

The network that cares for society
KPN Sustainability Report 2012



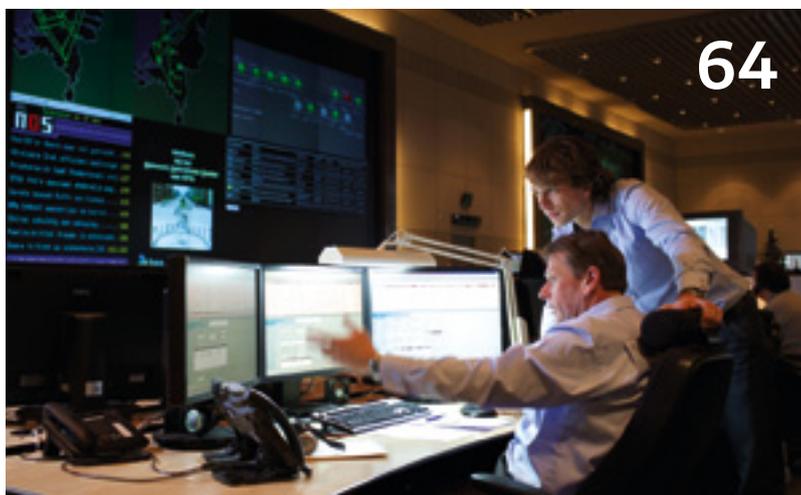
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KPN is a leading supplier of telecommunications and ICT services. We offer consumers total solutions for fixed and mobile telephony, internet and TV. For business customers – from multinationals to SMEs and home offices – we provide fixed and mobile telephony and data services. In addition, we provide a broad range of ICT products and services, such as workspace management, data centers, consulting and cloud services. In the Belgian and German mobile markets, we are a strong challenger.

We aim to be the best service provider in the Netherlands. Thanks to us, our customers can be online wherever and whenever: at home, at work and on the move. Our products and services make this as easy as possible for them. Thanks to our cables, transmission masts and data centers and the thousands of KPN people, Schiphol Airport, the port of Rotterdam, the railways, internet banking, pin payments and many other things can all function. Day in, day out. We want to bring the society further, with each other and for each other, in a sustainable way. That's where our strength lies.





TRUST IN THE FUTURE

2012 was a turbulent and challenging year for the KPN Group. It was a year where we accelerated our commercial and infrastructure investments to stabilize market positions and improve customer service, thus taking the necessary steps to realize our ambitions. These ambitions go hand in hand with our social policy. However, share price development and dividend policy changes impacted our shareholders' returns.

24/7

free helpdesk launched

>1M

IPTV customers
in the Netherlands

The effects of the measures needed to become the best service provider were clearly visible in 2012. Our customers were able to see improvements in our services and products. We boosted the quality of our services, but at a slower pace than expected at the beginning of 2012. Investments in our services and products enabled us to achieve our market share targets in both the business and the consumer market. However, the improved operating performance was not reflected in improved financial results.

Quality of services

The Net Promoter Score, which was considerably higher among consumers than in 2011, proves that we are making the right investments in the quality of our services. Among the reasons for the higher score were the launch of our free 24/7 helpdesk, an improvement in the call center service and the opening of XL shops. The main driver

for the increase in broadband customers for the first time in years was our growth in fiber activations and good performance of the Telfort brand. Our new, transparent mobile propositions triggered positive reactions from consumers and business customers. Nevertheless, revenues in the mobile market continued to decrease, partly as a result of a change in customer behavior: people are communicating more and more via apps. Another factor in the drop in our revenues was increasing competition. In the business segment we maintained our market position but the adverse economic conditions had an impact on our customers in 2012. They remained circumspect regarding their ICT investments or postponed them, putting further pressure on prices. The sentiment in the Corporate Market was also characterized by reticence and uncertainty. That confirmed the need to integrate the Business Market segment and parts of Corporate Market.

We were once again successful in 2012 with our subsidiaries in our neighboring countries. The number of customers rose substantially in Germany. Primarily as a result of increased price competition, revenue growth slowed in the fourth quarter. Belgium continued to show strong revenue growth, driven by B2B, wholesale and data.

To further improve the quality of our services we ramped up customer-driven investments. We went ahead with upgrading our copper network, enabling us to offer our customers even higher upload and download speeds. We also improved our existing mobile network and we laid the foundations for the mobile network of the future by acquiring an attractive frequency package, including 4G LTE. We have made an energetic start to the rollout of our 4G network, so we expect to have 50% coverage in the summer of 2013. We also expanded our fiber network in 2012 and we strengthened our “fiber position” thanks to the takeover of several fiber service providers. Uncertain economic prospects, the need to strengthen our financial position and the flexibility to finance strategic investments underlay our decision to stop our share buy back program at the start of 2012 and to reduce our 2012 dividend. Unfortunately, these circumstances contributed to a decline in our share price during the year.

Organization

To align our organization with our strategic goals and to be able to respond adequately to the changing market, we revamped our top structure at the beginning of 2012. We formed the Executive Committee and appointed Joost Farwerck as Managing Director Netherlands. There was one change in the composition of the Board of Management in 2012: in September Eric Hageman was officially appointed as Chief Financial Officer, the job he had already partially performed on an interim basis in the previous months, along with Steven van Schilfgaarde.

We are continuing our personnel reduction program in the Netherlands. Consequently, at the end of 2013 the workforce will show a decrease of 4,000 to 5,000 employees in comparison with the start of 2011. We realize the significance of the impact on employees concerned, but a smaller, simpler and more efficient organization is essential if we are to operate at lower cost. A social plan is in place for colleagues who have had to leave the company; this is geared to helping those employees find a new job as quickly as possible.

Corporate Social Responsibility (CSR)

We recorded good results in 2012 in the domain of CSR. We have been increasingly successful in integrating our social policies and thereby making it a self-evident part of our business operations. Through our social themes we explicitly show that, as a telecom and ICT service provider, we can do a lot for the community. “Best ICT infrastructure” is one of our themes for good reason, as it allows us to stress that a modern society cannot do without ICT. Moreover, we are convinced that KPN makes an essential contribution. And the more important ICT becomes, the greater the demands people make on secure and reliable internet traffic. To safeguard this, we give top priority to the theme “Security and privacy”. In terms of procuring green power and saving energy we are now among the world’s “greenest” telecom and ICT companies. Our listing in the Carbon Disclosure Project and the Newsweek Green Rankings prove that we are able to distinguish ourselves through our sustainability framework. We make The New Way of Living & Working possible for a growing number of companies, thereby underlining the positive effects on the environment and society as a whole. Also in the healthcare sector we are able to highlight the value of ICT.

We demonstrate the fine potential of ICT with KlasseContact, the most important project of the KPN Finest Contact Foundation. In 2012 we enabled 200 chronically ill children to continue taking lessons via a special communication set. We will give this project additional support in 2013, so that even more children can stay in contact with their class and their classmates. In the fall we added a cultural dimension to our social policies by entering into a partnership with the new Rijksmuseum in Amsterdam.

Special topics

I would especially like to mention two topics that received a lot of attention within the company and in the outside world. In January we were confronted with a computer hack. We took the incident very seriously, we learned our lessons and used this to focus even more on security and privacy, both internally and externally. It goes without saying that we are conscious of how important it is for customers to have confidence in our ability to keep their data secure. We have taken necessary measures, including setting up the Security Operations Center, which reduces the risk of security incidents in the future.

Secondly, the change in our shareholding whereby América Móvil acquired just over 27% of KPN’s shares in June 2012 received a lot of attention. As announced on February 20, 2013 the support of our largest shareholder in our intention to raise EUR 4 billion of equity equivalent capital is a major step towards successful execution of our capital raise. This will consist of a EUR 3 billion rights issue and, in addition, issuance of hybrid capital instruments. I am pleased that important progress has been made towards aligning our financial position with our strategy and that our relationship agreement will enable us to have the benefit of a strong relationship with a global leader in the telecom sector going forward, among other things, by the intended appointment of two individuals, designated by América Móvil, to KPN’s Supervisory Board during the Annual General Meeting (“AGM”) in April 2013.

To conclude

A year ago in this report I wrote, “KPN is a healthy company with stretching customer-oriented and social ambitions”. Those words apply just as much today. We have made good progress and I am pleased with the operational performance as a team. This offers good prospects of success on our strategic path. KPN is a strong and resilient company, thanks to the efforts, knowledge and qualities of thousands of KPN employees.

Eelco Blok

Chairman of the Board of Management and CEO.

In 2010, KPN affiliated itself to the Global Compact, the United Nations sustainability platform. In so doing, we have promised to contribute towards achieving the Millennium Development Goals for 2015 set by the United Nations.

REVIEW OF THE YEAR 2012

From the strategy update in January to the acquisition of frequencies in December. The last twelve months at KPN summarized on two pages.

JANUARY

To have more direct and efficient control over its operational activities, KPN introduces a new top structure including an **Executive Committee**, under the final responsibility of the Board of Management.

KPN presents its **strategic update**, with a focus on stabilizing domestic market positions and does not announce a share buy back program.

A **hacker** obtains access to servers on the KPN network. KPN immediately takes steps and informs all relevant authorities.

In Amsterdam IJburg and Nunspeet KPN introduces **high-speed internet** via fiber broadband with speeds of up to 500 Mb per second.



FEBRUARY

Using the headline “Two million **apologies**”, KPN publishes an advertisement in the daily papers to apologize for inconvenience caused by the hack in January. KPN asks all e-mail customers to change their passwords as a precautionary measure.

MARCH

Young people’s brand Hi introduces a new series of subscriptions **centered around mobile internet**, with options for voice calls and text messages.

KPN sets up a **Security Operations Center**. This measure is just one of the ways in which KPN aims to prevent security incidents such as that in January.



APRIL

The NMa approves the **acquisition of fiber service provider** Lijbrandt and Reggefiber Wholesale. This results in more efficiency and a clearer division of roles: KPN provides the fiber services, whereas Reggefiber can completely focus on the fiber network roll-out.

E-Plus introduces a value for money **data proposition** under the new brand name Yourfone. Following its **multi-brand** strategy, similar propositions are introduced for Simyo and Blau in the months thereafter.

MAY

KPN closes the **sale of Getronics International**. The transaction is part of KPN’s proven strategy of strengthening its global delivery capabilities for major international clients through partnerships.

First in **Belgium** to offer mobile services without a minimum **contract duration**.

The Mexican company América Móvil makes a **partial bid** for just over 27% of KPN’s ordinary shares.

JUNE

In the Rijksmuseum in Amsterdam, newspaper Het Financieele Dagblad and KPN organize the debate “**Het Nieuwe Holland**”, with The New Way of Living & Working as a central theme.

At the National Privacy Debate KPN announces its **Privacy Mission**. The mission is part of the measures to safeguard customers’ privacy and security.

In midsummer the KPN Finest Contact Foundation continues a fine tradition: the **XL days**. In five Dutch cities 500 KPN employees give 550 elderly people a day to remember.



Following América Móvil’s partial bid, KPN investigates various options for **creating more value**, including selling E-Plus. Due to the tough conditions on the capital markets, no agreement can be reached with prospective buyers.

JULY

KPN introduces new commercial propositions for consumers, becoming the first mobile provider in the Netherlands to offer **unlimited calls** and **text messages** with corresponding data bundles – for a flat fee.

KPN reduces its 2012 **dividend** to EUR 0.35 per share to maintain a prudent financial framework. In order to make the necessary investments in frequency licenses possible, KPN further adjusts the dividend in December to EUR 0.03 per share for 2013.



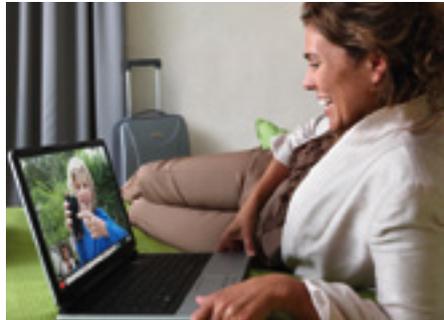
AUGUST

KPN starts renewing the mobile networks in the Netherlands, making mobile telephony and internet even more stable and reliable than before. Modernizing and improving the networks is one of KPN's ways of further improving its market position in the **mobile market**.

SEPTEMBER

KPN starts a **free** telephone **helpdesk** that is available **24/7** to KPN consumer and business customers.

Eric Hageman is appointed **CFO**. Mr. Hageman already worked partially as interim CFO since the beginning of 2012.



The Carbon Disclosure Project acclaims KPN as the world's **number one** telecom company in terms of its climate policy. KPN is the only Dutch company that is listed on both the performance index and the disclosure index.

After an absence of a year, KPN Group is once again listed on the **Dow Jones Sustainability World Index**. This means that KPN is one of the top five most sustainable telecom companies in the world.

KPN Group Belgium introduces **BASE ALL Unlimited**: unlimited calls, text messages and data for a flat fee.

OCTOBER

KPN **sells** part of its **Dutch mobile towers** to a large operator of wireless telecommunication masts.

In three months' time the number of **new mobile subscriptions** in Germany grows by a staggering 500 thousand. Due to fierce competition, this growth does not translate to increased turnover.

For the first time in years, the number of **broadband customers** grows; reasons include more fiber connections and Telfort's good performance. This stabilizes KPN's broadband market share.

KPN reaches ninth place in the **environmental rankings** of the American weekly magazine Newsweek, making it the best performing Dutch company. The rankings chart the ecological footprint of the five hundred largest publicly quoted companies.

The Dutch competition authority (NMa) announced the approval of the **acquisition of the fiber service providers** Edutel, XMS, KickXL and Concepts ICT from Reggeborgh.

NOVEMBER

The number of customers taking services via the **fiber network** exceeds 350,000, more than three times as many as a year ago.

KPN sells part of its German **mobile towers**. Among other things, the cash proceeds will be used to support the investments in the accelerated roll-out of its German mobile network.

KPN and the labor unions reach a **provisional agreement** on a new collective labor agreement running from April 1, 2012 to June 1, 2013.

To further strengthen its fixed network strategy in the Netherlands, KPN acquires an additional 10% of the shares in **Reggefiber**, increasing its share to **51%**.

E-Plus is ranked **3rd** in network quality by Germany's biggest computer magazine "Computerbild", who performed an extensive **network test** amongst consumers.

DECEMBER

Thanks to the **upgrade** of the **copper network** KPN now offers two thirds of Dutch households a download speed of at least 40 Mbps.

The huge **popularity** of **IPTV** enables KPN to reach the milestone of one million IPTV customers, taking its market share from 17% to 23% in the space of one year.

To put the focus more strongly on its **domestic markets** and **core activities**, KPN sells the mobile subdivisions KPN Spain and Ortel Mobile Switzerland.

During the spectrum auction a very **attractive combination** of **frequency licenses** is allocated to KPN for the Dutch mobile market for EUR 1,352 million.





TRENDS IN TELECOM AND ICT

The importance of telecom and ICT is increasing: businesses and consumers want to be accessible anytime, anywhere, and vital functions in society cannot work without ICT infrastructure. Traditional forms of communication are making way for new ones. The world of telecom and ICT is changing radically and rapidly.

Mobile network

10x

faster than current mobile Internet connections with 4G LTE

249%

increase in data traffic at KPN customers compared to 2007

ICT has become our economy's central nervous system. Internet and fixed and mobile telephony have become a basic requirement of modern life, and for millions of people social media such as Facebook and Twitter are now a perfectly normal and accepted means of communication. Consumers are becoming increasingly demanding: they want products and services of the best quality for the best price. They expect personal service and a reliable, secure and fault-free network.

The challenges are considerable, particularly in economically tough times, that are also affecting the telecom and ICT sector. The economies of the Netherlands, Germany and Belgium, the countries in which KPN operates, are relatively strong. But even here the number of bankruptcies, redundancies

and unemployed people is rising. Bankruptcies lead to a contraction of the business telecom market; companies disappear or delay their investments. Growing unemployment and a decrease in purchasing power and consumer confidence influence expenditure. For instance, more and more consumers are opting for a single fixed connection (with a cable or telecom company). Competition and declining revenues are encouraging telecom and other companies to operate more efficiently. Specific activities are being outsourced to specialist companies domestically or abroad that can do the work more cheaply without any loss of quality.

Market dynamics are changing as mobile providers enter the fixed consumer market and they and cable service providers increase their focus on the business market.

From 3G to 4G

The unrelenting growth of smartphone and tablet use and associated new forms of communication, both free and paid, are pushing mobile data traffic to new heights. That places high demands on the quality and security of the mobile infrastructure. The transition from a 3G to a 4G LTE network will change the mobile market radically: 4G LTE will level the playing field between mobile and fixed internet in terms of speed. The impact of this modernization is hard to estimate, but will offer big opportunities for all parties involved. Among other things, it could simplify and accelerate the implementation of The New Way of Living & Working and innovations in the healthcare sector. In the field of fixed telephony, optimal utilization of the copper network and the rollout of fiber are on-going.

Dutch and European legislation affect the developments in the telecom and ICT market, especially with regard to pricing policies. Telecom companies are being forced to lower their mobile termination rates (MTR) and roaming tariffs. In addition, an increasing number of strict rules are meant to create a level playing field for new entrants and incumbents alike. Similar rules for cable service providers are virtually non-existent. This situation has changed the balance of power in favor of the latter.

CSR

The New Way of Living & Working, which facilitates working irrespective of time and place, has gained a firm foothold in society. Now that the facilities are becoming more widely available and quality continues to improve, the next challenge is to solve intangible issues such as striking an appropriate work-life balance.

A relative scarcity of raw materials such as iron and copper and social concerns about “conflict minerals”, such as tin and coltan, are encouraging the telecom sector to conduct a more environmentally aware procurement and processing policy. Lease propositions, recycling of obsolete peripherals and other equipment, and the quest for alternative materials are therefore becoming more important.

While the growth in data traffic is pushing up energy consumption, our aim is nevertheless to reduce our total energy consumption and CO₂ emissions. For several years, the rise in energy prices has made the trend towards more sustainable energy consumption apparent. But growing environmental awareness is a contributory factor as well: more and more consumers are generating their own renewable energy. The sustainability trend among businesses and consumers is expected to grow in the years ahead.





WHO WE ARE AND WHAT WE DO

In the radically and rapidly changing world of telecom and ICT, KPN is the network that has been bringing people together for the last 125 years. Through our services, products and network we ensure that people and businesses are online wherever and whenever they want, with whatever device they choose. That's where our strength lies. As the challenger on the German and Belgian mobile markets we are playing a significant role in shaping the market place.

KPN Group in 2012

The Netherlands

Consumer Residential

We offer a diverse and broad range of products and services (KPN, Telfort and XS4ALL) in and around the house, such as (IP) TV, internet and fixed telephony. The copper and fiber networks are the technical foundation on which all communications are based.

Consumer Mobile

With our multiple brands KPN, Hi, Telfort and Simyo we offer various customer segments customized mobile services and products, ensuring that people can be contacted anytime, anywhere.

Business Market

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

Corporate Market

KPN offers multinationals and other enterprises a broad range of services and products: consulting, workspace management, cloud services, data center capacity and other network-related ICT solutions.

NetCo

The beating heart of KPN where infrastructure and ICT coincide. This division, which is responsible for the fixed and mobile networks, makes it technically possible for KPN to 'run' its services and products.

International

Germany

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

Belgium

KPN Group Belgium is the successful challenger in Belgium. Its flagship is BASE, the third largest mobile provider in Belgium. We also operate there with Simyo and Ortel Mobile.

iBasis

iBasis

Thanks to the global activities of iBasis, KPN is a leading player in the international wholesale market for telephony services.

We have a mission: to be the best service provider and to give our customers the best and most integrated network. At home, at work and on the move. We achieve this with high-quality customized services and products under a number of brands, enabling us to cater even better to the needs and wishes of the various customer groups. For example, we make a distinction between products, services and price, so customers can choose the brand that best suits their needs and wishes.

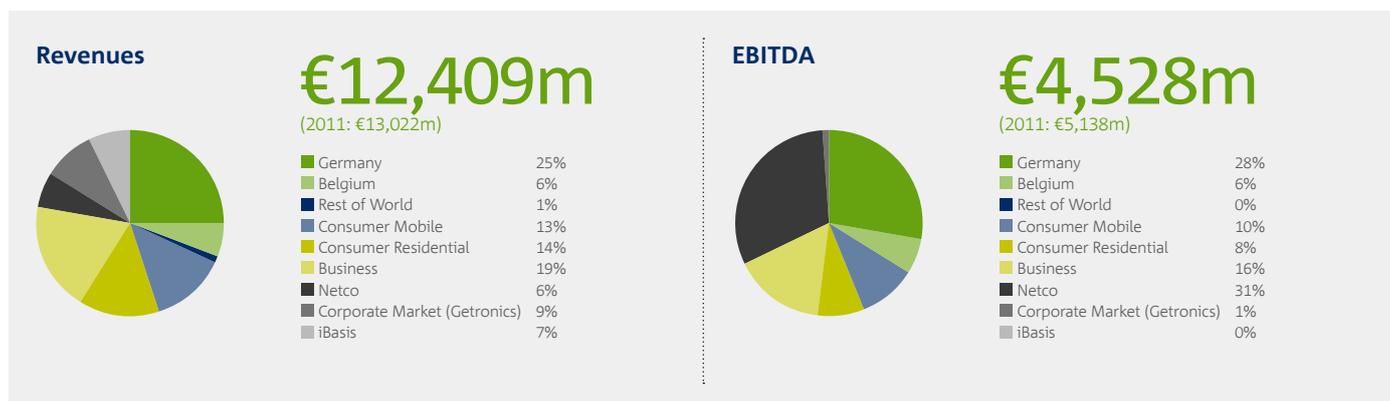
The network that cares for society

As the biggest ICT service provider in the Netherlands we are conscious of our (social) responsibilities. This is why over the last few years we have invested heavily in the quality of the service we give to our customers, in technology and in our fixed and mobile networks, as well as in simplifying our processes and our organization. For instance, we increased the upload and download speed for broadband, we raised the quality of our IPTV product to an even higher level and we launched new transparent mobile propositions. We opened new shops, improved our call-out service and introduced the free 24/7 helpdesk. With these initiatives we are putting the three core values of our strategy into practice: "Strengthen", "Simplify" and "Grow".

For millions of customers, the copper network serves as the basis for our three fixed services: IPTV, internet and fixed telephony. Around 979 thousand of our customers take these three services in a single package (triple play). In the business market, we help small and large organizations with total ICT solutions. We offer them total integration of voice, data, fixed

and mobile services. We also offer ICT applications to the government and the healthcare and education sectors. Corporate Market supplies large organizations with, among other things, workspace services, network solutions and data center services. We have 37 million mobile customers, of which 10 million are in the Netherlands, 23 million in Germany and 3 million in Belgium.

Many of our customers call our network the best in the Netherlands. The thousands of transmission masts and the countless kilometers of copper cable and fiber ensure that our mobile and fixed services can operate. Other parties use our network too. A stable and reliable network requires maintenance and modernization. Furthermore, we have to anticipate a strong growth in data traffic, especially as a result of mobile internet usage. That is why in 2012 alone we invested EUR 2.209 billion, of which EUR 1.509 billion in our fixed and mobile infrastructure services in the Netherlands, Germany and Belgium. In December 2012 we acquired an attractive combination of frequency licenses for the Dutch mobile market for EUR 1.352 billion. Among other things, this cleared the path for the roll-out of the 4G LTE network, which we have since started. More and more customers are taking advantage of the latest fiber technology, which makes speeds of 500 Mb per second possible. At the end of 2012 the number of customers taking services via the fiber network had tripled in comparison with 2011. Besides providing fiber access we continued the upgrade of our copper network, enabling us to continue offering adequate bandwidth and upload and download speeds in the Netherlands.



Who we are and what we do continued

Customers determine success

Improving our service is the central theme in our strategy. We realize that it is the customer who decides whether we fulfill our ambition of becoming the best service provider. KPN employees who are in direct contact with our customers play a crucial role in this. To enable these employees to offer good service to our customers we invested in new shop concepts and improved the management and scheduling of our engineers. Furthermore, we increased the number of call center staff and gave them more freedom to solve customers' problems. And as more and more people are discovering social media as a service we also invested in KPN Webcare, our online customer service.

Social responsibility

We invest not only in our customers, services and technology but also in society, because the role of ICT in our society is essential. We aim to strengthen our company and use ICT in a sustainable manner, because we regard sustainability as a self-evident part of our business operations. Consequently, the five themes on which our social policy is based are under the direct responsibility of the Executive Committee.

We want to help the Netherlands and our customers make progress and to offer them the **best ICT infrastructure**. One of the ways we are doing this is with 4G LTE, the new generation of mobile internet. By rolling it out quickly we aim to provide this new technology, which makes superfast uploading and

downloading possible, throughout the Netherlands within the next 18 months. The more our society becomes dependent on ICT, the more it becomes vulnerable. An increasing volume of sensitive and confidential information passes over the internet. Recognizing that we have to give our customers secure and reliable connections, we give top priority to **security and privacy**. We place the highest priority on the security of both our network and our internal privacy policy. For many years KPN has been pre-eminent in the Netherlands in **The New Way of Living & Working**. Thanks in part to that experience, we make it possible for a growing number of customers to work irrespective of time and place. More and more companies are experiencing and recognizing the positive effects of this concept on, for example, employee involvement and the environment. In terms of energy saving we are now among the world's "greenest" telecom and ICT companies, because our energy consumption is decreasing despite the exponential increase in data traffic. The theme **"Energy efficient"** enables us to show that we give top priority to energy saving. In addition, we help our customers to save energy themselves. We are able to highlight the value of ICT in the healthcare sector too and we are gradually improving the efficiency and effectiveness of the healthcare sector. We reinforce our ambitions in terms of healthcare with the theme **"Healthcare of the future"**.

The management

KPN is a public limited company incorporated under Dutch law, led by the Board of Management. The Board of Management, under the leadership of Chief Executive Officer (CEO) Eelco Blok, controls strategic, financial and organizational matters and appoints senior management. The Board of Management is also responsible for overseeing the work of the Group Executive Committee (ExCo), which controls the segments. The Supervisory Board is charged with supervising and advising the Board of Management.

At the start of 2012 we introduced the new segment structure, in which the NL ExCo controls the operating activities in the Netherlands and the International ExCo is responsible for the operational activities abroad. We carried out the organizational changes so as to be able to run the various business units more directly and efficiently and to respond even better to new ICT developments and the rapidly changing customer wishes. The ExCo falls under the direct responsibility of the Board of Management. ExCo Group is represented by ExCo NL, ExCo Mobile International and corporate departments on HR, Legal and Strategy. ExCo NL consists of Consumer Residential, Consumer Mobile, Business Market, NetCo, Corporate Market, while Germany and Belgium are part of ExCo Mobile International.

More information about the composition of the Board of Management and the changes during 2012 can be found on page 52 of the Annual Report.



Board of Management: from left to right T. Dirks, E. Blok and W.T.J. Hageman

The strength of KPN staff

As an employer, we expect commitment, expertise and professionalism from our employees. We offer good employment conditions and fringe benefits. As a modern company we promote The New Way of Living & Working, which on the one hand offers more freedom and on the other hand involves more personal responsibility. Currently, 9,000 KPN employees are taking advantage of this modern style of working.

We are convinced that teamwork is the key to success. Its importance is expressed on TEAMKPN Online, the internal communication platform which connects all employees with one another. KPN employees inform and help one another and share knowledge via news reports, videos, blogs and other media. TEAMKPN Magazine is another valuable communication medium that provides employees with a wealth of background and information.

We believe it important for employees to continue to develop themselves and to keep their knowledge and skills up-to-date. We therefore offer them the possibility of adding to or enlarging their skill set within a specific area of competence. We run a talent program in order to find and hold on to graduates and those with higher professional training. We invest in keeping all our staff members fit. Physical and mental fitness tests are available to all KPN employees, and the results can be used to make health improvements, if necessary. The interactive coaching program I-Change helps employees to change their lifestyle.

People connected

Thanks to the KPN Finest Contact Foundation we ensured that in 2012 alone over 200 seriously ill children could continue taking their school lessons and stay in touch with their classmates. Our lead sponsorship of skating is another social initiative that allows KPN to become even better connected with the Netherlands and the Dutch population. We sponsor skating in all its forms: from the professionals to the young beginners, from the enthusiastic recreational skater to the loyal fans of the Dutch stars watching competitions on TV. With our lead sponsorship of the Rijksmuseum in Amsterdam we have now also established a cultural connection with the Netherlands. Through this partnership we are going to ensure that the Rijksmuseum has the most modern ICT and telecom services, so it is connected with the entire world and can make its art collections accessible to all.

