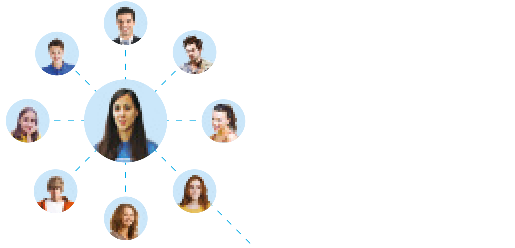
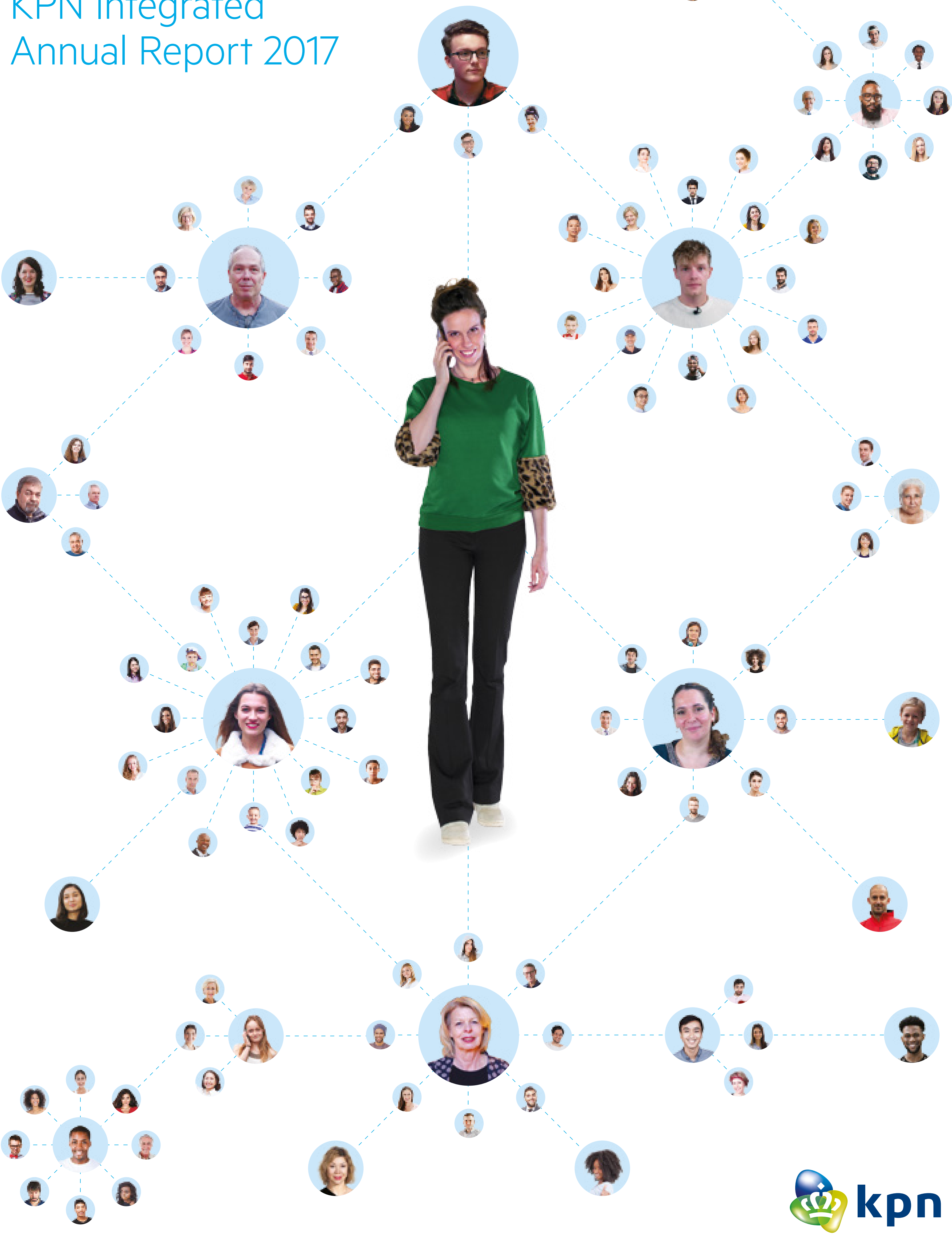
Everyone Connected

KPN Integrated Annual Report 2017



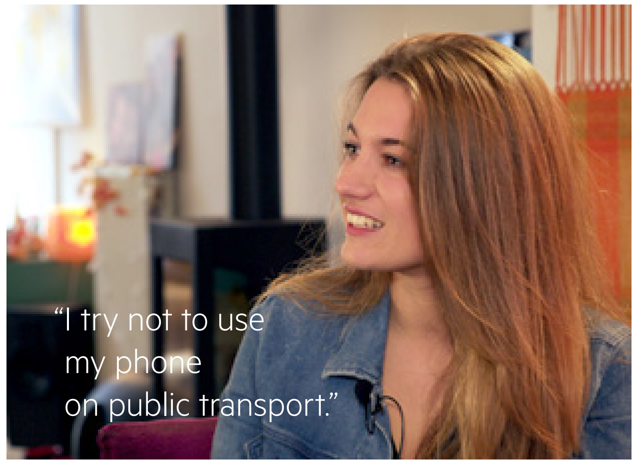


kpn

Everyone connected

We make life more free, fun and easy by connecting people. We're passionate about offering secure, reliable and future-proof networks and services, enabling people to be connected anytime, anywhere, whilst at the same time creating a prosperous and more sustainable world.

We connect people through our products and services, as well as by supporting socially responsible initiatives. The KPN Mooiste Contact Fonds, which celebrated its 10th anniversary in 2017, connects vulnerable groups in society, such as elderly people or sick children, with the world around them. In our online annual report (www.kpn.com/annualreport), we take a closer look at this in a documentary about the significance of social contact in a digital world.



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Our reporting approach in 2017

In preparing this Integrated Annual Report, we have taken the principles of the International Integrated Reporting Council (IIRC) into account. For the CSR information included in this report, we followed the Global Reporting Initiative (GRI) Standards - Option: Comprehensive. We have detailed our reporting approach in Appendix 3.

KPN participates in several sustainability benchmarks, like the Dow Jones Sustainability Index (DJSI), Carbon Disclosure Project (CDP) and the Transparency Benchmark (TB). Our ambition is to maintain a leading position in these benchmarks. This way, we keep improving our performance by comparing it with that of peers. An overview of KPN's performance in different indices during 2017:

> Ranked as the telecommunications industry leader on the DJSI World Index and included for the sixth consecutive year.
> Included in CDP's Climate A List for the second year.
> KPN's Integrated Annual Report 2016 won the European Excellence Award for the best Integrated Annual Report & CSR report.

Our 2016 report was built around our nine most material topics. For our 2017 report, we have used our value creation model to structure our reporting. The section, The long-term value we create describes how our strategy and activities lead to value creation for our stakeholders and society by using our assets. In 'How we safeguard long-term value' we describe our governance framework and the main topics that our Board of Management and Supervisory Board dealt with in 2017. Throughout the report we provide detailed performance data. The Financial Report includes the Financial Statements.

> Introduction by the CEO

Customer first, improving business performance, financially healthy, and leader in sustainability

ICT is fascinating. It's developing at an increasingly rapid pace. Smartphones first appeared in 2007; now there are 2.6 billion worldwide. You can use them in many different ways - time and place are no longer an issue. Working, relaxing with Spotify or Netflix, using apps, social media, you name it. In addition, new technological applications improve the quality and security of our life considerably. For example, the freedom that heart patients experience when their heart rate is remotely monitored. Or sensors that permanently measure the solidity of embankments.

KPN may connect devices, but it's really people that we connect, making their lives more free, fun and easy. Our reliable and energy-efficient networks and data centers ensure fast and stable connections at home, at work, on the move and in emergency situations. Every day, our expert employees look for opportunities to further improve.

A resilient KPN

In April 2018, I will hand over to my successor, Maximo Ibarra. I have served KPN for a total of 34 years, including two terms as CEO, working with great pleasure and passion, in a sector that is continuously changing. I am proud that KPN is in good shape in all respects. Customers are significantly more satisfied than they were years ago. We have succeeded – at a challenging time for the sector – in making the company stronger, more flexible and financially healthy. We have improved our reputation throughout the years and are among the top 3 European telecom companies in this respect. We maintained our market positions in the Netherlands, despite strong international competitors and at the same time managed to become the most sustainable telecom company in the world. That is a considerable achievement, for which I would like to thank a large number of dedicated colleagues.

Best service provider through simplification and digital transformation

Technology is an essential part of who we are and what we do. Everything we want to achieve for our customers and society has an effect on our own business operations. The KPN Simplification program and the associated digital transformation ensure that we work in an increasingly uniform manner across all our channels.

We now have one single face, making us recognizable to all our customers. For example, the shop experience used to be different from the online one, and the online experience was different from a conversation with a customer service agent. Those experiences are now moving closer together. This is reflected in our Net Promoter Score (NPS), which is higher than ever before.

By working in an agile manner, we have been able to respond far more quickly to market and technological developments. This fits perfectly with our ambition to become the best service provider in the Netherlands. We want our employees to provide our customers with the best service, products and networks, so we need to continuously challenge ourselves. From customer service, shops, webcare and mechanics to ICT staff, account management and corporate departments, we all have to make a difference.

Financially strong and constantly innovating

KPN delivered a solid performance last year. Our strong operating and commercial performance provided the foundation for a solid financial position. The growth in customer numbers illustrates our strong performance. In the Consumer segment, we have more postpaid customers and households with fixed-mobile bundles, more broadband customers and interactive TV customers, while our SME segment has experienced strong growth of multi play customers.

Stringent cost control in all segments and the ongoing simplification of our organization, systems and product portfolio also contributed to a strong financial position. A structurally lower cost level resulted in run-rate savings of EUR 110 million compared with the end of 2016. Our free cash flow continued to grow too, and totaled EUR 745 million (excl. Telefónica Deutschland dividend) in 2017.

Hybrid access strategy including fiber roll-out, VDSL upgrades and continued mobile investment ensure our infrastructure remains best in class. Also, with customer demand and online behavior changing and much more on-demand and streaming TV being watched, KPN is investing significantly in the capacity of the network to improve the quality and stability even more. A new decentralized Metro Core network at 161 locations forms the backbone of our network, enabling us to bring content closer to our customers. We will continue optimizing our 4G network - the introduction of LTE-M will make it suitable for all kinds of Internet of Things (IoT) applications. For all conceivable IoT applications and issues, we believe we can now realize a solution via KPN's various IoT networks.

We are continuously examining how technology can help address the topics and challenges facing society today and tomorrow. We collaborate with main suppliers to accelerate innovation via the KPN Ventures external investment fund and our KPN New Business department. This joint approach enables us to benefit and learn from the speed with which startups can innovate, while they benefit from the brand name and marketing capabilities of KPN. In 2017, this new approach led to a variety of innovations in the domain of SmartLife, Smart Cities and eHealth.

Contribution towards a sustainable society

As the green connector par excellence, KPN has the ability to use technology to help create a safe and healthy future for society. With that strong conviction, my colleagues and I have pursued bringing about sustainable change. Since 2011, we have switched over entirely to green electricity. As of 2015, our operations have been climate neutral and we have featured in the top 10 of the Telecom sector in the Dow Jones Sustainability World Index for six consecutive years. What's more, I am very proud that in 2017 we came in first in our category on this prestigious list of the world's most sustainable companies. But we have even greater ambitions, so we are pressing ahead. In 2025, we want our network operations to be virtually 100% circular.

We are keen to create long-term value that also contributes to the UN Sustainable Development Goals. Through our strategy, we contribute significantly towards the Industry, Innovation and Infrastructure (SDG 9), Sustainable Cities and Communities (SDG 11) and Sustainable Production and Consumption (SDG 12) goals. We also make a noticeable contribution towards many other goals.

Connecting everyone in the Netherlands

Something else I look back on with pride is the success of the KPN Mooiste Contact Fonds. This is where the human side of technology really comes into its own. The purpose of our foundation is to reconnect people for whom social contact with the world around them is not easy, such as the elderly, the chronically ill and autistic children.

Unfortunately, solitude is a growing problem, even though means of communication are readily available. So we try to find ways to ensure that everyone can participate in a society in which new technological developments are having an ever greater influence on our lives.

One of our best-known projects is KlasseContact. This project uses technology that allows chronically ill children to take part in lessons 'live from home' or from a hospital. So despite their illness, they remain in contact with their classmates.

The KPN Mooiste Contact Fonds has been around for ten years now, which is why the Integrated Annual Report showcases the fund's activities. Furthermore, in 2017 we received 1,883 voluntary contributions on many different projects.

Saying farewell

I would like to thank all my colleagues for their cooperation and wish them every success in providing KPN's customers with excellent service and continuing to surprise them in a positive way. And of course I would like to thank you, the customer, shareholder or reader of this document, for your trust in a company that is, I feel, a Dutch national icon.

Eelco Blok - CEO

Watch Eelco share his views:
www.kpn.com/annualreport

> Our main achievements

Strong progress in execution of our strategy

In 2017, we proved to be well positioned to adjust to the dynamics of our environment, as reflected in our main achievements. Aligned with our strategic focus areas, the key figures below show that we continue to deliver value in financial, commercial and operational areas.

Customer satisfaction

Net Promoter Score in the Netherlands

2015 3
2016 6
2017 8

Reputation[1]

RepTrak Pulse score

2015 70.8
2016 67.4
2017 70.5

Data usage

- Usage of total data traffic[2]
- Average 4G download speed mobile network

2015 2.6 Tbps
2016 3.4 Tbps
2017 4.7 Tbps

2015 50 Mbps
2016 51 Mbps
2017 58 Mbps

Energy consumption

In petajoule

- Energy consumed by KPN
- Estimated energy consumption savings by KPN customers[3]

2015 3.481
2016 3.382
2017 3.232

2015 1.701
2016 1.817
2017 1.926

Converged services

- Households in fixed-mobile bundles[4]
- Postpaid customers in fixed-mobile bundles

2015 29% / 2015 33%
2016 37% / 2016 43%
2017 42% / 2017 51%

- Multi play seats in SME

KPN ÉÉN

2015 58k
2016 316k
2017 474k

Realized run-rate savings Simplification program[5]

€ million

2015 ~140
2016 ~180
2017 ~110

EBITDA[6]

€ million

- Adjusted EBITDA[7]
- Adjusted EBITDA[7] margin The Netherlands

2015 2,419
2015 38.6%
2016 2,428
2016 40.0%
2017 2,417
2017 40.8%

Free cash flow[6,8]

€ million

2015 552
2016 631
2017 745

Capital expenditure[6]

€ million

2015 1,300
2016 1,193
2017 1,139

1 2016 and 2015 figures are restated to the fourth quarterly average, which is in line with the calculation of NPS KPIs. See Appendix 3 for further details.
2 The data demand peak for main traffic streams is based on continuous five minute timeframe measurements.
3 Estimated energy consumption saved by customers from using our ICT solutions. See Appendix 3 for further details.
4 As percentage of broadband customers.
5 Second wave of Simplification program started in 2017. First wave of Simplification program finalized end of 2016.
6 Based on continuing operations.
7 EBITDA adjusted for the impact of restructuring costs and incidentals. Reconciliations for 2017 and 2016 can be found in Appendix 1.
8 Free cash flow excluding Telefónica Deutschland dividend.

> Review of the year

What we did in 2017

January – March

- KPN Record number of mobile data used on New Year's Eve.
- KPN acquired DearBytes, thereby expanding its managed security activities.
- KPN won Tweakers' Best Mobile Provider 2016/2017.
- KPN acquired cloud and ICT services provider Divider.
- KPN exchanged 6% of its shares in Telefónica Deutschland for Telefónica shares, which it subsequently sold.
- KPN moved six of its data centers into a new entity NL|DC, which is the new name for KPN colocation data centers.

April – June

- KPN commenced a EUR 200 million share buyback program.
- New mobile line-up with increased data bundles and 'roam like home' launched for all KPN customers.
- KPN complied with the newly applicable legislation on handset credits in the Netherlands.
- KPN acquired Solcon, a Dutch provider of internet, fixed and mobile telephony, hosting, TV and secure e-mail services for consumers and businesses.

July – September

- KPN entered in a partnership with Tencent to launch the WeChat Go SIM card for Chinese tourists in Europe.
- KPN strengthened its position in the public healthcare sector by acquiring Cam IT solutions.
- KPN became main sponsor for the Dutch Premier League (Eredivisie) and entered into a 4-year sponsorship deal with the Royal Dutch Football Association (KNVB), supporting football nationwide.
- KPN recognized as most sustainable telecom company according to the Dow Jones Sustainability Index.

October – December

- KPN Mooiste Contact Fonds celebrated its 10-year anniversary.
- Introduction of new internet & TV subscriptions for small business clients.
- KPN welcomed new client deals such as ABN AMRO, PGGM and Prinses Maxima Centrum.
- Circular manifesto signed by KPN and 7 major suppliers striving for circular products and networks as of 2025.
- KPN strengthened its position as a leading Dutch security services provider by acquiring QSight IT.
- KPN announced that Maximo Ibarra will succeed Eelco Blok as CEO as of the 2018 Annual General Meeting.
- Bouke Hoving was awarded CIO of the Year 2017.

> Our purpose and the world around us

We make life more free, fun and easy by connecting people

Virtual reality, remote medical diagnoses, motion-dependent street lighting and autonomous cars. Digitalization is changing our society as we move towards an increasingly connected future. We are passionate about offering secure, reliable and future-proof networks and services, enabling people to be connected anytime, anywhere, while at the same time creating a more prosperous and more sustainable world.

The world around us

ICT is omnipresent in people's daily lives. More and more people are using computers and robots at work, boundaries between work and private life are being eroded and social interaction increasingly takes place through apps and other digital means. Innovation accelerates. ICT facilitates an economy directed towards shared value. ICT plays an important role in reducing the ecological footprint, making society more sustainable. The world is becoming increasingly interconnected.

Three major developments have fundamentally changed our industry in the past decades: the introduction of mobile phones, the internet and digitalization. These major changes require a high level of systematic, future-oriented and innovative thinking. Digitalization in particular drives rapid change across various sectors. This consequently shifts consumer needs. Concern for digital safety and privacy is becoming more and more important. The growing dependency on ICT is turning digital products and processes into attractive targets for cyber criminals. In addition, there is a desire for personalized, simpler products and services, anytime and anywhere. For businesses, these developments may have disruptive effects on interactions with their customers, the streamlining of organizational processes and the way business models work. At the same time, it impacts the development of products and services. In an increasingly dynamic and competitive landscape, KPN strives to differentiate its services by delivering high-quality and innovative products and providing the best customer service.

