in a sustainable manner. In our sector most of the discarded products are mobile phones. In the Netherlands and Germany, customers can return old mobile phones to our shops or send them to a freepost number. Our target for 2011 was to collect 50,000 mobile phones in the Netherlands. With a figure of well over 30,000, we failed to achieve this target. We paid too little attention to collecting old mobile phones.

## 6.3 CHALLENGES AND DILEMMAS

### **Outsourcing and employment**

The labor market in the ICT sector is developing rapidly. To respond optimally to those rapid changes, we need to concentrate on our core tasks. We assess whether external parties can perform these activities better and more cheaply than us. Outsourcing, which we will use increasingly frequently in the future, has an effect on direct employment at KPN. We will employ fewer people, while the number of jobs at our partners and suppliers increases. Current KPN employees may in the future find another employer or may lose their job because their work is transferred to a country outside Europe. We are very aware that this is a drastic process and can sometimes be an emotional one for employees. At the same time we realize that outsourcing is necessary to ensure business continuity in the longer term. We discuss this regularly with the works council and the trade unions so as to respect the interests of all parties concerned.

### **Transparency of the electronics value chain**

Another dilemma is our limited influence on major suppliers. Some hardware and software companies are so big that our procurement volume generates too little influence to be able to empower our social and environmental wishes. In such situations, we join forces with industry peers in GeSI so as to collectively expand our influence.

There is too little transparency in the electronics value chain. We have no knowledge of companies or organizations that are able to fully comprehend the complex combination of raw materials, semi-finished products, final assembly and recycling. We and our partners in the chain have therefore been unable to make major permanent social and environmental changes, even though we are very keen to do so. To foster transparency in our sector, we became a partner of Fairphone in 2011, complementing initiatives like GeSI and the Joint Audit Cooperation. This non-profit mobile phone developer – the world's first – wants to prove that it is possible to produce phones in a fully sustainable manner. We make our chain competence available to Fairphone and have promised to sell the first Fairphones in our shops.

## 7. SCOPE

The purpose of this Sustainability Report, which covers calendar year 2011, is to inform our stakeholders about KPN's role in society. We count as stakeholders all those persons and organizations affected by our operations or with whom we maintain a relationship, namely customers, employees, shareholders, banks, suppliers, journalists and social organizations. The scope of this report covers the KPN Group including its subsidiaries in which it has a majority shareholding. Unless otherwise stated, references in this report to KPN should be read as referring to the KPN Group. References to E-Plus are to be read as references to E-Plus Gruppe. In this report, KPN Nederland refers to all the activities of the KPN Group in the Netherlands, including KPN Corporate Market (referred to in the 2010 report as Getronics Nederland). Outside the Netherlands the principal divisions are Getronics, KPN Group Belgium, E-Plus Gruppe, iBasis, Ortel Mobile and SNT. In 2011, KPN sold its French mobile subsidiary KPN France. Getronics' service partners come outside the scope of this report as KPN does not have a majority shareholding in these companies. The partners coming under the 'Workspace Alliance' of Getronics are covered by the scope of this report. KPN announced in January 2012 that Getronics International is to be sold in 2012. The Getronics International data is nevertheless included in this report. The data in this report refers to KPN's performance and not to that of our subcontractors, unless stated otherwise. This report specifically reviews developments and performance in 2011. More static elements, such as the description of our CSR organization at KPN, our list of relevant outside memberships, our stakeholders and the like, are featured in the GRI Index on [www.kpn.com/csreport](http://www.kpn.com/csreport).

The Sustainability Report appears every year at the same time as KPN's Annual Report. A six-monthly report is also published. This report is based on the third generation guidelines of the Global Reporting Initiative (G3.1) and has a GRI application level of A+. The GRI Application Level Grid on [www.kpn.com/csreport](http://www.kpn.com/csreport) specifies which GRI indicators are set out in the Sustainability Report and which indicators are only featured on our web site. In addition to these G3.1 guidelines, KPN has taken as its point of orientation the draft GRI Telecommunications Sector Supplement. The GRI Application Level Grid sets out where indicators from the sector supplement have been included. Indicators that only require the statement of a position are only to be found in

the GRI Application Level Grid. The GRI Application Level Grid specifies where G3.1 core indicators have been omitted from the report as a consequence of these having been assessed as not material. In the interest of brevity, this report confines itself to a reference to the Annual Report for those material indicators set out in that report. In this Sustainability Report there are no departures of any significance from the GRI indicator protocols. This report shows the performance indicators applicable to the KPN Group. Where relevant, the appendices contain specified data per KPN business unit, that is, KPN Nederland, KPN Group Belgium, E-Plus Gruppe, Getronics and other subsidiaries of the KPN Group. Where available, the report includes data for 2009 and 2010 as well. Unless specified separately in the text, no adjustments to the data have been made relative to the data set out in the 2010 Sustainability Report.