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.



OUR MAIN ACHIEVEMENTS

KPN has set several specific objectives, expressed in financial and non-financial key performance indicators (KPIs).

Performance indicators

A number of KPIs forms the basis for the variable remuneration of the members of the Board of Management and the ExCo and of the other top managers. In 2011, we introduced customer satisfaction, reputation and electricity consumption as non-financial KPIs. These three KPIs give an indication as to whether we are on schedule with our strategic targets.

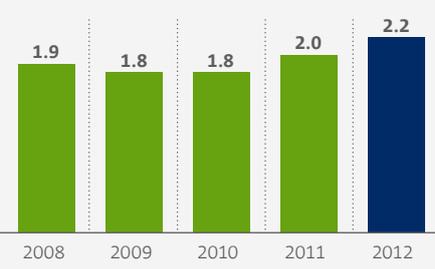
Customer satisfaction

We use the Net Promoter Score (NPS) to measure customer satisfaction. We regularly survey a representative customer group in the Netherlands to calculate this score. The key question asked is whether customers would recommend KPN to friends or family. A negative score means that customers who recommend KPN are in the minority.

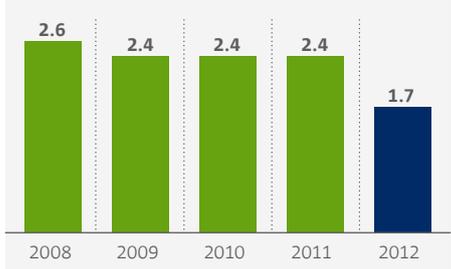
EBITDA (in billions of EUR)
EBITDA margin



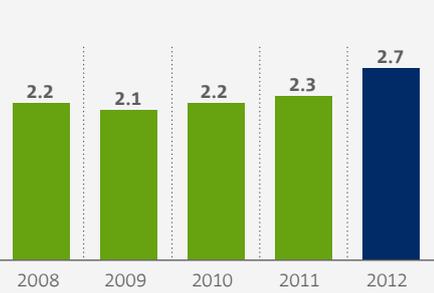
Capital expenditure
(in billions of EUR)



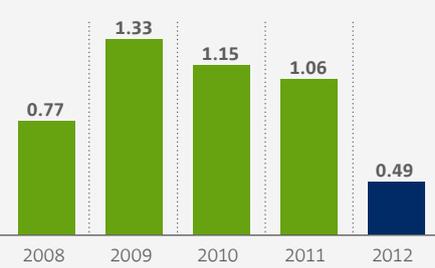
Free cash flow
(in billions of EUR)



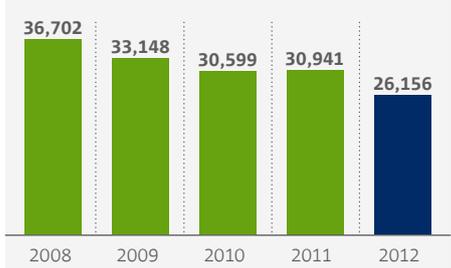
Net debt / EBITDA



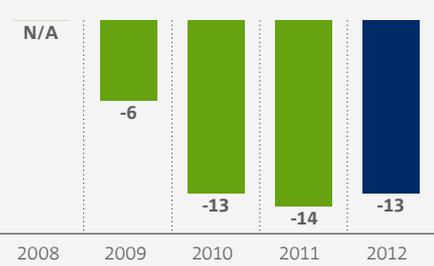
Earnings per share
(EUR)



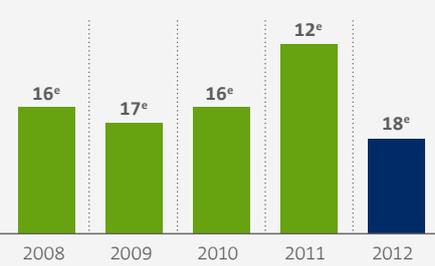
Number of FTEs
as of 31 December



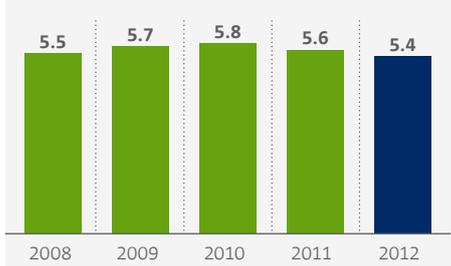
Customer satisfaction
(NPS)



Reputation
(Ranking in the Netherlands)



Energy consumption
(in petajoule)



Reputation

We use RepTrak to monitor our reputation. RepTrak, run by the Reputation Institute, publishes an annual ranking based on a survey carried out among the population of the Netherlands. Along with other large Dutch companies KPN takes part in this survey. In 2012 we set a new long-term objective for reputation. As from 2013 our objective is to improve our RepTrak score, in stead of the objective to improve our position compared to other Dutch companies.

Electricity consumption

KPN is a large-scale user of electricity, accounting for 0.8% of total Dutch energy consumption. Consequently, we do everything possible to reduce our energy consumption and to use green energy. The sharply rise in data consumption makes this even more necessary. Moreover, we put our customers and suppliers in a position to reduce their own energy consumption through the use of ICT.

Financial KPIs

Healthy financial management of the business is critical to success. Indicators such as market shares, capital expenditures, EBITDA, profit per share and free cash flow give a clear picture of our financial performance.

Significant market shares	2012	2011
Broadband Netherlands ¹	41%	40%
TV Netherlands ¹	23%	17%
Mobile Netherlands ²	45%	46%
Mobile Germany ²	15.8%	15.8%
Mobile Belgium ²	~20%	~19%

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



OUR STRATEGY

“Strengthen”, “Simplify” and “Grow” are the three principles on which we base our strategy: Our aim is to fulfill our main ambition: to be the best service provider for our customers.

Reaching

85%

of German population with HSPA+.

KPN covers

~18%

of the Dutch population with FttH

Following a period of market share decline KPN has been able to stabilize its market positions in The Netherlands as a result of the ‘Strengthen-Simplify-Grow’ strategy outlined back in May 2011. In 2012, KPN’s domestic market positions have stabilized, albeit at lower profitability as a result of increased investments. KPN operates in a challenging environment impacted by regulatory pressure, a slow macro-economy and strong competition in all mobile markets. The telecom sector is at a crossroads with new technologies maturing and potential increasing clarity as to European long-term regulation. Today, KPN covers ~18% of the Dutch population with FttH and operates an upgraded VDSL network, reaching ~70% of Dutch households with broadband speeds of at least 40Mbps. In mobile, KPN’s goal is to realize nationwide coverage with 4G LTE in The Netherlands in 2014, while HSPA+ has largely been rolled out in Germany and Belgium. These networks are the platform for KPN to offer enhanced customer experience and, following the current period of increased commercial and infrastructure investments, the prospect of improved profitability in its different markets in the medium-term.

With the aim to further stabilize its leading domestic market positions as well as stabilize its financial performance in The Netherlands, KPN will focus on balancing profitability and market share objectives. The strategy in The Netherlands is based on a strong customer focus by providing the highest quality services, based on a full product range on best-in-class networks while striving for a lean operating structure. Consumer Mobile is facing a changing market structure but has the opportunity to differentiate itself from the competition by offering the best customer experience by combining 4G LTE with a nationwide fixed network. Consumer Residential has been successful in 2012 with its strategy to focus on selling an increasing number of products per customer driven by IPTV, combined with growing ARPU and will continue to pursue this strategy. To address the increasing need to access information everywhere on all devices, as of 1 January 2013 KPN has integrated parts of Corporate Market with the Business segment into a one-stop shop for B2B, offering integrated packages with virtually all ICT & Telecom services.

In Germany, E-Plus was able to significantly grow its market share for several years accompanied by high profitability, however its market share growth has been less significant of late. In 2012, E-Plus experienced a slowdown in service revenue growth, but maintained a strong margin. In the past two years, E-Plus upgraded its network with HSPA+ reaching more than 85% of the German population. The upgraded network is the platform for the next phase in the Challenger strategy, which is intended to transform E-Plus into a data-centric Challenger and which is expected to provide new growth opportunities. Market share growth will be targeted in underpenetrated regions, based on a high quality network combined with expanding on- and off-line distribution capacity, increasing commercial activity and attractive customer propositions. This strategy is expected to lead to service revenue growth and market share growth, combined with lower margins in the short-term, and improving from such base in the longer term.

The Belgian mobile market has experienced a change in market structure in 2012. In Belgium, as in Germany, KPN's upgraded network forms the platform for the next phase of its Challenger strategy. KPN Group Belgium aims to realize growth through creating a competitive edge by network speed differentiation at low cost based on innovative partnerships. 4G LTE is expected to be available in the majority of the country by end-2014. This will be combined with a strong commercial focus via attractive propositions and increased presence in underpenetrated regions. In addition, KPN Group Belgium is seeing opportunities to challenge the fixed line market. This strategy is expected to lead to service revenue growth and market share growth combined, however, with lower margins.

We have made progress with our social themes. Our aspiration to have the best ICT infrastructure in the Netherlands is one of those themes. In 2013, 51% of consumers considered KPN's mobile and fixed network the best in the Netherlands. We are continuing to make improvements in our network and services. We are making progress in healthcare too. We are already connecting more than 4,000 healthcare locations and over 20,000 healthcare consumers make use of our personal comfort services. We aim to enhance our contribution in 2013 by further developing and rolling out our healthcare products and services. We achieved a 17% growth with our services that facilitate The New Way of Living & Working. We want to increase that percentage to 20% in 2013, partly through improved propositions and communication. We helped customers save energy and in 2013 we will develop a method of keeping track of energy savings. Even though the volume of data traffic increased substantially, we achieved an energy saving of 6.2% in our own organization. Our target is no longer a maximum energy growth of 5%, but we have now set ourselves an energy reduction target for 2020. With the development and launch of our IT Security Top Priority Program, which we will pursue in 2013, we have made an investment in the security of our network. In addition, we will offer our customers even more products and services that will benefit the security of their information.



STRATEGY AT A GLANCE



KPN revised its strategic market objectives to a level at which the respective businesses are expected to operate in the medium to longer term, taking into account the specific market dynamics surrounding the operations and striving for the right balance between growth and profitability.

OBJECTIVES AND AMBITIONS

The Netherlands	<ul style="list-style-type: none"> • Minimum broadband market share of >40% ; long-term goal 45% • Growing Revenue Generating Units and Average Revenue Per User at Residential • Minimum long-term total mobile NL market share of >40% • Leading business and ICT player with stable market positions in the Netherlands • 40-45% medium term EBITDA margin in the Netherlands • Finalization 4,000-5,000 FTE reduction program end 2013; continued FTE cost efficiency in 2014 and onwards
Mobile International	<ul style="list-style-type: none"> • Long-term market share goal of 20% in Germany • Medium-term EBITDA margin of 30%-35% in Germany • Long-term market share goal of 25% in Belgium • Medium-term EBITDA margin of 25%-30% in Belgium
Financial framework	<ul style="list-style-type: none"> • Commitment to maintain investment grade credit profile
Corporate Social Responsibility	<ul style="list-style-type: none"> • In 2015 60% of Dutch citizens consider KPN to have the best ICT infrastructure • 6,000 healthcare locations connected and 48,000 healthcare consumers supplied with personal comfort services in 2015 • KlasseContact: 1250 chronically ill children connected to school and classmates with a webchair in 2015 • 20% growth in use of services for The New Way of Living & Working in 2013 • In 2020 climate neutral and save as much energy in the value chain as KPN itself uses every year • Recycle or re-use 400,000 cellular phones in 2014 • In 2013 70% of Dutch citizens consider that their data is safe with KPN



STRATEGIC INITIATIVES

- Focus on bundles, offering integrated fixed and mobile services on all devices
 - Optimizing customer lifetime value
 - Continued commitment to improve customer experience and quality of services
 - Best in class network
 - Commercial launch of 4G LTE
 - Moving towards one-stop-shop for B2B
-
- Market share growth in targeted underpenetrated regions
 - Expanding distribution capacity in Germany in under-penetrated regions
 - Improve underlying cost structure in Germany
 - Monetize competitive data network in Germany
 - Create competitive edge by speed differentiation in Belgium
 - Seizing opportunities to challenge the fixed line market in Belgium
-
- Substantial reinforcement of balance sheet and financial position
 - In February 2013, we announced a EUR 3 billion rights issue and, in addition, issuance of hybrid capital instruments
-
- Modernizing the mobile network and improving the quality of the fixed network
 - Further roll-out and development of the services ZorgSamen, ZorgVrij and ZorgSlim
 - Further roll-out and expansion webchairs to connect chronically ill children with school and classmates
 - Further roll-out and development of propositions and use of our capability to provide service needed to facilitate The New Way of Living & Working
 - 6% reduction in energy consumption in 2015 and 100% green power as from 2014
 - Energy-efficient equipment in the network and for customers (modems, set top boxes)
 - Handset lease and collection of used mobile handsets
 - IT Security Top Priority Program and provision of Security Operations Center services to customers

STATUS 2012

- Domestic market shares stabilizing, TV market share growing
 - Lower line loss and growing FtTH penetration
 - Accelerated growth triple play packages, increased revenue generating units per customer
 - Expanded addressable market; ~70% coverage of Dutch Market with minimum guaranteed speed of 40 Mbps
 - Highly valuable spectrum acquired
 - Prepared integration of Business Market with parts of Corporate Market
 - Accelerated restructuring program resulted in a reduction of ~1,900 FTE in 2012
-
- Lower growth in prepaid and customer optimization in postpaid resulted in a slow-down in growth in Germany
 - Introduction of all-net flat propositions; strong postpaid net adds in Germany
 - Commercial initiatives launched to maintain price-leadership in Belgium
 - Market share Belgium increased to ~20%
 - HSPA+ has been largely rolled-out in Germany and Belgium
-
- As at December 31, 2012 KPN has a credit rating Baa2 with rating under review for downgrade by Moody's, BBB with a credit watch negative by Standard & Poor's and BBB- with a stable outlook by Fitch
 - Dividend outlook lowered to EUR 0.12 in 2012 and EUR 0.03 in 2013 and 2014
-
- 51% consider that KPN has the best network
 - More than 4,000 healthcare locations connected and ~21,000 healthcare consumers supplied with personal comfort services
 - 216 webchairs in use
 - 17% growth in use of services for The New Way of Living & Working
 - 103,000 tons of CO₂ emissions, 6.2% reduction in energy consumption and 93% green power
 - ~72,000 recycled or reused mobile handsets
 - 67% of Dutch citizens consider that their data is safe with KPN
 - Security Operations Center set up

STRATEGY IN ACTION

In The Netherlands, we are approaching a new balance between a focus on market positions and achieving a stable performance. In Germany and Belgium, the next phases in our Challenger strategy are being implemented to fuel underlying growth in 2013 and beyond. More and more, our social policy is a natural part of our business.



THE NETHERLANDS

KEY OBJECTIVE:

Integrated Access Provider

We intend to reinforce our position in the Dutch market by offering a full range of fixed and mobile services that deliver the best connectivity to our customers, independent of location and device, in the most intuitive and customer-friendly way.

We have started the roll-out of our “KPN Compleet” package as a the first step to

providing a quadruple-play offering, involving a converged package of mobile, fixed line, broadband internet and TV services.

We believe that this, in turn, will improve customer loyalty, reduce churn and limit margin erosion.

THE NETHERLANDS

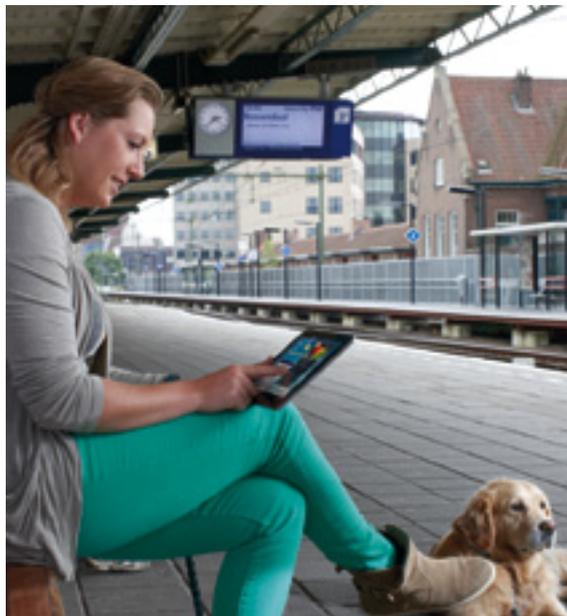
KEY OBJECTIVE:

Best in class network

We have invested heavily in network infrastructure in the Netherlands, and plan to continue to do so, in order to offer the best products and services to our customers. We are continuously improving the speed and quality of our fixed and mobile networks.

In fixed line services, we plan to continue with upgrades of our copper network and expects

to expand our FttH footprint through the Reggefiber joint venture. In mobile, we are the first operator in the Netherlands to have launched 4G LTE services, and we expect to have covered approximately 50% of the Dutch population by mid-2013 and to offer nationwide coverage in the second half of 2014.



MOBILE INTERNATIONAL

KEY OBJECTIVE:

Next phase mobile challenger strategy

We believe that we have considerable opportunities to grow our German and Belgian operations. At the core of our strategy in these markets is the accelerated roll-out of mobile broadband internet services, with a continued focus on investing in mobile broadband backhaul and HSPA+ network roll-out as a priority in Germany, and on the deployment of the 4G LTE network in Belgium.

By leveraging the upgraded data network we will continue growing market share in

under-penetrated regions. We will do this by expanding our distribution channels and targeted marketing on a region-by-region basis.

Furthermore, we will challenge the fixed line market in Belgium and offer triple play products to our customers. In Germany we will continue to focus on expanding our position in the postpaid market.

CORPORATE SOCIAL RESPONSIBILITY

KEY OBJECTIVE:

Enable customers to fulfill their sustainability ambitions

Our high position in the Dow Jones Sustainability Index, the Carbon Disclosure Project and the Newsweek rankings confirm the course of and appreciation for our efforts in the domain of sustainability and social responsibility.

More than ever before, we face the challenge of making a contribution to the quality of the

society we live in. Notable examples of this are our expanding position in the healthcare sector, the development of products and services that satisfy extra-high privacy and security requirements, the help we give customers to make The New Way of Living & Working possible and save energy and CO₂.



OUR ROLE IN SOCIETY

Our vision: ICT is indispensable for a modern, sustainable society

51%

of consumers consider KPN's network the best

4,000

healthcare locations are connected to each other through the use of advanced ICT services

17%

growth in the use of services that facilitate The New Way of Living & Working

6.2%

reduction in the energy consumption of the KPN Group compared to 2010

67%

of Dutch people consider their data secure with KPN

In the 2008-2011 period we focused on three social themes: The New Way of Working, Responsible energy use and People connected. So as to be able to utilize our company and our core competencies to make more of a difference we formulated five social themes with our stakeholders in 2011:

- Best ICT infrastructure
- Healthcare of the future
- The New Way of Living & Working
- Energy efficient
- Security & Privacy

Our themes are based on social challenges that offer us new opportunities and that are inextricably linked to our strategic choices. We are convinced that, as a modern ICT service provider, we can make a permanent contribution to society by means of the five themes. We believe that through our ICT business we can help improve the world around us. We want to utilize our energy, employees and resources in the best possible way. This is why the themes are logical focal points. Moreover, we want to make a difference with our ICT activities, which make a direct contribution to the business.

We are more than "just" an ICT service provider; we also want to bring about changes in society and to set or strengthen trends. As market leader in ICT, builder of the network and with our network of ICT experts – our employees – we are the obvious service provider to help the Netherlands to make progress through communication technology.

We confirmed that role in 2012 with an external campaign entitled "The network that cares for the Netherlands". In that campaign, which we will pursue in 2013, we turn the spotlight on our five social themes.

Every year we appraise our social themes, taking into account the expectations of stakeholders with respect to social topics, along with the influence that KPN has on them. We want to take the lead in the themes that score the highest. We have therefore translated them into five social themes and three complementary themes: "Our people", "Our suppliers" and "People connected". In 2012 the analysis did not result in any changes to our social policy and our reporting. In appendix on page 82 of the Sustainability Report we explain the process involved.

Best ICT infrastructure

Information and Communication Technology (ICT) forms the basis of our modern society. Railways, ports and road and air traffic are all heavily reliant on ICT. Internet-based services, facilities and products for consumers and businesses are growing too, making the vital importance of ICT in this segment of society increasingly clear. Moreover, a modern ICT infrastructure drives the innovative power and attractiveness of the Netherlands as a business location. Because of these developments, KPN feels the responsibility and the obligation to provide the best ICT infrastructure in the Netherlands. In this way, a modern ICT infrastructure can contribute positively

towards making the Netherlands more sustainable and economically stronger.

Healthcare of the future

We see solid strategic opportunities in the healthcare sector. In the coming decades, healthcare will undergo great changes. For example, population aging will increase, as will the prevalence of diseases of affluence. The number of people requiring care will therefore rise. Technical and medical progress is creating a difference between supply and demand, and medical care is becoming more expensive. Patients will also demand more transparency and more personal, patient-centric care. In all these developments we can see that, as an ICT service provider, we will have a role that will become more important as time goes by. The application of advanced ICT ensures that the administration and communication among healthcare providers and between healthcare providers and receivers proceed more efficiently.

The New Way of Living & Working

As ICT services become more advanced the opportunities to work any place, any time, are increasing. Being able to work without the constraints of time and place enables people to be more in control, which allows them to achieve a better work-life balance. Moreover, The New Way of Living & Working contributes towards a reduction in road traffic. KPN believes in The New Way of Living &

Working, which is beneficial to both employee and employer, and which is good for the economy as well. Our contribution to The New Way of Living & Working is twofold: around nine thousand KPN people work independently of time and place one or more days per week. We are also the only ICT company in the Netherlands that is capable of providing all the ICT services needed to facilitate The New Way of Living & Working.

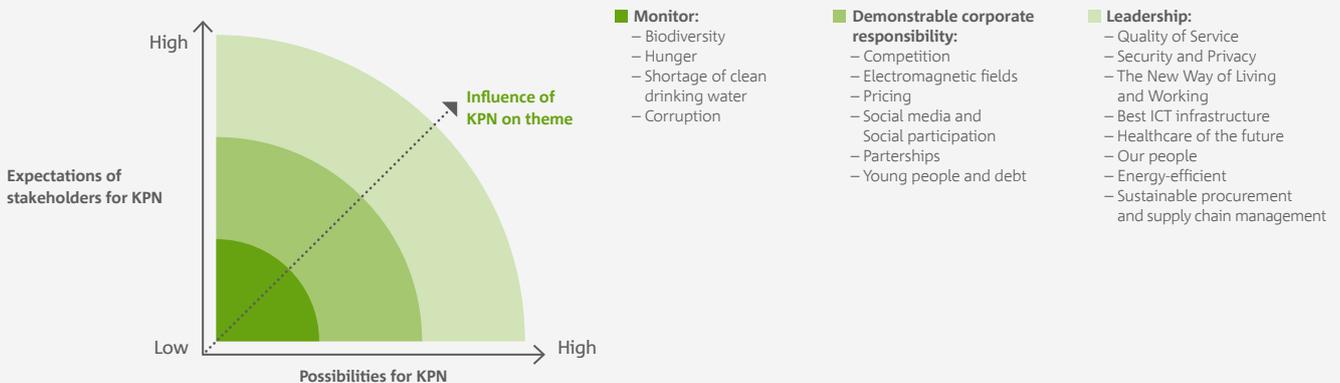
Energy-efficient

The concern about climate change and renewable energy supplies influences our strategic agenda as well. Energy shortages, CO₂ emissions and climate change have a major social impact; ICT consumes a lot of power. KPN, for example, accounts for 0.8% of the total electricity consumption in the Netherlands. KPN is facing huge challenges: data traffic and the use of ICT services are growing, yet we want to cut back on energy consumption. We want to be at the heart of the community as an energy-conscious ICT service provider. In our view there are excellent opportunities for smarter and more efficient data centers, network hardware and connections. This will allow us to reduce our energy consumption and to ‘make it green’. Despite the sharp increase in ICT applications we have set our organization an important goal: climate neutral business operations in 2020. This means that our operations will no longer have a negative effect on the climate.

Security & privacy

People, companies and governmental organizations are becoming more reliant on ICT in our society. The amount of confidential information being sent over the internet continues to increase. Society must be able to rely on ICT service providers to process this data traffic securely and carefully. We want to offer this confidence to our customers – government, companies and citizens – any time, any place. However, we are also aware that certain developments put security and privacy under pressure. Digital criminal activity (cyber crime and hackers), but also the explosive growth in social media, can lead to personal details easily getting into the public domain. As the largest “transporter” and manager of digital data we are conscious of our responsibility with respect to data security and privacy. We want to guarantee that every customer can use our internet and mobile telephony services without any concerns. The government, companies and organizations need to be certain that we store their data securely in our data centers and in the cloud.

Assessment of relevance of social themes for the telecom industry





SUCCESS BEGINS WITH SERVICE



QUALITY OF OUR SERVICE

Our employees are at the root of the success of our service. However technical telecom and ICT may be, we remain a “people business”. For this reason we are continuing to invest in the quality of the service we provide. We enable employees to provide the service that our customers expect from us. Ultimately our customers decide how good that service is.

1. QUALITY OF OUR SERVICE

OBJECTIVES AND RESULTS

	Indicator	Result 2011	Target 2012	Result 2012	Target 2013	Target 2014 and beyond
Best service provider in the Netherlands	Net Promoter Score (NPS)	-14	-7	-13 ¹ Consumer Mobile: -6 Consumer Residential: -10 Business Market: -23	-6 ¹ Consumer Mobile: -4 Consumer Residential: -5 Business Market: -10	+1 in 2015 ¹ Consumer Mobile: 1 Consumer Residential: 3 Business Market: 0
	KPN Corporate Market recommendation score	6.4	6.7	6.7	7.0	over 7.0 in 2015

¹ Average of Consumer Mobile, Consumer Residential and Business Market.

75%

of the customers who called us got first-time-right help

1.1. Our aspiration: to become the best service provider

Thanks to the excellent quality of our products and services we can distinguish ourselves from our competitors, thereby retaining existing customers and acquiring new ones. We want to be the best service provider in the Netherlands.

The way in which – and the extent to which – the customer experiences our service is the guiding principle in the further improvements we need to make. The Net Promoter Score (NPS) is an important measuring tool. Every month we conduct a survey among customers in the Consumer Residential, Consumer Mobile and Business Market segments. The paramount issue is whether the customer would recommend KPN and our services to others. Although in 2012 we took steps forward that give us a lot of confidence for the years ahead, we still could not make a real breakthrough in terms of the customer experience.

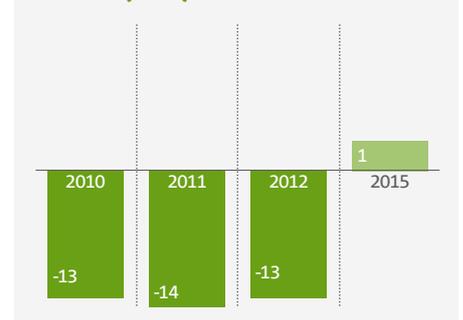
NPS 2012: mixed success

When calculating the NPS for KPN we ensured that each of the three segments (Consumer Residential, Consumer Mobile and Business Market) counted for one third. Thanks to a variety of programs and initiatives we achieved improvements that resulted in a considerably higher NPS for Consumer Residential and Consumer Mobile. However, this rise was almost totally negated by the sharp fall in the NPS of Business Market. Overall our NPS rose by one point to -13.

We see that the programs and initiatives we launched, such as our free 24/7 helpdesk, have only partially resulted in a rise in the NPS. Even though we achieved significant rises in the NPS

for some parts of our company, an overall NPS target of +15 in 2015 has proved too ambitious. In the light of the current market conditions we feel that a target of +1 is more realistic but we have set the further target that all the segments will score a positive NPS (higher than zero) and therefore have more ambassadors than dissatisfied customers. A significant improvement is needed for this to be realized, however. We will therefore stick to our promise to make a major step forward and achieve a score that is above the average for the sector. Consumer Mobile's score is already above the average for the sector. Furthermore, we will continue to focus on improving the service we give our customers.