Besides technological changes, also changes in laws and regulation such as the abolishment of roaming charges in the EU and implementation of handset credit legislation affect customer behavior and our business models.

KPN in Dutch society

KPN plays an important role in shaping the technological progress of Dutch society. While we cannot predict the future, we can imagine what it could look like and to a certain extent foresee how it might unfold. A solid digital infrastructure provides a basis for the digitalization of our society. If there's no connection, then there's no ICT. Therefore, KPN's underlying network for modern society is like blood vessels for the human body.

With our fixed and mobile network, our ICT infrastructure and our data centers, we provide the means to connect. New technologies contribute greatly to realizing progress at large. Issues in society relating to such things as health, education, work, sustainability and safety which affect us all, will benefit from new technologies. ICT and security play a vital role in dealing with these challenges by bringing together people, companies, governments and organizations to create solutions. With our innovative products and services, our networks and skilled workforce, we contribute to society. We increase our impact by using our capabilities to their full potential.

Our succesfull initiative KPN Mooiste Contact Fonds, which celebrated its 10th anniversary, is one example of how we live up to our aspirations. With this foundation, we successfully launched a long-term initiative of social inclusion, working with social partners to encourage the social interaction of vulnerable groups in our society.

Read and see more about the challenges Dutch society faces and our response in this Integrated Annual Report and in the videos online.

Our market position

Acting on these changes in society is the decisive factor in the success of our business and in strengthening our market position as a leading supplier of ICT services. Digitalization affects KPN at its core: our networks, interface with customers and operational processes. It holds great opportunities, particularly because KPN is a large player in the ICT market. The following summary of our SWOT provides a brief overview of our perceived capabilities within the environment in which we operate.

Strengths

- Integrated services and broad consumer market portfolio to provide attractive combinations of fixed, mobile and ICT services for our customers.
- Advanced telecommunications networks throughout the Netherlands to provide high-quality service, including critical communication nationwide.
- Strong competences in network and cybersecurity to protect our customers' data.
- Highly skilled and motivated employees.
- Increased customer satisfaction.

Weaknesses

- Extensive customized business market portfolio and processes for large enterprises.
- Solid, but still complex IT systems and processes.
- Challenging dynamic market changes, due to complex and heavy organizational structure.
- Complex market segment structure.

Opportunities

- New propositions to communicate, collaborate and consume media lead to increasing customer demand.
- Need for innovative partnerships and scalable solutions that address social challenges arising from trends like climate change, urbanization and the aging population.
- Technological developments in infrastructure, software and virtual networks and the Internet of Things.
- Leverage data and analytics capabilities to create value in the current business model and develop new business models.

Threats

- Fierce competition from international network providers and OTT players.
- Increasing threats to the confidentiality, integrity and availability of KPN networks, systems or customer data.
- Regulatory decisions in the EU and the Netherlands.
- Disruptive technologies and new business models that we need to adapt to.
- Dependency on large suppliers.

> Our strategy and activities

We simplify, grow and innovate

It is our ambition to become the best service provider in the Netherlands. In realizing this, we need to serve our customers with the best digital experience through investing in a new portfolio, technologies and integration of the best networks. This is captured in the three pillars of our strategy through which we intend to maximize the value we create for our customers, employees, shareholders and society, and at the same time maintain a solid financial position.

Simplify

We streamline our portfolio and standardize our work processes.

To provide our customers with an excellent digital customer service, we want them to be able to deal with almost everything online. As such, we are streamlining our portfolio and improving our customer experience by implementing more efficient work processes. To respond faster to market conditions, we are standardizing our operations and aligning joint services and co-operation within the value chain.

Grow

We increase value for the customer and KPN through customer-focused investments.

We broaden and deepen our customer relationships by continuously developing innovative services that meet customer needs. By increasing the efficiency of our operations and aiming for optimal use of our network, we are maximizing the value of our assets. We invest in new technologies, products and services, and build new business models and revenue streams for the future. We enhance our relevance by creating a positive social impact.

Innovate

We innovate for the best customer experience, for today and in the future.

We virtualize and automate our processes, infrastructure and services where possible and desirable. We cooperate with many different partners to provide our customers with innovative services. We guarantee the secure connection of our clients and Dutch society with our integrated networks, multiple data centers and a low impact on the environment.

Our core values

Our core values are: customer, together and simplicity. They form the essence of our organizational culture. Our behavior changes together with the changing environment within and outside KPN. Our ambition is to become the best service provider in the Netherlands, key to which is customer centricity. Our customers demand higher standards when it comes to the quality and speed of our services and products. This requires a continuously agile and flexible KPN organization. In our KPN eXperience framework Greenprint, we translated the behavior we expect from our employees and managers in our working environments into an understandable language. This is supported by our KPN Kompas, which defines the principles of an agile organization, as well as our approach towards leadership development and our code of conduct.

Long-term behavioral changes are only possible in a working culture that values open and honest feedback. Our leadership enables this culture and provides the right example. We are learning by allowing mistakes and to detect them and amend them day-by-day. KPN stimulates employees to be authentic and values different opinions to achieve shared goals. Teamwork is crucial when it comes to the success of KPN. By cooperating to improve our customer processes, we can safeguard the long-term continuity of our business. This makes us proud.

Our core activities

Our core activities stem from our responsibility for KPN's operational activities for the Dutch networks (both fixed and mobile) and ICT infrastructure for services provided to KPN's consumer, business and wholesale customers in the Netherlands.

Building and maintaining the infrastructure
KPN builds and maintains its infrastructure in a continuous, iterative process with help from suppliers addressing coverage, capacity, speed, quality, continuity and safety requirements. Consequently, KPN's main investments and expenses are conducted to build and maintain its infrastructure.

Delivering connectivity
We deliver connectivity services to end-users. We do this by making sure that we continue to correctly route calls, data and video streams between and towards the users of our networks. For the end-users, it's all about the quality of the output which is determined by the functioning of our core services.

Serving the customer
We serve our customers throughout the customer journey, both commercially for billing purposes and operationally for service delivery purposes. Our service consists of all interaction between the customer and KPN for the duration of the relationship.

Our services

Consumer
We are committed to offering KPN's retail customers a broad range of services in the areas of communication, information, entertainment and commercial services through single-play and multi play offerings. The services we offer across our different brands include fixed and mobile internet, TV and telephony.

Business
KPN offers its business customers (small, medium and large enterprises) a complete portfolio of services from different brands - from fixed and mobile telephony and internet to a range of end-to-end solutions in infrastructure, workspace management, cloud, security, data network and data center services.

Wholesale & iBasis
We provide connectivity solutions to KPN's wholesale partners via our fixed and mobile networks. Through iBasis, KPN is a leading international wholesale voice carrier in terms of minutes carried and a worldwide provider of LTE connectivity services for mobile operators.

> Our value creation model

We connect everyone and everything in an innovative, reliable and sustainable way

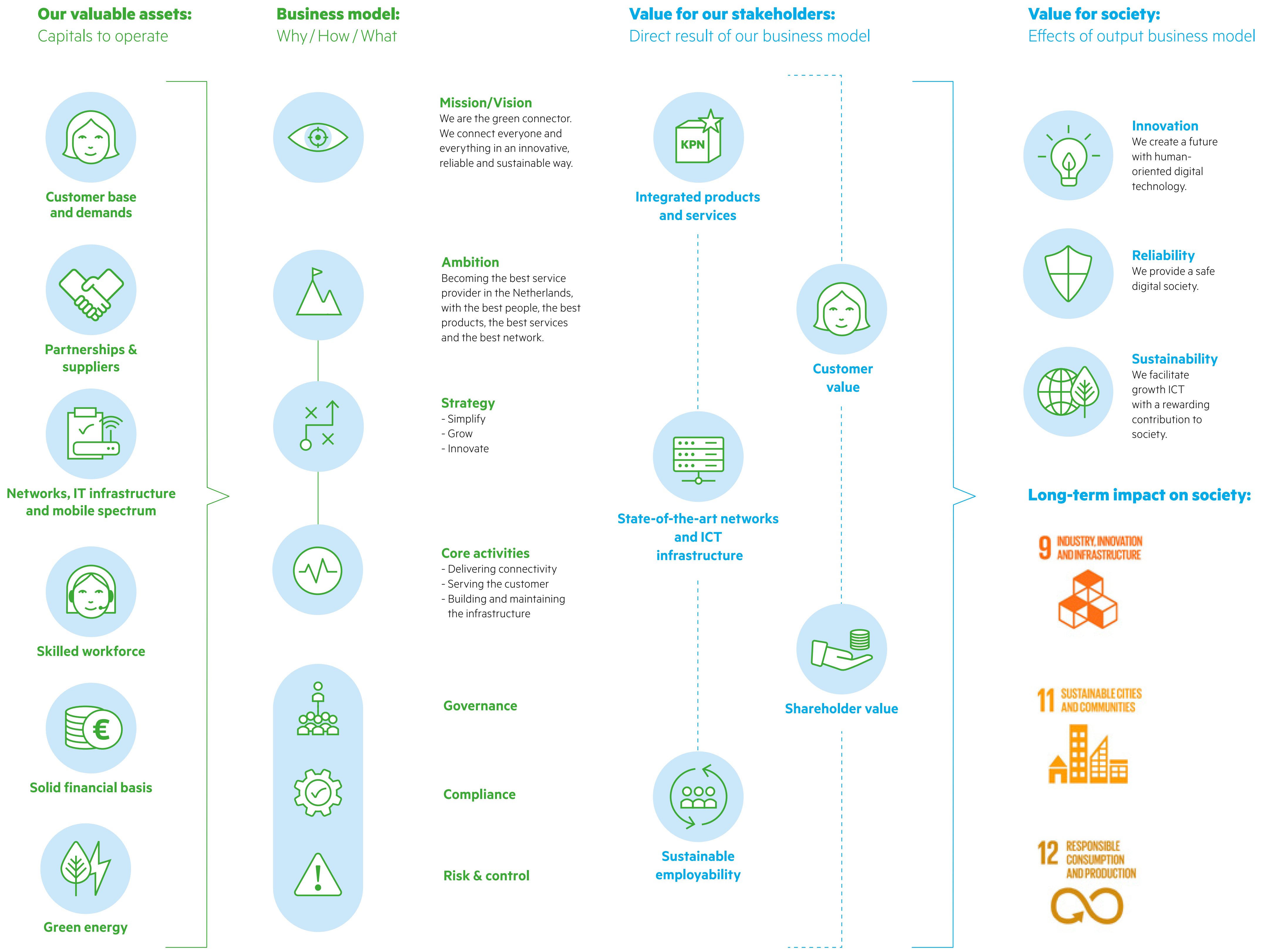
By offering innovative products and services, we provide the means for customers to transition towards a more digital environment. We help consumers design their digital life in a free, fun and easy manner. We support companies in their digital transformation to simplify client interactions and business processes.

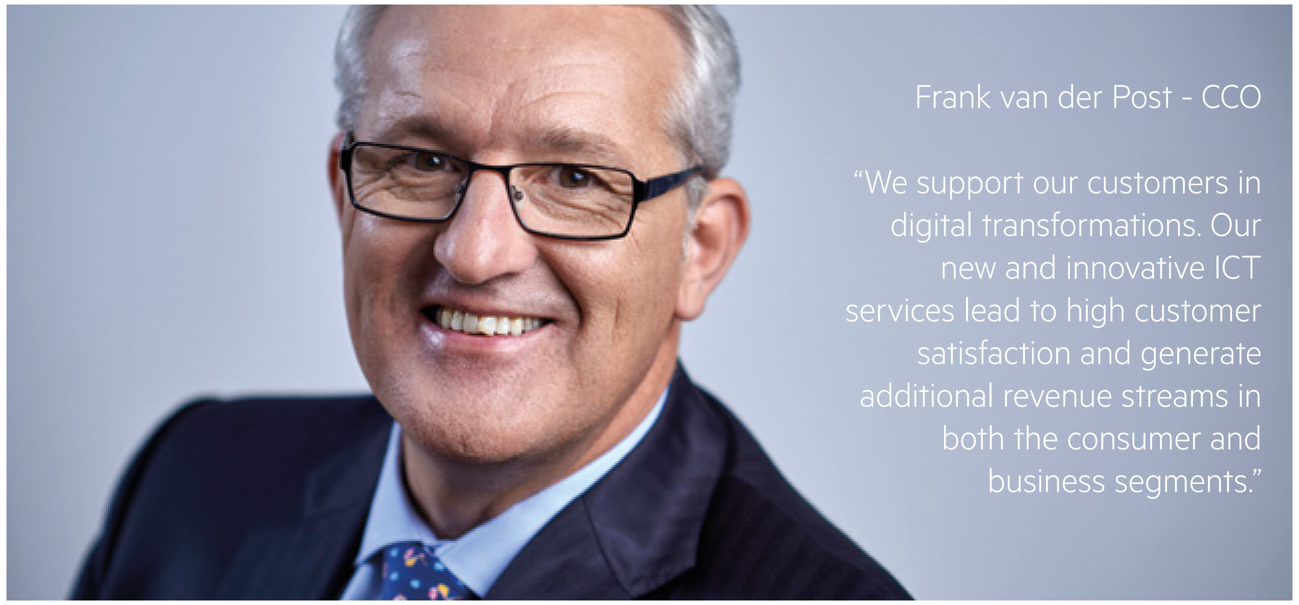
To properly understand the ways in which we impact society, we have identified the value we create for our stakeholders and society as well as our impact, using the six capitals model of the International Integrated Reporting Council (IIRC) integratedreporting.org.

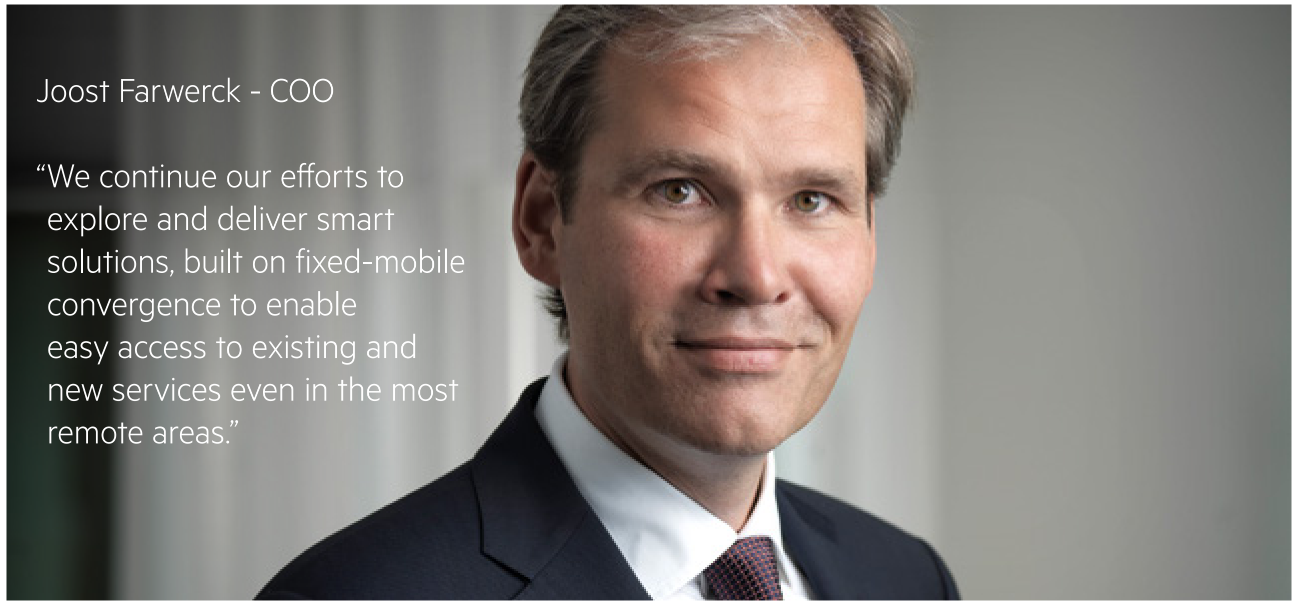
We have visualized what impact our organization has on Dutch society and highlighted the assets which are most valuable to our business model and provide the necessary input for performing our core activities. We do this by following our strategy and ensuring a responsible operation. The value we create for our stakeholders is the direct result of our business model. Our business outcomes ensure we can create long-term value for society, which in turn helps us contribute to the realization of the UN's Sustainable Development Goals.

Our Integrated Annual Report follows the structure of this value creation model, providing insights into our results, the value we created in 2017 for our stakeholders and the long-term value we create for society. Our report is structured to show how our activities contribute to a more free, fun and easy life.

To investigate the topics that are most important from both our business perspective and our stakeholders' perspective, we annually perform a materiality assessment. Appendix 3 describes this process and presents the most material topics in the materiality matrix. Furthermore, the connectivity table in Appendix 2 shows how the most material topics are linked to our value creation model and how they are reported on in this report.







> Our capitals to operate

Brief overview of our valuable assets

We allocate our six key assets or transform them to maximize the value we create for our organization, our stakeholders and society at large in the short and the long-term.

Customer base and demands

We value our customer base. In the Netherlands, we have a leading market position in telecom industry, with commitments to millions of customers. These commitments are important to us because customer demand for our services and products constitutes our license to operate. We are welcoming new customers on a daily basis: from mobile to interactive TV, from broadband users to customers entering into fixed-mobile bundles and from business customers to wholesale customers. We continuously seek for ways to improve the products and services we offer.

CCO: Postpaid customer base	**5,580k**
CCO: Broadband customer base	**3,062k**
Consumer: Interactive TV customer base	**2,116k**
Consumer: Fixed-mobile households	**1,253k**
Business: multi play seats	**474k**
Wholesale: fixed lines	**931k**

Skilled workforce

Our people create and represent our brands. With a diverse population of professionals, young talent, interim employees, our workforce is equipped to anticipate to changing market needs and offer maximum added value. From our shop assistant to our webcare specialist, from our field engineer to our senior managers. All our employees work day in, day out to make KPN the best service provider in the Netherlands.

Full-time domestic personnel	**13,021**
FTEs in Commercial segments (incl. serving the customer)	**6,026**
FTEs in Operations segments (incl. building infrastructure and delivering connectivity)	**5,788**
FTEs in Other (incl. SSO and corporate center)	**1,207**

Partnerships and suppliers

KPN is always looking for new partnerships and partners with inspiring visions to create new business. We work with suppliers with whom we can explore strategic goals and improve our supply chain.