Quantitative data concerning the workforce and financial results in 2010 and 2011 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 KPN business units in question. The Internal Audit and Corporate Control departments used the criteria of consistency and availability of supporting evidence as the basis for its assessment of the data reported at group level. Validation criteria set out in advance were also used to assess the data. This report has been reviewed by KPMG Sustainability which has issued 'limited assurance' report for certain indicators and 'reasonable assurance' report for other indicators. The key social and environmental figures, which are available in the annexes on [www.kpn.com/csreport](http://www.kpn.com/csreport), are also part of this report.

# 8. INDEPENDENT ASSURANCE REPORT

## To the readers of the Royal KPN Sustainability Report

We were engaged by the Board of Directors of Royal KPN N.V. ('KPN') to provide assurance on the information in the Sustainability Report 2011 – Sustainably connected ('The Report'). The Report, including the identification of material issues, is the responsibility of the company's management. Our responsibility is to issue an assurance report on The Report.

## What was included in the scope of our assurance engagement?

Our engagement was designed to provide:

- Limited assurance on whether the information in the Report, in all material respects, is fairly presented in accordance with the GRI G3.1 reporting criteria.
- Reasonable assurance on whether information for the electricity consumption and net CO<sub>2</sub> emissions for the Netherlands for the financial book year 2011, as explained on pages 46 and 47 of The Report, is presented, in all material respects, in accordance with the reporting criteria as defined by KPN.

Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information and are less extensive than those for a reasonable level of assurance. To obtain a thorough understanding of the financial results and financial position of KPN, the reader should consult the KPN audited financial statements in the KPN Annual Report for the year ended 31 December 2011. We do not provide any assurance on the achievability of the targets, expectations and ambitions of KPN.

## Which reporting criteria did KPN use?

KPN applies the Sustainability Reporting Guidelines (G3.1) of the Global Reporting Initiative (GRI) for The Report as detailed in chapter 7 of The Report. The information in The Report should be read in conjunction with this explanatory information.

## Which assurance standard did we use?

We carried out our engagements in accordance with Standard 3410N 'Assurance engagements relating to sustainability reports' of the Royal Netherlands Institute of Register Accountants. This Standard requires, amongst others, that the assurance team possesses the specific knowledge, skills and professional competencies needed to understand and review the information in The Report, and that they comply with the requirements of the IFAC Code of Ethics for Professional Accountants, including independence.

## What did we do to reach our conclusions?

Our work included the following activities:

- A media analysis and internet search on environmental, safety and social issues for KPN in the reporting period, in order to deepen our insight in relevant sustainability issues and questions in the reporting period.
- Interviews with members of the CSR Steering Committee responsible for the implementation of the CSR strategy and other staff at corporate level responsible for providing the information in The Report.
- A review of design and implementation of the systems and processes for information collection and processing, including the aggregation of the data for information in The Report.
- A review of internal and external documentation, based on sampling, to determine whether the information in The Report is supported by sufficient evidence.
- Checking the consistency of other reported information with external information such as the Annual Report 2011.

In addition, for the electricity consumption and the net CO<sub>2</sub> emissions for the Netherlands in The Report for the book year 2011 and related notes, we performed amongst others the following activities:

- Testing the application of internal accounting policies and internal controls, which were used in the preparation of the reported data and accompanying notes.
- Reviewing the design and existence and testing of the operation of the systems and processes for information registration.
- Auditing internal and external documentation to determine whether the information in the report is adequately substantiated.
- Analysing the reported data and related disclosures.

During the assurance process we discussed necessary changes in The Report with KPN and reviewed the final version of The Report to ensure that it reflects our findings.

## What is our conclusion?

Based on our procedures for limited assurance, nothing came to our attention which indicates that the information in The Report is not, in all material respects, fairly presented in accordance with the GRI G3.1 reporting criteria.

Based on our procedures for reasonable assurance, we conclude that the information for electricity consumption and net CO<sub>2</sub> emissions for the Netherlands for the financial book year 2011, as explained on the pages 46 and 47 of The Report, is presented in accordance with reporting criteria defined by KPN.

Amstelveen, 21 February 2012  
 W.J. Bartels, partner,  
 on behalf of KPMG Sustainability,  
 part of KPMG Advisory N.V.



The Sustainability Report is published in Dutch and English.  
In case of differences, the Dutch version prevails.

**Contents and organization**

KPN N.V. Corporate Communications  
[www.kpn.com](http://www.kpn.com)

DHV Adviesgroep Duurzaam Ondernemen  
[www.dhv.nl/mvo](http://www.dhv.nl/mvo)

**Design**

Addison  
[www.addison.co.uk](http://www.addison.co.uk)

**Feedback**

If you would like to give your opinion about this report  
and our social performance, please send an e-mail to  
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