FIGURE 1: NET PROMOTER SCORE (NPS)



At KPN Corporate Market – the former Getronics – we measure customer satisfaction on the basis of the recommendation score, a “grade” between 1 and 10. This is the most commonly used method in the corporate/wholesale segment. We managed to achieve the recommendation score of 6.7 that we set as our target for 2012. Our target for 2013 is 7.0.

Closer to the operations

In 2011 the Quality steering committee of the Board of Management was still responsible for directing and co-ordinating quality improvement. In January 2012 that responsibility was taken over by the segment directors. They are responsible for the development, execution and results of the company-wide quality improvement programs. The segment directors report to the Board of Management and inform their own managers of the customer ratings and associated NPS.

1.2. Quality programs and service improvements

To improve the quality of our service we developed dozens of programs in the segments. Some of these programs focus specifically on direct contact with the customer, others on organizational and functional improvements. However, we were unable to maintain the expected rate of improvement in some of the programs, which meant that those improvements were not easily discernible to customers and employees.

1.2.1. KPN-WIDE 24/7 free helpdesk

One of the most significant and eye-catching service improvements of 2012 was the introduction of the free helpdesk. The introduction coincided with the announcement of our new promise: "KPN just does it". Thanks to this service we have been available 24/7 by telephone and online (via social media) since September. Customers have reacted enthusiastically to this service, which is still unique in the Dutch telecom and ICT sector.

We consider that we are still getting too many technical, invoicing and product-related questions. We want to reduce the number of customer queries, complaints and problems so as to get us closer to our target: improving the quality of our service. Our aim is to see that reflected in a rising first-time-right percentage (giving the customer the right help in one go). And we are succeeding: the FTR in 2010 was 40-80%, while in 2012 it was 75%. Our FTR target for 2015 is 85-95%.

In September, the results of the survey by the comparison site Contractwijzer.nl showed that we are making progress with our customer service. In the survey, in which the waiting times at call centers were compared with one another, KPN emerged as the best, followed by Telfort.

Improved sales channels and new shop concepts

We made progress with our multi-channel approach, whereby we offer services via a number of sales and other channels – in a shop, online or via a helpdesk. We are now able to offer a more extensive service to customers who visit our shops, for example when changing a mobile subscription or broadband package. Whereas previously customers were in many cases referred on to call centers, shop personnel are now more often able to provide the necessary assistance themselves. This was facilitated partly by the XL shops and the various apps that we introduced for our KPN, Hi and Telfort brands in 2012, as well as by improvements to the online services offered by those brands' websites.

By the end of 2012, 9 of the 16 Business Centers had been turned into KPN XL shops. In these shops we offer our consumers and business customers the complete range of KPN products and services. They can go there with a variety of queries, from arranging a relocation, swapping modems and getting a smartphone repaired to questions about invoices or contracts. In addition, in smaller towns we introduced "KPN shops", where all the products and services of KPN, XS4ALL, Telfort and Hi can be found. We had opened eight KPN shops by the end of 2012.

Improved invoices

To improve the clarity and simplicity of our invoices we altered their lay-out in 2012. We hope that a simpler lay-out will result in fewer customer queries and a permanent decrease in printing and postal costs. By December 2012 we had altered the lay-out of half the invoices.

Social media

KPN Webcare has proved that service via social media is now a structural fixture. The KPN Webcare team made a modest start in 2011, but in 2012 KPN Webcare made substantial progress and manifested itself in a variety of social media-related areas. In 2013 we intend to integrate KPN Webcare even more fully into our organization, whereby teamwork with the internal communication platform TEAMKPN Online will be a key priority.

We analyze what social media users are saying about us and whether the general tone is positive, neutral or negative. In 2012 we used this technique to analyze over 500,000 postings about KPN. 6% of the reports were positive about KPN and 23% were negative. The remaining 71% of the reports were neutral in character. This was broadly in line with our competitors. During the year there were peaks and troughs in the tone of postings. The announcement of the hack in February resulted

Quality of our service continued

23%

our market share in the Dutch television market

in a clear trough in the postings about KPN. In April and May there were more reports about KPN in connection with the bid by América Móvil and an update of KPN's strategy. At the end of 2012 postings were influenced by issues such as the spectrum auction and an internet disruption.

Closed-loop feedback

We want to have greater insight into the satisfaction of individual customers after they have had contact with KPN. This measurement method, known as closed-loop feedback (CLF), involves calling the customer back immediately after a contact moment and asking him what he thought of the quality of our service. The added value of CLF can be seen in particular if a query or complaint has not been fully settled. We started CLF at the end of 2010 with the aim of making the method standard procedure in all the segments and gathering all the customer feedback in a single information system. In 2013 we plan to integrate CLF fully in our service.

WoW, Way of Working

Becoming the best service provider requires a different way of working. We have therefore rolled out the Way of Working program in parts of our organization to teach managers what this other way of working entails. The guiding principles are that the customer takes center stage, employees are enabled to optimally carry out their work and there is a drive to continually improve performance.

In the process the manager is assisted by a "navigator". The manager is given ten basic tools and learns to use them effectively. Over one hundred and fifty managers from Consumer Residential, Consumer Mobile and NetCo have already been trained. At Consumer Residential, where WoW started a year ago, the process has now been improved thanks to more efficient communication, a different consultative structure and clear goals. This has helped the segment make progress on a number of fronts, with double the number of fiber connections, 30% fewer calls from customers about service installation and a renewed rise in the number of broadband customers as well as broadband market share. Other managers in these segments will follow the WoW program in 2013 and we will roll it out in other parts of the organization.

FIGURE 2: SENTIMENTS ABOUT KPN AND ITS SECTOR (CONSUMER MARKET) IN THE NETHERLANDS IN SOCIAL MEDIA

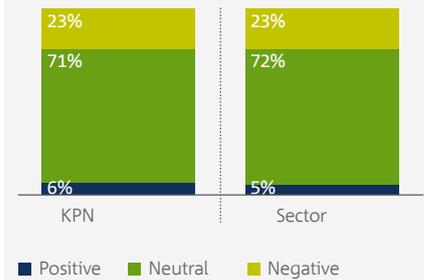


FIGURE 3: SENTIMENTS AND BUZZ VOLUME IN KPN SOCIAL MEDIA IN THE NETHERLANDS



¹ A hacker gained access to a server domain in our network.

1.2.2. CONSUMER MOBILE

The NPS of the three big KPN brands in the consumer market (KPN, Hi and Telfort) improved considerably overall in 2012, from -18 at the end of 2011 to -6 at the end of 2012. The NPS of KPN Mobile was -4 at the end of 2012 (-11 at the end of 2011), Telfort Mobile -6 (-17 at the end of 2011) and Hi -11 (-24 at the end of 2011). The NPS of Telfort Mobile reached an all-time high score in 2012. A new element is that we now ask Simyo customers whether they would recommend the brand to others. They scored a surprisingly high NPS, which at the end of 2012 was +30. The rise in the NPS of Consumer Mobile as a whole was caused principally by a rise in the NPS drivers “the best network”, “value for money”, “brand you can trust” and “first time right” for the KPN brand, Telfort and Hi.

Like our competitors, we established in 2011 that the “old” SMS and call services had lost further ground to data services such as WhatsApp and Ping. In response to this development, which on the one hand had a negative influence on our revenues and on the other hand required extra investments in our mobile network, we introduced new mobile subscriptions in 2012. The number of customers with a smartphone or tablet continued to grow and so did data consumption. As SMS and call traffic fell away further, we were unable to halt the decline in revenues, despite the various product and service improvements.

New subscriptions

In March we introduced a new series of subscriptions for our young people’s brand Hi, built around mobile internet with call and SMS services as an option. In the domain of mobile internet young people are recognized as “heavy users”: they are almost permanently online via popular social media like Facebook, Twitter and WhatsApp. We also introduced Hi ToestelLease, which enables customers to lease a device rather than buy it (see also the chapter “Energy-efficient”). This means that smartphones and cell phones no longer disappear into the desk drawer after the subscription ends, but are returned to us, which is an improvement from the point of view of sustainability and promotes recycling. Together with ToestelLease we introduced SmartCare service, with which we guarantee Hi customers that they will be online again within four hours should their smartphone malfunction. A great many Hi customers opted for the new service, so many in fact that in the months following the introduction, we were the victims of our own success; our service organization was initially unable to cope with the demand. The service organization is now operating properly again.

KPN WEBCARE DEVELOPS STRONGLY IN 2012

KPN Webcare developed substantially in 2012. As well as answering customer questions and solving customer problems via social media, KPN Webcare also made its presence felt in other areas.

In comparison with the “normal helpdesk” where the interaction is solely between the customer and KPN, complaints, compliments and problems are visible to everyone via social media. So the use of social media requires KPN to approach “the outside world” in a different manner. In 2012 we were once again mainly active on Twitter and Facebook. The forum (www.kpn.com/forum) took shape as well. This forum enables KPN to give customers the chance to share experiences, problems and – in particular – solutions with each other.

We regard the growing popularity and “power” of social media as an opportunity, not a threat. January’s hack incident taught KPN Webcare a great deal, providing new insight. For the first time the KPN Webcare team was involved in the crisis communication. Even though the Webcare team initially had too little capacity, once reinforced it was able to demonstrate its added value.

The KPN page on Facebook shows the enormous possibilities of “ambassadorship”. Customers and non-customers give their opinion about KPN and discussions arise about KPN’s products and service. In December 2011 the number of Facebook fans was 10,000, while at the end of 2012 it had grown to 100,000.

The advent of social media has given the customer relationship an extra dimension: KPN must engage in cross-disciplinary interaction with customers, so old and new communication media will need to be integrated. Currently every segment (Consumer Residential, Consumer Mobile and Business Market) has its own customer relationship. Social media do not make that distinction. KPN has therefore created the Social Hub, which has been in operation since September 2012, meeting weekly to provide direction and co-ordination across the disciplines (the segments).

In 2013 we involve KPN Webcare still further in the KPN organization and the integration with the internal communication platform TEAMKPN Online will continue taking shape. KPN Webcare will also make more use of YouTube, on which customers can watch short how-to videos. Additionally, KPN Webcare is assisting in the preparation of an improved version of the Newsroom on kpn.com, which will more prominently feature the five reputation themes.

Quality of our service continued

For Telfort and the KPN brand we introduced new subscriptions with unlimited calls and SMSes for a fixed monthly rate, with appropriate data bundles. Although KPN customers are making increasing use of mobile internet, they also call and SMS more than Hi customers. A survey showed that making calls with a cell phone or smartphone is still the most important mobile activity for 67% of KPN customers. We introduced Toelstlease and SmartCare for Telfort and the KPN brand too. As a consequence of the introduction of the improved mobile subscriptions in March, the number of mobile subscribers increased by 38,000 in the first six months of 2012. The subscriber base grew by a further 28,000 in the second half of 2012. Nevertheless, falling average revenue per user led to a decrease in revenues.

Dynamic sourcing

To further improve the performance of our four call centers we experimented with dynamic sourcing for the Telfort brand in 2012. Using two call centers, we surveyed which call center performed better on a number of key performance indicators, such as first time right. It will therefore be possible in the future to channel proportionally more customer calls to the best performing call center. Under this method the call centers that perform less well will be forced to improve their customer service, which will benefit the quality of our overall service. We will expand dynamic sourcing in 2013.

1.2.3. CONSUMER RESIDENTIAL

The NPS of Consumer Residential rose four points last year, from -14 at the end of 2011 to -10 at the end of 2012. It emerged that Telfort and KPN customers with a fixed connection recommend their brand more often. For the KPN brand, which rose from -17 to -12, we saw several positive developments: the indicators “help with problems”, “positive news reports” and “insight into costs” improved. At Telfort we saw a similar rise in the NPS, from -18 to -12. The NPS of XS4ALL is still the highest NPS in the market, but the enthusiasm of customers declined: the NPS fell from +27 to +17.

Thanks in part to the further upgrade of our copper network, which makes higher upload and download speeds possible, and the further rollout of the fiber network, we once again recorded a number of successes in our Consumer Residential segment. The trend towards purchasing the three products – interactive television, internet and telephony – as a single package (triple play) continued.

Interactive Television

In 2012 the number of customers with KPN Interactive Television (iTV) rose from 439,000 to more than a million, so at the end of 2012 we were serving 23% of the total Dutch television market. Thanks partly to the upgrade of our copper network, better equipment and a much-improved and diverse range of channels we were able to distinguish ourselves from the cable companies. The popularity of watching television on a tablet or laptop via WiFi rose as well, especially after we added smartphone TV in the summer of 2012.



“With our fixed and mobile networks we have the wherewithal to be the provider of integrated services in the Netherlands. That combination makes us unique in the Netherlands.”

Joost Farwerck, Managing Director Netherlands

Installation and relocation service

The growth in the number of broadband customers also affected the activities of our customer engineers. In 2012 we carried out 235,000 new installations. The service improved considerably, thanks to a national trial with engineers. We made a single party – KPN or an installation partner – responsible for the work of all the engineers in a particular area. More customers got first-time-right help and there was a significant rise in the NPS. As the results of the trial were so positive we decided to introduce this new approach permanently at the beginning of 2013.

Moreover, many customers benefited from the improved relocation process that we had set in motion in 2011. Relocation is generally the time when customers take a critical look at their ICT and telecom services. Approximately 700,000 Dutch households relocated in 2011. So we realize that a good relocation service has a big impact on our customer satisfaction.

1.2.4. BUSINESS MARKET

In 2012 we set ourselves the target of taking the loyalty leader position in 12 out of the 15 product market segments, in other words of attaining a higher NPS score than our competitors. This we achieved. The NPS of Business Market showed a downward trend, especially in the first half of 2012, but after stabilizing in the middle of the year it rose slightly in the last few months. However, overall the NPS fell 11 points to -23 points. Customers feel that they get less value for money with KPN and that the advantages of KPN in comparison with the competition are declining. In our customers' view KPN still has the best network, although the differential vis a vis competitors is getting smaller. Despite improvements in the service perception the general level of service was rated relatively poorly. The negative trend could also partly be explained by price increases and consequent media coverage, the accelerated reorganization and a lack of confidence in KPN and its financial stability. At the end of the year we saw a rise in customer confidence and an improvement in customer perception as regards KPN offering good value for money and the best infrastructure. This was reflected in a slight rise in our NPS.

All-in-one packages

In April 2012 we introduced convenient all-in-one packages that enabled us to bundle the individual products and services for SMEs and the self-employed: from telephony to data management, online back-ups and PIN-code payment. We also reduced by ten days the waiting time for the installation of a connection. With the all-in-one packages we fulfilled our customer promise "we keep it clear and simple".

Goed Bereikbaar scan

In April and July surveyed the telephone and online accessibility of 10,000 SMEs, following which we rolled out the 'Goed Bereikbaar' scan as a free service nationwide in October. With this scan we enable customers to gain an insight into their telephone and online accessibility. The scan also shows whether the contact details on the company's websites are easy to find. We gave the customer our survey results and findings in a report.

Attente Regisseur

The results of our "Attente Regisseur" pilots were promising. The guiding principle of this service is to give first-time-right help to customers who call in with a question or complaint, rather than transferring them to someone else. For this purpose helpdesk employees get an increased mandate and access to more systems. Employees in various disciplines are located in close proximity to each other, making consultation and feedback possible. By the end of 2012 we had implemented the Attente Regisseur project within nine teams. As this form of service has been so successful we will roll out Attente Regisseur at KPN Contact and Business Market in 2013.

Online initiatives

We introduced Track & Trace so customers can track the status of their orders. We also received many positive customer reactions to our FAQ videos on kpn.com.

Quality of our service continued

1.2.5. KPN CORPORATE MARKET

KPN Corporate Market's recommendation score of 6.7 showed a rise in 2012 in comparison with 2011. The NPS program, which was launched in 2010, is bearing fruit. The improvement is the sum of customer-specific and general improvement programs. The tactic of drawing up an improvement plan for corporate customers after every measurement and evaluating it with customer after a few months has worked. We are going to pursue this tactic in 2013 for the 75 biggest customers and add another 50 customers. Our aim is to achieve a recommendation score of 7.0 in 2013. We are going to revise our 2015 target upwards: in any event we want to achieve a score higher than 7.0.

Self Service Portal

Following a successful pilot, we introduced the Self Service Portal in the second half of 2012. This service allows companies to report an ICT disruption online, thereby making a call to a helpdesk superfluous. The online service offers additional functionality too. For example, the customer can view the status of previous malfunction reports and there is a chat facility to give details of a malfunction or to get more information.

Focus on core propositions

At KPN Corporate Market we brought more focus to our customer portfolio, resulting in substantial simplification. Instead of the more than 100 separate services we introduced four new products and services, with which we placed the emphasis firmly on the large potential of The New Way of Living & Working. With Unified Communications we offer organizations the possibility of amalgamating the various digital media that employees use to communicate. With the Any Device Management service we can enable companies to allow their employees to work safely and

effectively with their own devices. Working in the cloud has rapidly grown into a concept that is inextricably linked to The New Way of Living & Working. This was the reason behind bringing the CloudNL service to market. A unique feature of this is that the service comes under Dutch law and is not subject to foreign legislation, which is a requirement of certain healthcare, government and financial bodies. Protection of privacy and energy savings are the main reasons for that wish. We have launched Service Aggregation to support the implementation of cloud services.

1.2.6. CHALLENGES AND DILEMMAS

We realize that further improving the quality of our service is an absolute necessity if we are to become the best service provider. We have allotted several years for this and we need an organization that is appropriate to that ambition. Knowing that substantial expenditure is essential for the improvement of our customer service, we are making investments wherever necessary and are making savings wherever we can. These are often long-term investments that do not result in immediately visible quality improvements. For example, in the Netherlands we are making considerable investments in our customers and our networks such as 4G LTE and fiber. We have to push ahead with these so that we can continue providing the best quality in the future. At the same time, our investments must go hand-in-hand with a sound financial position and an acceptable level of debt.

In 2012 we were confronted with another special challenge: certain propositions, such as the introduction of the new mobile subscriptions and the rapidly increasing number of IPTV subscribers, were so successful that we were sometimes unable to keep up with demand. These situations demonstrated the need to better co-ordinate our commercial approach with our operational execution.



“One million customers already enjoy KPN’s Interactive Television; it has the greatest number of channels, HD quality, movies and TV on your tablet.”

Jesper Eriksen, Director Consumer Residential

INVESTING IN SOCIETY





OUR SOCIAL THEMES

We see corporate social responsibility as a logical part of our business operations that we are integrating to an increasing extent. That's why we are investing not only in technology and service provision but also in the society. In the next few chapters we give details of our social policy and we show how in our various operating divisions we represent added value for society.

2. OUR SOCIAL THEMES

2.1. Our social policy

Our social and corporate policies are inextricably linked to one another. Many of our commercial products and services help to address major social issues. For this reason our policy is based on five themes which are appropriate to KPN's strengths and allow KPN to add value to society.

- Best ICT infrastructure
- Healthcare of the future
- The New Way of Living & Working
- Energy-efficient
- Security & Privacy

2.1.1. EMBEDDING

The Board of Management and the Executive Committee (ExCo) jointly set the company's social policy and targets and regularly discuss the progress achieved towards the goals of the social themes. The task force "KPN in Society" is chaired by the Corporate Communications Director, has a coordinating task and met three times in 2012.

Five ExCo members are responsible for one of the five social themes:

- Best ICT infrastructure: Eric Kuisch (NetCo Director)
- Healthcare of the future: John van Vianen (Business Market Director)
- The New Way of Living & Working: Steven van Schilfgaarde (KPN Corporate Market Director)
- Energy-efficient: Godert Vinkesteyn (KPN Netherlands Chief Financial Officer)
- Security & Privacy: René van Rooij (Chief Legal Officer, succeeded by Jasper Spanbroek in February 2013)

Along with their team the ExCo members develop plans and activities to give shape to the social themes. Short-term and long-term annual targets for these themes are set and revised. The theme steering committees, under the leadership of an ExCo member, are responsible for monitoring, evaluating and adjusting progress towards the targets. Targets are also set for the themes "Our people", "Our suppliers" and "People connected".

The Supervisory Board (RvC) discussed the social policy on two occasions in 2012. The RvC also held talks with the Central Works Council, among the topics being the accelerated implementation of the strategy and the points for improvement from the employee involvement survey.

As sustainability is a logical part of our business operations, non-financial targets have been included in the long-term bonus for the top management since 2011. This underlines our belief that good financial results and a long-lasting relationship with society can go hand in hand. Energy saving targets make up 12.5% of top management long term incentives; the same percentage is dependent on meeting our reputation goals.

Every month, quarter or half-year we collect the financial and social data via the financial data management system and a standardized questionnaire. An audit environment has been set up for this at group level; this enables the KPN Audit and KPN Corporate Control departments to assess reliability of the data.

In principle, our social themes and our corresponding reports relate to the KPN Group. Up to now our activities in Germany and Belgium have been exclusively in the mobile domain, so the themes relating to our fixed network are less applicable to them.

In 2012 E-Plus took further steps to bring its social involvement policy into line with that of KPN Netherlands. It adopted for the time being the three themes on which KPN focused specifically in 2011: The New Way of Living & Working, Energy-efficient and People connected. E-Plus entrusted the management of the subject to the Corporate Communications department and in the fall of 2012 published its first online Sustainability Report (over 2011), in line with the B-level of the Global Reporting Initiative.

2.1.2. IN DISCUSSION

Advisory Board

To be certain that we place the correct emphasis on each of the themes, develop good initiatives and keep a critical eye on our social policy, we set up the CSR Advisory Board in 2011. The board, which we regard as a key sounding and brainstorming group, comprises representatives from the fields of science, sustainability and investment. In 2012 the Advisory Board and the "KPN in society" task force met on one occasion. The board made various suggestions for improvements, including:

- Less focus on best-efforts targets and more on quantifiable long-term targets that have an impact on society. Determine the targets in conjunction with stakeholders.
- Set impact targets for the production chain – such as better working conditions and human rights, and rectifying reported shortcomings – rather than audits in the factories.
- Define the partnership strategy, making clear how partners are chosen and explaining why they suit KPN.

The Advisory Board also gave us valuable feedback to reinforce the social themes, including via external communication and dialog sessions:

- Make clear how much value KPN can add to the themes and don't be modest about the innovative power of the telecom sector.
- Give more substance to the partnership with the World Wildlife Fund and its activities. This is not always well known to the outside world.
- Elucidate the collaboration with the healthcare sector, position ICT as a beneficial factor in healthcare and give examples. Show that ICT can sometimes lead to a decline in healthcare demand. Stress that as an ICT company you are aware of this. That applies also to The New Way of Living & Working. Show the advantages and disadvantages, as befits a transparent, reliable service provider.

Annual General Meeting of Shareholders

Our Annual General Meeting of Shareholders also devoted attention to our social policy and report. The Dutch Association of Investors for Sustainable Development (VBDO) expressed its great satisfaction with the non-financial targets in our remuneration policy. The VBDO asked us to describe more clearly the role of the social policy within KPN's three declared ambitions. We have described this in the section "Who we are and what we do". We were also asked to give information about improvement initiatives in the procurement chain and explain why recycling cell phones is not a priority for KPN. The introduction of ToestelLease is an example of how we do more with recycling. In addition, the VBDO considered the information about social diversity inadequate but was pleased to see that KPN includes objectives regarding employing people with an impairment. We have taken that advice to heart for KPN Netherlands (see section 3.2.5).

2.1.3. COMMUNICATION

An important piece of advice the Advisory Board gave us in 2011 was to improve our communication about our social performance. They said that customers, shareholders and employees should be able to evaluate KPN on this point as well. We took that advice to heart in 2012. At the strategy meeting in May considerable attention was paid to our social policy and in November it was featured extensively in a special edition of TEAMKPN Magazine.

In June we placed three corporate advertisements in the Saturday editions of the five major Dutch newspapers in which we set out what KPN means to today's society. The underlying principle for this was "Something that is strong is worth making stronger". The main topics were our network, our service and the KPN Finest Contact Foundation. The purpose of the campaign was to show customers, shareholders and employees that we aim to carry out our strategy consistently. The campaign at the end of October, "The network that cares for the Netherlands", was a logical follow-up to the June campaign. We placed advertisements about our energy policy and our aspiration to offer customers the best network, as well as to underline our great ambitions for KlasseContact (our principal project under the KPN Finest Contact Foundation). In between these two campaigns we introduced "KPN just does it" as our new slogan, reinforcing our ambition of becoming the best service provider. In our shops we used TV screens to inform our customers about the KPN Finest Contact Foundation and skating.



"Sustainable entrepreneurship is as self-evident to KPN as the services and products that we supply to our customers."

Hans Koeleman, Corporate Communication & CSR Director

Our social themes continued

We also generated a lot of media attention with some thought-provoking meetings in the Rijksmuseum. In June there was 'The New Holland', the main theme of which was The New Way of Living & Working (see chapter 2.4). In October, at the meeting "Masters in Healthcare", the topic was the future of healthcare and the theme "Prevention or cure" gave rise to valuable discussions among healthcare professionals (see chapter 2.3). We were able to showcase the added value that we want to provide as an ICT service provider in the healthcare sector. We also took the opportunity to manifest ourselves as a sustainable ICT service provider through our sponsorship of TEDx in Amsterdam, where a sustainable future was at the top of the agenda. During the National Sustainability Congress 2012 we held a workshop featuring The New Way of Living & Working.

We interpreted the advice of the board as a stimulus not only to share our social performance with the outside world, but also to celebrate the successes. Consequently, we paid considerably more attention to our listings in the various sustainability indices in our external communication. Knowing that good performance and successes are worth sharing with others, we are convinced that this will strengthen the understanding and confidence of our stakeholders in our social ambitions. But we have not yet managed to integrate sustainability into our marketing campaigns for our brands. That is a challenge that we have to take on in 2013.

2.1.4. COMPLIANCE

In 2012 we set up a Compliance & Regulatory steering committee, which helps to ensure that business and compliance aspects are given timely and appropriate consideration when decisions are taken. To monitor the progress being made in the area of compliance by the individual segments and by the company as a whole, we draw up a quarterly compliance report. The content of this report includes whether legislation has been implemented on time, whether the incident notification has functioned properly and whether enough training has been given. These reports, which are checked by KPN Audit, are then shared with the Board of Management, segment directors and the regulator, OPTA (Independent post and Telecommunication Authority).

In December 2011 the executive committee of OPTA started to monitor KPN more closely. This situation did not change in 2012. OPTA had discovered that in 2010 we had broken the law when tendering for a government contract. Closer monitoring means that OPTA asks KPN for more supplementary information, data,

documents and files than before and checks more thoroughly that we are complying with legislation. Needless to say, we are giving our full co-operation and we are doing everything we can to comply with the requests of OPTA so as to get back to normal regulation. At the beginning of 2012 we expressed the wish to start again with a clean slate and to improve the relationship with OPTA. That led to constructive talks with the regulator in which we hoped to come to an arrangement about the other on-going issues. We were unable to reach agreement, but are still in discussion about restoring trust and improving the awareness of compliance among employees. To that end we improved our compliance program and dealt with subjects such as integrity and security in team meetings and workshops. The whistleblower procedure, which enables employees to anonymously report abuse, was used three times in 2012. We became aware that the term "whistleblower procedure" had acquired a negative connotation in the media, so we renamed the scheme Integrity Speak-up-line, and repositioned the scheme.

At the end of 2011 the Netherlands Competition Authority (NMa) carried out a "dawn raid" at KPN, Vodafone and T-Mobile to investigate the possible formation of a cartel in the mobile market. This investigation, which was prompted partly by two whistleblowers, had not yet been completed at the end of 2012.

Penalties

In 2012 eight penalties were imposed on KPN. These penalties amounted to almost one million euro. Four penalties were imposed by Dutch regulators, two by German regulators and two by North American regulators. The penalties were for breaches of the law relating to telecommunication, consumer protection, taxation and environmental protection. Furthermore, KPN Netherlands was involved in five court cases in 2012 in connection either with its designation as a party with significant market power on a particular market, or with the obligations imposed as a consequence and compliance therewith. A ruling was given in one of the court cases at the beginning of 2013 and KPN got a definite penalty of 8.5 million euro for providing unauthorized discounts on the business telecom market.