Partnering innovative startups & entrepreneurs	**~60**
KPN Ventures Fund size	**EUR 70m**

Network, IT & mobile spectrum

KPN continuously innovates and upgrades the capacity of its state-of-the-art integrated network and ICT infrastructure to serve KPN's consumer, business and wholesale customers.

Capital expenditures	**EUR 1,139m**
Average 4G download speed mobile network	**58 Mbps**
Usage total data traffic	**4.7 Tbps**

Solid financial basis

Capital providers provide us with the necessary capital for our capital-intensive business. We aim to realize a return on investment that outperforms the cost of capital while solidifying our financial position.

Market capitalization	**EUR 12.2bn**
Net debt/EBITDA ratio	**2.5x**
Credit Ratings Moody's/S&P/Fitch	**Baa3/BBB-/BBB**

Green energy

As a company at the heart of society, KPN has made a conscious decision to care for the environment. We use 100% green electricity for our operations which include networks, data centers, offices and shops and charging stations for cars. We consumed 3.232 PJ in 2017 compared to 3.382 PJ in 2016 despite the substantial rise of volume of data communication transported via our networks

Green electricity consumption	**100%**
Energy consumption	**3.232 PJ**

Note: All figures on this page are presented as of 31 December 2017.

> The value we create for our stakeholders

Customer value

Customer satisfaction has grown to an all-time high, based on our Net Promoter Score. This indicates that our investments in high-quality products, services and simplicity are valued by our customers. Nevertheless, customers' needs are continuously changing. We therefore invest in our employees to be trained and motivated to have the customer as the starting point for all actions and decisions to drive further improvements.

KPI	Result 2017	Result 2016
NPS Consumer (Mobile & Residential)	13	10
NPS Business	-1	-3
NPS NL	8	6
NPS KPN Fixed Mobile[1]	25	N/a

1 Represents customers with a fixed subscription and indicates that they also have a mobile subscription of KPN.

KPN eXperience

We create the intended customer experience with the aim of making life more free, fun and easy. Therefore, we focus not only on product development, but even more on customer journeys. Good customer service starts with motivated employees who want to go the extra mile and see the customer as the starting point for all our actions and decisions. KPN has employees with passion and expertise who are keen on working together to get the very best results. To support this culture, KPN eXperience coaches continuously initiate real conversations about this subject. In 2017, more than 300 KPN eXperience ambassadors helped to guide their teams towards a better customer experience.

Customer loyalty

Customer loyalty depends on how customers experience our services and perceive their interactions with KPN. The extent to which people intend to recommend us is a good indication of how well we are doing. To remain attractive to existing and new customers, we continued to simplify our products and processes in 2017 and kept focusing on providing an excellent customer experience. We satisfied a number of our customers by directly granting customers 50 GB data on their mobile device so they remain connected whenever they experience problems with their inHome services.

Also, we have improved our Customer Service for business customers. Last year business customers joined us through MijnKPN Grootzakelijk, the portal for large business customers, which enables them to easily do business online with KPN. Another initiative for our business customers is the improvement of our KPN ÉÉN service offering, a complete and flexible ICT portfolio. As a result, we see a strong improvement in the NPS of that Customer segment.

We are making good progress at becoming the best service provider, with KPN customer satisfaction at an all-time high. Also, we managed to improve our reputation benchmark position. Nevertheless, we will continue to focus on improving our customer journey even further. It is our goal to offer our customers a seamless experience whenever they contact us, regardless of the channels that they use.

Customer feedback

In becoming the best ICT service provider, we continuously seek our customers' feedback to improve our products and services. By extensively and continuously making use of feedback, we have the opportunity to directly collect the customer's feedback after they use our services. In 2017, KPN took the next step by involving customers early on in product development by opening the KPN eXperience lab in Amsterdam, where we involve customers almost daily in the development and innovation of our services. In the lab's in-house interview setting, we quickly gain insights through interviews and co-creation sessions with our customers. We ask their opinions, test the usability of our solutions and prototypes of our ideas. Since the opening in April 2017, we have welcomed over 600 customers to the eXperience lab.

Reputation

KPN made great strides in 2017 in terms of how it is appreciated by the general public in the Netherlands. With a score of 70.5[1], we reached a high level of the RepTrak Pulse for the seventh consecutive year. We are number 3 on the top 30 ranking of Dutch companies in the industry-adjusted ranking of the Reputation Institute and we are in the top 3 of the European Telcos' ranking.

KPN has shown significant improvements since 2012 in the drivers of reputation that were selected by the Board of Management as the most crucial from a strategic and reputation point of view. Some of those drivers are included in the reputation targets of the Long-term Incentive Plan.

Sponsorship

We connect people through high-quality products and services, and through sponsorship too. We believe safeguarding cultural heritage contributes to the loyalty, goodwill and preference of the Dutch public for our brand. Therefore, we support typical Dutch sports such as speed skating and soccer, arts and cultural institutions such as the Rijksmuseum, Koninklijk Concertgebouw and Museum Boijmans Van Beuningen.

Our sponsorship strategy in the Netherlands is our way of creating additional value for Dutch society. We feel that it's important to put our knowledge, technology, employees and financial contributions at the disposal of society in order to make life more free, fun and easy for all Dutch citizens.

Sports sponsorship

Speed skating
KPN is the main sponsor of the Dutch speed skating team. We have sponsored the Royal Dutch Skating Association (KNSB) since 2010. Sponsoring the national team and related activities helps strengthen our connection with Dutch society.

Soccer
KPN concluded a four-year contract with both the Royal Dutch Football Association (KNVB) and the Dutch Premier League (Eredivisie). As soccer is the most popular sport in the Netherlands, KPN likes to associate itself with the sport. The goals of the partnerships are to increase brand preference and awareness, and NPS, to upsell and cross sell KPN products and services and to promote KPN's main partnership with the Dutch Eredivisie and Fox Sports.

TEAMKPN Sportfonds
Not all national team sports get the same opportunities, despite some great achievements. The TEAMKPN Sportfonds has been set up especially to support these promising teams. Our support of sports teams with limited resources, like the national men's volleyball team, means they can keep their Olympic dream alive.

Arts and culture

KPN main sponsor of the Rijksmuseum
The collection of the country's most important museum is a source of pride and a national treasure. As the museum's main sponsor, KPN contributes to making the Rijksmuseum's artwork accessible for everyone in the Netherlands, both at the museum and digitally. In late 2017, we launched a state-of-the-art Rijksmuseum app that provides guided tours through the museum and includes high-resolution images of the entire collection.

The Royal Concertgebouw
Music connects people. That's why we support the Royal Concertgebouw in Amsterdam with our ICT products and services. Via the KPN Mooiste Contact Fonds, we also help vulnerable groups in society get acquainted with classical music.

Museum Boijmans Van Beuningen
It is KPN's intention to become the official ICT partner of the Museum Boijmans Van Beuningen Depot, which will be ready in 2020. In 2017, we were lead sponsor of the Mad about Surrealism retrospective exhibition, which included world-famous artwork by Dali and Miro.

1 This figure is the fourth quarterly average, which is in line with other calculation methods such as NPS KPIs. See Appendix 3 for further details.

> The value we create for our stakeholders

Integrated products and services

11 SUSTAINABLE CITIES AND COMMUNITIES

Our consumer base is growing thanks to our efforts to provide better customer quality, to deliver integrated solutions and to simplify our product portfolios. New business opportunities and revenue streams are constantly explored and invested in to maintain our leading position as a supplier of ICT services.

Consumer

Our ambition to be the best service provider also applies to the competitive Consumer segment. With customer-centric propositions offering freedom of choice, ease of use, control and excellent service, we aim to realize this ambition. With that as our basis, we focused in 2017 on service quality, fixed-mobile convergence, being the best-in-class content aggregator in TV and enhancing products and services for consumers at home.

Quality service

Improvements in our products and services led to a rise in customer satisfaction (NPS) to +13 in 2017 from +10 in 2016. As a consequence of our improved service, calls to KPN call centers decreased by 29%. The NPS among customers with a fixed-mobile combination (KPN brand) was especially high at +25.
We achieved this through our long-term Quality Time program. Started several years ago, this program compises of a dedicated multidisciplinary team that is constantly monitoring and improving the quality of the entire service chain. This was combined with a focus on improving customer journeys to ensure our processes are optimal from a customer point of view.

Fixed-mobile convergence

Fixed-mobile convergence continued to grow amid strong market demand. For the main KPN brand, adoption was again strong in 2017, with the household base growing 12%. Just like the KPN, XS4ALL and Telfort brands, we also launched a fixed-mobile proposition for Simyo.

The total number of fixed-mobile households rose to 1.3 million by end 2017 from 1.1 million at end 2016, representing 42% of the broadband customer base (2016: 37%). The number of postpaid customers in fixed-mobile bundles grew to 1.9 million, equivalent to 51% penetration of the postpaid base (2016: 43%). Of the KPN brand postpaid base, 65% is now part of a fixed-mobile bundle (2016: 56%).

In 2017, KPN added 113,000 IPTV and 85,000 broadband customers to its base. This includes the addition of 17,000 IPTV and 47,000 broadband customers through the consolidation of ICT service provider Solcon per Q3 2017.

TV frontrunner

We enhanced our iTV proposition, with the introduction of 4K in our premium proposition. After integrating Netflix into our platform last year, we introduced Netflix billing and Replay TV this year, which enables people to watch almost all programs from Dutch channels from the previous seven days.
A new trend is that consumers only want to pay for what they actually use. Heeding that demand, we unbundled Spotify and some channels as a standard feature from our premium fixed and mobile propositions, while reducing the fee for these packages, and making additional paid packages available for those who do want extra TV channels or Spotify.

WiFi at home

Providing good WiFi at home remains a key priority for the consumer market. To boost WiFi quality for customers, we started an in-home hardware upgrade program, installing extenders in customers' homes.

Focus on value

Our continued focus on the high-value segment of the market through our leading KPN brand helped grow our customer base and service revenues. Revenue-generating units (RGUs) per household rose to 2.19 from 2.16 in 2016 and average revenue per household increased to EUR 43 (2016: EUR 41), mainly driven by a changing mix towards more bundled households and the effect of the price increases effective as of 1 July 2017.

Revenue-generating units per household

2.19

2016: 2.16

Average revenue per household

€ 43

2016: € 41

Changing behavior

As of 1 May 2017, the Financial Supervision Act has made mobile phone users more cautious about taking out loans to buy phones, and increasingly opting for SIM-only subscriptions. We responded with moves such as reintroducing lower priced Nokia handsets in the Netherlands. By offering these handsets, the customer can avoid the EUR 250 threshold entering into a handset-credit contract, a check on income and financial obligations and a registration with the Bureau for Credit Registration (BKR).

Another change to consumer behavior, stemmed from the abolition of EU roaming costs in 2017, which led to a significant increase in data use by people traveling in the EU.

Business

In all segments of the business market, KPN continues to migrate customers to integrated solutions and new technologies. Whatever the size of the company, we aim to deliver total solutions that make the best use of our portfolio of services, from fixed and mobile telephony and internet to end-to-end solutions in infrastructure, workspace management, data network and data center services.
We continue to simplify our portfolio, having started last year with phasing out products and services. We are focusing on moving clients from legacy network services like Private Branch Exchange (PBX) to flexible and scalable solutions such as software-defined network services. For our legacy portfolio on fixed voice and broadband, we aim to migrate our customers to a future-proof portfolio before 2020. We also generated growth in IT services (such as security and workspace management), Internet of Things (IoT) and multi play. We also included business parks in our program to roll out high-speed broadband via our hybrid access strategy.

Easy to deal with

We want KPN to be easy to do business with and are increasingly digitalizing our operations so customers can interact more easily with us. Key to this is how accessible we are via touchpoints such as our website and helpdesk. We began measuring this last year on a small scale through the Customer Effort Score. Our NPS among business customers improved last year to -1. To support customer satisfaction, we launched a proposition for small businesses with fewer than five employees (self-employed and SoHo). This is based on our Consumer proposition, which makes small business eligible for fixed-mobile benefits in KPN Compleet and provides them with business features such as a dedicated customer service desk, approximately 2,000 small businesses signed up by end 2017.

Bundled services

We realized strong growth in our fixed-mobile services in the business market, especially among SMEs, where the uptake of our flagship product KPN ÉÉN accelerated significantly. KPN ÉÉN is an integrated solution that leverages our leading position in connectivity and provides attractive upsell and cross-sell opportunities for IT services, such as workspace management and cloud & security services. In LE & Corporate, the bundling effect was less prevalent.

Cybersecurity and cloud

Cybersecurity is a crucial focus for all companies and part of the business market solutions KPN offers. We are continuously expanding our range of high-quality security services to business customers. In 2017, we further strengthened KPN's position as a leading security services provider in the Netherlands with the acquisitions of QSight IT, a leading managed security services and DearBytes, a public cloud consultancy provider.

Last year we acquired Divider, a specialist in cloud services for multi-branch organizations such as retailers that are using software-defined networking. We also acquired Cam IT Solutions, an IT services provider for the healthcare and public sector in the Netherlands. When we acquire such companies, we make a plan how to ensure that we derive the full benefit of their expertise, capabilities and entrepreneurial attitude.

Customers continued moving from on-premise data storage to KPN data centers or KPN's Managed Hybrid Cloud, which flexibly combines our award-winning data centers with the integrated solutions of leading international third-party IT companies.

Adding value to data

Connectivity has always been our core business. We are increasingly combining connectivity with knowledge, and so adding value for our clients to the data we gather. One example is online marketing firm DTG, which became a customer of KPN's Managed Hybrid Cloud in 2017.

Talking Traffic, created by KPN and our partners for the Dutch Ministry of Infrastructure and the Environment, enables intelligent solutions that provide road users with real-time traffic information. Last year we trialed Talking Traffic with two trucks on the A4 motorway, with smart technology aimed at generating fuel savings.

New business

Besides our standardized solutions we also offer tailor-made solutions for larger corporate clients. We were pleased to both sign up new customers and extend or expand existing contracts. KPN signed several large deals with business customers such as ABN AMRO, to whom we provide connectivity and security services. Revenues from new services increased 17% in 2017, driven by KPN's leading position in the Dutch market for security and IoT.

The Digital Dutch

in 2017 KPN organized The Digital Dutch, an interactive event for business customers, for the second year in a row. The event was designed to help businesses from SMEs to large corporates - to seize digital opportunities and apply IT solutions to serve their own customers even better. The event was highly rated, confirming the appeal this topic holds for our clients.

> The value we create for our stakeholders

Wholesale

Wholesale provides connectivity solutions to KPN's fixed and mobile wholesale partners via KPN's fixed and mobile networks. To meet the strategic goals of simplify, grow and innovate, KPN enters into complementary (international) partnerships with both mobile and fixed customers.

Partnerships

In 2017, KPN entered into new partnerships with parties such as Truphone and NLE and joined the Next Generation Enterprise Network Alliance-ngena in the fixed connectivity domain. Together with Tencent, China's largest internet software company, and Sunway, a leading internet video operator, KPN launched the WeChat Go SIM card for Chinese tourists travelling to Europe.

Product development

KPN strives to further simplify its wholesale product portfolio. In 2017, KPN continued the migration of wholesale customers from regulated unbundled local loop (ULL) services to commercially agreed virtual unbundled local access (VULA) and wholesale broadband access (WBA) services and remains committed to enable providers to deliver broadband speed to their end customers. Furthermore, we stimulated migration from traditional voice to IP voice services.

Market dynamics

Fixed Wholesale revenues were impacted by lower international voice traffic, partly offset by a positive net intake of WBA and VULA services. Mobile Wholesale revenues were impacted by competitive dynamics such as price pressure in the Dutch mobile market leading to lower revenues from MVNOs. Wholesale mobile data increased, resulting in a strong increase in data usage of 67% which offsets the decrease in wholesale call volumes (minutes) of 6%. 'Roam like home' regulation within the EU increased visitor roaming revenues by 51%.
Focusing on operational excellence supports KPN's strategy to remain and enhance its position as a hub for international connectivity with voice, roaming, content delivery and peering. It also helps in becoming the preferred enabler for digital platforms such as WeChat.

Wholesale mobile connections

775k
2016: 778k

Wholesale fixed connections

931k
2016: 1,001k

iBasis

iBasis, a wholly-owned KPN company, supports carriers and other service providers by offering seamless connectivity and analytical services for voice, data and IoT services.

Changing market dynamics

In 2017, iBasis continued to build its customer base in international LTE connectivity services, securing new key customers and establishing itself as one of the top brands in the industry. iBasis was voted the best IPX (LTE data) provider in the world and was ranked as one of five Tier 1 LTE connectivity providers by independent research. LTE Data and Signaling revenue increased by more than 80% in 2017, while LTE signaling volume has more than doubled due to the larger customer base and increasing use of data by mobile end-users. The implementation of 'roam like home' in the EU has significantly contributed to this growth.

The ongoing decline in the wholesale voice carrier market and the loss of committed traffic from certain customers led to pressure on revenues and volumes. In 2017, iBasis benefitted from temporary arbitrage opportunities in the global voice market, helped by its routing capabilities, leading to a significant margin uplift.

Recognizing the continued pressure on international voice minutes due to changing end-user behavior and the growing use of free IP peer-to-peer calling, iBasis has launched initiatives to simplify the network, its organization and further enhance billing and routing capabilities. These initiatives contributed to a significant lower cost base in 2017 and will contribute further in 2018 and beyond.

iBasis solidified its position as one of the leading companies in international VoLTE services, implementing the first commercial connection for international VoLTE services between KPN in the Netherlands and SK Telecom in South Korea.

Providing analytics-based services

iBasis offers operators a range of advanced analytical tools called InVision, which enable customers to actively manage service quality, identify revenue opportunities and better serve their subscribers. InVision's capabilities were expanded to include LTE data services and will continue to develop in order to serve customers in our mobile and IoT arena.

Enabling next-gen digital services

In 2017, iBasis further developed its services for IoT providers concentrating on an innovative and industry leading E-SIM solution. A launching customer signed in February 2017 and this has led to a new revenue stream.

Average revenues per minute
in cents of EUR

3.8
2016: 4.1

Number of minutes
in billions

18.7
2016: 20.9

> The value we create for our stakeholders

State-of-the-art networks and ICT infrastructure

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

11 SUSTAINABLE CITIES AND COMMUNITIES

In order to deliver good customer value, we continuously upgrade, rationalize and standardize our networks and infrastructure.

KPI	Result 2017	Result 2016
Average 4G download speed	**58 Mbps**	51 Mbps
Usage of total data traffic[1]	**4.7 Tbps**	3.4 Tbps
Weighted downtime (compared to last year YTD)[2]	**-38%**	+55%

1 The data demand peak for main traffic streams is based on continuous five minute timeframe measurements.
2 Weighted downtime = Combined downtime of platforms and systems within our Network organization.

Continuous investment in high-quality and reliable networks

The internet is an essential part of people's daily lives and they depend on our infrastructure to keep them connected, whether it's to work, shop or to socialize. To ensure the best customer experience, KPN continuously innovates and upgrades the capacity of its best-in-class integrated network and ICT infrastructure.

Access to network

The high coverage of FttH/FttC within KPN's network allows KPN to deliver next generation access to the majority of Dutch households. The high number of fiber connections running to Dutch homes, streets, mobile sites and business parks puts KPN in an excellent position to benefit from the latest access technologies. 76% of Dutch households now have possible access to speeds of at least 100 Mbps. We changed the focus to: (1) the large cities where we started with FttC roll-out, (2) business areas where we upgrade the connection of business customers and (3) rural areas where we started with a pilot using a combination of DSL and LTE technology. Because of this change in our focus, we introduced a KPI to measure total data traffic, rather than the amount of Dutch households with possible access to speeds of at least 100 Mbps.

The average 4G download speed was 58 Mbps by the end of 2017. More than speed, however, we focused on enhancing the quality of our 4G LTE connections, especially voice quality. We erected new masts to increase coverage and capacity to enhance user experience and improve capacity of the LTE network. KPN continued to roll out carrier aggregation in 2017 and made VoLTE services available to an increased number of customers.

KPN has activated the new Internet of Things (IoT) network LTE-M at several locations in the Netherlands. The LTE-M network is complementary to the existing nationwide LoRa network and is expected to be rolled out nationwide in 2018. The major difference between LTE and LTE-M is power efficiency, LTE-M enables battery-powered devices to send and receive data. With LTE-M, KPN completes its IoT connectivity offer.

From May till October 2017, KPN tested the new service Sneller Internet Buitengebied (product name for Fast Internet in Rural Areas), a combination of DSL and LTE technology in one high-speed internet service. Test results showed that 87% of the participants are satisfied with the internet speed offered. As of 1 November 2017, Sneller Internet Buitengebied can be offered to customers in rural areas. We will approach 2,500 KPN customers in selected rural areas to use this service.

In the second half of 2017, we increased our efforts to upgrade capacity on hundreds of our mobile sites to absorb the vast growth in mobile data usage by our customers while keeping quality of service on par. The growth of total data traffic, is a striking indicator for the growth of our business.

Digitenne

In 2016, KPN obtained a new license for digital ether television (Digitenne) until 1 February 2030 from the Radiocommunications Agency (Agentschap Telecom) for free. This guarantees continuity for hundreds of thousands of Digitenne customers. Due to the implementation of the new broadcast standard DVB-T2, KPN will start exchanging all leased Digitenne TV tuners in 2018.

Migration to new IT platforms

After migrating KPN-branded mobile consumers and all our fixed consumer KPN customers to new IT platforms in 2016, we also migrated mobile wholesale customers, mobile business market customers and prepaid mobile Telfort customers. We will decommission the legacy mobile IT systems in early 2018.

New technologies

In 2017, we updated our VoiceMail platform for both fixed and mobile telephony services applying to consumer and business customers. For mobile Android users we introduced Visual Voicemail, which means that you can see all voicemail messages in an overview and you can return a call by pressing a button.

In 2016, we activated voice over LTE (VoLTE) on our 4G data network, using the same high-speed infrastructure for both data and phone calls. Voice calls are transmitted in 'packages' in the same way as emails and other data. Calls are connected quicker and the sound quality is better.

KPN entered into a partnership with Van Happen Containers, active in the field of waste processing. KPN Things provides Van Happen Containers with an end-2-end solution with IoT-devices, connectivity by LoRa network and an IoT data platform. By implementing this IoT solution containers are made smart, and customers can be served more efficiently. Real-time information shows where containers are located and for how long. This information makes the invoicing process for the end customer more transparent and reduces pressure on Van Happen Containers' administrative organization.

Simplifying and securing our network

In 2017, we completed an upgrade program in our core network. We rolled out a decentralized content delivery network (D-CDN) on our 161 Metro Core locations to bring business content services closer to the customer. Routing IPTV traffic through D-CDN represents approximately 35% traffic spend savings. Furthermore, Life Cycle Management programs are in place and continued in 2017. We began the phase-out of traditional telephony services and will scale this up in 2018. We switched off and decommissioned old equipment to simplify the network and improve efficiency. In 2017, this saved 30 GWh in energy.

We improved our iTV quality to a very high level that we maintained since September. We are also ranked number 1 in the Netflix speedindex since September 2017.

In 2017, there were 8 large outages affecting more than 100,000 customers and smaller outages taking relatively long to resolve.

> The value we create for our stakeholders

Sustainable employability

We are adjusting our way of working to ensure our people have the right skills for an agile way of working. By facilitating personal development, the competences and skills of our workforce continuously evolve and collectively they support our strategy and answer customer needs.

KPI	Result 2017	Result 2016
Overall percentage of women at KPN in the Netherlands	**23%**	24%
Employee survey score for engagement	**80%**	77%
Sustainable employability: % of employees with a new external job after active participation in an outplacement program	**83%**	87%

Serving our customer

Our people are one of our valuable assets. From back office employees and colleagues in our sales force to our field engineers and service managers, everyone at KPN works to deliver the best possible service and products to our customers. Our KPN eXperience program guides our employees' activities, based on the premise that we put our customers first. In 2017, our workforce comprised 13,838 employees (13,021 FTE).

Enhance agility and collaboration

Driven by our mission to become the best service provider, we want to enhance customer focus in 2018. We plan to experiment with new methods of collaboration across departments in order to explore how these new ways of working could have a positive effect on customer experience. In 2018, we want to make further progress towards more efficient and agile ways of working because we believe that this is most helpful in creating value for our customers faster and at a lower cost.

One of these experiments is the forming of so-called tribes. These are defined as groups of employees working on a common purpose. Tribes may comprise up to 150 people from different parts of the organization. The general idea is that people in a tribe identify customer needs in their specific business segment and work closely together on serving those needs. In organizational theory, tribes should have a high level of autonomy, should be less hierarchical, have shorter communication lines and can take decisions quickly and independently. In 2018, we hope to achieve good results with this new way of working.

We expect this agile way of working to be introduced in other business units as well – whenever this makes sense from a business and customer perspective – and believe it will have a positive impact on both our Net Promoter Score (NPS) and engagement scores. We evaluate our approach in collaboration with our works councils.

In 2017, we proceeded with the partial relocation of KPN offices which started last year. Approximately 600 staff moved from The Hague to our new head office in Rotterdam as part of plans to use office space more efficiently and create modern hubs that put into practice the new way of working.

Sustainable employability

As part of building a future-proof workforce, we seek to promote sustainable employability. We therefor stimulate and support people so they continue to develop themselves. This way they can work to the best of their abilities, creating value for the company and strengthening their position in the labor market.

Our ambition to build an agile way of working is leading to a changing workforce. This is reflected in the way we are able to attract people with new capabilities from the labor market and create new opportunities for our employees. We adjusted our company model to ensure we have people with the right skills to help us on our journey to become the best service provider. As we continue to simplify our business and deliver quality improvements, which is one of our strategic priorities, FTEs in some areas decrease. At the same time, we need people with new skills and competencies to support our strategy. For instance, we need data scientists, agile coaches, gamers, cybersecurity specialists, and more IT specialists. As such, we support employees who may lose their position to acquire different skills, enabling them to find a new role inside or outside KPN.

Facilitating development

To facilitate personal development and remain employable in the future, we have been providing individual employability budgets and will continue to do so. Personal development is further supported by our job-related training and the KPN Academy, our advanced online portal where employees can find information about available training and education. In this way, they can strengthen their skills and position on the labor market, enhancing their prospects to move into a new role, either at KPN or elsewhere. We also created new ways for our employees to develop competencies in areas such as digitalization and data analytics, enabling our business to quickly adjust to the increasingly rapid changes in technology and global markets. We facilitate this by making a wide range of courses available.

Our Future Work program intends to raise awareness among employees about the importance of their own development and sustainable employability. It helps them develop plans to invest in their skills, vitality and resilience.

Engaging talent

We strengthened our recruitment efforts to attract the people we need to realize our agenda of growth and innovation. We again ran a recruitment campaign in Dutch media and toured Dutch universities and college campuses to recruit talented graduates. As our society becomes ever more international, and given the highly competitive labor market we operate in, we also look abroad for talented people with the skills and ideas we need to achieve our strategic goals.

In the annual survey among highly skilled professionals conducted by Intermediair magazine in 2017, KPN was ranked the number one Dutch telecom provider they would most like to work for. KPN's overall ranking in 2017 was 20.

Our employee engagement survey showed that 86% (2016: 84%) of employees said they take pride in the company.

Changing leadership culture

Introducing a different way of working requires a different management style. We expect managers to help their teams to work well together, rather than merely supervising and directing employees. Managers should also act as coaches, encouraging employees to develop themselves and allowing them to take on more responsibilities. We are introducing a revised process of leadership potential assessment, contributing to building an open and honest feedback culture.

Diversity and inclusion

Diversity refers to all the unique characteristics of humans contributing to results. We believe boosting diversity will help us build the agile teams we need to achieve growth and innovation and prevent insufficient competency in KPN's workforce. KPN aims to employ 30% women in its workforce at all levels. This also applies to the composition of the Board of Management and Supervisory Board, excluding reappointments. To reach this target, we implemented additional policies and measures.

Gender diversity in senior management increased slightly in 2017 to 20% female from 19% in 2016. In middle management, 16% were female in 2017 (2016: 17%). For the company as a whole, 23% of the workforce was female in 2017 (2016: 24%).

We reached out to specialized recruitment companies, organized mentee programs for talented women and established an internal network of women. We prefer to include women in the shortlist for vacancies from scale 12. KPN believes meeting the targets will be accelerated when the diversity targets become part of the short-term incentives (STI plan) for senior management by making it part of the discretionary factor. This revised STI policy was introduced in fall of 2017 and will be first measured and practiced over the full year of 2018. Vacancies above salary scale 12 are only allowed to be filled when the shortlist compiles at least 50% female candidates. In addition, a minimum of 1 out of 3 in the appointed functions should be executed by a woman.

KPN is committed to creating an inclusive workplace where lesbian, gay, bisexual and transgender (LGBT) people can be themselves and are valued. Our LGBT platform KPN Pride addresses LGBT issues directly related to working at KPN. Workplace Pride, a non-profit organization promoting LGBT inclusion in the workplace, ranked KPN as an ambassador. Together with Workplace Pride and Leiden University, KPN also supports the Workplace Pride Chair, an academic chair for research and teaching in LGBT topics.

Other diversity networks are: Still Going Strong (55+), YoungKPN, Colourful KPN (employees with a migration background), Pretty Smart (highly intelligent employees), G3 (accepted, appreciated, valued: successful employees due to their uniqueness).

Health and vitality

We believe healthy workers are more engaged, can cope more effectively with everyday stress and are better prepared for their future. We offer programs such as stress management workshops and mindfulness training. At XS4ALL, we also promote healthy working conditions and a healthy lifestyle through our Fit4all initiative. We believe these efforts enhance vitality and contribute to increased employability.

> The value we create for our stakeholders

Shareholder value

KPN is committed to creating value for its shareholders by executing its strategy. This led to solid operational and financial results in 2017, supported by a simplified and lean cost structure and a growing free cash flow in combination with innovative investments.

KPN Group	Result 2017	Result 2016
Adjusted EBITDA	**€ 2,417m**	€ 2,428m
Capex	**€ 1.14bn**	€ 1.19bn
Free cash flow[1]	**€ 745m**	€ 683m

1 Excluding the Telefónica Deutschland (TEFD) dividend and the one-off cash optimization actions of EUR 52m in 2016.

Financial performance

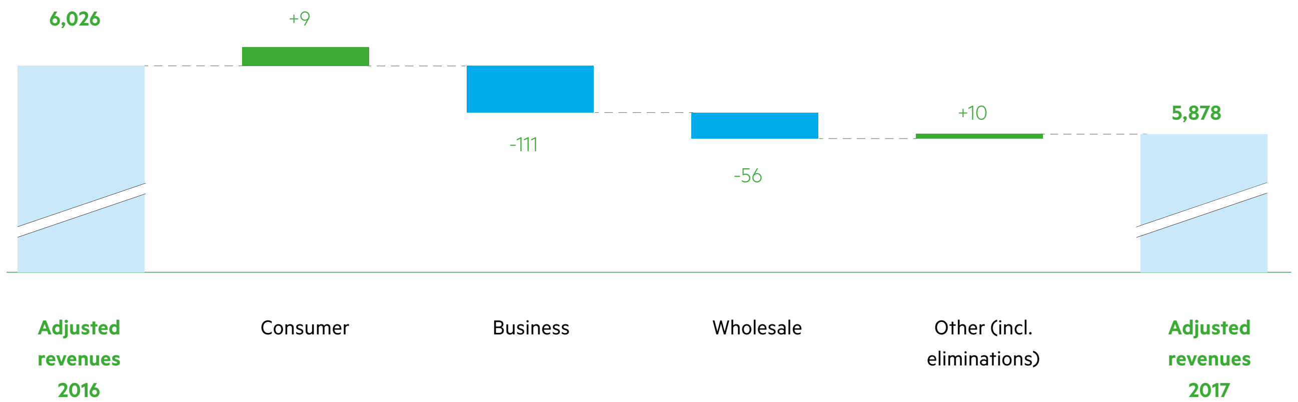
In 2017, KPN commissioned an investor perception study, which reflects its ongoing commitment to take on board the views of the investor community. The study concluded that free cash flow potential and shareholder returns are considered as important investment appeals. Investors also indicated their appreciation of KPN's focused strategy and solid Board of Management. However, the performance within the Business segment and limited drivers for top-line growth weighed on perceptions of KPN as an investment and while investors value shareholder returns, some also called for a less geared balance sheet.

Note: All KPN Group figures presented are based on KPN's continuing operations.

Adjusted revenues and other income The Netherlands were 2.5% (EUR 148m) lower y-on-y in 2017. Consumer Mobile revenues decreased by 2.5% y-on-y due to the impact from regulation. Residential revenues grew by 2.2% driven by an increasing ARPU per household and ongoing base growth. Mobile service revenue declined by 2.1%, mostly due to the impact from regulation (roaming and MTA tariffs) and the increased SIM-only inflow as a result of the introduction of new handset credit legislation on 1 May 2017.

Adjusted revenues in Business declined by 4.8% y-on-y in 2017 due to regulation, lower revenues from traditional services and mobile price pressure. This was partly offset by revenue growth from integrated solutions, IT related services and IoT. In SME, the continued growth in multi play seats drove multi play revenue growth (37%). Traditional fixed-only revenues declined by 18% as the impact of ongoing rationalization and migrations to integrated solutions was partly offset by price adjustments to this portfolio. Single-play wireless revenues were down 20% due to regulation and a declining mobile-only customer base following migrations to KPN ÉÉN SME (Multi play) and KPN ÉÉN LE (Customized solutions).

Revenue and other income The Netherlands
€ million



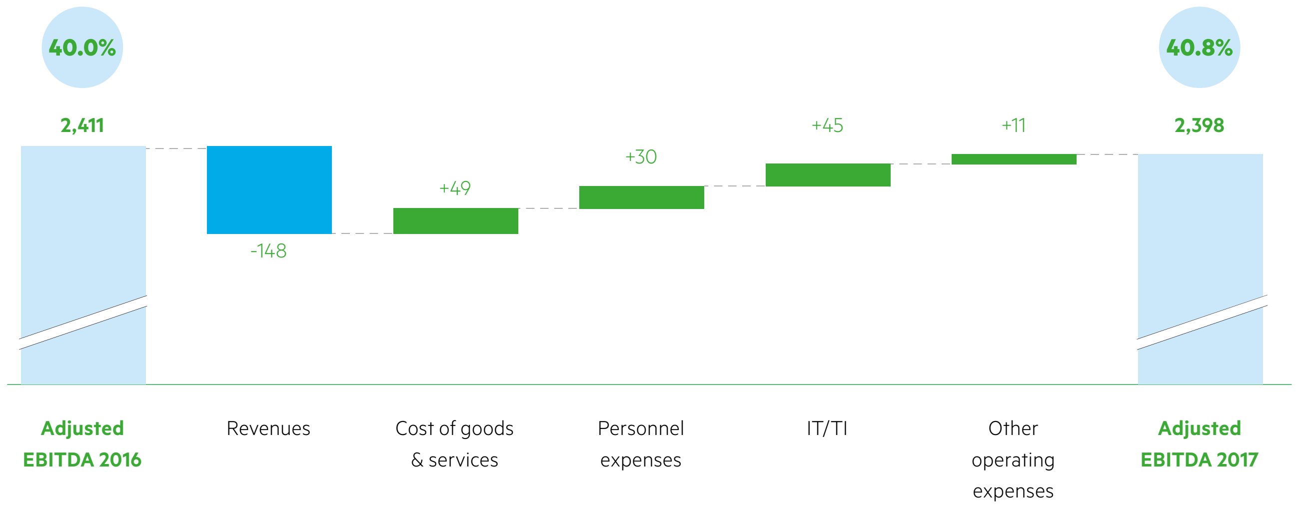
Revenues from Customized solutions grew by 0.9% y-on-y, supported by migrations from single-play wireless. Revenues from Network & IT services declined by 1.0% y-on-y. Lower revenues from network services were offset by growth in IT services, such as hardware and workspace management.

New services revenues increased 17% y-on-y in 2017, driven by KPN's leading position in the Dutch market for IoT.

In Wholesale, adjusted revenues decreased by 7.6% y-on-y in 2017, mainly due to lower regulated tariffs (MTA/FTA) and less low-margin international traffic, partly offset by a positive net intake of WBA and VULA services. Mobile Wholesale revenues were impacted by competitive dynamics in the Dutch mobile market leading to lower revenues from MVNOs.

The negative impact of incidentals on revenues in 2017 (EUR 2m) was due to the release of revenue-related provisions in Wholesale. In 2016, the positive impact of incidentals (EUR 26m) related to revenue-related provisions in Wholesale.

EBITDA The Netherlands
€ million



Adjusted EBITDA for The Netherlands decreased by 0.4% (EUR 10m) y-on-y mainly as a result of roaming regulation.