In 2012 the Dutch Advertising Code Committee gave a ruling (partially on appeal) on 19 advertising statements by KPN. In twelve cases the Committee ruled that the statement in question was wholly or partially in breach of the Dutch Advertising Code. In Germany there were 13 complaints about advertising statements in 2012.

2.2. Best ICT infrastructure

OBJECTIVES AND RESULTS

	Indicator	Result 2011 ¹	Target 2012 ¹	Result 2012	Target 2013	Target 2014 and beyond
Perception of best ICT infrastructure	Percentage of the Netherlands that agrees that KPN has the best ICT infrastructure	–	–	Consumers: 51% best fixed network, 51% best mobile network	–	60% in 2015
Mobile network	Percentage of the Netherlands that has availability of 4G LTE	–	–	0%	50% in summer	99% in 2014
Fixed network	Percentage of the Netherlands that has an internet speed of at least 40 Mb/s	40%	70%	67%	–	–

¹ We adopted this new social theme in 2012. The theme's targets were set in 2012.

2.2.1. OUR VISION: GOOD ICT IS THE DRIVING FORCE OF SUSTAINABLE ECONOMIC GROWTH

Our network and the Netherlands are inextricably linked to one another. Our physical ICT network helps the Netherlands progress. After all, ICT facilitates communication between people, businesses and organizations, stimulates the economy and contributes to innovation in vital sectors. In a world that is becoming increasingly dependent on mobile (broadband) internet and telecom services, a reliable and secure ICT infrastructure is essential – sometimes even a matter of life and death. That's why we see it as our social responsibility to offer the best ICT infrastructure: stable, versatile and innovative.

2.2.2. MOBILE NETWORK

In the spring of 2012 we started modernizing and expanding our GSM and UMTS networks, also known as second generation (2G) and third generation (3G). Under the name Network Modernization (NeMo), over the next two years we will adapt our mobile infrastructure to meet current and future requirements over the next two years. We are doing this because our customers demand higher mobile internet speeds and more reliability and security. The modernization of our 2G and 3G networks means that we will replace the equipment and antennas at all the antenna locations. Transformer stations will be back-up facilities. Thanks to the modernization and the increase in the number of mobile transmission masts, at the end of 2012 95% of the surface area of the Netherlands had 3G coverage from KPN and 99% 2G coverage. The target is for 97% of the Netherlands to have 3G coverage at the end of 2013.

At the same time we made preparations to adapt our infrastructure for LTE, Long Term Evolution, also known as the fourth mobile generation, 4G. Our NeMo program will also make antennas and antenna locations suitable for 4G LTE, which offers a lot more bandwidth and therefore greater data speeds, up to ten times faster than the 3G network.

To be eligible for the frequencies that make mobile internet traffic via 4G LTE possible, we took part in the spectrum auction that was organized by the Telecom Agency of the Ministry of Economic Affairs in the fall of 2012. When the auction closed at the end of December four parties had acquired frequencies: KPN, Vodafone, T-Mobile and Tele2. We paid 1,352 billion euro for a valuable combination of licenses, which apply not only to 4G LTE but also to the existing mobile frequencies (2G and 3G). In this way we can continue providing our customers with a high-quality mobile service for the next 17 years and 4G LTE will make a substantial contribution to our ambition of becoming the best service provider. Moreover, with 4G LTE we have maneuvered ourselves into a position where we can distinguish ourselves as a provider of integrated services in the Netherlands, because 4G LTE enables us to bring the performance of mobile and fixed internet closer together.

In 2013 we started rolling out 4G LTE in Amsterdam and the northern part of the Randstad, so the first business customers and consumers were able to make use of the new network just a month later. We expect 4G LTE to be available to half of the Netherlands in the middle of 2013. We aim to have 99% coverage in the Netherlands in the summer of 2014.

Our social themes continued

The modernization also ensures fewer dropped calls and data sessions and a better sound quality. Given the growth in mobile (data) traffic in 2012 we had expected an increase in the number of mobile dropped calls, but the modernization and a different approach actually led to a reduction. We used to look at national averages. Now we look at where the dropped calls arise and what the local cause is. We tackle this by, for example, carrying out local repairs. Through the modernization we can reduce the number of dropped calls by 40%. However, some parts of the modernization process have a negative, albeit temporary effect, such as switching the network from old to new equipment and coordinating the 2G, 3G and 4G LTE networks. We therefore anticipate a rise in the number of dropped calls in 2013.

A stable ICT infrastructure also means as few disruptions as possible. In cases where a potential disruption could affect more than 100,000 connections, we modified the architecture of our network. We installed more capacity and back-ups at international junctions in Amsterdam and Rotterdam, and we modified technical resources such as cooling and emergency generators in buildings that are crucial to our service.

2.2.3. FIXED NETWORK

As far as our fixed network is concerned we operated a twin-track policy in 2012: we invested in fiber as well as in our copper network. Internet, telephony and television is offered via fiber, in the same way as via ADSL, VDSL and cable, but fiber gives greater upload and download speeds and better sound and image quality. We believe in fiber as the network of the future. Consequently, KPN and its partner

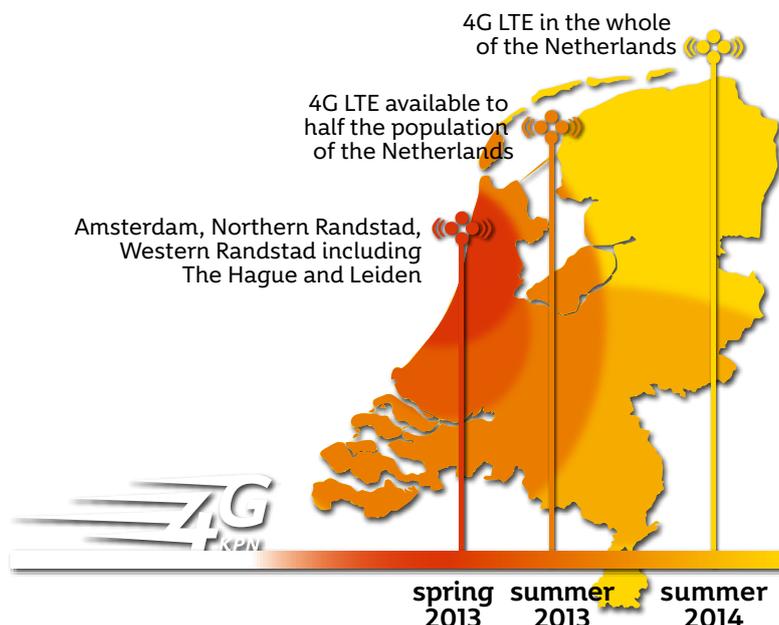
Reggefiber progressed the installation of the fiber network, especially in new residential areas. By the end of 2012 we had connected approximately 18% of the Netherlands to our fiber network.

Our belief in the quality of fiber notwithstanding, we also continue to invest in our copper network. There are three ways in which we do this: upgrading ADSL to VDSL, pair bonding and vectoring. Upgrading to VDSL facilitates download speeds averaging six times as fast as ADSL and upload speeds thirteen times faster. To make the VDSL technology possible we located more telephone exchanges in the neighborhoods in question and we installed fiber where that was not already present. As a result, thousands of new street junction boxes appeared in residential areas.

A copper connection generally comprises two pairs of copper wires, only one of which is used; the other is a spare. Pair bonding involves activating the other pair too, virtually doubling the internet bandwidth. In vectoring we eliminate the “noise” between the copper wires, which are bundled together under the road surface or in the street junction box. This technique also provides faster internet speeds.

We had a target of offering an internet speed of at least 40 MB per second (MBps) to 70% of the Netherlands by the end of 2012 (40% at the end of 2011). We did not achieve this target, in spite of the investments we made in our copper network and the installation of new fiber connections. This was caused mainly by a delay in starting pair bonding. By the end of 2012, 67% of the Netherlands had an internet speed of at least 40 MBps.

Unfortunately we also experienced a few incidents this year. Because of maintenance work there were two disruptions to the 112 emergency number service, which meant that several emergency centers were temporarily unavailable. The disruptions were remedied swiftly and an investigation of the cause was carried out. It transpired that the partial 112 outage was the consequence of human error in following the 112 protocol that covers the diversion of mobile phone traffic during maintenance work. On the basis of the outcome of the investigation KPN took procedural and disciplinary measures to ensure that this error does not recur.



2.2.4. PERCEPTION

As we want to offer the best ICT infrastructure we continually examine whether our efforts are resulting in the required quality. As well as measuring the actual quality in terms of some technical parameters, this year we started measuring the perception of the best ICT infrastructure in the eyes of Dutch people. It is our ambition to raise the percentage of people who consider KPN as having the best ICT infrastructure to 60% in 2015. We were unable to specify this clearly and objectively for the entire ICT infrastructure. We were also unable to take a measurement in the business market because the complexity of the measurement required more preparation time. The first measurement was therefore taken among consumers, with two main questions: "Do you think that KPN has the best fixed network (fixed telephony, television and fixed internet, back-up service)?" and "Do you think that KPN has the best mobile network (mobile telephony, SMS and mobile internet)?" We plan to carry out this survey in the business market in 2013.

The survey shows that 51% of Dutch consumers consider that KPN has the best fixed network and 51% that KPN has the best mobile network. A substantial number of the respondents have no opinion about who has the best network. One of the reasons for this is they have no experience with different networks and cannot therefore make a comparison. We have not included this group of respondents in the scores. Respondents who named Telfort, Hi, XS4ALL or Simyo as the best network – they operate on the KPN network – are included in the score. Although we realize that the "don't knows" should be as small as possible in order for the result to represent "the Dutch people", we regard this for the time being as a given and we are concentrating on the people who already have an opinion about the networks.

An interesting point is that respondents have more of an opinion about providers than about networks. The experience that respondents have had with the service given by a provider plays a part in the overall rating. In addition to the two central questions, specific research was carried out into why Dutch people find a particular network the best. Subjects mentioned generally relate to the quality, price and speed of services. The results enable us to make improvements to our service in 2013 and thereby also improve our overall rating. We hope to achieve the targeted 60% within two years.

MINISTRY OF DEFENSE

“EVERY PARTNER HAD TO JUMP OVER ITS OWN SHADOW”

Piet Voogd was very angry with KPN. Why? Too many disruptions to the C2000 network and too much time rectifying them. Unacceptable for a network which handles communication between all the emergency services in the Netherlands. The problem was solved after an intensive process. “It wasn’t the fault of the technology, the people or the internal processes. In the end, it was all about the correlation and co-operation between the partners in this chain.”

Behind every 112 call there is a complex world, with three principal players: IVENT, the Dutch Police Service and KPN. Voogd is Operations Chief at IVENT, part of the Ministry of Defense. IVENT procures the services of the KPN network and supplies them, along with its own services, to the Dutch Police Service.

“In the event of an incident there needs to be co-ordination between the three parties. But every organization has its own administration, its own operations and its own telephone numbers. Each partner has designed its process optimally but the chain as a whole was not working optimally.”

Together with representatives of the police and KPN, Voogd created a triumvirate that ensured that people could get to know one another, that administrations dovetailed with each other and that everyone spoke the same language. “As communication is crucially important, it has to take precedence over your own – commercial – interests. You have to be transparent about your mistakes and commit yourself to correcting them. Every partner had to jump over its own shadow.”

When that happened, “the oyster opened and the pearls became visible. People on the shop floor are capable of solving 70 to 80% of the problems on their own, provided that you give them the authority and space. That’s what we did and we also enabled them to jump from island to island.”

Voogd is certain that the way KPN acted with respect to C2000 would be handy in many more situations. “It is a social trend that we are linked together in chains and in communities. That applies equally to power supplies and highway signage for example. You no longer solve problems on your own. KPN can surpass itself by getting all the actors in a chain to work together organically as one virtual team. That’s what they did in our case.”

Our social themes continued



“With 4G LTE and fiber we have the most modern and best conceivable networks to help the Netherlands progress.”

Eric Kuisch, NetCo Director

2.2.5. STAKEHOLDER DIALOG

This year we organized a dialog with stakeholders from the worlds of academia, government and industry about how “the best ICT infrastructure” ought to be defined and what the social relevance of ICT infrastructure is.

It became clear from the dialog that ICT infrastructure is more than just the physical network. The quality of the infrastructure is influenced also by the people who make it possible and the service they provide. If continuity and stability are guaranteed and a network is accessible quickly and easily, any time, any place, this is regarded as the “best ICT infrastructure”. Stakeholders said that the ICT infrastructure is essential for major social developments, such as combining parenthood and a professional career, the development of society and keeping healthcare affordable.

They also felt that good ICT infrastructure is of great economic value to the Netherlands. KPN needs to portray itself more as a pioneer in showing that social issues are also ICT issues.

According to the stakeholders KPN ought to draw more attention to the quality of its infrastructure, focusing on the functionalities that are possible thanks to the network. KPN should show where more than a billion euro is being invested every year. The fact that companies can store their data securely with KPN in the Netherlands, under Dutch law, is regarded as another key advantage. This distinguishes KPN from other ICT companies. Co-operation with other parties is essential in order to make adequate innovations and remain a prominent ICT company in the sector.

2.2.6. CHALLENGES AND DILEMMAS

Our ambition to continually improve our ICT infrastructure and networks requires investments worth hundreds of millions. It is a growing challenge to recoup those huge investments. Although customers are becoming more demanding in terms of data speeds and the quality of the network, they are not always prepared to pay for them. Our earnings model, which is based partially on customers paying for mobile and fixed call and SMS traffic, is under pressure because of the advent of “free” message services such as WhatsApp and “free” calls via services such as Skype.

Permission for antennas

Private individuals and city councils expect good coverage from our mobile network. As residents are sometimes worried about the electromagnetic fields emitted by transmission masts, municipalities occasionally refuse to issue permits for antennas to be installed. To obtain the necessary permission in good harmony with local government we take time to share our knowledge with them and explain to them the importance of a good ICT infrastructure and the effects of electromagnetic fields.

Nationwide 2G coverage

Even though our mobile 2G network covers virtually the whole of the Netherlands, there are some outlying areas where this is not the case. These areas are not economically viable for KPN. We recognize this and are continually in discussion with stakeholders in those regions. We hope to be able to offer a new, cost-effective solution to this coverage and capacity problem in 2013.

2.3. Healthcare of the future

OBJECTIVES AND RESULTS

	Indicator	Result 2011 ¹	Target 2012 ¹	Result 2012	Target 2013	Target 2014 and beyond
ZorgSamen	Number of healthcare locations connected	–	–	4,038	4,500	5,000 in 2014 6,000 in 2015
ZorgVrij	Number of healthcare consumers supplied with personal comfort services	–	–	~21,000	27,000	35,000 in 2014 48,000 in 2015
Vitality	Percentage of employees in the Netherlands that has signed up for i change	–	–	18%	25%	30% in 2014 35% in 2015
KPN Finest Contact Foundation	Number of chronically ill children with a webchair	282	–	216	500	800 in 2014 1,250 in 2015

¹ We adopted this new social theme in 2012. The theme's targets were set in 2012.

2.3.1. OUR VISION: ICT CAN HELP MAINTAIN THE LEVEL OF HEALTHCARE

Keeping healthcare accessible and of good quality is one of the challenges facing Dutch society in the decades ahead. We are convinced that with our ICT we can make major breakthroughs in the healthcare sector. Through the smart use of ICT we can achieve innovations in the domestic environment of the healthcare customer (the patient) and in the work environment of the healthcare provider. They can ensure that people remain at home longer or have to be admitted less frequently to a hospital or other healthcare institution. Thanks to ICT more healthcare can be provided with less personnel, at the same cost or even more cheaply. ICT can also foster The New Way of Living & Working among healthcare providers. We aim to make a contribution to these goals with our ICT services. Furthermore, we have a specialist team dedicated to our healthcare services, KPN Zorg. This team maintains contacts with the healthcare sector, enabling us to work together on new solutions.

2.3.2. HEALTHCARE IN OUR ORGANIZATION

In 2012 we set up the “theme group” KPN Zorg to ensure that “Healthcare of the future” is not just the preserve of our business. Representatives of the business divisions, Human Resources and Corporate Communications are members of this group. We decided that we want KPN Zorg to rest on four foundation stones:

- Solutions for healthcare institutions, healthcare professionals and clients
- KPN Finest Contact Foundation
- Diagnosis 2025
- Our employees’ vitality

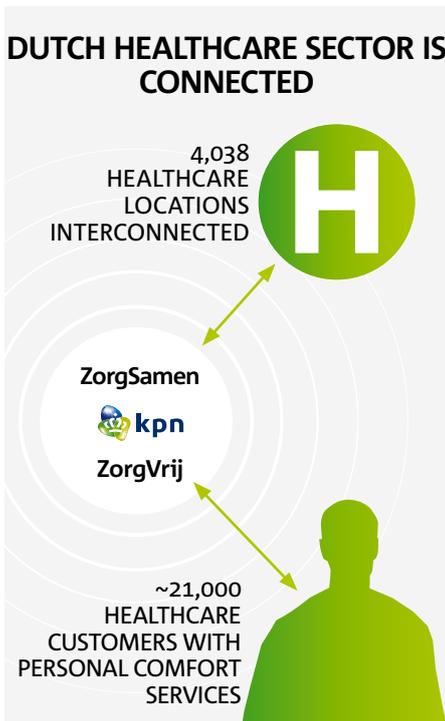
2.3.3. SOLUTIONS FOR HEALTHCARE PROVIDERS

Thanks in part to our ICT solutions healthcare providers can focus more on their core activity: providing care. We have defined three separate categories: ZorgSamen, ZorgVrij and ZorgSlim.

ZorgSamen: better quality of care

By stimulating and simplifying the teamwork between service providers KPN wants to help reduce errors in healthcare. E-Zorg and ZorgConnect form the basis for a closed, secure and certified environment in which healthcare institutions can exchange information and procure services.

Our social themes continued



A large part of the Dutch healthcare sector is connected to them: 65% of family doctors and pharmacies to E-Zorg, and 65% of hospitals to ZorgConnect. We have therefore connected over 4,000 healthcare locations with one another. We want to increase this number to 4,500 in 2013 and 6,000 in 2015.

In 2012 we concentrated more on the services of E-Zorg and ZorgConnect. Hospitals and family doctors can exchange laboratory results, and second opinions can be obtained remotely from specialists on the basis of medical images.

ZorgVrij: from supply to demand

The purpose of ZorgVrij is to combine healthcare and comfort for the healthcare customer (the patient). In 2011 we developed an interactive service that allows patients to receive medical information by audio-visual means: ZiekenhuisMedia. This enables patients (and their partner, family and friends) to watch, for instance, an instruction video about an operation or after-care. In 2012 we extended this service with access to patient records. Nurses and specialists can show the patient medical information, such as an X-ray. At the Netherlands Cancer Institute, the Antoni van Leeuwenhoek Hospital in Amsterdam, we implemented ZiekenhuisMedia along with these additional facilities.

Six hospitals procured ZiekenhuisMedia in 2011. Three further healthcare institutions followed in 2012. We want to maintain this growth in 2013 and implement our services at eight new healthcare institutions. Most of all, we aim to improve the service so as to give the patient more facilities and support the care process better.

We stopped developing the diabetes station, a diagnostic tool that allows patients to take their own blood measurements. It emerged from an evaluation that it was more logical to first develop the project with family doctors and other first and second-line experts before putting it on the market. We passed on our knowledge and experience to the Erasmus MC in Rotterdam, with which we had worked in partnership.

To foster the freedom and independence of patients KPN Zorg continued developing and repositioning two medical alarm products in 2012. These enable information to be sent automatically to a healthcare institution. The first product, ZorgVrijThuis, is a medical alarm system at home. This is a variation on the product ZorgVrijWonen, which we were already supplying to homes on healthcare institution sites; this is now available to people who wish to remain living independently at home.

The second is Tréés, the successor to the Lokafoon. Tréés is part of a service that is oriented to people with incipient dementia and clients receiving home care and in institutions. Tréés is equipped with GPS, which ensures that people can be traced in an emergency. As soon as the wearer of the device crosses a geographical boundary, a family member or partner automatically receives an SMS. An online map shows the person's location. Tréés simplifies remote monitoring and enhances the freedom of movement of the user. Our aim is to increase this group, which numbered around 100 in 2012, to 1,000 in 2013.

Beside this, we continued providing heart rhythm diagnostics: patients themselves measure their heart rhythm. The results are sent to a medical service center that analyzes them; advice is then given to the family doctor about the patient's future care.

Around 21,000 healthcare customers are now making use of our ZorgVrij comfort services. We hope to increase this number to 27,000 in 2013 and 48,000 in 2015.



“With ICT we can make a major breakthrough in the healthcare sector.”

John van Vianen, Business Market Director

ZorgSlim: more time for healthcare

In keeping with other knowledge workers, healthcare professionals do not carry out all their work from their practice. A lot of work can be done equally well or even better from home or another location. This is, however, conditional on the healthcare provider being able to access documents and applications securely and remotely. These requirements are met by our data centers and certified network infrastructure.

We have started a new proposition: CloudNL. This allows us to offer organizations, including healthcare institutions, storage space in our data centers in the Netherlands. Healthcare institutions can store patient data and visual material there in a digital healthcare archive and exchange with one another. In 2012 we started a pilot to connect two healthcare institutions to this healthcare archive. We also introduced secure e-mail for the healthcare sector, which enables family doctors to communicate quickly and securely with one another and their patients.

Another development is that healthcare institutions and patient organizations outsource to us their ICT and the management thereof. We concluded two contracts for this purpose in 2012. Outsourcing ICT in this way enables organizations to save costs. It also makes it easier for those companies to innovate.

2.3.4. KPN FINEST CONTACT FOUNDATION

More than ever before we have established a relationship between the portfolio of KPN Zorg, our business and the KPN Finest Contact Foundation, as part of our social policy (see also chapter 4). Together we have devoted ourselves to putting a webchair at the disposal of 1,250 chronically ill children in the Netherlands in 2015. Thanks to this initiative – KlasseContact – children are virtually present in the classroom and can continue to take part in lessons and school life. In 2012 KPN staff were given the option of donating the value of their traditional Christmas parcel to KlasseContact. Roughly half of our employees in the Netherlands made use of this option. KPN Zorg and the KPN Finest Contact Foundation are also collaborating on the development of Tréés, the successor to the Lokafoon. Our intention is that in 2013 we will test the applicability of Tréés in a new target group together, namely Alzheimer's patients. We are already using Tréés for other target groups.



“WE CAN CONCENTRATE ON OUR CORE BUSINESS: HEALTHCARE”

“We now have a stable, reliable network environment and that’s a great relief”, says John Hendriks, Finance and Control manager at Stichting Prisma in Waalwijk. Prisma, which has 2,000 part-time and full-time employees, offers healthcare to over 2,400 people with a mental impairment. Since the beginning of 2011 Prisma has been using KPN Werkplek Online at around 200 locations spread across Noord-Brabant. It is using KPN for its data and telephone network as well.

A year ago Prisma had a large ICT department, but the developments in the healthcare and ICT sectors made changes necessary. “The infrastructure, the hardware and the software were out of date and in need of replacement. We then decided to concentrate on our core business, healthcare, and to outsource everything else.”

ICT supports not only Prisma’s office processes such as finance and personnel matters but also the healthcare itself. “The current trend is towards people becoming more independent and living in their own apartments. Now all the locations are connected to a night-time care center.”

One of the reasons that Prisma opted for KPN Werkplek Online, which is supplied by KPN’s subsidiary ApplicationNet, was that they did not want a standard solution. “We have outsourced ICT so as to relieve ourselves of a burden. We expect ApplicationNet, KPN, to intercede with software suppliers and get customized solutions for us. We are not yet wholly satisfied with that aspect, but we have started the process together and we are making progress. I am confident that everything will work out well in the end.”

At that stage Prisma’s next step will be to offer various options in the security and accessibility of information and systems. “To prevent files from being stored on a USB stick and getting into the public domain, we have decided to lock all USB ports. This is also restrictive. Needless to say, the electronic patient records that we are currently rolling out must be in a closed and secure environment, but certain information needs to be available to, for example, a client’s family members. Tablets and other modern media will also be used in the primary healthcare process for the purpose of, among other things, communicating with clients. We will definitely talk to KPN about these developments.”

Our social themes continued

2.3.5. COLLABORATION IN HEALTHCARE

Our experience is that collaboration is important if healthcare innovations are to be possible. For this reason KPN, along with a number of partners launched a new initiative to stimulate innovations in healthcare: Diagnose Technologie, an offshoot of Diagnose 2025 of BeBright and Rabobank. This initiative will allow us to share our knowledge of healthcare technology over the next two years and to give advice on a better innovation policy in the Netherlands.

In 2012 we handed a large part of our eHealthNu initiative over to the National Implementation Agenda of the patients' association NPCF, the umbrella organization of specialists (KNMG) and Zorgverzekeraars Nederland (ZN). eHealthNu was an open platform with which we intended to break down some stubborn barriers to remote healthcare and self-management programs. These obstacles were mainly in the areas of financing, professional culture and support, and legislation.

2.3.6. OUR EMPLOYEES' VITALITY

Naturally we also want to help our own employees to avoid becoming ill and to improve their health. Since the fall of 2012 we have therefore made an online vitality program available to them: i change. By the end of 2012, 18% of the employees in the Netherlands had registered with i change. Our aim is that 25% will have registered in 2013 and 35% in 2015. More information can be found in section 3.1.5.

2.3.7. STAKEHOLDER DIALOG

In 2012 we held three meetings for our KPN Zorg employees. To ratchet up our knowledge of healthcare and to understand what ICT can do for their business operations, we also invited customers. Their insights help us to position our products more from their perspective and their values. One of the outcomes of this was that we improved our website (www.kpn.com/zorg). At one of these meetings we asked a specialist, a nurse, a patient and a family doctor what their world will be like in 2025. When a meeting is set up in such a way the emphasis lies more on the value that ICT adds to our products and services. We discuss with customers the introduction of new products, so that we know which service – Trées for example – best suits a target group.

At the end of October we organized an event entitled "Masters in Healthcare" in the Rijksmuseum. The theme of the meeting, attended by prominent people from the healthcare sector and CEO Eelco Blok, was "Prevention or cure". The discussion focused on promoting prevention and health management to better effect. The central element was the role played in this by private individuals, employers, healthcare institutions and healthcare insurers.

In order to share knowledge we had regular meetings with insurers, patients' associations and the Ministry of Health, Welfare and Sport.

2.3.8. CHALLENGES AND DILEMMAS

Making innovations in healthcare is not a simple task. Several issues make it difficult, such as the complex financing of healthcare and the cultural change required in the primary healthcare processes. The fact that healthcare institutions often work with outdated systems makes it even harder for us as a telecom and ICT company. Our efforts to get eHealthNu onto the agenda are bearing fruit and are now being pursued in the National Implementation Agenda. Nevertheless, we acknowledge that successfully implementing changes is a lengthy process.

2.4. The New Way of Living & Working

OBJECTIVES AND RESULTS

	Indicator	Result 2011	Target 2012	Result 2012	Target 2013	Target 2014 and beyond
The New Way of Living & Working at customers	Growth in the Netherlands of the use of services that make The New Way of Living & Working possible	71% in comparison with 2010	10% in comparison with 2011	17% in comparison with 2011	20% in comparison with 2012	–
The New Way of Living & Working at KPN	Percentage of KPN employees in the Netherlands who feel they can work in line with The New Way of Living & Working	–	85%	76%	90% ¹	–

¹ Employees who, by virtue of the nature of their work, cannot work in line with The New Way of Living & Working are excluded.

2.4.1. OUR VISION: SAVING TIME, MONEY AND ENERGY WITHIN A SINGLE FORMAT

We are convinced that The New Way of Living & Working ensures that sustainability and higher productivity can go hand in hand. Using the experiences we have gained in recent years in our own organization we want to inspire other companies, organizations and institutions to facilitate The New Way of Living & Working.

The New Way of Living & Working is a way of working that focuses on finding the right work-life balance. It is a part of and a consequence of political, social, economic and technological developments in society that have an influence on businesses. KPN wants to be a pioneer in facilitating The New Way of Living & Working because it can make a contribution to more efficient and cost-effective working and can reduce the number of kilometers driven, energy consumption and CO₂ emissions. Furthermore, it can enhance the flexibility of workspaces and working hours and thereby foster labor participation, vitality and employee satisfaction.