Cost of goods and services were positively impacted by lower subscriber acquisition and retention costs (SAC/SRC) compared to 2016. This was partly offset by higher roaming costs, higher content costs in Consumer and increased hardware and IT licenses in Business. Lower SAC/SRC was mainly the result of handset credit legislation effective on 1 May 2017. Following this introduction, KPN has witnessed increasing SIM-only inflow, higher upfront payments for handsets, and a shift towards less expensive handsets.
The Simplification program is delivering significant quality improvements and structural savings in personnel expenses and IT/TI costs and other operating expenses. KPN's targeted household marketing approach, driven by smart analytics, has resulted in fewer marketing expenses. Together with lower costs for housing and facilities, these were the main drivers of lower other operating expenses.

EBITDA for The Netherlands was impacted by restructuring costs of EUR 76m (2016: EUR 41m). The net negative impact of incidentals was EUR 25m (2016: EUR 46m net positive impact). The adjusted EBITDA margin for The Netherlands increased to 40.8% (2016: 40.0%), supported by a rigorous cost focus in all areas of the business.

Financial review iBasis

Adjusted revenues at iBasis decreased by 19% y-on-y in 2017 (including a 1.2% unfavorable currency effect), driven by lower traffic and price pressure in the international wholesale voice carrier market. The adjusted EBITDA margin in 2017 of 3.4% was somewhat higher y-on-y (2016: 2.7%).

For information on financial and operational performance per segment, see Note 3 to the Financial Statements.

> The value we create for our stakeholders

Financial review KPN Group

Operating profit

Group operating profit (EBIT) was in line with 2016 (-0.2% y-on-y) at EUR 882m as lower EBITDA was largely offset by lower depreciation and amortization charges.

Financial income and expenses

Net finance expenses decreased 42% in 2017 to EUR 241m. This was mainly due to EUR 160m additional finance expenses in Q3 2016 due to the bond tender and EUR 73m lower interest costs on senior bonds in 2017 as a result of lower gross debt, partly offset by EUR 40m lower dividends received on KPN's stake in Telefónica Deutschland in 2017 compared to 2016.

Income taxes

In 2017, KPN recognized a tax expense of EUR 157m (2016: EUR 96m). KPN's effective tax rate for 2017 is 24.5% (2016: 20.6%) mainly due to reversals related to previous years and recognition of liquidation losses in 2016. KPN continues to qualify as an innovative company and therefore benefits from the innovation box tax regime, a facility under Dutch corporate income tax law whereby profits attributable to innovation are taxed at an effective rate of 5%. The effective tax rate is expected to be approximately 23% in 2018-2019. See Note 8 to the Consolidated Financial Statements for further information on KPN's tax position.

Net profit

Net profit for 2017 (continuing operations) increased by EUR 115m to EUR 485m, mainly driven by EUR 176m lower net finance expenses in 2017. The profit for 2016 from discontinued operations (EUR 430m) consisted mainly of the result on the sale of BASE Company (EUR 369m).

Capex

Capex came to EUR 1,139m in 2017, a decrease of EUR 54m compared to 2016 (EUR 1,193m). Capital intensity is still relatively high due to investment programs in hybrid access to larger cities and business parks, and in capacity of the mobile and core networks.

Free cash flow

Free cash flow (FCF) for 2017 was EUR 74m higher y-on-y at EUR 815m. Excluding the EUR 70m dividend received from Telefónica Deutschland (2016: EUR 110m), FCF for 2017 was EUR 745m compared to EUR 683m in 2016 taking the EUR 52m cash optimization actions for 2016 into account as well. The increase was mainly driven by EUR 54m lower Capex and EUR 99m lower interest paid. This was partly offset by EUR 13m tax paid in 2017 versus EUR 50m tax received in 2016.

Solid financial position

Net debt to EBITDA

Net debt amounted to EUR 6.0bn at the end of 2017, which was EUR 0.8bn lower compared to the end of 2016. The free cash flow generated during the year and proceeds from the sale of Telefónica Deutschland shares were partly offset by dividend payments, the EUR 200m share buyback program and the EUR 67m coupon for the perpetual hybrid bond. At the end of 2017, net debt to EBITDA was 2.5x (2016: 2.8x). This includes the equity credit on the hybrid bonds representing 0.4x net debt to EBITDA. The average coupon on senior bonds declined y-on-y to 3.9% (2016: 4.1%).

Capital allocation and shareholder remuneration

Over the last years, KPN has invested significantly in its network infrastructure, products and customers, resulting in high-quality fixed and mobile networks and improved customer satisfaction ratings across all segments. KPN will continue to focus on improving the customer experience by further investing in capacity, reliability and stability of its integrated network. KPN generates FCF (after capital expenditures), which forms the basis for its policy related to regular dividends.

KPN intends to grow its regular dividend in line with its FCF growth profile. KPN intends to provide a sustainable and growing regular dividend in line with its FCF growth profile. KPN intends to pay a regular dividend per share of EUR 11ct in respect of 2017, subject to Annual General Meeting (AGM) of Shareholders' approval. An interim dividend of EUR 3.7ct per share was paid in August 2017. In respect of 2018, a regular dividend per share of EUR 12ct is intended.

KPN remains committed to an investment-grade credit profile and expects to utilize excess cash for operational and financial flexibility, (small) in-country M&A and/or shareholder remuneration. In 2017, KPN completed a EUR 200m share buyback program. In May 2017, KPN received a dividend from its stake in TEFD of EUR 70m for 2016, which KPN distributed to KPN shareholders as a special interim cash dividend (EUR 1.7ct per share). KPN intends to pass-through potential dividend received from TEFD to its shareholders.

Outlook 2018 (continuing operations, IFRS15 compliant)

> Adjusted EBITDA in line with 2017;
> Capex ~EUR 1.1bn;
> Free cash flow (excluding TEFD dividend) growing; and
> Additional cash flow via dividend from stake in Telefónica Deutschland.

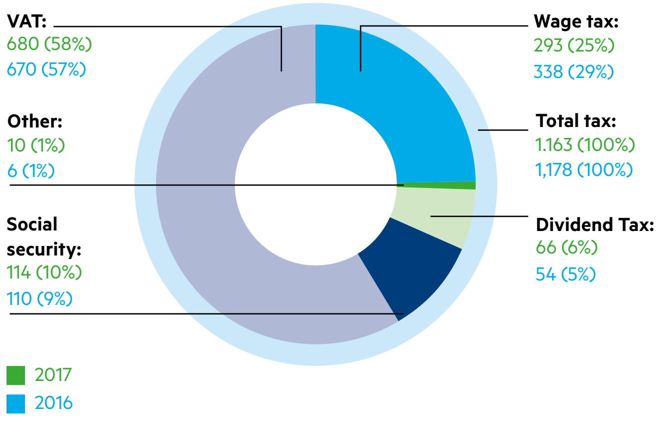
Tax

KPN's Corporate Tax Department (CTD) is responsible for KPN's overall tax position and optimal use of subsidy opportunities. KPN adheres to its tax strategy and policy (see ir. kpn.com). In line with this strategy and policy, our Tax Control Framework (TCF) is continuously monitored and optimized. A cornerstone of the TCF is our long-lasting covenant with the Dutch tax authorities to self-assess and transparently discuss KPN's current and potential future tax issues. This covenant is based on mutual trust and transparency.

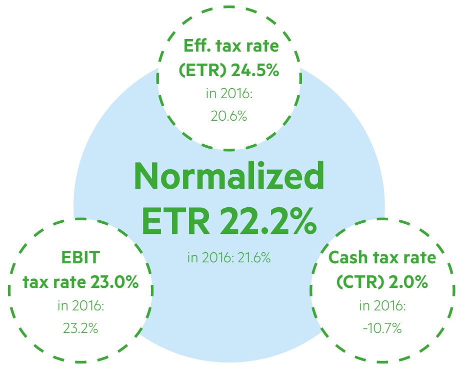
In 2017, the following main developments and projects were relevant to KPN from a tax perspective:

> KPN concluded a new agreement (covering 2017-2020) with the Dutch tax authorities on the impact of the new legislation with regard to the innovation box regime;
> KPN lost a legal procedure against the Netherlands Enterprise Agency (RVO) on the application of the WBSO-facility (Act for the Stimulation of Research & Development) for 2013. The impact is limited since we did not yet take this facility into account for the part subject to legal proceedings;
> KPN redefined its VAT control framework based on Reliable Financial Reporting (RFR) principles; and
> KPN also organized a stakeholders' dialogue, including NGOs, on the topic of 'gewoon eerlijk belasting betalen' (fair taxation).

Cash taxes (€ million)



The following tax KPIs apply for 2017



The reported difference between the effective tax rate and the cash tax rate is mainly caused by the use of available tax losses. The reported amount of corporate income taxes paid relates to taxable profits that could not be offset against these losses, e.g. corporate income tax payable by entities not part of a tax group. The EBIT tax rate is lower than the statutory rate mainly due to the innovation box facility.

Tax overview for continuing operations per country

In € million or FTE		Total unrelated income[1]	Profit before tax excl. associates and joint ventures	Corporate income tax expense	Effective tax rate	Corporate income tax cash flow	Corporate cash tax payable	Other tax cash flow mainly VAT & payroll	Property plant and equipment	Employees end of year
NL	2017	6,157	650	-144	22%	-13	5	1,155	5,793	13,020
	2016	6,524	499	-92	18%	51	-1	1,171	5,949	13,265
US	2017	437	-2	-12	n.m.	1	7	7	17	203
	2016	501	-20	-3	-15%	–	1	7	20	209
Other	2017	2	-7	-1	-14%	-1	-1	1	1	52
	2016	5	-12	-1	-8%	-1	–	–	–	56
Total 2017		**6,596**	**641**	**-157**	**24.5%**	**-13**	**11**	**1,163**	**5,811**	**13,275**
Total 2016		**7,030**	**467**	**-96**	**20.6%**	**50**	**–**	**1,178**	**5,969**	**13,530**

1 Unrelated income is the total of revenues and (other) financial income..

> The value we create for our stakeholders

Forward-looking
Through offset of available losses in the Netherlands, KPN expects to pay limited amounts of income tax for the coming years. Based on current projections, KPN expects to fully utilize its realized and unrealized losses well within the expiration limits. KPN will continue to extend and optimize its VAT control framework.

Regulation affects our business

KPN is subject to sector-specific regulation and enforcement thereof by regulatory authorities, such as the Netherlands Authority for Consumers and Markets (ACM). As described in the chapter 'Compliance & risk', KPN's Risk Management and Control System is designed to minimize the risk of non-compliance with regulation.

European developments; the Digital Single Market strategy
Regulation of the electronic communications markets is largely based on European legislation. The EU's roaming and open internet access regulations are directly applicable in all member states. The application of the regulation of operators with significant market power is done nationally, but under coordination of the European Commission. This still affects KPN in some fixed markets and on fixed and mobile call termination services. Licensing regimes for frequencies are based on national law. Increasingly, also other regulation (such as privacy law and content-related law) has an impact.
Both the European Parliament and the European Council have approved amended versions of the draft 'European Electronic Communications Code' in 2017. These institutions are now negotiating the amended proposals and are expected to reach agreement by July 2018 at the earliest. Implementation of the new rules in national law should not be expected earlier than mid-2020.

International roaming on mobile networks
Since 15 June 2017 national retail tariffs must be applied for roaming within the EU/EEA. Only for traffic exceeding defined 'fair use' criteria, or after approval of the National Regulatory Authority when national tariffs are not sustainable with 'roam-like-home', surcharges not exceeding the regulated wholesale rates are allowed. The roaming regulation will expire on 30 June 2022 and only changes if amended or replaced prior to that date.

Market analysis decisions in the Netherlands
The decision related to the markets for unbundled access to fixed networks came into effect on 1 January 2016. On these markets (virtual) access obligations, tariff regulation (partly by safety caps based on the 2011 tariff levels) and margin squeeze tests were imposed on these markets. Upon completion of the VodafoneZiggo joint venture, ACM started a review of this decision. A draft for a new decision is expected to be published in Q1 2018 for national consultation. A decision by the ACM regulating fixed voice telephony markets came into effect on 1 March 2017, limiting the market regulation for dual calls (ISDN2). A decision to regulate call termination tariffs for fixed and mobile based on the 'pure BULRIC' approach recommended by the European Commission came into effect on 12 July 2017. Appeals regarding the tariff regulation in this decision were refused by the court.

Spectrum licenses
The preparations for an auction in 2019 of the 700, 1400 (Lband) and 2100 MHz bands have started, but no formal decisions on the auction procedure are available yet. Although the 3.5GHz band at European level is seen as the primary band for 5G, in the Netherlands it is not clear when this band will be available for 5G use. Severe restrictions on the use of this spectrum apply to prevent interference with the use of this band by an earth satellite station of the Dutch Ministry of Defense.

Act on Financial Supervision
The Dutch Supreme Court ruled in 2014 that 'all-in' mobile telephone subscriptions that include a monthly payment for a mobile handset are a form of consumer credit, thus ruled by the Dutch Financial Supervision Act (Wft). As of 1 January 2017 all KPN's marketing communication on handset-credit complied with the Act. The remaining set of measures came into effect on 1 May 2017, This relates to: 1) a separate credit-contract, 2) a check on income and financial obligations for credits above EUR 250 and 3) registration with the Bureau on Credit Registration (BKR) for credits above EUR 250. KPN does not charge any interest for these propositions, when including handset credit. All sales people (in shops, call centers and indirect channels) were trained and tested on their knowledge of these specific rules, thus ensuring that credits are contracted responsibly and the customer's interest is put first.

> The value we create for society

Innovation

Customer demand and our ambition to simplify and grow are the main drivers for innovation. We apply proven technologies in existing products and services and are partnering with startups and scale-ups to promote innovation through a wealth of events. Our innovations make people more comfortable in their homes, increase healthcare efficiency and make cities smarter.

KPI	Result 2017	Result 2016
Revenues from new services	€ 134m	€ 115m
M2M subscribers (#SIMs)	~3.6m	~2.5m

We continuously apply proven technologies to existing and new products and services to fulfill changing customer needs. We do this both in-house and, increasingly, by partnering with innovative technology companies to turn promising ideas into commercial products and services that will improve lives. As well as creating value for society, innovation improves customer satisfaction and loyalty.

Open innovation

We partner with others to accelerate innovation, mainly through our investment fund KPN Ventures and at KPN's New Business division. This collaborative approach brings mutual benefits: we benefit from the drive and creativity of entrepreneurial talent and learn from the speed at which startups can experiment, while they benefit from KPN's industry expertise, professional network and our channels to customers.
We organize a wealth of events promoting innovation, such as meetings where startups and scale-ups pitch their innovations, speed-dating, co-creation workshops, expert sessions and hackathons. Last year we launched the KPN Startup Circus, a large international event where 30 startups from 11 countries presented their innovations to KPN experts and executives.

We were recognized as one of the only 12 European 'Corporate Startup Stars' by the European Commission' Startup Europe Partnership (SEP). Furthermore, KPN received one of the three 'Corporate Startup Investment Awards'. Our EUR 70 million corporate venture capital fund KPN ventures, invests in strategically related startups in areas such as smart homes, cybersecurity, digital healthcare, data & analytics applications, over-the-top services and cloud computing. Since its start in 2015, it has invested in 13 European technology companies both directly and indirectly through its fund-in-fund investments in the CottonWood Technology Fund and Keen Venture Partners. In addition, KPN has a Startup Liaison team that scouts both national and international innovative technology companies and works as an entry point for startups and scale-ups to connect with KPN and to find the right contacts within the KPN organization to discuss a potential cooperation. In 2017, more than 80 deals were made with startups from pilot-projects, investments by KPN Ventures, co-creating propositions, distribution partnerships or providing infra/data or security solutions by KPN.
We foster an open culture and an agile way of working. We constantly challenge ourselves to come up with new ideas to create new value for customers and improve our way of working. Like the startups we work with, our approach is to think big, but keep experiments small and learn quickly.

KPN Ventures
KPN Ventures accelerates outside-in innovation by investing in promising startups and scale-ups. We use our expertise to support and stimulate their growth, and learn from ambitious young companies. In 2017, the KPN Ventures team executed five direct investments, including in the German company Personal MedSystems, developer of the CardioSecur mobile ECG technology, Rotterdam-based Sensara, which offers a monitoring solution for elderly care, German smart intercom maker Nello and the Belgium-headquartered data science company Sentiance.
We indirectly invested in sustainable cooling technology company SoundEnergy, via the Cottonwood Technology Fund, and participated in two follow-up investments in portfolio companies Actility and EclecticIQ.

> The value we create for society

KPN Technology Labs
Our KPN Technology Labs bring together multidisciplinary teams of KPN experts, customers, developers and suppliers to turn ideas into concrete products and services. The labs combine technical innovations with existing network infrastructures, and develop new technologies. We then test these innovations with the general public in our field labs, which we also prefer to set up with partners. Examples of innovations that are the result of the KPN Technology Labs include LoRa and voice over WiFi. We are currently testing 5G internet.

KPN New Business
KPN New Business creates value for our consumers and business customers by developing, launching and growing a new portfolio. Cubes is KPN New Business' incubator for the development and launch phases. Cubes works using a three-step model: seeking the right opportunities; qualifying the value for customers, partners and KPN; and finally developing the technology and the business model together with customers. Projects that have been incubated successfully are subsequently moved to the growth phase at this stage. Technologies that successfully make it through all these steps then enter the growth phase. The most important New Business innovations developed together with partners in 2017 were:

> **Internet of Things (IoT):** We have expanded our state-of-the-art IoT connectivity with KPN Things to a scalable total solution. KPN Things helps clients to quickly and easily implement IoT solutions and get the most out of data generated by IoT, enabling them to monetize its value in the fastest and best way possible. These data-driven solutions offer customers the full combination of data generation, aggregation and analytics, based on IoT and other data sources.

We have partnered with Luxemburg-based B Medical Systems to monitor vaccine conditions during transport to ensure a stable quality of the vaccines from the manufacturer to the patients. We also added geolocation to our LoRa offering, enabling customers to easily and efficiently track and trace all kind of assets - such as bicycles, containers and machinery - based on the network's capabilities.

Together with KPN, Medizon is working to make AED cabinets smart. By linking sensors installed in the cabinets to the LoRa network, Medizon can monitor the devices 24/7. Thanks to this innovation in healthcare, Medizon can monitor the status of AEDs much better, make sure that more AED's are operational, and prevent that community responders are sent to the wrong AED cabinet, which helps to save lives.

DHL Express is piloting the DHL Cubicycle, a customized cargo bicycle which can carry a container with a load of up to 125 kg (one cubic meter in volume) for inner-city deliveries. Thanks to the LoRa network of KPN they can be monitored and managed from a distance. Another innovation example is our partnership with the Dutch army to create MilSenz, a sensor that registers movement in war zones or potential war zones. This sensor, developed in a period of just two months, was shortlisted for the Digital Transformation of the Year award at the Computable Awards 2017, and has sparked interest from other sectors where surveillance plays a role.