Initially we focused on facilitating working without constraints of time and place by using technology. Now we also want to focus on the work-life balance and its consequences; management style; entrepreneurship and responsibility; and the social cohesion within a company. We are gaining experience of this first within our own organization. We will then make it available to the general public in the form of products and services.

The results of a survey that were announced by the World Wildlife Fund at the end of November confirm the significant benefits that The New Way of Living & Working has on the environment. If members of staff were not to drive to the office one or two days a week but worked at home or elsewhere, and teleconferences and videoconferences were to replace one fifth of business trips, that would mean an energy saving in 2020 of the equivalent of the annual gas and power consumption of all the households in Amsterdam and Rotterdam.

2.4.2. FURTHER IMPROVING THE NEW WAY OF LIVING & WORKING

At the beginning of 2012 a newly constituted steering committee reviewed the relevance of The New Way of Living & Working for society and for our company. Based on the revamped theme we drew up an action plan with existing and new aspirations. The plan is oriented to making The New Way of Living & Working available, wherever circumstances permit, to everyone – KPN employees and customers. It comprises an innovation agenda, a social agenda and a communication agenda. Within these agendas we have defined a total of seven aspirations, for which we have formulated concrete goals.

The goal of the innovation agenda is to develop new services and products, which we will first of all use ourselves in order to gain experience. Only then will we offer them to our customers. Five aspirations have been defined for the innovation agenda. We want to

Our social themes continued

facilitate The New Way of Living & Working via our products and services portfolio. We also aim to raise the theme to the next level within KPN, to make “bring your own device” available internally and externally, and to develop a quality mark for The New Way of Living & Working. With the social agenda we will deploy The New Way of Living & Working in such a way as to reduce the environmental burden, the aspiration being a reduction in CO₂ emissions. The aspiration of the communication agenda is to communicate more proactively about our own experiences and results. We want to expand our knowledge, broaden the support base and create ambassadors. We started implementing this plan in 2012 and will pursue it in 2013.

2.4.3. THE NEW WAY OF LIVING & WORKING AT CUSTOMERS

We surpassed our 2012 target of achieving 10% growth in the services facilitated by The New Way of Living & Working. We achieved a growth of 17%.

In terms of the further development of our service to customers and support for The New Way of Living & Working, KPN launched four new propositions in the fall of 2012. The guiding principle is to merge existing services with these four propositions, thereby creating clarity for customers. The result of the service is that customers can work even better without the constraints of place, time and device. The four new propositions are:

- **Unified Communications:** Nowadays employees communicate via a growing number of channels. As well as e-mail they use instant messaging or their company’s social media. With Unified Communications KPN offers organizations the opportunity to combine all those channels consistently, uniformly and recognizably.

- **Any Device Management:** In 2012 we gained experience with “bring your own device” (BYOD), which sets standards for control and security. Among other things, we drew up directions for use. We translated our knowledge and experience into a service for the society. With Any Device Management KPN enables a variety of devices to be controlled securely and effectively – not only the BYOD, but also the devices offered by the company (“here’s your own”).
- **Service Aggregation:** Because of the developments surrounding BYOD and the growth in online access to software, services and infrastructure, ICT managers are looking for ways of maintaining a grip on applications and identification of users, and on costs as well. Secure and easy to understand, preferably via a single portal. Service Aggregation enables and supports the implementation of cloud services.
- **CloudNL:** A totally Dutch cloud solution covered by Dutch legislation. This means that users are not subject to foreign legislation, such as the American Patriot Act, which facilitates the acquisition of private data in the event of actual or potential terrorist acts. With this service KPN meets the requirements for privacy protection and energy saving of some of its customers, such as government, healthcare and financial institutions.

The rollout of these new propositions will continue in 2013. Not only do we want to offer new products and services in the market, but we also want to help existing and potential customers deploy and use them to best advantage. We have appointed specialist consultants for this purpose. They bring the products and services to the attention



“Our role is to facilitate The New Way of Living & Working for many companies and organizations.”

Steven van Schilfgaarde, KPN Corporate Market Director

of existing and potential customers and assist them in understanding the possibilities of The New Way of Living & Working for their company. We will make use of consultants more frequently in 2013.

KPN wants to encourage employees to use work applications and databases at home, and to use their own desktop or laptop, tablet or smartphone at work. We are therefore examining the possibility of a quality mark for "bring your own device" (BYOD). This is designed to give employees of KPN and users (consumers) the assurance that they can use a device of their choice securely and without any problem for the benefit of an employer that has opted for BYOD.

The New Way of Living & Working is self-evident for many young people. They are pioneers in this form of making and maintaining contacts. We would like to know what they think of our products and service, and to learn from them. That's why we are going to enter into dialog with teenagers in 2013. We will use the results to improve our products and services.

Research shows that the general public does not know KPN as a service provider for The New Way of Living & Working. We therefore need to put across to them better the knowledge and experience we have gained and the problems we have come up against. To put existing and potential customers in the picture on this issue we welcomed 27 organizations to our Experience Center in Zoetermeer in 2012. During those visits we also drew attention to the updated KPN Reduction meter, which shows the saving in energy, time and cost through The New Way of Living & Working. With a view to going to the market with this product, we arranged a webinar for our sales organization via our internal social media platform. In collaboration with the World Wildlife Fund we organized workshops for our sales team. The website www.kpnbepaarmeter.nl had over 1,000 unique visitors in 2012. Our specialist consultants talked with customers as a result of or with the help of the KPN Reduction meter. We plan to intensify this in 2013. With Cisco as our partner we developed a Mobile Experience Center, a bus in which interested parties could experience The New Way of Living & Working in practice. In 2013 we will organize five big customer events about The New Way of Living & Working.

2.4.4. THE NEW WAY OF LIVING & WORKING AT KPN

The contribution to the labor participation and satisfaction of employees made by The New Way of Living & Working can be seen from the top 10 position achieved by KPN Consulting in the LOF award 2012 for best employer for working parents. In the spring KPN Consulting and its subsidiary Call2 were included in the list of Great Workplaces 2012.

We have been gaining experience of The New Way of Living & Working in our own organization since 2008. KPN now has over 9,000 "New Workers". An internal survey has shown that 76% of our employees in the Netherlands believe they can work in accordance with The New Way of Living & Working. This means that we failed to reach our target. This can partially be explained by the fact that employees who by the nature of their work are unable to operate in this way were also invited for the survey. Other reasons given are that some people are tied to a fixed workplace, some consider direct contact with colleagues essential and some were not given permission by their manager. Furthermore, resources and applications were made available in 2012 of which not all employees were fully aware, and not everyone has sufficient availability of resources and facilities. In 2013 we want 90% of our employees to feel that they could work in accordance with The New Way of Living & Working. We are altering the survey method: employees who by the nature of their work are unable to operate in this way will be excluded. We will pay more attention to the potential and use of technology by continuing to engage in dialog with employees. We also plan to open an Expert Center as a Workplace Information Point and we will look at the possibility of setting up a buddy system, under which young professionals are paired with senior professionals to foster the use of technology.

It also emerged from internal research that employees experience a better work-life balance. However, work and private life are overlapping more and more, so employees have the impression that they have to make more hours available and spend more hours than they are paid for. They nevertheless feel more productive, more flexible and more vital, and they consider KPN to be a more attractive employer. It also appears that there is a difference between the divisions. The number of kilometers driven fell by 25% in 2012 in comparison to 2011.



“THE BENEFIT OF THE NEW WAY OF WORKING IS THE ENTHUSIASM IT ENGENDERS IN EMPLOYEES”

ING spent five years making Connect & (The New Way of Working) possible for 15,000 employees of its main offices in the Netherlands. “The New Way of Working is so much more than just technology”, says Eefje Jonker, director in charge of The New Way of Working.

Eefje is convinced of the importance of introducing The New Way of Working. “It can help ING to be an attractive employer and to create satisfied employees who can do their work effectively, in an organization that is set up efficiently.”

KPN provides ING with a managed Unified Communications service, including fixed and mobile telephony, LAN network (including Wireless LAN), videoconferencing and audioconferencing and a service desk. This makes Connect & possible, but even more important is how you deploy it. “Often we do something in a specific way – from 9 to 5 for example – because that’s the way things were at one time. But that’s no longer the case. So you have to ask yourself whether that way is still the best. The benefit is in more autonomous, more enthusiastic and more effective employees.”

Needless to say, security and privacy have top priority for a bank. “There has been a lot of debate about that aspect, and that will continue. But in a world in which people are accustomed to having access to information wherever they are, it is important to invest in providing business information securely. KPN is an essential partner for us in this. They work for all kinds of organizations, so they can involve us in the developments and offer solutions if we get stuck.”

It costs money to introduce The New Way of Working but it also benefits ING, according to an independent survey by Forrester Consulting of the use by ING of KPN’s videoconferencing facilities (at 100 locations in 45 countries). The researchers showed that ING had saved more than 4.6 million euro in three years on travel and accommodation expenses, labor productivity and ICT personnel, and 2,336 tons of CO₂ emissions.

The New Way of Working has had an impact on Eefje’s personal life too. “I am ambitious, but I also consider a good work-life balance important. The New Way of Working has ensured that I don’t have to fall between those two stools and have the room to dovetail them effectively.”

Prior to the introduction of our new propositions we conducted a pilot internally to gain experience of “bring your own device”. Employees of KPN Consulting were provided with their own telephone and data subscription and were allowed to buy their own devices. Partly on the basis of this pilot we developed an internal policy: the use of devices other than those procured by KPN is permitted, provided that the user meets a number of conditions. The pilot will be completed in early 2013.

The New Way of Living & Working places different demands on employees and managers. For instance, employees must learn to find a work-life balance between working at home and keeping in contact with colleagues and managers. Managers must manage their staff differently: more on results, less on attendance. They also need to put more emphasis on discipline and taking responsibility. We provided leadership programs in which we trained participants in these aspects. We organized awareness workshops to give managers and employees an understanding of what The New Way of Living & Working entails and to agree the rules. We facilitate communication and dialog by means of a special New Way of Living & Working group on our internal social media platform TEAMKPN Online.

In the fall of 2012 we launched i change, the interactive vitality and coaching program for employees. The program helps employees, if necessary and desirable, to change their behavior and it assists them in finding a work-life balance. Topics covered by the program include work pressure and sleeping habits. Based on the answers, i change gives tips to reduce stress and foster relaxation.

To help make working from home ergonomically sound, the guide “The New Way of Working: How to stay healthy?” was published three years ago. This guide gave details of how employers can put their duty of care into practice. In 2012 KPN assisted in updating this guide. Together with Arbo Unie we developed a special tool to help our own employees set up their home and office workstation optimally. Arbo Unie gave advice on what topics ought to be incorporated in the tool on the basis of KPN’s policy for The New Way of Living & Working, what is expected of the employees and what the potential occupational risks are.

2.4.5. CO-OPERATION

To promote The New Way of Living & Working we take part in the social debate. For instance, we are a member of ICT~Office, the trade association of IT, telecom, internet and office companies. Our participation in the Climate Savers program of the World Wildlife Fund (WWF) focused in 2012 on The New Way of Living & Working. In partnership with the WWF we drew attention to the KPN Reduction meter and we took part in the National Sustainability Congress 2012. We shared our experiences within the Platform B50 as well; 50 big employers that are innovative in terms of working and travelling responsibly are affiliated to this platform.

2.4.6. STAKEHOLDER DIALOG

Under the title of "The New Holland", Het Financieele Dagblad and KPN held a debate in the Rijksmuseum in the summer of 2012 about a new phase in The New Way of Living & Working for employers and employees. The inspirational speakers included the Swiss philosopher and author Alain de Botton and the father of The New Way of Working in the Netherlands, Erik Veldhoen.

In November we entered into discussions with stakeholders and external specialists about The New Way of Living & Working. The main theme was the impact of The New Way of Living & Working on society and KPN's role in it. The message for KPN was that The New Way of Living & Working can be developed even more extensively and in greater depth. Many developments affect the cultural side of The New Way of Living & Working. However, the technology is well ahead of those developments. We need to use our knowledge and experience and our role as an advisory partner to respond better to this; we ought to be able to take the lead here. At present KPN's image is too product oriented.

KPN ought also to give more room for products and services that are oriented to the negative aspects of The New Way of Living & Working, such as being at work "day and night", and the gray area between the responsibilities of employer and employee. The New Way of Living & Working ensures that work and private life overlap more. To cope more easily with the gray area between work and private life the advice of stakeholders is to link business and consumer divisions. The developments relating to "bring your own device" were also a discussion topic. KPN needs to formulate guiding principles for using it and set security conditions.

KPN ought to take responsibility in the collaboration with other organizations that benefit from The New Way of Living & Working. In addition, KPN ought to play a political role, as a driving force behind political preconditions for The New Way of Living & Working.

We acknowledge the input of our stakeholders and use their advice and comments to help implement the program for The New Way of Living & Working.

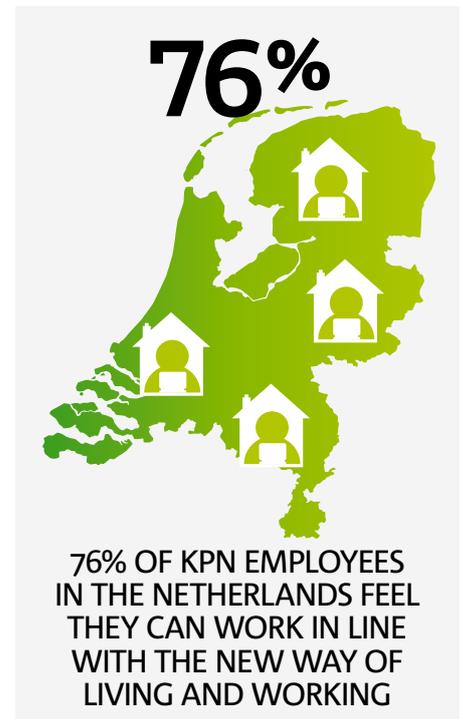
2.4.7. CHALLENGES AND DILEMMAS

Offering facilities and using them

Thanks in part to our internal research into The New Way of Living & Working we are aware that, in order to promote it, more is needed than "just" offering the technical facilities. Consequently, we have to bring the possibilities explicitly to the attention of employees and convince them of the benefits. This is because the vast majority of KPN employees do not know of the video chatting application and therefore do not use it. It is a challenge for us to acquire more knowledge and pass on this experience to our customers.

Keeping work and private life separate

As an employer, if you offer employees the chance to work at home (or elsewhere), there is a risk that the work-life balance may be disrupted. Employees may get the feeling that they have to be accessible any time, any place. The result of this is that they may not be able to relax sufficiently. Our internal research shows that 45% of our employees experience a better work-life balance, while 14% feel it has worsened. Although i change can contribute towards a good balance, we realize that it can be tricky for some employees to maintain that balance. We have no ready answer for this but we will look into it in 2013.



Our social themes continued

2.5. Energy-efficient

OBJECTIVES AND RESULTS

	Indicator	Result 2011	Target 2012	Result 2012	Target 2013	Target 2014 and beyond
Electricity consumption in the value chain	Energy the customer saves	KPN Reduction meter developed	Applying and measuring effects of KPN Reduction meter	KPN Reduction meter applied but effect not measured	Developing measuring tool to measure customers' savings	In 2020, save as much energy annually in the value chain as KPN itself uses
	Energy savings at suppliers	Measurement of CO ₂ footprint of suppliers in the Netherlands	Further development of technique for measuring CO ₂	Measurement of CO ₂ footprint of suppliers in Germany according to existing method	–	
Electricity consumption KPN Group	Reduction percentage	Reduction of 3% in comparison with 2010 ¹	Max. 3% growth in comparison with 2010	Reduction of 6.2% in comparison with 2010 ²	Reduction of 6% in comparison with 2010	Reduction of 6% in comparison with 2010 in 2015
Fixed and mobile network in the Netherlands	Energy-saving measures	Measures that save 40 GWh	Measures that save 30 GWh	Measures that save 32.6 GWh	27.5 GWh +/- 2.5 GWh savings measures	20% absolute energy reduction in 2020 in comparison with 2005
Mobile network, Belgium and Germany	More energy-efficient than in 2009	Germany: 8.6% Belgium: measurements start in 2012	Germany: 9% Belgium: 5%	Germany: 12.8% Belgium: 12%	Germany: 14% Belgium: 13%	20% in 2020
Data centers in the Netherlands	More energy efficient than in 2005	27.6%	28%	30.4%	31.8%	38% in 2020
Dutch vehicle fleet	Absolute CO ₂ reduction in comparison with 2010	3%	6%	8.2%	9%	35% in 2016
Green electricity	Percentage of green electricity for KPN Group	88% (The Netherlands and Belgium: 100% Germany: 63%)	91% (The Netherlands and Belgium: 100% Germany: 75%)	93% (The Netherlands and Belgium: 100% Germany: 76%)	95% (The Netherlands and Belgium: 100% Germany: 85%)	100% for KPN Group from 2014
	Percentage of green gas in the Netherlands	–	100%, of which 1% biogas	100%, of which 1% biogas	100%, of which 2% biogas	100% and biogas where possible from 2014
CO₂ emissions	kTon reduction of CO ₂ emissions	135 kTon in comparison with 2010	35 kTon in comparison with 2011	42 kTon in comparison with 2011 ³	9 kTon in comparison with 2012	Net 0 kTon emissions in 2020
Recycling and reuse	Recycled and reused cell phones	The Netherlands: 30,000	The Netherlands: 40,000	The Netherlands: ~50,000 Germany: 11,800 Belgium: 10,500	The Netherlands: 110,000 Belgium: 20,000	400,000 for KPN Group in 2014
Eco rating	Implementation of eco rating for cell phones	–	Implementation of eco rating	Promise to take part in international eco rating	Start implementing international eco rating when available	Use international eco rating from 2014

¹ The percentage reduction in 2011 has been amended with respect to the Sustainability Report 2011 in connection with a correction to the method of calculation.

² Energy saving accounted for a reduction of 3.3% in comparison with 2010. The remaining reduction was the result of the sale of Getronics International in 2012.

³ 25,000 tons of the reduction in CO₂ emissions resulted from energy saving and greening. 17,000 tons resulted from the sale of Getronics International in 2012.

2.5.1. OUR VISION: ICT IS INDISPENSABLE FOR AN ENERGY-EFFICIENT FUTURE

ICT applications can provide considerable energy savings. We see enormous opportunities for customers to save energy through The New Way of Living & Working and other ICT services. We are intensively involved with other sectors in developing more services and solutions that will help to save energy in the chain. We therefore see plenty of potential for realizing our ambition of saving as much energy in the chain in 2020 as we use ourselves. Demonstrating the actual saving remains tricky, however.

As a huge consumer of electricity – 0.8% of the total consumption in the Netherlands – we take responsibility for reducing our energy consumption and “greening” it. KPN’s goal is to operate climate neutrally in 2020 by saving as much energy as possible and using only home-produced green electricity.

We are well on schedule to achieve our long-term targets and we realized all the targets for 2012. The energy consumption of the KPN Group fell still further thanks to our energy saving projects and programs, while the volume of data traffic increased sharply. This year we received appreciation once again from outside the company for our energy program and the results achieved, which serves to confirm the good progress we are making.

2.5.2. ENERGY POLICY WITHIN OUR ORGANIZATION

The Energy project group, in which all the segments concerned are represented, monitors the progress of our efforts in the domain of energy. The Board of Management discusses the subject with respect to the targets of top management. Since 2011 the targets for our own energy consumption have helped to determine the performance-related component of the long-term remuneration package. Every segment sets its own goals.

In 2012 we expanded the scope of the ISO 14001 environmental management system for KPN Netherlands. E-Plus was already certified for ISO 14001. Environmental and energy management has been implemented at KPN Group Belgium as well. Consequently, environmental and energy management has been integrated into all the relevant divisions and firmly embedded in the KPN organization.

2.5.3. ENERGY EFFICIENCY IN THE CHAIN

Energy the customer saves

To make it easy to see what energy, time and cost savings can be made through The New Way of Living & Working and the use of ICT services, in 2011 we developed the KPN Reduction meter. In 2012 we made this tool available on the internet (www.kpnbespaarmeter.nl). We drew attention to this savings tool at congresses and symposia such as the National Sustainability Congress. In 2013 we aim to intensify the use of the KPN Reduction meter and further refine the tool. In addition, we want to examine in conjunction with customers how we can measure the actual savings.

Customers need peripherals such as modems and routers for fixed internet, interactive TV and telephony. KPN supplies such devices but the customer – the end user in this chain – pays for the energy they use. Since we signed the EU Code of Conduct for Broadband Equipment in 2010 we have tightened up the energy consumption requirements for our peripherals every year. We will continue to do this in the years ahead, but we will also look at new energy-saving solutions. In 2012 KPN introduced a technique to extend the life of smartphone batteries. This technique switches the smartphone off temporarily without breaking the data connection. The connection is “remembered” and goes into “sleep” mode, so energy is saved.

Energy savings in other sectors

KPN is looking at the possibility of joining forces with other sectors to devise and develop energy-saving solutions. We are working in partnership with a number of grid managers and energy companies to develop “smart grids”. We presented the initial results with Alliander at the Metering, Billing/CRM Europe 2012 exhibition.

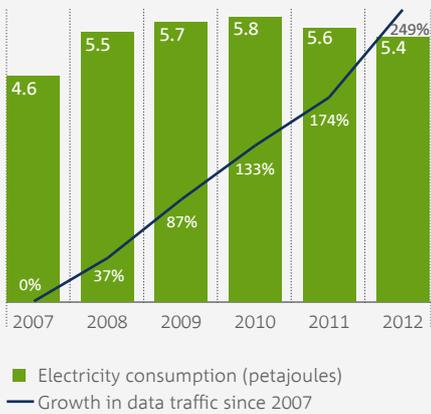
For the construction sector, in 2011 we implemented BouwConnect, which we developed further in 2012. BouwConnect enables companies in the construction sector to select, order and calculate standard products. The system therefore helps to make savings on materials and energy consumption. New versions of BouwConnect were presented at the end of 2012. A new product was introduced as well: WoonConnect, which allows housing corporations and tenants to communicate online. Several manufacturers are already participating in BouwConnect.



¹ Including the reduction resulting from the sale of Getronics International.

Our social themes continued

FIGURE 4: ENERGY CONSUMPTION OF KPN GROUP AND GROWTH IN DATA TRAFFIC



The energy consumption for 2010 and 2011 is adjusted to the 2011 Sustainability Report because of a correction to the calculation method.

Energy savings at suppliers

Using a method based on sales and public information, we made an estimate in 2011 of the ecological footprint of our suppliers in the Netherlands. We set ourselves the target of further developing the CO₂ measurement method for suppliers in 2012. We failed to do this. E-Plus made a similar estimate in 2012. Suppliers that provide us with hardware for customers, our network and our IT infrastructure have the biggest footprint. In conjunction with our logistics service providers we have started examining how they can reduce their CO₂ emissions. More details of our co-operation with our suppliers are given in chapter 3.2.

2.5.4. SAVING ENERGY AT KPN

If we do not take additional measures, our energy consumption would rise by 11% by 2015 in comparison with 2010 because of the sharp growth in telecommunications and data communications. Our goal was that our total energy consumption in 2012 should be no more than 3% greater than in 2010. Our total energy consumption in 2012 was 5.4 petajoules. Energy savings measures enabled us to realize a reduction of 3.3% in comparison with 2010. At the same time our consumption fell by 2.9% in 2012 because of the sale of Getronics International. Our total energy consumption therefore dropped by 6.2% in comparison with 2010. As our total energy consumption fell in comparison with 2011, we changed our target for 2013 and 2015 to a reduction of 6% in comparison with 2010. We aim to keep energy consumption constant, even though data traffic is growing.

In the context of our participation in the MJA3 (Multi-year Agreements on Energy Efficiency) we drew up a new four-year energy-efficiency plan for KPN Netherlands in 2012. This includes the energy savings measures and programs for the coming years.

Network in the Netherlands

To facilitate the strong growth in fixed and mobile internet traffic and interactive television we are continually expanding and modernizing our network. We succeeded in this in 2012, thanks to several savings measures which reduced our consumption by 22 GWh (0.08 petajoules) in comparison with 2011. Wherever possible we replaced network and cooling equipment with new, more energy-efficient devices. We disconnected old systems. These measures saved 32.6 GWh (0.12 petajoules), equivalent to the energy consumption of 10,000 households. This enabled us to meet our target. The saving results from the effect of our savings measures in the network. This compensates for the growth in the electricity consumption caused by the expansion of the network. Although

the number of savings possibilities is continuing to decline, we have adjusted our target for 2013: our savings goal is now at least 25 GWh (0.09 petajoules).

Networks in Belgium and Germany

In 2012 we also expanded the Belgian and German networks so as to be able to meet the sharp growth in mobile data communications. We deployed more energy-efficient equipment and saved on cooling costs, so the increase in energy consumption turned out to be smaller. For example, in Germany we installed advanced energy-efficient cooling systems at 120 locations on the basis of free cooling, making use of outside air. We will increase that number between now and 2015. We easily met our targets for 2012: we made our German network 12.8% more energy-efficient than in 2009, well in excess of our 9% target. Our goal in Belgium was a 5% energy-efficiency improvement and we achieved that with ease too: we managed 12%. The energy-efficiency improvement that we aim to achieve in Germany in 2013 is 14% in comparison with 2009, and in Belgium 13%.

Data centers in the Netherlands

A lot of our customers' own equipment is set up in the data centers. The energy consumption is included in our consumption, but we have no direct influence over it. We do, however, give our customers advice on energy savings methods. We examine with our suppliers innovative ways of saving even more energy. An example of this is that we were able to reduce the energy consumption of the UPS (equipment that regulates energy supplies at peak times and during power failures). As suppliers have now adapted their products, their customers can also reap the benefits.

Another way to save energy – one that we had already started – is to separate cold and hot air. Hot and cold corridors have been created in almost all the data centers, so these two air flows cannot mix. This makes a higher ambient temperature possible without putting customers' ICT equipment at risk. In this way we can continue using free cooling – cooling that makes use of outside air – even if the outside temperature is high.

In 2011 we committed ourselves to the European Code of Conduct on Data Centres Energy Efficiency. We have thereby undertaken to implement energy savings measures at KPN that have not yet been applied, and to issue reports on them. In 2012 we went through the intake process and we expect to complete it in early 2013.

All the measures that we took in 2012 enabled us to achieve 30.4% more energy efficiency than in 2005 – well above our target of 28%. In 2013 we aim to achieve a 31.8% saving in comparison

with 2005. Our target for 2020 will then be an energy-efficiency improvement of 38%.

Offices and shops

Outsourcing and the introduction of The New Way of Living & Working have been instrumental in a 138,000 square meter reduction in our office space since 2010. Consequently, in 2012 the electricity consumption of our offices was 29% lower than in 2010. In addition, we optimized our office energy consumption, partly by replacing ordinary lighting with LED lamps and adjusting the thermostat settings. In total we saved 7.2 GWh on the energy consumption of our offices in 2012.

We made a start with converting our Business Centers into KPN XL shops. In nine Business Centers we installed LED lamps for interior and exterior lighting and more energy-efficient air curtains. We are using energy-efficient pumps for heating and air conditioning. The other seven Business Centers will be converted in 2013.

Vehicle fleet

We also made progress in reducing the CO₂ emissions of our Dutch vehicle fleet. For the last couple of years we have gradually been replacing our vehicle fleet exclusively with vehicles that have A, B or C energy labels. Furthermore, we annually limit the maximum CO₂ emissions of our vehicles. We also want to reduce the absolute CO₂ emissions. Our intention is that in 2016 our vehicle fleet will emit 35% less CO₂ than in 2010. We aimed to achieve a 6% reduction by 2012 but in fact we have managed a reduction of 8.2% so far. We tested two electric vehicles in the Netherlands and are now checking whether and how we can widen this test.



Logius
Ministerie van Binnenlandse Zaken en
Koninkrijksrelaties

“THERE’S AN ENORMOUS SAVINGS POTENTIAL”

How many kWh are required to send a message via Digipoort? And can that energy consumption be reduced? To answer that question Logius, which manages, promotes and develops ICT solutions for the government, carried out a pilot. KPN supplies Digipoort, one of these ICT solutions, and provided Logius with the necessary data. “We had them within a few weeks.”