Last year, the IoT academy reached 3,850 people in 260 companies and trained 160 developers in LoRa technology.

> **Cybersecurity:** We expanded our cybersecurity portfolio with the complementary acquisitions of DearBytes and QSight IT, which added high-quality threat prevention and detection capabilities to our service offering to various market segments.

Also, our operational technology monitoring service enables us to service Industry and Utilities clients, and it positions us as a future service provider for IoT security monitoring in a market that is yet to be established.

> **Digital Identity and Transactions (DIT):** We see an increasing demand for digital identity and transaction services, driven by the digitalization of the society and the continuous growth of e-commerce. Last year we acquired payment service provider capabilities and are now offering payment solutions to customers. Combining these capabilities with our existing identity portfolio is the start of a broad suit of DIT services that will help clients gain trust in digital trade relationships, facilitate financial transactions and enable the exchange of value in the digital age.

> **Smart Cities:** Our nationwide IoT network (LoRa, 2G, 3G and 4G) is stimulating smart innovations for cities as we connect people, machines and objects to generate data. Smart applications can then help improve traffic flow, reduce the cost of refuse collection, guide motorists to empty parking spots and improve air quality – all of which makes cities more attractive places to live and work.

KPN is working with the city of Amsterdam on projects including smart street lighting. Our data platform and connectivity are contributing to intelligent projects. These include a smart energy solution, in which energy is exchanged between solar panels, charging stations for electric vehicles and the grid, and smart parking solutions in the city of Rotterdam.

> **eHealth:** Our eHealth applications use technology to help keep healthcare affordable and accessible for patients and healthcare providers, making patients safer and healthcare more efficient. Our eHealth solutions include cardiology tool Hartritme Diagnostiek, digital workplace Werkplek voor de Zorg, and ZorgCloud, which healthcare providers use to work and exchange information in a secure digital environment.

- Vitaal Thuis: We introduced KPN Vitaal Thuis, a lifestyle monitoring app that helps carers trace the activity of elderly people living alone. eHealth company Sensara has developed a sensor solution that tracks activity, signals changes in behavior and informs carers via an app if there are any deviations from normal patterns. This extends the period elderly people can live independently and safely in their own homes, and provides ease and reassurance.

> **SmartLife:** With KPN SmartLife, we offer a series of smart connected home services through a single app. We are continuously experimenting with new devices, partners and propositions to find the right value for our customers. As more and more customers grow familiar with connected devices in and around their homes, we believe this innovation helps make people feel more comfortable and safer in their daily lives.

> **The New Way of Living and Working (NWLW):** Technology is having an impact on the way we are working, on the content of work and makes green working possible. In previous years we focused on enabling the NWLW of our employees by shifting the attention from steering on attendance towards steering on outcome. This resulted in an average participation of 77% of KPN employees. The percentage of employees who feel they can work according the NWLW has unexpectedly declined.
A possible reason can be that employees who work in Agile teams, which often requires physical participation, have the impression that it replaces the NWLW. The NWLW affected the way the office is used. We introduced hubs; attractive offices at key locations in the Netherlands. In 2017, we also started to implement new office software which improved collaboration at a distance. There is still much to win if we work on integrated solutions in a joint effort with our IT, HR and Real Estate Services (RES). KPN therefore focuses more on the use of technology to reduce commuting and unnecessary traveling between hubs by making new collaboration tools available and by stimulating the use of public transportation. We also continue to inspire our customers to innovate their way of working with the latest technologies.

Last year, we initiated an impact study on the NWLW. In 2017, we evaluated the outcomes and the method used and started an update of the calculations.

> The value we create for society

Reliability

11 SUSTAINABLE CITIES AND COMMUNITIES

We want everyone to enjoy the benefits of connectivity without having to worry about being hacked or having their privacy violated. As the communication devices and data systems our customers use become increasingly interconnected and sophisticated, so do the threats to cybersecurity and privacy. This means we continuously monitor the security landscape to ensure we protect not only ourselves and our customers, but also society as a whole.

KPI	Result 2017	Result 2016
% of customers helped (within eight hours) who were unintentionally infected by malware	99%	96%
% of Dutch people that believe their data is safe with KPN	70%	70%

Privacy

Customers must be able to trust us to handle their data with great care, always with their interests at heart. The proliferation of devices collecting data makes it imperative that people's personal information is kept safe. Our customers rightly expect this of us and it is a responsibility we take very earnestly. In 2017, 70% of customers said they believe their information is safe with KPN (2016: 70%).

GDPR

In 2017, we stepped up our preparations for the introduction of the Europe-wide General Data Protection Regulation (GDPR). This law, which will take effect on 25 May 2018, imposes much stricter requirements on the way companies process data and use and store customer information. Under GDPR, for example, the onus will be on KPN to prove we are always in control with regard to data protection.

We are in the process of setting up a data processing register – one of the main GDPR requirements. This registry will log where and which personal data are being processed, for what purposes, This will help us gain a better overview and control of data processing and associated privacy controls.

KPN's GDPR implementation program is led by a multi-disciplinary team headed by our Privacy Office. The team includes experts in compliance and governance, commercial use of data, technology, program and project management and key business owners.

Safeguarding privacy by design

It is important that employees are aware of privacy rules. All KPN employees are required to complete our compliance and integrity e-learning Spot On, part of which covers privacy. We plan to introduce a more specific privacy training in 2018. All new products must safeguard users' privacy by design. Last year, we developed tooling for and began testing what we call a privacy impact assessment. This is a questionnaire for KPN employees who wish to develop new products or processes involving personal data, or adapt the use of an existing product or process. This will become a compulsory step in KPN's change management process, ensuring KPN staff is sufficiently aware of the privacy impact in everything they do. This should be fully implemented by 25 May 2018.

Lawful intercept

We respect our customers' right to privacy. At the same time, we are legally obliged to disclose certain information, initially obtained by intercept, to national investigation agencies. Our infrastructure must facilitate this and we must cooperate with law enforcement agencies as specified in the Telecommunications Act.

We treat this obligation seriously. A liaison office is available 24/7 to facilitate interaction with law enforcement for all KPN brands. We assess incoming warrants and carry out various checks to filter out any uncertainties. If we discover any discrepancies, we reject the warrant, inform the agency involved and follow the relevant procedures. In 2017, a mismatch was found in 1.4% of the warrants received. Of the interception orders 99.5% concerned telephone numbers, 0.1% related to email addresses and in 0.4% of the cases we were ordered to intercept IP addresses.

Simpler privacy statement

In line with our KPN strategic goal to simplify, we started streamlining our overview of how we process customer data. In 2018, we intend to simplify our privacy statements to make it clearer to customers how KPN uses different types of data. Looking forward, we plan to make a one-minute subtitled film about privacy at KPN and will also make a braille version of our privacy statement available.

Security

Our security policy is based on the security life cycle concept: prevent, detect, respond and verify. We have a strategy and policy team for prevention, a REDteam of ethical hackers to proactively detect, a Computer Emergency Response Team (CERT) to respond, and a team of senior security officers to verify and implement security measures. Our Security Operations Center (SOC) and CERT monitor our systems and networks 24/7 and provide rapid response to resolve any vulnerabilities detected.

Revised policy

Since our security policy was first launched in 2013 it has been updated every quarter, becoming more detailed. After four years of incremental changes, we thoroughly updated our security policy in 2017. Following our own review and feedback from KPN stakeholders, we relaunched it internally last year.

Enhancing security for our customers

We launched a pilot in 2017 to help our customers to better defend themselves against Border Gateway Protocol (BGP) anomalies. An anomaly typically occurs when other parties, such as criminals, hijack BGP traffic. By redirecting BGP traffic, they can harm other companies. Research is required to quantify this problem, so we initiated the pilot to monitor BGP traffic to seek anomalies globally and analyze them so we can identify the attacks. This should enable us and our customers to act at a very early stage to counter a BGP attack. The pilot is scheduled to finish in 2018.

In 2016, we began securing KPN's email system to protect customers from fraudulent emails. During this project, which was completed in 2017, we set up a new mail platform, reducing spam and phishing emails coming from KPN.com domains. We also enhanced network security by strengthening our system for vulnerability management.

Strengthening our proactive approach

We strengthened our capabilities to be more proactive, setting up CISO Lab and a new R&D unit to develop security solutions currently unavailable on the market. In 2017, CISO Labs focused on the secure transfer of large files. We incorporated threat hunting in our threat intelligence process and fine-tuned our threat intelligence reporting.

We believe our proactive approach to security contributed to safeguarding our system from potential harm during the WannaCry ransomware attack in May 2017. This attack caused major damage to many organizations across the world, but did not affect our systems.

How we enhance security for society

At KPN, we share our knowledge with the outside world to help improve security in society. Our experts speak at security conferences around the globe to share the insights and results of our work. Our Chief Information Security Officer is a faculty member of Singularity University, a Silicon Valley think-tank that offers educational programs and acts as a business incubator. Last year, we continued our efforts to share security and continuity insights with the wider public during our Guest Hacker programs, ensuring insights from inspiring security speakers become widely available. In addition, 2017 was the fifth consecutive year KPN was the main partner for the Dutch Alert Online campaign.

We continued our work on the EU Steering Committee in Quantum Technologies, which is part of the EUR 1 billion EU flagship program to address, amongst others, security issues related to quantum computer technologies.

Together with Cisco and McAfee, we launched Cyber Central in 2017. Cyber Central is a forum that helps customers better understand and address cybersecurity issues. We hosted a 'Girlsday', where we introduced girls aged 10-15 to technology. This is part of the JetNet program aimed at interesting more girls in technical education. We also continued to organize activities for high school students to teach them basic security skills.

Detecting and resolving security breaches

Last October, Belgian investigators reported a vulnerability in the security protocol (WPA2) used for WiFi. In cooperation with the Netherlands' National Cyber Security Center (NCSC) and other industry players, Dutch telecom and internet providers investigated the impact on the use of WiFi. Research showed that routers provided by KPN to its customers are not vulnerable to this and have the latest update.

In 2017, 19,921 processed virus notifications were detected based on information from trusted partners. In 98.8% of cases, our KPN Abuse team could act on information within eight hours to help customers infected by malware, exceeding our 98% target.

For 2018, we plan to continue our efforts to enhance security, working on a list of 11 IT security priorities with a particular focus on aspects such as implementing endpoint protection on KPN servers.

> The value we create for society

Sustainability

In 2017, our operational excellence programs led to a saving of EUR 2m, partly due to the energy reduction activities in our networks and fuel savings of our leased cars. According to DJSI and CDP, we are a world leader in our industry that takes corporate actions on climate change. In addition, we have started a program to become a virtually circular company by 2025. In this bold ambition our suppliers play a key role. In a sustainable society, everybody can take part. We deploy our services to connect all people, even when contact is not self-evident.

KPI	Result 2017	Result 2016
Energy savings by customers as % of KPN Group energy usage	60%	54%
% reduction of energy consumption KPN Group compared with 2010	24%	20%
% realized improvements on corrective action plans	82%	77%
Number of suppliers that signed the circular manifesto	7	Scope and targets 2017 / 2025 defined
# of elderly facilitated to live independently	11,466	11,371
% chronically ill children provided with a KPN Klasgenoot (#)	(1,109) 100%	(978) 100%

Environmental performance

To respond to increasing customer expectations and be prepared for stricter legislation around climate change, we have continued our efforts, focusing not only on CO_2e (equivalent) reduction, but also on energy reduction. Our total energy reduction since 2010 is 24%, even though the volume of our ICT services has almost increased tenfold in the same period. This is better then our target for 2017, due to additional energy savings in our networks, data centers, offices and cars.

KPN has been climate neutral since 2015. If we had not used green energy, our gross location-based CO_2e emissions would have been 335kTon CO_2e. To be climate neutral we use 100% green electricity generated by local wind farms and biomass plants. Other CO_2 emissions (15%) due to gasoline and petrol

CO_2e-emissions own operations Scope 1 and 2 (in kTon)[1]

	Gross CO_2e Location based			Net CO_2e Market based		
	2010 base year	2016	2017	2010 Base Year	2016	2017
Scope 1 NL	59	34	33	59	0	0
Scope 2 NL	345	314	300	79	0	0
Total NL	**405**	**348**	**333**	**139**	**0**	**0**
Total KPN Group	**430**	**351**	**335**	**164**	**0**	**0**

1 Underlying energy data are disclosed in Appendix 6.

(cars and emergency power) are compensated with Gold Standard projects and forest compensation projects.

Since 2014, we have measured and reported the CO_2e emissions in our supply chain. To be able to report on real figures, instead of using a model, we discussed emissions in the chain with some of our suppliers. Based on these real figures we defined projects to reduce the CO_2e in the chain in the future.

Making KPN more circular

KPN understands that a circular economy is more than just recycling resources. We share the responsibility for migrating to renewable and finite resources with our suppliers and customers and are aware that we can make an important impact on society. Given that responsibility, we started a program to further integrate circular economy within KPN to reach our ambition of having close to 100% circular operations by 2025. This is in line with the Dutch government's ambition to reduce raw material use by 50% by 2030. Our implementation strategy will include KPIs and a monitoring dashboard to support reaching our ambitions. Developing the roadmap is also included. Already 53% of our equipment and materials are currently reused or recycled.

We reached one of the first milestones of this program in 2017, when we signed our circular manifesto with seven of our strategic suppliers in networking and office equipment. This aims to achieve circular results in an ecosystem by adjusting product design, for example using recycled covers and recycled scarce materials. We intend to sign the circular manifesto with at least another eight suppliers in 2018.

"KPN is committed to the principles of a circular economy, which emphasize recycling and longer product lifespans"

The International Telecommunication Union (ITU). is preparing a guideline for the ICT industry based on KPN's circular manifesto.

Networks and datacenters

Our fixed and mobile networks use the majority of our electricity consumption (76%). By removing or replacing old equipment with energy-efficient models and improving cooling, we saved 30 GWh in 2017, which is 4% of our network and data center energy consumption. This more than compensates for the additional energy usage due to the network expansions and improved quality and speed of fixed and mobile network.

Our data centers are already energy efficient, so it becomes more difficult to realize large improvements. In total, the energy efficiency has increased by 15% compared to 2010, so we have not completely met our target of 15.5%. By using more outside air for cooling instead of water we reduced both energy and water consumption. To realize negative CO_2e emissions we are exploring ways to reuse waste heat. We are working on exchanging warm and cold temperature in a ring in Aalsmeer with a local school, an agricultural farm and a swimming pool. Together with the city of Almere, we are exploring the possibilities of bringing district heating to the newly built Nobelhorst neighbourhood in Almere, using the heat from the NLDC datacenter.

Our strategy to become a circular company

Reduce: Use of virgin materials
> Virtualization
> Dematerialization
> Reused products
> Recycled/biobased materials

Extend: Use products longer and better
> Lifespan extension
> Rates of utilization

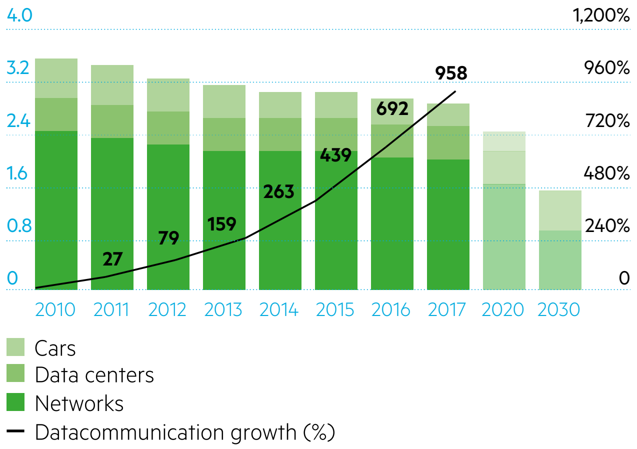
Recycle: High-end second life of products and materials
> Reuse
> Recycling
> Reduce incineration and landfill

> The value we create for society

For 2018, we aim to reduce our Power Usage Efficiency (PUE) by 15.5% compared to 2010. A part of our data center services is related to colocation, which is where we rent out space for our customers to place their own ICT. The way our customers fill their space with ICT equipment influences KPN's PUE. Data centers used for hosting services can be more energy efficient as we can influence the ICT ourselves and the PUE.

Energy consumption compared to data communication growth

In petajoules



In the future, we want all additions to our networks and data centers to be fully circular. Data transport will continue to increase and we aim to accommodate this more efficiently by migrating to cloud solutions and network function virtualisation. Some routers and switches can be reused in our networks, as well as metal server racks in our data centers. We are also able to upgrade our fixed infrastructure to enable high bandwidths without having to deploy new materials like fiber. The idea behind the circular manifesto, is that the equipment we buy from our suppliers is designed in such a way that they can easily be separated in reusable parts or recyclable materials. Gaining the knowledge of which plastics can be recycled or separated is key to achieve that objective. We use certified partners to improve waste treatment and based on the information provided decrease the usage of virgin materials in the future by using products/materials that have been designed to be recycled (i.e. with a life cycle perspective in mind).

Products

Most client-related products are modems, TV set-top boxes or mobile handsets. For modems and TV set-top boxes, standardization is a great way to ensure reuse and upgrading. We intensified our program for collection, reuse and recycling for this category. In 2017, we collected about 85%, exceeding our target to collect 80%. Our customers can choose to have their mobile handsets repaired through our repair service or insurance service, if they opted for this.

"Our environmental efforts are focused on reducing our environmental footprint despite exponential data growth"

KPN continues to support the sustainable mobile phone Fairphone, which now also allows for the camera to be updated separately. We also offer refurbished phones via our Telfort brand. We provide smartphones that have more recycled content and a more circular design, which will enable circularity for our consumers. We also work with international lobby groups, such as the GSMA, ITU and GeSI, to try to influence equipment suppliers to make their devices more sustainable, better designed for the circular economy and easier to recycle.

We improved the energy efficiency of the modems and set-top boxes our customers use for our services. Although the number of devices increased, the CO_2e emissions reduced.

With the approach advocated in our circular manifesto, we aim to decrease the use of virgin materials in the products we buy from our manufacturing partners.

Real estate

Our focus is on ensuring that the buildings we rent are flexible in both function as well as lay-out. One thing we did to achieve this was opt for a number of walls in Rotterdam that can be easily placed and re-placed so that we can change the layout of our offices. Besides flexibility, we aim for circularity in other parts of our interior as well. A part of our square meters in use is covered by carpet tiles with recycled content. In addition, part of our furniture is reused or recycled.