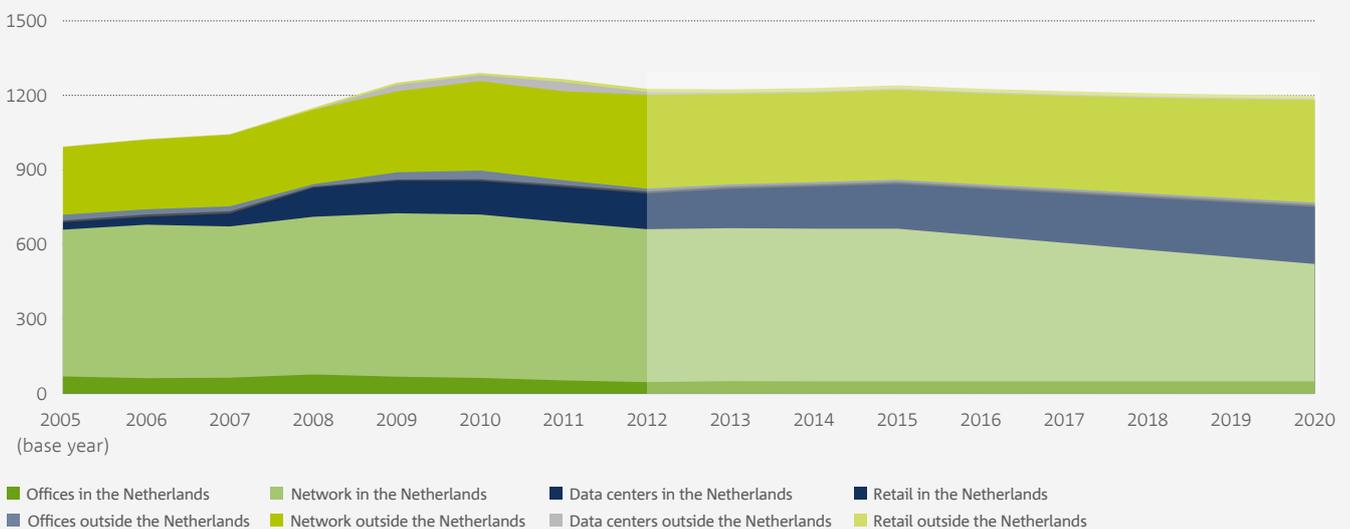
The pilot is extremely important for Logius, says project leader Joris Gresnigt. “Up to now we have made our internal business operations sustainable, but this pilot is about saving energy and costs relating to our primary process. That goes to the heart of our organization.”

Measuring the energy consumption was one of the steps that Logius needed to take to fulfill its mission – making the processes sustainable and green. “We know the energy consumption of the data centers, but not of the entire ICT service. We really need to know this, because when we issue a tender we can then tell suppliers that we want X% energy savings on a product or service. That will enable us to make greater progress in sustainability and greening.”

Logius carried out the pilot in conjunction with suppliers and two research agencies. When Gresnigt asked KPN for assistance he got an enthusiastic response immediately. “KPN has a variety of data: software, hardware and technical data. They don’t only take measurements; they also give up-to-date reports. Everything went smoothly.”

The pilot gave rise to a number of recommendations. “There’s an enormous savings potential. If you consume less energy, you need less hardware. The real benefit is therefore in the costs and CO₂ emissions you can save because you don’t have to buy and maintain as much hardware. We are currently in discussion with suppliers, including KPN, about this.”

FIGURE 5: REALIZED AND TARGETED ELECTRICITY CONSUMPTION (GWH)



Our social themes continued

93%

green electricity for KPN Group

In Germany E-Plus collaborated in a test with a car developed by Opel that uses hydrogen instead of fossil fuel and therefore emits no CO₂. The advantage over electric cars is the greater range afforded by hydrogen. We expect the results of this test in the middle of 2013.

Green electricity

Since the start of 2011 we have been exclusively procuring green electricity produced domestically in the Netherlands. We increased the proportion of green energy in 2012. We have fully “greened” our gas consumption in the Netherlands. Of this green gas 1% is biogas. We compensate the rest of our gas consumption via Gold Standard projects, a form of climate compensation recommended by the World Wildlife Fund. In 2013 we plan to double the proportion of biogas to 2%.

In Belgium, where our electricity procurement has been totally green since 2010, no green gas is yet available. In Germany we procured 19.5% green electricity in 2012 and “greened” 56.5% by purchasing green certificates, so our total green electricity procurement was 76%. We therefore realized our target of 75% for 2012. In 2013 our target for Germany is 85% green electricity. In 2014 the electricity consumed by the KPN Group will be totally green.

The first mobile telecommunication mast in Europe that is not connected to the grid and consumes only solar and wind energy was put into use by E-Plus in 2011. In November 2012

we started the construction of a second, similar mast and we want to put five such masts into service in Germany in 2014. Additionally, in the spring of 2012 E-Plus opened an advanced biogas-fired power plant, which supplies 900 kW of renewable energy and 900 kW of thermal energy to cool our data center in Düsseldorf.

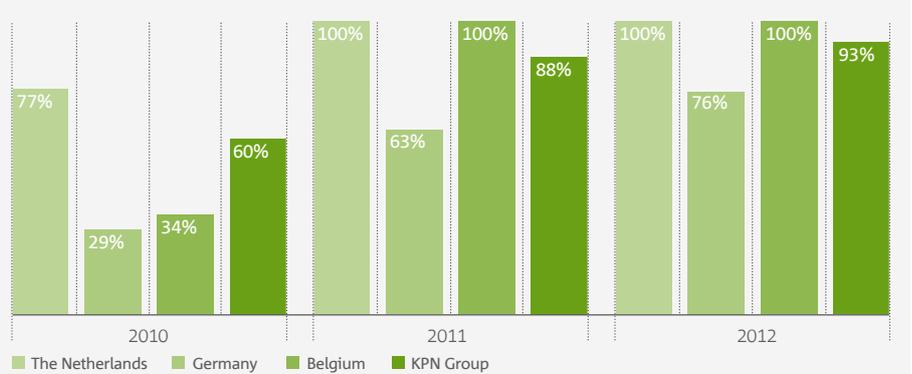
To encourage our employees in the Netherlands to use green energy we have an attractive special offer for green power. We have also made special offers, in conjunction with Oskomera and Eneco, entailing discounts of up to 20% for the installation of solar collectors on employees’ homes. Our employees showed great interest in this when it was presented at our headquarters in The Hague.

Reduction of CO₂ emissions

In 2012 we emitted 42,000 fewer tons of CO₂. Energy saving and greening accounted for 25,000 tons of this figure. The remaining 17,000 tons of the reduction are attributable to the sale of Getronics International. Our CO₂ emissions were 103,000 tons at the time. Through savings and Gold Standard climate compensation we aim to reduce emissions further in the years ahead and ultimately to operate climate neutrally in 2020.

The appendix on the website www.kpn.com/csrreport contains full details of our energy consumption, CO₂ emissions, waste, water and paper consumption and the way in which we calculate and determine this data.

FIGURE 6: GREEN ELECTRICITY



2.5.5. RECYCLING, REUSE AND SUSTAINABLE CELL PHONES

Recycling and reuse

One of the challenges that faced us in 2011 was collecting cell phones, of which we sell a few million annually. We introduced ToestelLease at Hi, Telfort and KPN in the first half of 2012. Consumers either purchase their device at the end of their lease contract or they return it. We work with the Sims Group, one of the world's largest recycling companies, to process the returned devices. The returned cell phones that can be reused are put into our service pool as "alternate device" or sold on the second-hand market. Sims uses the software program Blancco to wipe the data on a device. If it is not possible to wipe the data, the device is regarded as unserviceable.

Usable parts of the unserviceable phones, such as the LCD screen or the casing, are reused to repair other devices. Some parts are sold to repair companies. Valuable metals and other raw materials are recycled; the rest is destroyed in an environmentally friendly manner. As most lease contracts have a term of at least one year, we will notice the effects of this measure only in 2013.

In 2012 we collected around 50,000 cell phones in the Netherlands, thereby surpassing our target of 40,000. Our target for 2013 is 110,000. Thanks to ToestelLease we (KPN, Hi and Telfort) won the Rank a Brand Award 2012 for the most sustainable brand. We achieved the highest score for sustainability in a survey of the 13 biggest internet and telephony providers.

E-Plus encouraged people to return their used cell phones by donating three euros to its partner *Naturschutzbund Deutschland* (NABU) for each returned cell phone. As a result, 11,800 cell phones were returned in 2012.

In Belgium cell phones are not offered at a discount along with the subscriptions. For this reason a special discount in Belgium for the return of cell phones worked proportionally a lot better. Customers in Belgium returned 10,500 devices.

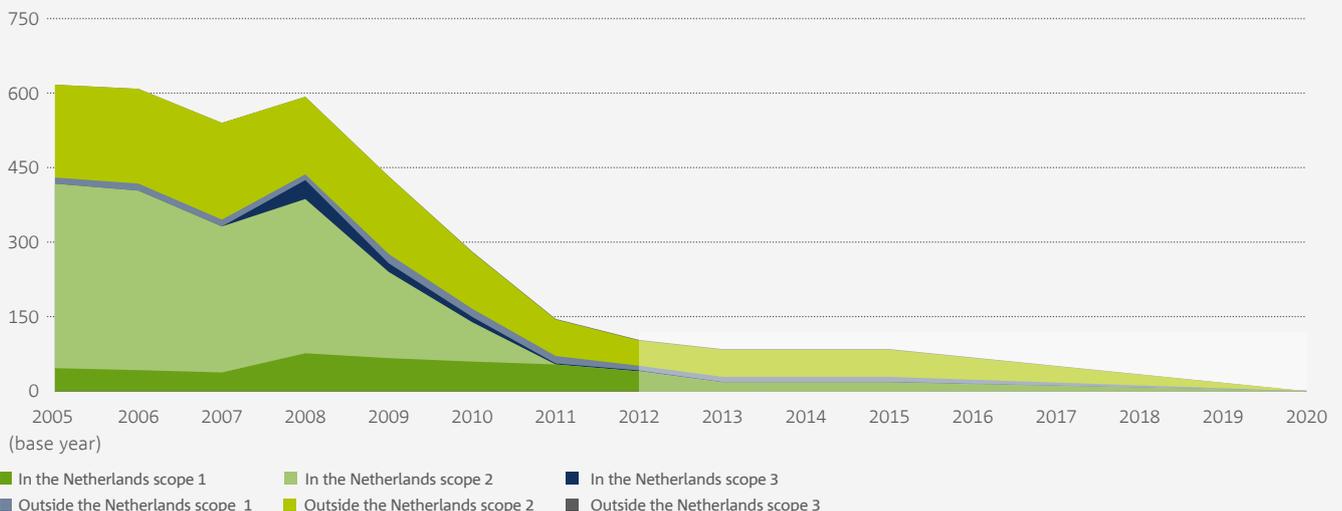
In 2014 we expect to recycle and reuse 400,000 cell phones in the Netherlands, Belgium and Germany combined.

Eco rating

To make it easier for customers to make an environmentally aware choice when buying a cell phone, we have long been searching for a reliable, credible and independent eco rating. Such a rating gives the consumer objective information about the energy consumption and sustainable production of a device, the repair possibilities and the processing and destruction of parts.

In 2012 the GSMA, the international association that represents the interests of mobile operators worldwide, decided to develop an eco rating. KPN Netherlands and E-Plus are members of the task force. E-Plus has pressed for co-operation with non-government organizations such as NABU. As soon as the rating is available, probably in 2013, KPN will apply it in the Netherlands, Belgium and Germany.

FIGURE 7: REALIZED AND TARGETED CO₂ EMISSIONS (KTONS)



Our social themes continued

2.5.6. RECOGNITION, TRANSPARENCY AND COLLABORATION

We continued our participation in the Climate Savers Program of the World Wildlife Fund (www.wwf.nl/climatesavers) in 2012. This international leadership program for companies shows that economic growth and a significant reduction in CO₂ emissions can go hand in hand. According to the WWF annual report 2011 KPN made the biggest advances of all the Dutch participants in the program in terms of all the defined result areas (energy saving in the company's operations, green power, energy-efficient equipment at the consumer and CO₂ reductions at customers).

As a corollary to the Climate Savers Program we and the WWF conducted a special offer campaign to persuade business customers to switching to digital invoicing. This saves paper and fuel (for delivery) and therefore CO₂ emissions. For every business customer that took advantage of the offer KPN donated one Euro to the WWF. Over 45,000 customers switched in 2012. We will pursue this in 2013. Most of the invoicing in the consumer market has already been digitized.

Our efforts in terms of energy were recognized in 2012 by listings in several leading standards and rankings. For example, KPN and Unilever were the only Dutch companies with an A-performance that were ranked in the top 50 of the Carbon Disclosure Project (CDP). This joint initiative of global investors questions market-listed companies about how they deal with climate change. KPN was awarded 94 of the maximum 100 points available, 15 more than in 2011.

KPN was the only Dutch company to be ranked in the top 15 of the World's Greenest Companies of the American magazine Newsweek. Of the other three telecom providers in the top 15 only British Telecom (sixth place) beat KPN's position of ninth. Bell Canada and Telefónica were 13th and 15th respectively.

E-Plus was the highest placed of all the telecom companies in a sustainability survey conducted by advertising agency Serviceplan and the German weekly magazine WirtschaftsWoche among 7,700 consumers.

We took part in various organizations and platforms and gave presentations so as to share our experiences in the domain of energy saving with others and to learn from them. These organizations include GeSI (Global e-Sustainability Initiative), ITU (International Telecommunication Union) and the CIO Platform (the independent association of chief information officers and IT directors). We also took part in Innovative Truth (a congress about sustainable ICT and energy).

In common with other telecom providers, in 2012 E-Plus took part in Zukunftsprojekt Erde, an initiative of the federal government in the context of Science Year 2012, Project Earth: Our Future. The project aims to promote sustainable development, including by organizing competitions in schools and generating publicity.

2.5.7. STAKEHOLDER DIALOG

At the beginning of 2013 we started discussions with stakeholders about the need for a standard for energy saving, the creation of awareness of energy consumption among consumers and giving information to consumers about our energy policy and our energy performance.

The problem issue of finding a suitable unit for reporting energy savings is widely acknowledged and although the current reports are credible to the industry, investors have the need for a single standard. Stakeholders consider energy consumption and saving and the associated CO₂ emissions per MB to be the most suitable for KPN, in the light of the relationship with the core activities and the explosive increase in data traffic. In addition to that reporting, it benefits KPN to report developments in absolute energy consumption.

For consumers the potential energy saving on, for example, a router or phone has very little effect on their budget. KPN will therefore have to respond to the behavior of customers. KPN can play a new and facilitating role in this by helping consumers to structure their energy consumption with ICT. For instance, KPN could develop systems enabling devices to communicate at a distance with each other and with the consumer. KPN could also recommend sustainable products from its portfolio. An independent organization can confirm the proposition so as to strengthen its credibility. Another possible way of helping consumers to use energy more efficiently is to make it easy to assess personal energy consumption on the basis of data traffic in combination with elements of a competitive game.

KPN can show what it can provide in the domain of energy but must also be aware that everything needs to be properly organized. A small mistake may have an immediate effect on the desired sustainable image. In the end, KPN will have to do things so well that others put forward the message, while KPN focusses on continuing to improve its performance.

2.5.8. CHALLENGES AND DILEMMAS

Data growth and electricity consumption

As in 2011, data traffic grew explosively in 2012. We expect this development to continue in the next few years. The growth in data traffic results in rising energy consumption, so in 2013 it will once again be a challenge for us to reach our energy savings targets. This growth is caused partly by consumers uploading and downloading large files such as films with increasing frequency. Although we have developed apps for KPN and Hi that tell users the number of MBs they upload and download on their cell phones, KPN has little influence on this practice.

We reduce the energy consumption by carrying out savings measures and modernization and improvement programs in the network and data centers.

Measuring data center energy efficiency

There are various indicators that allow us to determine the energy efficiency of a data center. PUE, Power Usage Effectiveness, is frequently used. KPN uses this indicator to follow continuously the development and improvement of the energy efficiency of each data center and to adjust it where necessary. Because of the differences between data centers and the various measuring and reporting methods comparing the PUE values of the data centers is, however, less meaningful. This is generally acknowledged. Green Grid, an international consortium that aspires to more efficient power consumption in data centers, has taken the initiative to standardize the measuring and reporting methods. Green Grid is in contact with NEN, the Netherlands Standardization Institute, to formalize this standard. For PUE measurements KPN uses the highest and most detailed level of the Green Grid method.

Measuring the effects of savings at our customers

Although KPN, by such means as the KPN Reduction meter and the new consultancy service associated with it, publishes the potential saving of The New Way of Living & Working and some of the data center services, existing and potential customers decide whether or not to take measures. We maintain our objective of ensuring that through the use of our products and services our customers save as much energy in 2020 as we consume, but we are struggling to demonstrate these savings. In 2013 we will continue to develop the tool that we use to measure our business customers' savings.



“ICT applications are indispensable and essential for an energy-efficient future.”

**Godert Vinkesteyn, KPN Netherlands
Chief Financial Officer**

Our social themes continued

2.6. Security & Privacy

OBJECTIVES AND RESULTS

	Indicator	Result 2011 ¹	Target 2012 ¹	Result 2012	Target 2013	Target 2014 and beyond
Security	Number of customers that take services from KPN's Security Operations Center	–	–	–	5	–
Privacy	Percentage of Dutch people who feel that their data is safe with KPN	–	–	67%	70%	–

¹ We adopted this new social theme in 2012. The theme's targets were set in 2012.

2.6.1. OUR VISION: OUR CUSTOMERS MUST BE ABLE TO TRUST US

When we decided in 2011 to make "Security & Privacy" a new social theme we could not have imagined that a drastic event would confirm within a few months that we had made the right choice. The hack in January 2012, when a hacker gained access to our IT network, gave us extra motivation to intensify our efforts in the field of security and privacy. The incident showed that extra measures were needed. After all, we regard security and privacy as our core business and believe that customers must be able to have confidence in us. Indeed, now that more and more information is being stored in the cloud, people must be able to rely on their data and internet activities remaining secure, any time, any place. It therefore goes without saying that we want to play a leading role in the domain of security and privacy.

2.6.2. CULTURE AND ORGANIZATION Culture

To embed security, privacy, compliance and integrity better in our organization and to make them an integral part of our commercial goals, in 2012 we carried out a targeted and extensive program to bring about a gradual change of culture. We aim in this way to increase employee awareness of these aspects and to stimulate the required behavior; our managers have a leading role to play in this. They have to inspire employees with their commitment and by acting as a role model.

We drew up a communication plan relating to compliance, with which we encourage employees to stick to the rules. We integrated the compliance aspect into some of the HR activities as well. For instance, it is now part of the introduction training of new employees and the Management Academy. The annual internal Compliance and Integrity survey was replaced by a broader behavioral survey in which more employees take part and which deals with more compliance and integrity aspects. The results will be known in 2013.

Just as in 2011, we offered a selection of e-learning modules and provided a lot of training classes, which are ideally suited to specific groups of employees and provide the specialist information they need in their work. In 2012 we trained several thousand employees in this way. We are developing new e-learning modules for a variety of jobs, ranging from call center agent to manager, with substantive training courses and information on privacy, compliance, integrity and continuity. We will launch them in 2013.

With specific reference to the security aspect, employees learned about the security policy and the supporting codes, using the nine Golden Security rules. This ensures that they gain additional knowledge of those security issues that are of importance for their division. By discussing this together they learn where the risks lie and how to deal with them. The risks were minimized by means of an action plan.

We communicated internally about these topics in other ways too. Compliance department employees and our senior management visited management teams, gave presentations for employees and wrote blogs on our internal communication platform TEAMKPN Online. We enhanced the internal awareness of security in unexpected ways and got discussions going about security issues. We want to create a culture in which value is placed on employees talking to each other about their behavior. We held workshops to discuss security, privacy, compliance and integrity issues openly with various teams.

With a view to drawing even more attention to the theme and to enhance awareness even more, in the fall of 2012 we organized the Integrity & Security Week. The theme week featured a lot of excellent debates and prominent internal and external speakers who elucidated security, privacy, compliance and integrity issues from a variety of viewpoints. More than 700 employees from 10 KPN locations attended the meetings. The week closed with the annual Integrity workshop for the top 80 managers of KPN. The results of the behavioral survey among employees were discussed then as well. This workshop is on the agenda again in 2013.

Organization

With a view to achieving our objectives we implemented a number of changes in our organizational structure. At the beginning of 2012 information security was still part of the Compliance department but has now been reorganized: alongside the Corporate Privacy Officer for the whole of the KPN Group, who was appointed in 2011, a Chief Information Officer and a Chief Information Security Officer for KPN Netherlands were appointed in 2012. In addition, we set up a CIO Office, whose tasks include responsibility for the security of our IT and our IT architecture. A team of ethical hackers is being created in the CIO Office as well.

A temporary broad-based project organization –the Security steering committee – was set up in 2012 and is responsible for improving the security of our ICT infrastructure and our services. We developed a new method of applying more integral risk management in the existing business control framework, of which security, privacy and compliance form part.



“Our customers must be able to take it for granted that we respect their privacy and that their data is secure with us.”

Jasper Spanbroek, Chief Legal Officer

In 2012 over 11,000 incidents were reported via the central hotline for security incidents, emergencies and accidents, the KPN Security, Compliance & Integrity Helpdesk. These ranged from mobile subscription fraud by customers, cyber crime and internal fraud to labor accidents and requests for company emergency assistance. After a report is made an investigation is carried out and measures taken whenever necessary.

2.6.3. SECURITY

Consumers and businesses send and retain increasingly large volumes of sometimes confidential data via and on the internet. Their dependence on this has grown accordingly. This makes extra demands on security.

The hack in early 2012 was a wake-up call especially for our customers, but also for us. At the beginning of February we announced that a hacker had gained entry to a server domain on our IT network at the end of January. In consultation with the authorities we had decided not to make the hack known to the public straight away. We closed the “loophole”, thereby depriving the hacker of access to servers that contain customer data. Despite these measures, data pertaining to KPN customers appeared on a website, following which we decided to block two million e-mail addresses as a precaution. Later it turned out that the published data had not been stolen from KPN but from another party.

A team of a hundred staff threw themselves full-time into limiting the consequences of the hack. We opened a hotline for customers who had been badly affected by the temporary shutdown. Over 1,300 reports were received. In around 800 cases KPN paid compensation, which totaled almost 100,000 euro.

Our social themes continued



In October a problem arose with the app “MijnKPN” for smartphones and tablets. An incorrect coupling was made because of a fault in the application, enabling some customers to view the data of others. After two reports from customers the conclusion was reached that an incorrect coupling had indeed been made in some cases, so the app was disabled as a precaution. The app was enabled again when it became clear that the problems had been solved.

We do our utmost to prevent incidents and are aware that every incident is one too many, with potentially unpleasant and sometimes far-reaching consequences. We can see that our improved efforts are beginning to bear fruit: we are better prepared, take action more swiftly and inform our customers better.

As we took the necessary measures on time, we were well prepared for an amendment to the Telecom Act that took effect in mid-2012. The Act now includes a duty to maintain continuity and report incidents, which compels providers of public networks to guarantee the availability of their services. The Act also prescribes that telecom providers must make a report if the protection of personal data is at issue, in the event of a data leak or a hack for example, or if a USB stick or laptop with customer data goes missing. In accordance with the new legislation we report any actual or potential data leak to OPTA and we inform the affected customers.

IT Security Top Priority Program

To improve security and information security as a whole we set up an IT Security Top Priority Program in 2012. This program covers eight top priorities, which we intend to use to achieve a substantial improvement in information security within a short period of time. With ICT infrastructure security we aspire to secure systems and controllable management processes. The activities of Web portal security focus on making and keeping our websites more secure. The purpose of Be Alert is to safeguard the crisis management process for security and/or continuity incidents. Neon access control is to ensure better internal security for our office network. With Information Risk Management we focus on risks and an easily applicable information security policy. Identity and Access Management is used to embed authorizations management firmly within KPN. The goal of Security organization

and governance is to ensure that our security professionals act as a team to make KPN even more secure. Finally, the Security Operations Center (SOC) is an organization that checks the security of our networks 24/7 and can react quickly to threats and incidents. We installed the SOC at our Network Operations Center in Hilversum. Automated security alert devices are used for this purpose. The devices give a “warning” if a potential hack or attack is signaled. The SOC interprets the signals and acts accordingly. We plan to set up similar teams at other key points in our network. We also offer this as a service to our customers: we monitor our customers’ networks for unusual activity so that we can identify threats and incidents quickly. Our target is for five customers to take this service from KPN in 2013.

In 2012 we took the first few measures under the IT Security Top Priority Program. Supervised by KPN Audit and Group Compliance & Risk Management, we had a survey carried out of the security of our high risk profile websites such as those containing customer data. These websites included kpn.com and telfort.nl as well as special service websites for big customers. A total of over 700 websites were identified, 220 of which had a high risk profile. The websites with a high risk were analyzed and the vulnerabilities addressed straight away.

To minimize this kind of risk in the future we set up an internal Portal Authority. This team checks the security aspects of every new KPN website or app before it is launched. This is a mandatory audit. If the website or app does not meet the demands, the Portal Authority blocks the launch.

We reinforce the security of our network by keeping the “patch levels” of the operating systems on our hardware strictly up to date. A patch level indicates what software version a computer or operating system is using. The hack in January was caused by a patch level that was not up to date. Furthermore, we are strengthening the security by keeping our firewall rules and software up to date wherever necessary. We started the updating process in 2012.

Thanks to the aforementioned measures we have now raised security levels considerably and we will continue to do so in 2013.

Transparency and collaboration

To improve security in the virtual world we took part once again in various external initiatives and consultative bodies in 2012. Our commitment to combat cyber crime is reflected in the fact that CEO Eelco Blok is co-chairman of the Cyber Security Board.

In the fall we founded the European Network Cyber Security (ENCS), a new European knowledge center for cyber security, in conjunction with grid operator Alliander, testing institute DNV KEMA, TNO and Radboud University. The objective of this consultative body is to defend vital European infrastructures from outside attack, by terrorists or blackmailers for example. We try to make IT and telecom apparatus secure for the future developments with respect to the management of the electricity grid.

We signed, along with TNO and Alliander, the Cyber Resilience Principles. The goal of these global principles of the World Economic Forum is to enhance the digital defenses of the members and other organizations. We also support and participate in the National Cyber Security Center, other members of which are the national government and TenneT.

Although under normal circumstances we are not responsible for the content of websites, we are keen to make our knowledge and experience available for measures to track unlawful or malicious content on the internet. KPN takes part in a coalition started by the European Commission to "make the internet safer for children". The coalition comprises 31 companies that between them serve a broad spectrum: content industry, social media, internet access and hardware suppliers. Research is carried out into five topics, on which the participants take appropriate measures: a simple and robust reporting tool, privacy arrangements and settings for children, content classification, tools that allow parents to protect their children, and removing child abuse material more quickly from the internet.



"OUR SERVICE IS BASED ON TRUST"

"The service of UWV is based entirely on trust; trust on the part of the consumer that his data is in secure hands, trust on the part of the employee that the resources he needs for his job are in good working order", says Chief Information Officer Frans Haverkamp, who led the European tender to revamp the office automation of UWV. KPN was awarded the contract.

The selection process lasted a full eighteen months. KPN was on the final shortlist of three. UWV conducted a "competition-oriented dialog" with KPN – an intensive discussion between principal and bidders. "We wanted the bid to respond totally to our demands and to what is suitable for our organization. It resulted in three good bids."

There is just one reason why UWV ultimately chose KPN, says Haverkamp. "KPN was simply the best." The scope of the contract, which was signed in mid-2012, is that for a period of at least five years KPN will manage for UWV 20,000 workstations, the WAN and LAN infrastructure and the technical areas of 150 locations.

Good office automation is a prerequisite for the e-service that UWV offers to an increasing degree. "We want to attain the level of the banking sector," says Haverkamp. One of UWV's requirements was a high level of security. "We work with the private data, a lot of it socio-medical, of a couple of million Dutch residents and we have to retain it for seven years. It is unthinkable that someone could make off with it, so security and privacy and an extremely robust infrastructure are of vital importance to us."