We are also looking into BREAAM requirements for sustainable offices. Our offices have saved 57% on energy compared to 2010 by optimizing workspace and implementing an energy savings program. To improve circularity, we are introducing usage optimization through a SmartBuilding concept in our new corporate headoffice. We also recycle carpets and furniture together with office suppliers.

Fleet

From 2025 onwards, we aim to only lease fossil fuel-free cars. In the meantime, we will reduce the maximum CO_2e emissions of our vehicles by switching to car models with cleaner engines that emit less particulate matter. We exceeded our 2017 target to reduce car fuels for our leased cars by 40% compared to 2010. We realized a 43% reduction. As part of the NWLW program we encourage our employees to work at home and by doing so reduce greenhouse gas emissions from commuting. Given the higher availability of full electrical cars with a longer range, for all employees entitled to a company lease car, it is now possible to select a fully electrical vehicle.

Our engineers took part in a pilot to use bikes in busy city centers, instead of cars to reduce the exhaust of particulate matter and CO_2. In addition, we leased two electric cars and 10 biogas cars to start transforming our fleet.

In 2017, we reached an inflow of 7% fossil fuel-free car in our lease fleet for both employees and engineers.

Ambition for 2030 and beyond

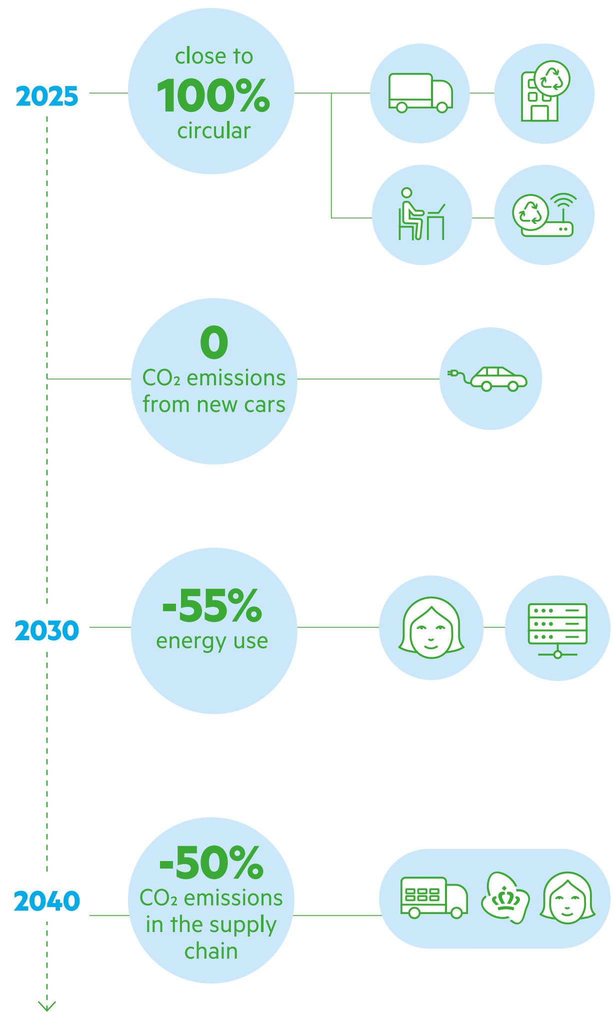
KPN has joined the Science Based Targets Initiative (SBTI). Our CO_2e-reduction objectives were approved by SBTI which means they are in line with the international climate goals of the Paris Agreement. These targets not only cover our own energy consumption, but also reduce the CO_2e emissions in the supply chain both during production and the use phase of our customers. We aim to remain climate neutral until at least 2050 and reduce KPN's absolute energy consumption by 55% in 2030 compared to the 2010 baseline. This includes decreasing energy consumption in our networks by 60% compared to 2010 and switching to 100% CO_2-neutral cars from 2025.

We aim to reduce the emissions of our supply chain from suppliers to customers by 20% in 2025 and by 50% in 2040 compared to 2014. To reduce our impact on materials, we aim to be close to 100% circular by 2025.

The potential of ICT to reduce environmental impact

ICT has a significant role to play in activities to combat climate change and its global impact. According to the Global e-Sustainability Initiative's #SMARTer2030 report on the Netherlands, ICT could contribute to a saving of 74 million tons of CO_2e and 5.6 billion liters of fuel in the Netherlands by 2030. As KPN's own operations are climate-neutral, all our services are low-carbon services. Moreover, our customers can reduce their own energy consumption and CO_2e emissions by using our services. By using our cloud services, video conferencing and audio conferencing, for example, our business customers can meet and collaborate online, reducing the need for office space and the need to commute, which in turn lowers traffic and therefore energy consumption, CO_2e emissions and particulate matter.

By 2020, we want our services to help our customers to save more energy than 80% of the energy consumption of KPN. We measure this 'avoided' energy consumption by calculating the impact on our consumer and business customers of specific products and services (see Appendix 6, table 8). The calculations are based on measured data, available statistics, recognized studies and expert judgments. In 2017, we realized 60% savings, which exceeds our target of 56%. Using these services helped our customers to save about EUR 70 million in energy costs. The majority of these savings are due to reduced car fuel consumption (40 million litres). This is the equivalent of the fuel 46,000 cars use in a year. Additionally, our LoRa network allows for energy-efficient IoT applications for our customers such as traffic control for bridges and intelligent waste bins and Smart City initiatives. We maintain our ambition for 2020 to realize savings equal to >80% of KPN Group's energy use, based on our new services using IoT and LoRa. For more information on our Smart City initiatives, see page 30.



Figures and calculation methodology: Detailed environmental figures including intensity figures, targets and avoided energy consumption by our customers can be found in Appendix 6: Environmental figures. Calculation methods are explained in Appendix 3. Overview of major KPI's are shown in Appendix 2.

> The value we create for society

Sustainability throughout the supply chain

We work closely with our suppliers to improve the quality and environmental friendliness of our equipment and products, to save costs and to reduce the environmental footprint of our activities. Our business partners share our commitment to a sustainable future and adhere to international agreements, laws and regulations related to good working practices.

In 2017, we continued our program to simplify our supply chain and align the suppliers we work with, including startups, entrepreneurs and smaller companies. This has contributed to sustainable savings that are included in our run-rate simplification savings. One area of procurement we are paying close attention to is KPN's transition into a more circular business model. KPN's goal is to be close to 100% circular in 2025, and to achieve this we need the support of our suppliers. As part of this, we are looking at ways our suppliers can help extend the lifespan of equipment and products and make them more recyclable, and we stimulate them to use recycled contents in their products.

In 2018, we will continue to encourage innovation and proactively steer the business towards suppliers with inventive and sustainable products and solutions that can improve our own customer offering.

Our procurement process

Suppliers can have a direct impact on the extent to which we can operate as a circular company. As such, we take their environmental performance into account. Our procurement process is based on a competitive comparison of suppliers and applies economic, technical and CSR criteria to select suppliers.

To ensure compliance with our quality standards, all our procurement staff attended a training session last year on environmental, social and governance (ESG) risks and to familiarize themselves with requirements set by our industry organization Joint Audit Cooperation (JAC), as well as the latest developments regarding circular criteria in procurement.

Our procurement process also includes an assessment of all new contracted suppliers, classifying them based on the potential social and environmental risk their operations, products and services represent. We assess this risk based on three parameters:
> Geographical areas;
> Spend; and
> Potential environmental impact of a supplier's operations, products or services.

We identified 53 high-risk suppliers in 2017. High-risk suppliers are audited by independent external auditors once every 2-4 years. Last year, we also saw the introduction of a shorter procurement process Proof of Concept procedure. Not only does this support KPN's innovation strategy, it allows startups to demonstrate more quickly what their products and services could offer KPN.

Sustainability initiatives

Working with our suppliers, we implemented the following initiatives in 2017 to improve the sustainability of the supply chain:

Sustainable solution 1:
We replaced the full printed terms and conditions in the SIM Packs we sell with a concise leaflet. This leaflet meets all legal requirements, providing an outline of the terms and conditions and referring readers to our website for a full version. By doing this, the environmental savings for our SIM Pack KPN postpaid CM were as follows:

Climate change (CO_2-Eq)	Down 50%
Total energy use (MJ-Eq)	Down 53%
Water use (ltr)	Down 61%
Land use (m2a)	Down 57 %

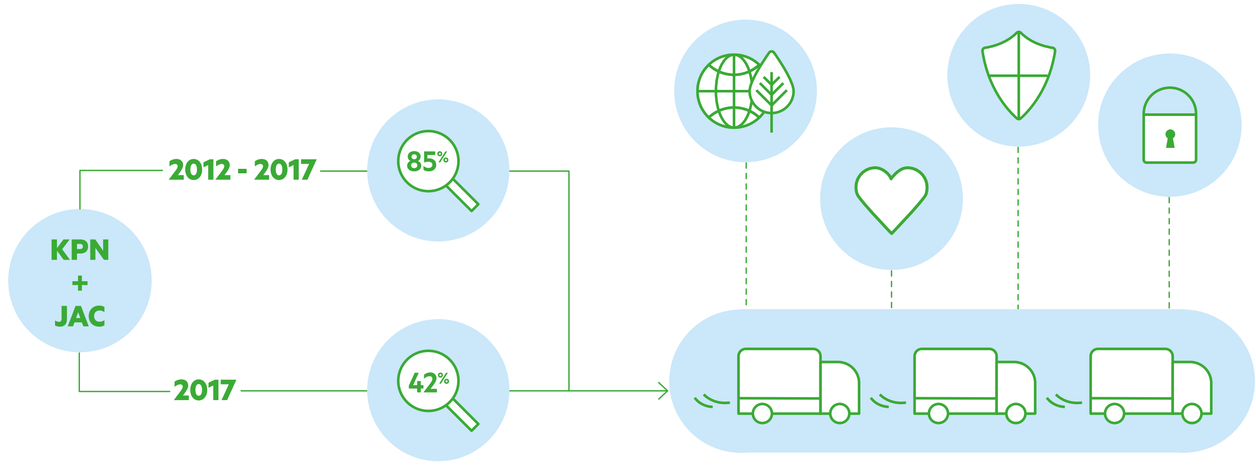
Sustainable solution 2:
We started refurbishing and reusing set-top boxes and V8 modems. Starting in 2017, our supplier Drake & Farrell changed its repair process, refurbishing all set-top boxes of the types 2260 and 2952 and V8 modems submitted for repair, so they can be reused. This increases their lifespan from five years to eight years. As a result, we have cut the amount of waste and the need to purchase new equipment. From January-December 2017, 24,450 of these types of set-top boxes were repaired for reuse.

Supplier audits

KPN encourages its suppliers to improve their environmental footprint and their standards regarding health, safety, security and working conditions. For more information on how we seek to reduce CO_2 emissions and introduce a circular way of working in the supply chain, see chapter Environmental performance.

We promote safe and fair working conditions together with our partners in JAC – an association of international telecom operators that aims to verify, assess and develop corporate social responsibility in the supply chain. JAC monitors suppliers and conducts on-site audits to ensure they comply with JAC supply chain guidelines.

In 2017, KPN worked together with JAC to audit 42% of our high-risk Tier I, Tier II and Tier III suppliers, which was well above our 35% target. We plan to increase audits in 2018 in cooperation with JAC. From 2012-2017, 85% of our high-risk suppliers were audited in the following countries: Argentina, Brazil, China, Czech Republic, Korea, Malaysia, Mexico, Thailand and Vietnam.



Corrective action plans

If audits show suppliers are non-compliant, a corrective action plan (CAP) is drawn up to address the issues raised in the audit report. The supplier's management is responsible for reporting improvements until they comply. In 2017, KPN's suppliers closed 82% of all outstanding corrective actions related to audits conducted in 2014, 2015 and 2016 (77% in 2016, 58% in 2015), which means we met our target. We aim to achieve 70% of the improvements in CAPs in 2018.

CAPs set clear deadlines and we aim to close all corrective actions within 12 months. Although all our suppliers are committed to implement all CAPs, we have found that some issues are hard to resolve within one year. In 2014-2016, 53% of still unresolved issues concerned business ethics and environment such as greenhouse gas emissions from energy use. Whenever KPN is not comfortable with the submitted evidence and improvements, we suggest conducting a re-audit.

Corrective Action Plans based on audits conducted by KPN

	2017	2016	2015	2014
Business ethics	11	7	19	18
Discrimination	1	–	–	4
Disciplinary practices	–	2	–	–
Environment	12	18	15	19
Freedom	1	1	2	2
Health & safety	27	31	45	34
Labor	–	2	5	3
Unlawful labor	1	–	8	6
Wages & compensation	3	6	5	1
Working hours	15	16	9	12
Other	1	–	–	–
Total	**72**	**83**	**108**	**99**

Mobile workers survey

In cooperation with JAC, KPN conducted a survey last year among the employees of a supplier who manufactures mobile devices. This gave KPN unfiltered feedback on the employees' working conditions at the manufacturing site. The mobile workers survey was conducted at the same time as the on-site audit, allowing us to compare management's answers with those of individual employees at different levels in the company. This survey provided a much fuller picture of how employees experience their working conditions than an audit.

JAC event

In 2017, KPN hosted the annual JAC Seminar, a meeting where JAC members, key partners and suppliers discussed how to raise awareness of the trends and challenges regarding corporate responsibility in the supply chain. Discussion topics included how to promote a circular economy and capacity building.

Supplier Code of Conduct and human rights

In accordance with the UN Guiding Principles on Business and Human Rights, KPN is committed to respecting the 10 guiding principles relating to freedom of expression, the protection of human rights by states and the respect of human rights by operators. In our Supplier Code of Conduct, which forms the basis of our agreements with suppliers, we ask them to operate in the spirit of the Charter of the United Nations.

We expect our suppliers to apply the Supplier Code of Conduct in order to comply with all relevant laws, regulations and standards in all of the countries in which they operate and to go beyond compliance to applicable laws, drawing upon internationally recognized standards, taking responsibility to continually improve social and environmental conditions and ethical behavior. We also expect our suppliers to ensure that products supplied to KPN do not contain conflict minerals or their derivatives.

We adapted our Supplier Code of Conduct last year to comply with international standards, revising our commitment to work through an innovative development in products and/or services that offer environmental and social benefits, are low energy and help reduce CO_2 emissions across the entire value chain.

> The value we create for society

Social inclusion

KPN Mooiste Contact Fonds
In 2017, the KPN Mooiste Contact Fonds (KPNMCF) celebrates its tenth anniversary. Our corporate foundation connects people in need of social contact, such as the elderly, people with autism or chronically ill children. We use our KPN technology and employees and make financial contributions to several Dutch NGOs and social partners in order to connect these vulnerable groups to society. In 2017, we received 1,883 voluntary contributions on many of our projects.

10th anniversary
On 21 September 2017, the KPNMCF kicked off its tenth anniversary festivities by hosting a conference together with its partner Coalitie Erbij on the growing issue of loneliness. About 350 people attended the conference in the auditorium of the Rijksmuseum.

In 2017, the KPNMCF organized several events for socially isolated people at the Rijksmuseum in Amsterdam and in Museum Boijmans Van Beuningen in Rotterdam. The foundation also organized a theatre tour with Willeke Alberti that traveled to five theaters across the country.

Zilverlijn
We also continued to work with the National Foundation for the Elderly on our Zilverlijn project, which tackles loneliness among elderly people. Every week, KPN volunteers call lonely seniors. They do this from the so called Zilverlijn bus, which stops at several KPN offices for several days. All connections are made with KPN techniques and tools.

KlasseContact
KlasseContact has been connecting chronically ill children to their classrooms and school friends for over ten years. It is run in partnership with the educational organization EDventure. In 2017, 1,109 children received and/or used the KPN Classmate digital device. A successful communication campaign in 2017 for our KlasseContact program improved the awareness of the KPN Mooiste Contact Fonds' most important project.

Papageno Foundation
In 2017, we started a new initiative with the Papageno Foundation, which helps people with autism. Research has shown that music therapy helps to build better connections with society, so we are facilitating the design of an app and online platform that allow these people to get music therapy through their smartphones.

Social entrepreneurship and being a good employer
Many (governmental) customers add social criteria to their contracts in order to stimulate the market for social impact. KPN conforms to these criteria and has a strong intrinsic motivation to include people with a distance to the labor market. We stimulate both our customers and suppliers to create such possibilities, too.

Including people in the labor market
Our training program for customer service professionals with a relatively poor position in the labor market saw 100% of trainees completing the program continue to graduate at MBO level (secondary vocational training) in 2017. Within three months, 60% of them found a job.. Our ambition to become a circular company has a social impact as well. In processing returned equipment, one of our suppliers will employ people with poor job prospects, who will be dedicated to work for KPN. Also, we mentor top students with a migration background to help give them access to the labor market.

Including disabled and elderly people
We developed special remote controls with bigger, clear buttons for the elderly and visually impaired customers. With KPN Teletolk, we help deaf, speech-impaired and hearing-impaired people to communicate with each other and with people with normal hearing.

Loneliness among the elderly is a major social problem and partly due to the growing aging population. In order to reduce loneliness among the elderly, KPN together with the National Elderly Fund developed an app to engage elderly people. The elderly and volunteers find each other through the app and agree to meet. After less than four months, over 500 requests were posted and 250 meetings took place between lonely elderly people and volunteers. In 2018, KPN will further develop the application in order to reduce the isolation for as many elderly people as possible.

Including children by helping them to be safe online
We launched a campaign to help parents with children getting their first smartphone. The campaign with the tagline 'How do I survive my first mobile?' uses the site Eerstemobiel.nl to educate young people on issues such as etiquette, social pressure, bullying, privacy and the costs of a mobile phone. TV channel Nickelodeon will run a six-part series to help educate schoolchildren on the subject. By the end of 2017, we discontinued the children's app Mybee because there are similar apps available with strong content and not enough people were using it.

Including people who have difficulties fulfilling payment obligations
KPN is a member of the coalition of creditors that is looking for solutions to help the growing number of customers with payment arrears and debts. We run a program for customers that have difficulties affording our services and aim to facilitate and promote good personal financial management among these customers. Sometimes the comprehensibility of our correspondence appeared to be an issue. In order to avoid problems with low literacy, KPN uses language level B1 in the letters that we send them.

> Our long-term impact on society

KPN supports the SDGs

The value we create contributes to the realization of the United Nations' Sustainable Development Goals (SDGs) for 2030. In 2017, we have reconsidered the relevance of the SDGs while redefining our value creation model this year. By creating value for our customers and society, KPN is committed to contributing most to SDG 9 (Industry, innovation and infrastructure), 11 (Sustainable cities and communities) and 12 (Responsible consumption and production). In 2018, we will increase our efforts and further align the SDG sub-targets in to our own KPIs to gain more insight in our contribution to the SDGs.