To acquire and share knowledge and experience of digital security UWV took the initiative to found a center for information security. Independent authorities, government and suppliers, including KPN, take part in it; "Free of charge," adds Haverkamp. The public-private initiative is in keeping with the government's wish for a "compact government", a program to make substantial annual savings on government services. "UWV wants to be the 'landing strip' for possible clustering of tasks, for shared services. That's why we have to put our own house in order first. Our infrastructure plays a crucial role in this."

Our social themes continued

KPN takes a variety of measures on these five topics. As in previous years, we sponsored the Mijn Kind Online foundation, a knowledge and advice center for youngsters and digital media. MyBee, the free browser of Mijn Kind Online that checks whether websites are suitable for children, is already very popular among families with young children. With our help, in 2012 Mijn Kind Online published the book "Social Media at Primary School", which is distributed on a large scale as a free download. A simple and robust reporting tool has been provided in the form of Meldknop.nl (www.meldknop.nl). Meldknop.nl is an initiative of organizations such as Digivaardig & Digiveilig, Meldpunt Kinderporno op Internet (which combats child pornography on the internet) and the Kindertelefoon.

Youngsters can use the website for information and tips that enable them to solve their internet problems, such as bullying, discrimination, harassment and identity fraud. It gives information on how and when a complaint can be made. Youngsters can also find contact details of organizations that can help them solve their problem. The program Digivaardig & Digiveilig is a collaboration between industry, government and social organizations to reduce the number of people with little or no digital skill and to promote the responsible and secure use of digital media. KPN is a partner of Digivaardig & Digiveilig.

We also take part in the Internet Security Platform, other participants in which are the Ministry of Security and Justice and the Ministry of Economic Affairs, Agriculture and Innovation. Within this platform we take part in groups such as the Task Force to Block Child Pornography and the Task Force Notice and Take Down.

2.6.4. PRIVACY

More and more data of a sensitive and personal nature is exchanged via internet. In a comparative survey among telecom providers about privacy, carried out by Capgemini Consulting in the spring of 2012, we ended as best in class. We still see challenges ahead, such as continuing to improve information security, more attention for internal awareness, taking account of the data protection and privacy of the user in innovation processes, communicating more clearly and transparently, and performing a greater opinion-forming role.

In late 2011 and early 2012 we did a baseline survey in which we asked respondents among other things whether they consider that their data is in safe hands with KPN. Although 67% of the 500 respondents regard us as a reliable telecom provider as far as privacy protection is concerned, more than three out of ten customers answered "no". We see this as a sign that we still need to improve. We will carry out a similar survey in 2013 and aim to achieve a "yes" from 70% of respondents.

To clarify in our own mind what we mean by privacy and to make it clear to customers what they can expect from us, we instituted a privacy mission (www.kpn.com/privacy). The mission is the basis for all privacy and security matters and incorporates several promises: privacy and security have priority, we enter into dialog with our customers if problems arise, we are transparent about what we do with customer data, we never listen in to calls and never read messages, and in the event of a hack we do everything possible to protect customer data. Joost Farwerck, Managing Director Netherlands, presented the privacy mission at the National Privacy Debate in The Hague in June.

We offer customers ToestelVeilig and PC Veilig to give better protection to smartphones and computers. ToestelVeilig is an app that helps protect personal and confidential data on a smartphone. A stolen or lost device can be traced via a special website (toestelveilig.kpn.com). The app also enables a device to be locked and personal data to be erased remotely. With PC Veilig we offer customers a complete security package that gives the computer optimal protection against viruses, spyware, pop-ups, spam and other internet hazards.

We are also working on a blocking system to enable access to the network to be barred via a unique IMEI code. This can be used for example to render a stolen cell phone unusable. Talks are on-going between the government and the various providers to agree on a standard for this. We hope to have a suitable solution in 2013.

We look not only at the privacy aspect in our own company, but also at that of subcontractors at home and abroad to whom we outsource work. We include explicit privacy requirements in new outsourcing and offshoring contracts for work in which they come into contact with personal data. A temporary team checked whether our current outsourcing and offshoring contracts comply with these requirements and we revised them where necessary.

We are also aware that customers have different perceptions of privacy and privacy protection. The rise of social media like Facebook and Twitter shows that opinions on this are still in development. Young people in particular share personal data with one another more than before. KPN regards the legal requirements for privacy as a minimum, but we are looking for ways to offer customers more choice in terms of data sharing.

Developing such a policy and implementing it and embedding it in our systems require a lot of effort. We will make a start on this in 2013 and will then be able to give more information about online security.

2.6.5. DILEMMAS AND CHALLENGES

Developments in the ICT and telecom sector follow one another in rapid succession. From a commercial viewpoint it is of vital importance for KPN to put new or adapted products and services onto the market as soon as possible. In their turn, security and privacy procedures and specific provisions in the Telecommunications Act require care and time and can therefore delay the launch of a product. It is a challenge for us to continually find and maintain the balance between these two vital, but sometimes conflicting interests. But in the end we will launch a product or service only if it is fully in compliance with the requirements of privacy and security.

SOCIALLY INVOLVED IN ALL THE CHAINS



Teleliet
05
S'er Boere naar cel gebracht... 108
zaie Irak officieel beëindigd. 120
rovnik laat Chodorovski vrij 127
fte's speciaal onderwijs weg... 109
bezoek Rutte aan Kunduz.... 115
boet wasserijen en kartel.... 105
schuldig aan ontgping..... 130
kritiek fraude is onterecht. 126
kritiek op zielenhuis.102 111.112
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Welkom
bij het
Network Operations Center
van KPN



Item	Value	Unit	Unit	Unit
Item 1	100	100	100	100
Item 2	200	200	200	200
Item 3	300	300	300	300
Item 4	400	400	400	400
Item 5	500	500	500	500
Item 6	600	600	600	600
Item 7	700	700	700	700
Item 8	800	800	800	800
Item 9	900	900	900	900
Item 10	1000	1000	1000	1000

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OUR EMPLOYEES AND SUPPLIERS

KPN expects a great deal of flexibility from its employees and suppliers, particularly now that the organization is undergoing changes. It is of the essence that we maintain positive, open and lasting relationships with these two crucial groups of stakeholders if our social policy is to be successful.

3. OUR EMPLOYEES AND SUPPLIERS

3.1. Our employees

OBJECTIVES AND RESULTS

	Indicator	Result 2011	Target 2012	Result 2012	Target 2013	Target 2014 and beyond
Diversity	Percentage of women in top management at KPN Netherlands	17.2%	18.8%	18.9% ¹	21%	23% in 2014 25% in 2015
	Percentage of women in middle management at KPN Netherlands	16.5%	17.4%	16.3% ¹	17%	18% in 2014 20% in 2015
	Overall percentage of women at KPN Netherlands	23.4%	24.5%	23.4% ¹	24%	25% in 2014 26% in 2015
Vitality	Percentage of employees that have signed up for i change at KPN Netherlands	–	–	18%	25%	30% in 2014 35% in 2015
Social engagement	Percentage of employees that agree that KPN Netherlands follows CSR principles in its business	69%	69%	unknown ²	70%	–

¹ Results are based on the employee population of KPN Netherlands in line with the population for the public commitment “Talent to the Top” (over 95% of the KPN Netherlands population). Figures for the whole of KPN Netherlands are shown in the appendix.

² The survey will be carried out in the first quarter of 2013.

3.1.1. OUR VISION: MOTIVATED EMPLOYEES CONTRIBUTE TO KPN'S SUCCESS

Our employees and our ambition to be the best service provider are inextricably linked to one another. Only with the efforts, enthusiasm and loyalty of our employees can we bring about our strategic plans. An appropriate personnel policy that fits in with a changing organization is therefore essential.

3.1.2. THE REORGANIZATION

In order to solidify our market position in the Netherlands, we decided to speed up the personnel reduction program we started in 2011. The measures we have adopted include outsourcing more work and optimizing our business operations, which results in a substantial staff reduction.

Although the reorganization impacts all segments to some extent, the ones most affected are KPN Corporate Market, Business Market, NetCo and Consumer Residential. The biggest personnel reduction will take place at KPN Corporate Market. We want to transform KPN Corporate Market into a new organization called IT Solutions in order to serve our customers uniformly and comprehensively. Parts of KPN Corporate Market, support

functions and the Business Market segment will be integrated into a new organization called Business Market.

The NetCo division, created at the beginning of 2012, is an amalgamation of ITNL and Wholesale & Operations and is responsible for fixed and mobile networks. In the course of the year we set up NetCo's new structure step by step. At Consumer Residential, which includes our contact centers, the reduction in jobs is accomplished mainly through offshoring and efficiency improvements.

At the start of 2011 we announced our intention to effect a workforce reduction of 4,000 to 5,000 by the end of 2013. We realized around 1,100 of these in 2012. This number is lower than planned, which is mostly due to a staff increase at Consumer Residential and Consumer Mobile, which is mostly attributable to new hires for the 24/7 helpdesk designed to improve quality of service, the acquisition of former subsidiary Sonic and a staff increase at XS4ALL. The reduction program at KPN Corporate Market is right on schedule. The substantial reduction of 2012 forced us to ask a great deal of the Works Councils, which handled 104 proposed measures – significantly more than in previous years.

3.1.3. NEW HR ORGANIZATION

Because of the new corporate strategy and the transformation of Getronics into KPN Corporate Market, in 2011 we decided to adjust our HR organization as well, which we put into practice in 2012. Our new HR organization consists of so-called centers of expertise for the domains Compensation & Benefits, Talent Development & Learning, Recruiting, and HR Shared services. The centers of expertise contribute specialist knowledge on specific themes and advise the HR teams that support the segments.

The new HR organization is designed to serve the segments and to accommodate their needs and wishes as well as possible. Five key focus areas were selected in 2012: supporting the reorganization, developing leadership, implementing Way of Working (WoW), redesigning performance management and setting up the KPN Academy.

Supporting the reorganization

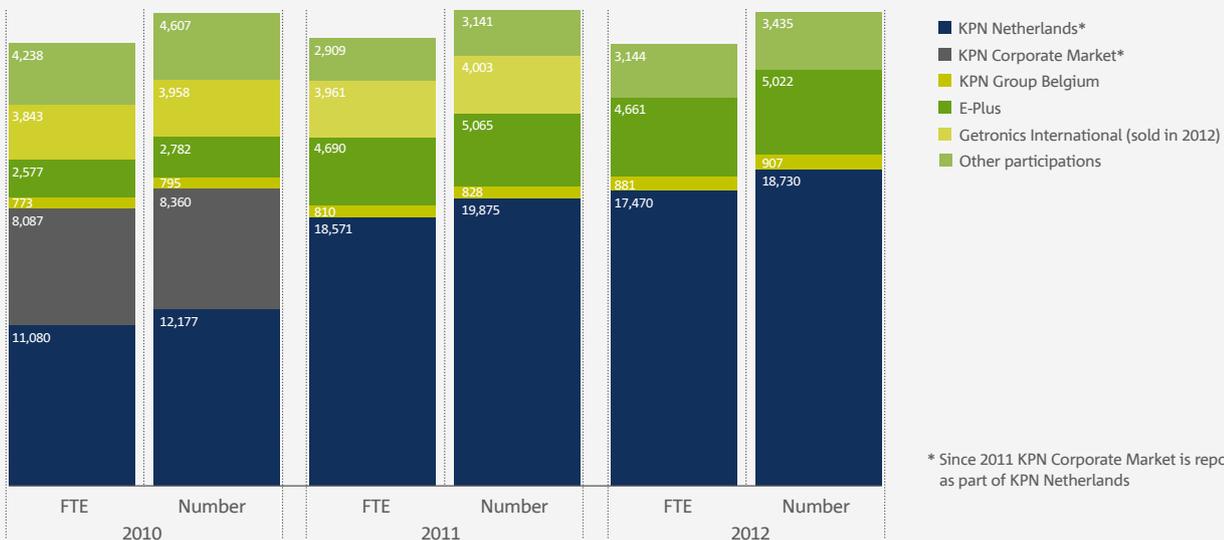
KPN's new strategy includes outsourcing more tasks, offshoring, and making the organization run more efficiently. This is in keeping with our ambition to improve our service and to make our workforce more flexible. We continued our outsourcing policy in 2012, assisting redundant employees in finding new jobs through the KPN and KPN Corporate Market social plans, which include support measures such as prioritizing internal applications. KPN Perspectief has a key role in implementing the social plan. This partnership of Randstad HR Solutions and the Smart Group helps redundant employees to discover or even

rediscover their talents and potential and to get acquainted with the labor market or to prepare for a career as an entrepreneur.

KPN Corporate Market employees who are or may become redundant are assisted by the KCM Flexforce team. Consultants join employees in their search for work, inside or outside KPN. Flexforce's services for KPN and KPN Corporate Market include additional mediation for individual employees to whom the social plans do not apply, but who want to revitalize their careers. KPN Perspectief assisted 214 employees in 2012, 141 of whom managed to find new jobs (22 inside and 119 outside our organization). The KCM Flexforce team was able to find new positions for 90 employees.

Although we created one single HR organization for both KPN and KPN Corporate Market, which is already partially operational, both divisions retained their own collective bargaining agreements. Harmonization of the collective bargaining agreements was not a priority because of the economic situation and KPN's market position. In spite of talks with the Works Councils, four labor unions presented a petition to the management on behalf of 3,600 KPN people. They sought to improve the balance between the interests of employees, customers and shareholders. They also demanded a better social plan and a structural pay raise in 2012. KPN and the unions reached a provisional agreement in November, which was submitted to the unions' members. It is expected this agreement will be signed at a regular meeting in early 2013.

FIGURE 8: NUMBER OF EMPLOYEES AND FTE



* Since 2011 KPN Corporate Market is reported as part of KPN Netherlands

Our employees and suppliers continued

Leadership development

In early 2012 we re-evaluated the demands our strategy, our position and the market place on our leadership in terms of competencies. This led to a new, group-wide Leadership Competence Framework, which details nine key leadership competencies.

Our new Management Academy, part of the KPN Academy, uses the Leadership Competence Framework as a frame of reference. In 2012 we also used the framework as a reference when designing three international management development programs for high potentials. We will continue to use the Leadership Competence Framework in 2013, translating the leadership competencies into assessment criteria to be used when hiring or promoting personnel.

Way of Working

In the domain of leadership development and performance management we introduced Way of Working (WoW) in 2012. We use this quality improvement program to train managers to focus on the customer, but even more so to help our employees to do their jobs as well as possible.

In the process the manager is assisted by a navigator. The manager is given ten basic tools and learns to use them effectively. Over one hundred and fifty managers at KPN Consumer Residential, Consumer Mobile and NetCo have already completed the WoW program. The results from KPN Consumer Residential show that WoW leads to increased productivity and more employee involvement. Another achievement is that WoW has fostered a learning culture in which high-performing employees help their colleagues to catch up.

We intend to continue WoW in the segments mentioned and to expand it to other parts of the organization in 2013. Our goal is to embed WoW in our daily work routine and to integrate it within our performance management system.

Performance management

According to the Works Councils and labor unions, our current performance management system is more about judging employees than managing their performance and growing their skills. This is why we want to reform it into a

full-fledged performance management system in which employees' personal growth and their contribution to the bottom line take center stage. We consulted the Central Works Council on this in 2012. At the end of the year we submitted a request for approval to the Central Works Council; a decision is expected at the beginning of 2013. We plan to start implementing performance management in 2013.

KPN Academy

In 2012 we formed the KPN Academy, amalgamating all our education activities within KPN and KPN Corporate Market. The number of training vendors was reduced from 850 to 100. We now carry out some of the education activities with our own employees. We make all the education and training activities available to the organization on a single portal, so we can administer them efficiently and simply.

Within the KPN Academy we have designed learning streets for various disciplines. A learning street is a process in which a new employee can be groomed to become an advanced professional. A learning street consists of modules and teaching takes place in classes, via e-learning, on the job and sometimes partially during an internship. In 2012 learning streets went into operation for Procurement, HR, Finance, Management, Project Management and Sales & Service.

3.1.4. DIVERSITY

We consider it important for our workforce to be a reflection of society. In 2012 the number of women at KPN Netherlands was 23.4%, the same as in the previous year. Consequently, we failed to achieve our growth target of 1%. This was because of the personnel reduction in all parts of the company. The percentage of women in top management was 18.9% (our target was 18.8%) and in middle management 16.3% (target was 17.4%).

In 2012 we made diversity the task of the whole of HR; it is no longer the exclusive responsibility of a program leader. The issue has been embedded at the top level of the company by appointing Chief HR Officer Lia Belilos as the "sponsor" on the Executive Committee.

A new network for women in the top 50 was set up, which met three times in 2012. Furthermore, Recruitment was given the task of monitoring top women at other companies and, if appropriate, to interest them in suitable vacancies at KPN. We also continued our mentoring program oriented to women.

We aim to offer opportunities to other groups as well, particularly people with a labor market disadvantage and people with a non-Dutch cultural background.

The first group consists of people with an emotional, psychological and/or physical impairment: these include youngsters in the Wajong scheme and people on WIA benefit. We recruit candidates in collaboration with UWV and CAP100, an initiative of the Lucille Werner Foundation, which assists in the integration of people with a disability. Under this arrangement we hired nine people from that group in 2012. We have agreed that in 2013 0.25% of the KPN Netherlands workforce will come from this target group.

Local and national government bodies are increasingly imposing requirements in tendering procedures with respect to employing people with a labor market disadvantage, such as disabled persons and the long-term unemployed. They want to reduce unemployment in this way and help people with a labor market disadvantage to gain experience. Social return on investment usually means a few per cent of the contract price or wage bill involved in such a transaction. The number of transactions in which such requirements play a part represents millions of euros in sales for KPN, so it is important for KPN to be able to satisfy this requirement. We expect the social return

requirement to be imposed more and more frequently, because at the end of October 2012 the Upper House of Parliament adopted a motion to encourage government bodies to include the requirement in their policy. A growing number of municipalities impose very specific requirements on how social return is put into practice, for instance with respect to the period within which people have to be deployed, the number of people to be deployed for the specific project or the origin of the people. KPN is already dedicated to giving a place to people with a labor market disadvantage, but these specific requirements cannot always be satisfied by regular initiatives and processes. It is therefore sometimes difficult to meet these specific requirements.

In mid-2011 KPN decided to launch the Social Return project, to implement it in our policy and to roll it out in the organization. To satisfy the social return requirement we sought to cooperate with other organizations and government bodies. This co-operation enables knowledge to be bundled, it saves operating costs and leads to a better chance of a lasting placement.

To interest people with a non-Dutch cultural background in working for KPN, in 2012 twelve KPN employees acted as mentors for talented students from this target group who were in their final stages of higher education or university. We collaborated with ECHO, a national center of expertise for diversity policy. Through personal meetings and learning from one another KPN wants to promote itself as an employer among this target group.

FIGURE 9: GENDER OF KPN GROUP EMPLOYEES
(in per cent)



■ Male ■ Female

Our employees and suppliers continued

For a third target group – homosexual (gay), lesbian, bisexual and transgender employees (LGBT) – we do not have a policy, although we empathize with them. Under the colors of and in co-operation with HR Diversity, KPN Pride (the LGBT network on our social media platform TEAMKPN Online) organized a themed meeting for HR managers and advisers. The topic under discussion was the importance of a work climate that includes people rather than excludes them.

At the end of 2012 we drew up the policy plan Diversity 2013-2015. The current organization is in need of changes, including a review of the diversity objectives. Our target for 2015 is for 26% of KPN Netherlands employees to be women. The focus remains on gender diversity, but we also aim to achieve diversity in leadership and to create a culture that includes people rather than excludes them. In 2015 we want diversity to be a given within KPN.

3.1.5. HEALTH AND EMPLOYEE VITALITY

We invest in the mental and physical health and vitality of our employees, because this has beneficial effects both at home and at work.

Health-related absenteeism, support and prevention

The percentage of health-related absenteeism at KPN Netherlands (excluding KPN Corporate Market) was 4.0% in 2012. It was calculated in 2011, using the Verbaan standard, the benchmark operated by KPN, that the health-related absenteeism at KPN Netherlands ought to be 3.4%. This was our target for 2012. We abandoned this target at the beginning of 2012 and developed an approach that focused on specific parts of the company where absenteeism is high. We determined the Verbaan standard for each of those parts and formulated appropriate targets.

Consequently, we pursued the long-term program that we set up in 2010 to control and prevent absenteeism. The steering committee, composed of three KPN representatives and three representatives of the Arbo-Unie, took initiatives in the context of this program. The line management is responsible for reducing health-related absenteeism.

Various activities were launched within the framework of the program. To make our absenteeism recording and coaching more effective we tightened our processes. One of the results of this was a protocol that describes the role of managers and HR, and the procedure if one of them fails to take action on time or is not sufficiently effective. Under the protocol the absenteeism coach got a more significant role and HR advisers were trained in the field of absenteeism. A total of 55 HR employees took part in these training courses. In 2012, 18% of our managers took the e-learning course "Absenteeism and reintegration".

Together with our HSE department, our reintegration service and our healthcare insurance providers, we looked in 2012 at the quality, effectiveness and cost of all the services that could potentially assist the recovery and reintegration of a sick employee, including physiotherapists, psychologists and assessors. To enhance the effectiveness of such interventions we changed the selection of suppliers with whom we work. Additionally, in cases of long health-related absenteeism we ensure a better coordination between our HSE department, our reintegration service and ourselves. That ensures a more consistent policy and prevents unnecessary sanctions by the UWV.

In November 2012 the steering committee evaluated the progress of the program. Overall, health-related absenteeism has declined, but as in 2011 the highest rate of absenteeism was in departments of KPN Contact and among engineers. In fact, health-related absenteeism in the latter group rose in 2012. The same issues keep recurring: for example, a relatively high proportion of long-term absenteeism and, in some parts of the company, a lack of interpersonal skills among managers. Consequently, one of the recommendations of the steering committee is to train management to find out the problems that are causing absenteeism. We will offer these training courses in 2013. We also want to reduce long-term absenteeism by introducing an absenteeism assessor who will give managers unsolicited advice on reintegration.

Health-related absenteeism	2010	2011	2012
KPN Netherlands	4.4	4.2	4.0
KPN Corporate Market*	4.0	4.0	3.9
KPN Group Belgium	4.7	3.5	3.6
E-Plus	4.9	6.2	6.4

* Formerly Getronics Nederland

Vitality

In 2012 we made i change available to all KPN employees in the Netherlands; this is an interactive coaching program for companies and their employees. It allows people to get a picture of their vitality and, if necessary, helps them to change their behavior, for example by stopping smoking, drinking less, taking more exercise or losing weight. After the employee has anonymously answered a questionnaire, i change proposes one or more coaching programs tailor-made for that employee. By the end of the year 3,292 employees had made use of i change – 18% of the KPN Netherlands workforce. We want 25% of the workforce to have registered in 2013 and 35% in 2015. To bring i change to the attention of employees on a permanent basis, in 2013 we are going to set up monthly events in the form of campaigns and activities on the work floor. We also want to make it possible for participants to share tips and experience with others via TEAMKPN Online, our internal communication platform.

Details about our employees, health-related absenteeism, accidents, training and education can be found in the appendix on the website (www.kpn.com/csrreport).

3.1.6. E-PLUS

In 2012 the German CRF Institute proclaimed E-Plus Top Arbeitgeber (top employer) for the sixth consecutive year, praising it for its challenging working environment, the opportunities for flexible working and the development opportunities for E-Plus personnel. The employee satisfaction survey that was carried out in the third quarter confirmed this picture. The vast majority of participants was very satisfied with their employer and would recommend E-Plus to others as an employer.

3.1.7. CHALLENGES AND DILEMMAS

Swift and timely changes

The reorganization is sizable because we are tackling a lot of things simultaneously: another way of working and managing, outsourcing work, optimizing the business operations and improving efficiency. We have to react rapidly to changes in the market, not only in 2012 but also in the years ahead. It is a challenge for all those involved in our organization to realize these changes in a timely manner.

Maintaining a positive atmosphere at work

We regard it as our task to keep our employees enthusiastic while at the same time cutting 4,000 to 5,000 jobs and outsourcing work to make our company more efficient and allow us to concentrate fully on our core activities. Good communication with our employees is essential in this, for example by showing in the form of real-life cases that outsourcing work is a way of improving quality for customers and saving costs and is not an end in itself.

31%

of employees at the KPN Group are women

3,292

employees took part in the i change program



“A rapidly changing organization requires great resilience, adaptability and a huge effort by all KPN employees.”

Lia Belilos, Chief Human Resources Officer

Our employees and suppliers continued

3.2. Our suppliers

OBJECTIVES AND RESULTS

	Indicator	Result 2011	Target 2012	Result 2012	Target 2013	Target 2014 and beyond
Code of conduct	Percentage of high-risk suppliers that has signed the Supplier Code of Conduct	90% of high-risk and 73% of medium-risk suppliers	90% of high-risk and medium-risk suppliers	94% of high-risk and medium-risk suppliers	95% of high-risk and medium-risk suppliers	–
Audits	Percentage of high-risk suppliers that takes part in the self-auditing system	50% of high-risk and medium-risk suppliers	80% of high-risk suppliers	78% of high-risk suppliers	80% of high-risk suppliers	–
	Percentage of high-risk suppliers audited on site	15 on-site audits	35%	26%	35%	35% annually
Sustainable solutions at our suppliers	Number of substantial sustainable solutions implemented at suppliers resulting in cost savings at KPN	–	–	–	5	–

3.2.1. OUR VISION: SUSTAINABLE CHAIN MANAGEMENT THROUGH DIALOG WITH SUPPLIERS

We aspire to sustainability not only in our processes and products, but also in the rest of the value chain. KPN is at the end of that chain, so consumers and businesses hold us directly accountable for the origin of our products and services. We therefore aim to play an active role in making the chain more sustainable and we want to help consumers and business customers make sustainable choices. We encourage our suppliers to produce in a socially responsible manner and we make use of codes of conduct, audits and self-assessments. We enter into dialog with them more than ever before.

3.2.2. NEW PROCUREMENT ORGANIZATION

With the arrival of a new Chief Procurement Officer (CPO) for the KPN Group we drew up a new procurement organization plan and set corresponding goals in 2012. The business units are no longer responsible for their own procurement policy; that responsibility is now borne centrally. The purpose of this measure is to strengthen the importance of the group as a party that suppliers can talk to, and to carry more weight in negotiations, including those with sustainability aspects. The CPO reports directly to the Board of Management. The Corporate Procurement department co-ordinates sustainable procurement for the KPN Group. A sustainable procurement co-ordinator has been appointed at Corporate Procurement; his responsibilities include making people inside and outside the organization aware of our ambitions in the domain of sustainable procurement.

3.2.3. CODE OF CONDUCT, E-TASC AND AUDITS

KPN has around ten thousand suppliers. The focus of our sustainable procurement activities lies on the high-risk and medium-risk suppliers, who represent a procurement volume of around 50%. These are mostly producers in Asia, Africa, Eastern Europe and Central and South America. These companies mainly supply network equipment, computers and software and are developing to be global players. Key areas of attention for KPN are labor conditions, the environment and human rights. We consider it our responsibility to maintain a dialog with these parties and to audit them. We also involve our outsourcing partners in this process.

We have set out in our supplier code of conduct (see www.kpn.com/corporate/aboutkpn/Company-profile/Procurement.htm) what we expect of our suppliers. The code is an integral part of both the standard contracts and the general conditions of purchase. In 2012, 94% of the high-risk and medium-risk suppliers conformed to the code of conduct. Signing the code of conduct is an important statement and a meaningful obligation, but we regard the code predominantly as the start of a dialog. We aim to get 95% of the high-risk and medium-risk suppliers to sign the code of conduct in 2013.

We have asked the companies that we regard as high-risk suppliers to do a self-assessment via E-TASC. E-TASC is an online tool that we use to ask the supplier how he deals with social and environmental aspects. In 2012, 78% of the high-risk suppliers completed this assessment. However, if a supplier is audited, he does not have to do a self-assessment. The overall findings about the way in which the suppliers integrate sustainability into their organization are satisfactory. We want 80% of the high-risk suppliers to do an assessment via E-TASC in 2013.

Co-operation with other operators enables us to expand our influence while enhancing the efficiency and clarity of our procurement conditions. We therefore carry out on-site audits under the auspices of the Joint Audit Co-operation (JAC), an association of telecom operators that includes Belgacom, Deutsche Telekom, France Telecom, Telecom Italia, Swisscom, Telenor and Vodafone. We maintain contact with our JAC colleagues in weekly conference calls and bi-annual steering committee meetings. The sustainable procurement co-ordinator is a member of this consultative body.

In 2012 on-site audits were carried out at 13 hardware suppliers. That represents 26% of our high-risk suppliers. We perform these prearranged audits under a JAC audit protocol, which is based on international standards such as ISO14001, SA8000 and OHS18001. The principal shortcomings highlighted by the auditors are violations relating to working hours, health, safety, and salary levels. We plan to audit all the high-risk suppliers in the next three years – 35% per year.

Shortcomings that come to light via E-TASC or audits are not a reason to terminate the co-operation but to enter into talks with the suppliers about their production method and process. Subject to the outcome of the discussions we draw up an improvement program, the progress of which we monitor. Such a discussion and questions from the JAC resulted in a major provider of hand-held devices promising us that in the future it would be more transparent about the origin of the materials it uses. We also had a similar dialog about improvements with two suppliers and we can see that this approach is now beginning to bear fruit.

The JAC provides a platform for sharing ideas and experiences. In January 2012 a JAC CSR Forum was held in Shenzhen, China, at which the member telecom providers, NGOs, CSR organizations, the press and suppliers were represented. The findings of the audits were discussed in general terms at that meeting. Later the forum's experiences were also shared with the relevant procurement teams within KPN. In turn, they included this in their regular discussions with the high-risk and medium-risk suppliers.



Our employees and suppliers continued

In 2013 we aim to combine our sustainability aspirations more explicitly with our cost-reduction aspirations. By optimizing the shop inventory planning system we aim to reduce the amount of air freight and the associated costs. On the one hand this makes a positive contribution to the environment by reducing energy consumption and CO₂ emissions, and on the other hand we achieve structural cost savings. We believe that this combination is essential for a durable sustainability policy. Consequently, in 2013 we are introducing a new objective: with our suppliers we want to implement five substantial, sustainable solutions that also contribute to lower costs for KPN.

3.2.4. RAW MATERIALS AND CONFLICT MINERALS

The rapid growth of data traffic demands a greater production of equipment, such as transmission masts, data centers and fiber. This requires the use of scarce raw materials like iron, copper, steel and silicon. Scarce and rare raw materials like tin, wolfram, coltan and gold are also used in cell phones. Some of these minerals are mined in war zones, whereby some or all of the revenue goes to the warring parties. That is why they are also called conflict minerals. Although only small quantities are needed, the dependence on these conflict minerals, their scarcity and the social disquiet they provoke are considerable, so growing scarcity could lead to higher prices. Most of the raw materials, such as gold, copper and iron, are expected to become scarcer in the future. To be well prepared for such an eventuality, we have incorporated our requirements and wishes with regard to environmentally-aware hardware design into our procurement criteria.

Since 2011 we have made use of the Sustainability Tool with our hardware suppliers; this enables us to question them about their energy consumption, recycling of packaging and the raw materials used for their products. Suppliers are obliged to respond to the tool, which we use routinely when purchasing products. The tool is a means of conducting a dialog with the supplier about sustainability aspects on which the supplier's performance is substandard. In 2012 we also looked more closely at the possibility of also applying the tool when procuring services. We came to the conclusion that this instrument is beneficial, but only if it is introduced across the whole industry. For the time being we are concentrating on our hardware suppliers. In 2013 we will examine how we can apply the Sustainability Tool even better.

Developments in mineral mapping are being followed closely by the JAC. Partly as a result of recent legislation in the United States, suppliers now have to report the geographical source of the raw materials they use. The OECD (Organisation for Economic Co-operation and Development) has developed an international standard for this. The JAC aims to introduce this standard among its member telecom operators. KPN also intends introducing the standard as soon as it becomes available.

In 2012 we signed a letter of intent with FairPhone. This non-profit cell phone developer wants to prove that it is possible to produce phones in a fully sustainable manner. We are making our value chain know-how available and committed to introduce the FairPhone on the Dutch market and purchase 1,000 hand-held devices. We plan to add the FairPhone to our range in the second quarter of 2013, with the intention of including it permanently in the years ahead. We hope that this will encourage suppliers to produce hand-held devices in the same way. Proof that the FairPhone is a hot topic among environmental groups was given at the end of November when members of the young people's environmental organization Jongeren Milieu Actief, together with Make IT Fair, campaigned to draw attention to the FairPhone, visiting among others a KPN shop in Amsterdam for that purpose.

3.2.5. CHALLENGES AND DILEMMAS

Security and data integrity

In the fall of 2012 the American House of Representative accused two Chinese companies, Huawei and ZTE, of espionage. They were allegedly spying for the Chinese government, using telecom equipment. As Huawei and ZTE supply network equipment and modems to KPN, questions were asked in the Dutch Parliament. KPN has strict contractual agreements on security and data integrity with all its suppliers, including these two.

Transparency of the electronics value chain

KPN is a relatively small player in the international ICT and electronics world, so our influence on suppliers is too small to enforce our wishes regarding sustainability aspects. We have therefore joined forces with other telecom operators in the GeSi (Global e-Sustainability Initiative). However, we and our partners in the chain have not yet been able to make major structural social and environmental changes. In 2012 KPN took part in a round table conference about temporary labor and wage issues in the global electronics industry. The meeting with various stakeholders was organized by GoodElectronics, the international network for human rights and sustainable electronics, and makeITfair, the European project that endeavors to make the consumer electronics production chain more sustainable. The conference gave us a better insight into work-related topics in the electronics chain and the way in which companies try to enhance transparency and sustainability in their production chain.



IT'S ALL ABOUT
CONTACT



PEOPLE CONNECTED

Our ambitions and responsibilities extend a lot further than merely supplying services and products. We want to be a unifying factor, facilitate contacts and keep or get people out of isolation. With the KPN Finest Contact Foundation and our sponsorship activities we show day in, day out how we achieve this. This is a matter of course for us and we do it willingly.

4. PEOPLE CONNECTED

OBJECTIVES AND RESULTS

	Indicator	Result 2011	Target 2012	Result 2012	Target 2013	Target 2014 and beyond
Activating employees in the Netherlands	Number of KPN volunteers for the KPN Finest Contact Foundation	1,528	2,000	1,272	–	–
Target group coverage in the Netherlands	Number of children with autistic traits provided with smartphone with application	441	400	460	–	–
	Number of chronically ill children provided with a webchair	282	–	216	500	800 in 2014 1,250 in 2015

4.1. OUR VISION: OUR STRENGTH LIES IN CONNECTING PEOPLE

The guiding principles of our sponsorship policy are, as in our core activities, connecting people, reaching a wide audience and enhancing the good will towards the KPN brand. With the KPN Finest Contact Foundation we offer, among other things, ICT solutions that allow us to help people who, through no fault of their own, lose contact with others or who have difficulty making contact. With our sports sponsorship we connect skating enthusiasts in the Netherlands and we also target a wide public in the field of culture: since January 1, 2013 we are the lead sponsor of the totally renovated Rijksmuseum in Amsterdam.

We make a connection between employees and society as well: in 2012, 1,272 KPN employees volunteered to work on the projects of the KPN Finest Contact Foundation. That number was 728 fewer than we had planned.

4.2. KPN FINEST CONTACT FOUNDATION

Via the KPN Finest Contact Foundation we provide projects with long-term support and we give new initiatives a helping hand. Once an initiative, SociaalOpStap for example, has a solid foundation we shift our focus to another project. We always look at how people and resources can be combined to best advantage. We have therefore intensified our activities for KlasseContact, our most distinguishing project.

In 2012 we stopped the pilot for “Generatie TV”, a simple television application with extra channels that allows the elderly to stay in touch with their loved ones. We were not able to reach enough elderly people, especially the over-80s, because they had more difficulty than expected with the application and because the demand for the product was lower than we had anticipated.

KlasseContact

With KlasseContact we give chronically ill children “a virtual place in the classroom” and put them in contact with their classmates, using the “webchair”. The webchair, a chair onto which a camera and screen are mounted, is placed in the classroom. The sick child at home can communicate with the class, and vice versa, via a laptop with a swiveling webcam. In this way we were able to bring a smile to the faces of over 200 children in 2012. Our goal is to provide a webchair to 1,250 chronically ill children in the Netherlands by the end of 2015. The target for 2013 is 500.



Volunteers of the KPN Finest Contact Foundation went on outings with elderly people during the XL Days. One of the excursions was to a theater performance.

SociaalOpStap

SociaalOpStap is an initiative geared to children with autistic traits. In 2010, together with the National Autism Network and the CED Group (which supports education professionals), we developed a special smartphone app. The app gives tips for dealing with unexpected everyday situations in which these children are often at a complete loss. In 2012 we made a financial contribution to SociaalOpStap and made smartphones available. KPN volunteers helped the children to use the app.

Since 2010 we have been of service to 30 educational establishments that specialize in children with autism, offering them the SociaalOpStap teaching package, which we ourselves developed. By the end of 2012 around 1,000 autistic children were able to use the SociaalOpStap app. Consequently, this initiative is well enough established that it can continue without our support.

XL Days and winter event

Every year the KPN Finest Contact Foundation organizes two big events in which the central theme is contact and combating solitude. We held five XL Days at five locations. Over 500 KPN employees accompanied around 550 elderly people to a special theatre show. We organized the XL Days in conjunction with Stichting Vier Het Leven, an association that arranges cultural events for the elderly. The winter event in 2012 was a big Christmas dinner for 650 elderly people. The guests were received by 400 KPN volunteers in the staff restaurant of our offices in The Hague, Groningen and Houten, where they enjoyed dinner and musical acts.

In Contact met Alzheimer

In 2012 we launched a new project: In Contact met Alzheimer. This relates to the development and application of Tréés, the successor to the Lokafoon. Alzheimer's patients can become disoriented and run away. Tréés is equipped with GPS and helps family carers or nursing staff to trace the patient quickly and simply. We developed Tréés in conjunction with KPN Zorg, the Amsterdam VUmc, the Erasmusbrug Emergency Center and health insurance providers. In 2013 we plan to test Tréés with 100 Alzheimer's patients.

E-Plus and KPN Group Belgium

Since 2011 E-Plus has been a partner of the Digitale Chancen foundation, an initiative of the German Ministry of Economic Affairs. The foundation is developing a program to help people who have difficulty in adjusting to the digital society. The foundation is oriented mainly to the young, the elderly and immigrants. E-Plus has a seat on the board. In 2012 Digitale Chancen organized three round table meetings. One of the topics focused on helping the elderly to use a smartphone and tablet. We visited old people's homes in four cities and gave away over 100 tablets.

In 2013 E-Plus plans to support these initiatives not only with money, but also with volunteers from among its staff.

KPN Group Belgium took part in 2012, as in the previous year, in a campaign on Belgian beaches involving special armbands and orientation posts displaying a figure recognizable to children. Parents can write their child's name and their mobile number on the armbands in case a child gets lost. In that way KPN Group Belgium contributed towards the safety of children by means of mobile telephony. The 360,000 armbands were available free of charge from around 350 distribution points along the coast.

In 2012 KPN Group Belgium also supported CAP48, an initiative that promotes solidarity with people with a physical, mental or social handicap and improvement of their situation.

NUMBER OF VOLUNTEERS KPN FINEST CONTACT FOUNDATION

IN 2012



People connected continued

4.3. SPORTS SPONSORSHIP

Ice skating, a typically Dutch sport that suits us well, is the second pillar of our sponsorship policy. Since the summer of 2010, KPN has been lead sponsor of the Royal Dutch Skating Association (KNSB). The goal of our sponsorship and the associated activities that we carry out is to gain the loyalty, good will and preference of the Dutch skating public for our brand. Monthly surveys made by KPN in conjunction with Sponsorbrein and market research agency Blauw Research show that this works: the brand preference for KPN among skating enthusiasts is structurally higher than among non-skating enthusiasts. Skating enthusiasts are also more likely to recommend the KPN brand to friends and family.

We used the skating sponsorship in the business and consumer market more than in previous years, so even more customers come into contact with the world of skating. Our business segment made more than 25,000 tickets for skating events available in 2012 via campaigns, mailings, acquisition or as payment or compensation.

In collaboration with the KNSB we want to make skating in the Netherlands more popular both for active sportsmen and for spectators. In that context, every year at the KPN National Championships in the Thialf stadium we set up the KPN Clubhouse, the meeting place for skating fans that is accessible free of charge. Medal celebrations, signing sessions and children's press conferences take place there and entertainment is provided. Over 15,000 skating fans visited the KPN Clubhouse in 2012.

Also in collaboration with the KNSB and other sponsors we facilitated "skating in your neighborhood" for young skaters, under the name IJSTIJD!. In town centers and villages we used the facilities of 18 small local ice rinks for this. We brought the KPN Junior Skating Club to these ice rinks as well. In partnership with schools and associations we organized skating lessons for children aged 6 to 13. We rounded off the lessons with clinics by former world champions Barbara de Loor and Annamarie Thomas.

The KPN Junior Skating Club made 30 appearances and made it possible for over 8,000 children to take their first steps on the ice. The reach of this sponsorship activity was many times greater because parents and family members were often there to watch them. Additionally, KPN shops in the places in question joined in with IJSTIJD! by making special offers. Customers were given free tickets for the ice rink or received a gadget such as the popular KPN winter cap or the KPN "smart glove", which enables you to operate your smartphone even in freezing weather.

We were also the lead sponsor of marathon skating, short-track speed skating, inline skating and natural ice skating. We offered more than 100 natural ice clubs free skating accessories such as barrier tape, vests and "danger: thin ice" signs. This enabled us to reach over half a million fun skaters who skated on natural ice at or via the clubs.

Skating enthusiasts find information about their sport on the portal www.schaatsen.nl. A mobile app was added to the portal in 2012. Schaatsen.nl was nominated as sport website of the year, but missed out on a prize.

In line with the "1% Fair Share" concept we donated 1% of our skating sponsorship budget to disability sport. Together with the Fonds Gehandicaptensport we organized the KPN Skating Friends Day for the disabled, on the FlevOnice ice rink in Biddinghuizen. In January 2012 more than 3,300 people took part, including almost 1,000 children with a physical or mental impairment. There were 1,300 more participants than in 2011. The KPN Skating Friends Day will be held once again at the end of March 2013.

In 2013 we will reinforce our position as the lead sponsor of skating in the Netherlands. In partnership with the KNSB we are active in various areas under the name of KPN Verbindt Schaatsend Nederland, the aim of which is to get even more people involved in skating. We also use our products and services to raise the



KPN is the lead sponsor of the KNSB. Together we want to make skating in the Netherlands more popular for active sportsmen and for spectators.

profile of skating. For instance, we are investing in the platform schaatsen.nl, the KPN Clubhouse at the National Championships, the IJSTIJD! project and the KPN Junior Skating Club.

As in previous years, KPN Group Belgium (BASE) sponsored the Belgian football clubs Standard Liège and Zulte Waregem and the basketball clubs Okapi Aalstar (Aalst) and Leuven Bears. KPN Group Belgium renewed the partnership with the Amaury Sport Organisation to sponsor the bicycle road races known as the Ardense wielerklassiekers and added Paris-Roubaix to the contract. BASE was already a partner of the Flanders Classics (including the Tour of Flanders) and continued this in 2012. The company introduced the new BASE cycling app, enabling fans to follow those races live. KPN Group Belgium is investigating whether in 2013 such an app can be developed to include other races sponsored by BASE.

4.4. CULTURAL SPONSORSHIP

On January 1, 2013 KPN became the lead sponsor of the totally renovated and revamped Rijksmuseum in Amsterdam. We are proud to be able to make a contribution to this national treasure. The Rijksmuseum, like KPN, has a long and rich history and, also like KPN, the Rijksmuseum “belongs a little bit to all of us”. The museum offers us relationship marketing potential not only for our business partners, but also for our customers and employees. As an example, in December all KPN employees and pensioners received two free entrance tickets for the museum.

In 2013 we will organize a number of events in the Rijksmuseum for our top business partners and also for museum visitors.

4.5. CHALLENGES AND DILEMMAS

We fulfill our role as the lead sponsor of the KNSB with great conviction and involvement. At the same time we want to ensure that the skating association does not therefore become financially dependent on us, in terms of continuity and activities. Our current commitment to the association runs until after the Winter Olympics in 2014. To secure the continuity of the association’s activities, regardless of our involvement, at the end of 2012 we started talks with the KNSB about a possible extension and the conditions of our partnership, so as to allow the association to approach other potential partners in good time.



Writer and philosopher Alain de Botton during the debate “The New Holland” at the Rijksmuseum: a debate about The New Way of Living & Working.

SCOPE, REPORTING PROCESS AND MATERIALITY DETERMINATION

Scope

The purpose of this Sustainability Report, which covers the calendar year 2012, is to inform our stakeholders about KPN's role in society. We regard 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, partners 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 Netherlands refers to all the activities of the KPN Group in the Netherlands, including KPN Corporate Market. Outside the Netherlands the principal divisions are KPN Group Belgium, E-Plus Gruppe, iBasis, Ortel Mobile and SNT. KPN sold its division Getronics International in 2012. Accordingly, no Getronics International data from 2012 is included in this report. Wherever sales have an effect on our targets and results this is mentioned in the relevant chapters and appendices. 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 2012. Aspects of a more static nature such as the list of external memberships, our stakeholders and suchlike are included in the GRI index on www.kpn.com/csrreport or reported on <http://www.kpn.com/corporate/aboutkpn/corporate-responsibility.htm>.

Reporting process

The Sustainability Report appears annually at the same time as our Annual Report (the 2012 report appeared on February 27, 2013). 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/csrreport specifies which GRI indicators are set out in the Sustainability Report or the Annual Report and which indicators are featured only on our web site. In addition to these G3.1 guidelines, KPN has taken as its point of orientation the draft 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 to be found only 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: KPN Netherlands, KPN Group Belgium, E-Plus Gruppe, and other subsidiaries of the KPN Group. Where available, the report includes data for 2010 and 2011 as well. Unless specified separately in the text, no adjustments to the data have been made relative to the data set out in the 2011 social report. Quantitative data concerning the workforce and financial results set out in this report has been collected using our financial data management system. The remaining data set out in this report has been collected using a standardized questionnaire that was completed by the 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 checked by KPMG Sustainability, which has issued certification. The key social and environmental figures, which are available in the appendices on www.kpn.com/csrreport, are also part of this report.

Calculation and determination of reported emissions

In the Sustainability Report KPN reports the CO₂ emissions in accordance with the method of the Greenhouse Gas Protocol and the ISO 14064-1 standard.

KPN uses the operational control approach when reporting the CO₂ emissions. Two of the six greenhouses gases are relevant to KPN: carbon dioxide (CO₂) and hydrofluorocarbons (HFCs). KPN has no industrial or agricultural processes, therefore no CH₄, N₂O, SF₆ or PFC emissions.

The KPN emissions report is subdivided as follows:

Scope 1 – Direct emissions due to:

- Fuel consumption of the lease vehicle fleet (employees' passenger vehicles and commercial vehicles)
- Heating of buildings (gas)
- Consumption of hydrofluorocarbons (HFCs) for air conditioning and/or cooling
- Fuel consumption of emergency power generators

Scope 2 – Indirect emissions due to:

- Electricity consumption of sites of the fixed and mobile networks, data centers, offices and shops

Scope 3 – Other indirect emissions due to:

- Electricity consumption of third-party equipment at KPN locations (customer devices in data centers – housing – and equipment of other telecom operators – co-location)
- Air travel (business flights)

For details of the individual headings we refer you to the environmental indicators (EN3 to EN7, E16 and E17) in the 2012 GRI index on www.kpn.com/csrreport.

Methodology

1. Activities

Emissions (CO₂ and HFCs) are calculated on the basis of all the activities of the KPN Group. Most of the emissions relate to activities that use energy, such as the electricity consumption of the networks, transport, and heating and/or cooling buildings. As virtually all the emissions are of CO₂, details of this are given below.

2. Emission factors

The CO₂ emissions are calculated by multiplying the consumption data for each activity by the CO₂ emission factors for each unit of consumption. These emission factors are updated annually.

3. Accuracy

The accuracy of the consumption data is a key factor in the reliability of the CO₂ emissions calculations. In the data collection process a number of factors affect the accuracy of the collected data. In general, the data originating from direct measurements and recordings, such as summaries from energy and other suppliers and direct invoices, is the most accurate. Data may also be estimated or calculated, using assumptions and expert opinions. The materiality of all KPN units and subsidiaries is determined every year on the basis of sales and number of FTEs (>=1% of the total).

For the data collection and auditing KPN employees use several internal audit measures to minimize the risk of incomplete and incorrect reporting of consumption data.

Materiality determination

Materiality is determined annually before the Sustainability Report is compiled. Various sources are consulted for this purpose, the basis always being a media scan and the outcome of the external and internal stakeholder dialogs. The expectations and interests of stakeholders regarding the social themes of KPN are paramount in this. Periodic consumer surveys are carried out on behalf of KPN to take stock of the expectations and interests of consumers. The results are used as input for the materiality determination and consequently for deciding the strategy and putting the themes into practice. The last comprehensive consumer survey on CSR themes dates from December 2011.

Two questions are at the heart of the materiality determination, the results of which are shown on the horizontal and vertical axis respectively of the materiality chart:

1. What are the themes on which KPN has such an influence that we can make the difference or that can make a difference for KPN (e.g. for reputation, costs or sales)?
2. What are the expectations of our stakeholders?

The materiality chart below combines the two aspects schematically. The combination of the horizontal axis (influence of or on KPN) and the vertical axis (stakeholders' expectations) determines the degree of influence that the subject has on our reputation and therefore the reporting priority. KPN divides these into monitored themes (dark green), themes where we want to demonstrate our social responsibility (mid green) and themes on which we want to play a leading role (light green).

This classification also determines the reporting priority. KPN regards the themes on which we want to play a leading role as the most material and has translated them into five social themes and two additional themes. For ease of reading, these themes are shown as such in the materiality chart on the next page. However, each of the themes comprises several material subjects, which are dealt with in the corresponding section of the report.

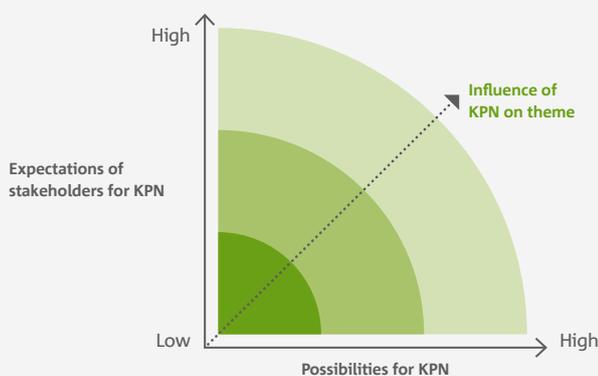
In 2012 the following subjects are material to each of the themes on which we want to play a leading role.

- Best ICT infrastructure
 - Quality of telephony, internet and television infrastructure
- Healthcare of the future
 - Affordability of care
 - Availability of care
- The New Way of Living & Working
 - Virtual mobility
 - Work-life balance
 - Sustainable products and services
- Quality of service
 - Transparent reliable service provider
 - Customer relations
 - Service culture
 - Marketing and communication
- Security & privacy
 - Secure internet
 - User privacy
 - Compliance
- Energy-efficient
 - Energy savings / climate change
 - Sustainable products and services
 - Responsible use of materials and recycling

- Our people
 - Employee satisfaction
 - Diversity
 - Health, safety and vitality
- Sustainable procurement program / chain management
 - Energy the customer saves
 - Supplier social issues
 - Supplier environmental issues
 - Conflict minerals

The 2012 materiality determination did not result in any changes to our social policy and reporting on social themes, as we stipulated in 2011.

Prioritization of our social themes



- **Monitor:**
 - Biodiversity
 - Hunger
 - Shortage of clean drinking water
 - Corruption

- **Demonstrable corporate responsibility:**
 - Competition
 - Electromagnetic fields
 - Pricing
 - Social media and Social participation
 - Partnerships
 - Young people and debt

- **Leadership:**
 - Quality of Service
 - Security and Privacy
 - The New Way of Living and Working
 - Best ICT infrastructure
 - Healthcare of the future
 - Our people
 - Energy-efficient
 - Sustainable procurement and supply chain management

INDEPENDENT ASSURANCE REPORT

To the readers of the “KPN Sustainability Report 2012” of Royal KPN N.V.

We were engaged by the Board of Directors of Royal KPN N.V. (further: KPN) to provide assurance on the KPN Sustainability Report 2012 (further: The Report). The Board of Directors is responsible for the preparation of The Report, including the identification of material issues. Our responsibility is to issue an assurance report based on the engagement outlined below.

What was included in the scope of our assurance engagement?

Our engagement was designed to provide:

- limited assurance on whether The Report is presented fairly, in all material respects, in accordance with the G3.1 Guidelines of the Global Reporting Initiative (GRI);
- reasonable assurance on whether the information on energy consumption and CO₂ emissions in The Netherlands for the year 2012, as stated in Appendix 2 of The Report, is presented, in all material respects, in accordance with the reporting criteria determined 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 Annual Report 2012’. We do not provide any assurance on the achievability of the objectives, targets and expectations of KPN.

Which reporting criteria did KPN use?

KPN applies the ‘Sustainability Reporting Guidelines’ (3.1) of the Global Reporting Initiative (GRI), combined with internal reporting criteria, as described in the chapter “Scope, reporting process and materiality determination”. It is important to view The Report in the context of these criteria.

Which assurance standards did we use?

We conducted our engagement in accordance with Standard 3410N: Assurance engagements relating to sustainability reports, issued by the Royal Netherlands Institute of Register Accountants. This standard requires, among others, that the assurance team possesses the specific knowledge, skills and professional competencies needed to provide assurance on sustainability information, and that they comply with the requirements of the Code of Ethics for Professional Accountants of the International Federation of Accountants to ensure their independence.

What did we do to reach our conclusions?

Our procedures for providing limited assurance on The Report included:

- A media and internet search, to identify relevant sustainability, environmental, safety and social issues for KPN in the reporting period;
- Interviews with members of the CSR Steering Committee responsible for implementing the CSR strategy and other relevant staff at corporate level, responsible for providing the information in The Report;
- Evaluating the design and implementation of the systems and processes for the collection, processing and control of the information in The Report (including the consolidation of the data);
- Evaluating internal and external documentation, based on sampling, to determine whether the information in The Report is supported by sufficient evidence;
- Determining whether the information in The Report is consistent with the information published in the KPN Annual Report 2012.

Our additional procedures for reasonable assurance on the energy consumption and CO₂ emissions 2012 for The Netherlands (including accompanying notes) included:

- Testing the application of the internal reporting criteria including conversion factors used in the preparation of the reported data and accompanying notes in relation to energy consumption and CO₂ emissions in The Netherlands;
- Evaluating the design and existence, and testing the operating effectiveness, of the systems and processes for collecting and processing the data in relation to energy consumption and CO₂ emissions in The Netherlands;
- Substantive audit procedures on the reported data in relation to energy consumption and CO₂ emissions
- Analytical review and substantive testing of the reported data and accompanying notes in relation to energy consumption and CO₂ emissions in The Netherlands.

During the assurance process we discussed the necessary changes to The Report with KPN and we determined that these changes have been included in the final version.

What is our conclusion and opinion?

Based on our procedures for limited assurance, nothing has come to our attention to indicate that The Report is not fairly presented, in all material respects, in accordance with the G3.1 Guidelines of the Global Reporting Initiative.

In our opinion the information on the energy consumption and CO₂ emissions in The Netherlands for the year 2012 is presented, in all material respects, in accordance with the reporting criteria determined by KPN.

Amstelveen, 26 March 2013

KPMG Sustainability, Part of KPMG Advisory N.V.

W.J. Bartels, Partner

This is a translation of the 'KPN Maatschappelijk Verslag 2012' in the Dutch language. In case of discrepancies the Dutch version prevails.

Contents and organization

KPN N.V. Corporate Communication

www.kpn.com

Royal HaskoningDHV Adviesgroep Duurzaam Ondernemen

www.royalhaskoningdhv.com

RRED Communications

www.rred.nl

Helder! tekstwerk

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Els Wiegant Tekst!

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Reactions

Would you like to give your opinion about this report and our social performance, or do you have any questions or complaints? We will be happy to receive your reaction on mvo@kpn.com.



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