Apart from our contribution to SDGs 9, 11 and 12 as explained in the table below, our non-financial objectives and targets also contribute to other SDGs, albeit in a less impactful way. In Appendix 2: Overview and connectivity of non-financial information, we show how our CSR targets and KPIs contribute to the SDGs.

You can find more information on the SDGs and our activities on corporate kpn.com/globalgoals. The numbers in the graphics refer to the official SDG numbering and do not depict KPN's ranking.

SUSTAINABLE DEVELOPMENT GOALS

SDG	SDG goal	KPN strategic relevance	Link to the value we create	Our support
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Build resilient infrastructure, promote sustainable industrialization and foster innovation.	To connect everyone in a **reliable** way, we aim to make our ICT infrastructure future proof. KPN builds the infrastructure in a continuous, iterative process with help from suppliers, to keep up with demand in bandwidth and changing societal needs prompted by digitalization.	> State-of-the-art networks and ICT infrastructure > Privacy > Security	We continuously innovate and upgrade the capacity of our best-in-class integrated network and ICT infrastructure. We invest and work to strengthen our core network and fixed and mobile network capacity and to safeguard privacy and enhance security for society.
11 SUSTAINABLE CITIES AND COMMUNITIES	Make cities inclusive, safe, resilient and sustainable.	To connect everyone in an **innovative** way, we continuously explore how our technology can help address the themes and challenges facing society today and tomorrow.	> Integrated products and services > Innovation > State-of-the-art networks and ICT infrastructure > Social Inclusion	Our new technologies and digital solutions make people more comfortable and safe in their homes, prevent online fraud, increase the efficiency of businesses and healthcare and reduce traffic by facilitating the New Way of Living and Working, make cities smarter and cleaner, and connect ill children with classmates.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Ensure sustainable consumption and production patterns	To connect everyone in a **sustainable** way, we are ambitious to limit negative impact of our (and our suppliers' and customers') activities, products and services on the climate and the environment.	> Environmental performance > Sustainable suppliers	Our own operations are climate-neutral and all our services are low-carbon services. Moreover, our customers can reduce their own energy consumption and CO_2 emissions by using our services. We have started a program to become a circular company by 2025, influence our suppliers and implement solutions for a more sustainable supply chain.

> Corporate governance

Stable steering in a dynamic environment

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

Legal structure of the company

Royal KPN N.V. is a public limited liability company established under the laws of the Netherlands, with ordinary shares listed on Euronext Amsterdam. The Articles of Association of KPN were last amended on 23 June 2016.

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

See Note 22 to the Consolidated Financial Statements for details on KPN's legal structure.

Shareholders

Share capital, listings and indices

KPN's authorized share capital totals EUR 720m, divided into 9 billion ordinary shares of EUR 4ct each and 9 billion preference shares B of EUR 4ct each. As of 31 December 2017, a total of 4,202,844,404 ordinary shares were outstanding.
Since 13 June 1994, KPN's ordinary shares have been listed on Euronext Amsterdam (ticker: KPN). KPN has a Level I ADR program, which allows investors to trade KPN ADRs in the United States on the Over-The-Counter market (ticker symbol: KKPNY). KPN shares are included in a number of leading indices, including: AEX, EURO STOXX Telecommunications Index and STOXX Europe 600 Telecommunications Index.

General Meeting of Shareholders

The General Meeting of Shareholders holds all powers that have not been granted to other company organs. It has the authority to appoint members of the Supervisory Board upon binding nomination by the Supervisory Board and to dismiss the Supervisory Board. The General Meeting of Shareholders is also entitled to adopt the Financial Statements, release the members of the Board of Management and Supervisory Board from liability, determine the dividend, determine the remuneration for members of the Supervisory Board and approve the remuneration policy and share (option) plans for the Board of Management. Furthermore, a number of decisions are subject to the approval of the General Meeting of Shareholders, including decisions entailing a significant change in the identity or character of the company or its business and various corporate matters such as proposals to amend the Articles of Association of the company, to (de-) merge or to dissolve the company, or to issue shares or reduce the issued capital of the company.

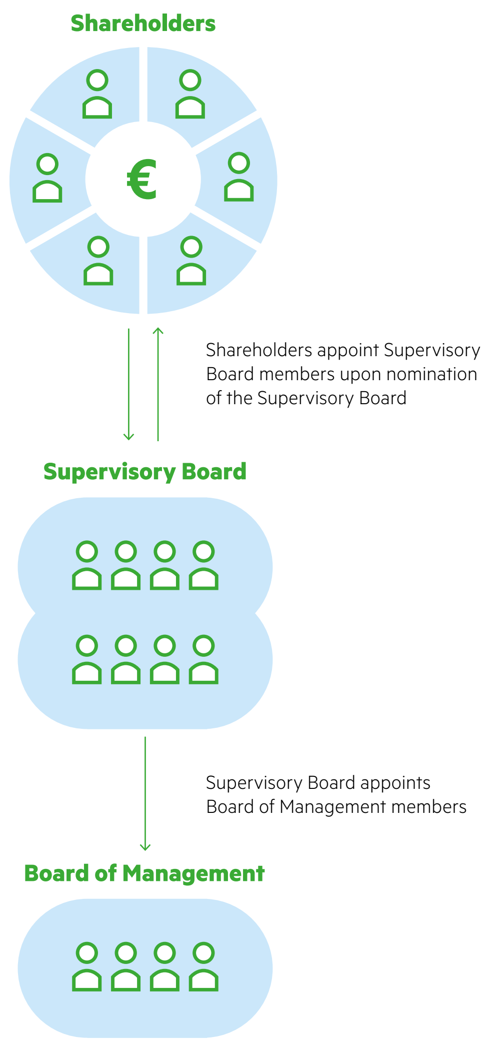
Within four months from the end of every fiscal year, the Board of Management prepares Financial Statements accompanied by an Integrated Annual Report. The Financial Statements are submitted to the Supervisory Board for approval. The Supervisory Board subsequently submits the approved Financial Statements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

Other General Meetings of Shareholders are held as often as the Supervisory Board or Board of Management deem necessary. The Board of Management and the Supervisory Board determine the agenda of the General Meetings of Shareholders. Shareholders who individually or collectively represent at least 1% of the issued capital or who, according to the Official Price List of Euronext Amsterdam, represent at least a value of EUR 50m have the right to propose items for the agenda. Every shareholder has the right to attend a General Meeting of Shareholders in person or through written proxy, to address the meeting and to exercise voting rights.

Obligations to disclose holdings

Pursuant to the Dutch Financial Supervision Act (Wft), legal entities as well as natural persons must immediately notify the Dutch Authority for the Financial Markets (AFM) when a shareholding reaches, exceeds or falls below certain thresholds of the issued capital. The AFM incorporates these notifications in the public register, which is available on its website. Read more in Note 21 to the Consolidated Financial Statements for the KPN shareholding as at 31 December 2017.

Please see 'Composition of the boards' starting on page 52, for information on the composition of the Board of Management and the Supervisory Board, insider transactions and share ownership by the members of the Board of Management and Supervisory Board.



Purchase of shares in the company's own capital and issuance of new shares

With the general aim of flexibility in financing of the company, the General Meeting of Shareholders authorized the Board of Management to purchase shares in the company's own capital and decided to reduce the issued capital through cancellation of own shares held by the company by a number determined by the Board of Management.

The General Meeting of Shareholders furthermore designated the Board of Management as the body authorized to issue ordinary shares and to grant rights to subscribe for ordinary shares, and to restrict or exclude statutory pre-emptive rights of existing shareholders upon such issuance or granting of rights.

The above authorities and decisions are limited to a maximum of 10% of the issued capital as of 12 April 2017, and are applicable until 12 October 2018. Resolutions by the Board of Management implementing the above are subject to the approval of the Supervisory Board.

> Corporate governance

Supervisory Board

The Supervisory Board oversees strategic and commercial policymaking by the Board of Management and the way in which it manages and directs KPN's operations. Members of the Supervisory Board are appointed by the General Meeting of Shareholders upon binding nomination by the Supervisory Board. The Central Works Council has an enhanced right to recommend persons for nomination to the Supervisory Board for up to one-third of its members. The Supervisory Board must nominate the recommended persons unless it is of the opinion that any such person would be unsuitable to fulfill the duties of a Supervisory Board member, or such appointment would cause the Supervisory Board to be improperly constituted. Pursuant to a specific arrangement with América Móvil, América Móvil has, as a major shareholder, a right to designate one person to be nominated by the Supervisory Board for appointment as a member of the Supervisory Board.

According to the Articles of Association, the Supervisory Board must consist of at least five and not more than nine members. Members of the Supervisory Board resign according to a schedule set by the Supervisory Board. A member steps down at the first AGM of Shareholders following its four-year term in office. In accordance with the Dutch Corporate Governance Code, members of the Supervisory Board can be reappointed once, and thereafter for a maximum of two terms of two years, stating reasons for such further reappointment.
The Supervisory Board has determined its 'profile', defining the basic principles for its composition. All nominees for election to the Supervisory Board must fit this profile. According to this profile, the Supervisory Board must be composed in such a way that members of the Supervisory Board are able to operate independently of each other and of the Board of Management. The profile is available on KPN's website.

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

Committees of the Supervisory Board

The Supervisory Board has four committees: the Audit Committee, the Remuneration Committee, the Nominating and Corporate Governance Committee, and the Strategy and the Organization Committee. These committees assist the Supervisory Board in its decision-making and report their findings to the Supervisory Board. The tasks of these committees are laid down in charters, which are available on KPN's website. Further information on the activities of the committees in 2017 can be found in the section Supervisory Board Report starting on page 58.

Board of Management

The Board of Management manages KPN's strategic, commercial, financial, CSR and organizational matters. The members of the Board of Management are appointed and dismissed by the Supervisory Board. The by-laws of the Board of Management contain, among other things, rules regarding the members' duties, powers, working methods and decision-making and conflict handling. The by-laws are available on KPN's website.

Corporate Social Responsibility governance

Corporate Social Responsibility (CSR) is within KPN embedded in accordance with the organizational structure. CSR themes at KPN are defined and approved by the Board of Management including ambitions and KPIs. Every CSR theme is assigned to a theme owner, a member of the senior management who is responsible for stakeholder dialogue, targets, progress and results. Every five weeks, these theme owners together discuss how to align initiatives and review progress against targets. This Steering Committee is chaired by KPN's CSR Manager, who is responsible for the overall reporting, approach and coherency. At least once a year the CEO attends this meeting. Four times a year, CSR data is included in the overall set of business KPIs that is reported to and discussed with the Board of Management. The CSR Manager reports to the Director Corporate Communication & CSR, who is responsible for the communication to the Board of Management.
To ensure business commitment, managers of all departments involved in one of the themes take part in the Steering Committee for that CSR theme. Those committees, headed by the theme owner, coordinate activities and report the CSR data. In order to obtain sufficient outside reflection, an Advisory Board consisting of external experts discusses CSR issues four times a year, since 2011, with the KPN in Society Steering Committee.

Compliance with the Dutch Corporate Governance Code

The Dutch Corporate Governance Code was fully revised and then confirmed by the Dutch government in 2017. KPN actively contributed to the debate leading to the revised code and supports the principles of sound corporate governance as set out therein, most notably the concept of long-term value creation. In 2017, we aimed to implement all best practices of the code, where these are applicable to us, and as far as not already applied. We updated the by-laws and terms of reference of our boards and committees, broadened our risk management activities as further explained in the chapter 'Compliance & risk' and enhanced explanations on our long-term value creation and culture, e.g. throughout this report.

We currently comply with almost all best practices, with the exception of best practice 3.2.3 regarding severance payments, where we agree to the best practice of a maximum severance payment of one year's base salary and have adopted that in our policies, but respect the existing agreement with Mr. van der Post which includes a severance payment of 18 months base salary during his first term of appointment (as was accepted under the previous version of the Dutch Corporate Governance Code).

An overview of all principles and best practices of the Dutch Corporate Governance Code as well as KPN's application thereof in accordance with the 'comply or explain' principle is available on KPN's website.

Conflict of interest

The handling of conflicts of interest between the company and members of the Board of Management or Supervisory Board is governed by Dutch law, the relevant provisions of the Dutch Corporate Governance Code and the by-laws of the respective board.

A board member is required to immediately report any (potential) conflict of interest that is of material significance to the company and/or to the member concerned, to the chairman of the Supervisory Board (or, in case of the chairman, to the vice-chairman of the Supervisory Board). The relevant board member shall not take part in discussions or decision-making on a subject in which he has a conflict of interest. Decisions to enter into transactions in which there are conflicts of interest with members of either board that are of material significance to the company or such member require the approval of the Supervisory Board.

There were no conflicts of interest in 2017.

For the In Control Statement and Responsibility Statement, see page 51.

External auditor

The external auditor is responsible for the audit of the financial statements. The General Meeting of Shareholders appoints the external auditor on a yearly basis, upon a proposal by the Supervisory Board. The external auditor reports to the Board of Management, the Audit Committee and the Supervisory Board to discuss findings pertaining to their agreed upon procedures of the quarterly financial results and audit of the annual financial results. The external auditor attends the AGM of Shareholders to answer questions pertaining to the Combined Independent Auditor's Report as included in the Integrated Annual Report. The Audit Committee approves every engagement of the external auditor, after pre-approval by the internal auditor, to ensure the external auditor's independence. All Audit Committee meetings were attended by the external auditor. For the role of internal audit, see page 50.

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

KPN has granted a call option, which is not limited in time, to the Foundation Preference Shares B KPN (the Foundation), to acquire a number of preference shares B in KPN, which have the same voting rights as ordinary shares, not exceeding the total issued number of ordinary shares, minus one share and minus any shares already issued to the Foundation. Upon exercise of the call option, 25% of the nominal value of EUR 4ct per Class B preference share needs to be paid by the Foundation. According to its Articles of Association, the statutory goal of the Foundation is "to protect KPN's interests (which includes the interests of stakeholders, such as customers, shareholders and employees), by, among others, protecting KPN from influences that may threaten the continuity, independence and identity". Consequently, in the event of any circumstances where the company is subject to influences as described above and taking public security considerations into account, the board of the Foundation may decide to exercise the call option, with a view to enabling the company to determine its position in relation to the circumstances as referred to above, and seek alternatives. The board of the Foundation is of the opinion that under normal circumstances it should not exercise its voting rights for longer than a limited period.

The members of the board of the Foundation are J.H. Schraven (Chairman), A.P. Aris, P. Wakkie, J.E.F. Klaassen and F.J.G.M. Cremers. The Board of Management has concluded that the board of the Foundation is independent from KPN in accordance with parts c and d of the first subsection of article 5:71 of the Dutch Financial Supervision Act.

The views of the board of the Foundation, summarized above, have been published on the Foundation's website (www.prefs-kpn.nl).

> Compliance & risk

Compliance & risk

Deploying effective risk management is a key success factor for realizing our strategic objectives as it provides reasonable assurance against material misstatement or loss. For this reason, KPN has implemented Internal Risk Management and Control Systems. The underlying methodology is based on relevant criteria as set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Key components of the systems are discussed in more detail below.

Maintaining effective Internal Risk Management and Control Systems require a continuous and iterative process involving several steps. A strong risk culture and control environment forms an important foundation of our control systems. After setting the strategy, the Board of Management defines its willingness to accept risks (risk appetite) in the pursuit of strategic objectives. Management subsequently assesses the main risks that could hinder the realization of the strategic objectives and defines and implements countermeasures to mitigate such risks, taking into account the risk appetite. Periodically, KPN's performance, the top risks, countermeasures, trends and incidents are reported to and discussed with the Board of Management, which defines further remedial actions if necessary.

Our Internal Risk Management and Control Systems and methodology

1. Implement a strong risk culture (control environment)

KPN strives for a business culture in which compliance and integrity are self-evident for all employees. This is, among others, realized by the following actions:

> In 2016, KPN issued a new Code of Conduct (the Code). The Code applies to all KPN employees, including the Board of Management, the Supervisory Board and temporary staff. It describes how we work in an open, transparent, honest and socially responsible way. We communicate the Code on our corporate website (ir.kpn.com), our intranet, via a mandatory e-learning for all our employees and via online learning interventions ('Workouts') that target specific segments of the population. We have a stringent approach to bribery and corruption, fraud and all other forms of (illegal) misconduct, including facilitation payments. The effectiveness of, and compliance with, the Code is structurally assessed by:
- actively detecting and investigating any alleged misconduct and taking appropriate disciplinary action if misconduct is substantiated;
- monitoring that all staff (both internal and external) completed the e-learning training for the Code; and by
- structural reporting of incidents to the Board of Management and (at least annually) to the Supervisory Board.

> To strengthen the tone at the top and in other management levels, we conducted Fraud Risk Assessments, including a risk assessment on attitude and behavior, and provided integrity training upon request.

> To emphasize desired company culture and behavior – and create awareness in the business – we developed a communication and training program on compliance and integrity subjects. Information that is important to share because of (or due to a change in) applicable policies, laws or regulations – or because of a necessity or demand in business (risk or need based) – is shared by e-learning, workshops or classroom training.

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

> KPN requires all employees and encourages external parties to (anonymously) report any misconduct by KPN employees (or suspicion thereof). Our whistleblower policy complies with the Dutch Whistleblower Act.

> We periodically measure the state of organizational culture, compliance and integrity as perceived by our employees and report results as well as plans for improvement to top and senior management, and initiate responses, if deemed necessary.

> The Board of Management has a discretionary authority to adapt the variable compensation of senior executives, based on their demonstrable efforts in promoting a culture of compliance and integrity.

2. Objective and strategy setting

KPN's objectives and strategy are described on page 8. During the objective and strategy setting process, top management takes into account the company's known risks and opportunities, and its risk appetite (see next step). The objectives and strategy are discussed with the Supervisory Board.

3. Define risk appetite

Pursuing any business objective inevitably leads to taking risks. Risks can jeopardize achieving those objectives in various ways. Each type of risk encountered is being dealt with in a manner that matches the risk appetite of the Board of Management. The risk appetite is the total residual impact of risks that KPN is willing to accept in the pursuit of its (strategic) objectives. The risk appetite per strategic objective or risk area is determined annually by the Board of Management. These risk areas comprise themes such as financial, operational, strategic, compliance and (information) security themes. Overall, KPN's risk appetite did not materially change compared to previous year.

Risk areas with a low-risk appetite, and hence a low acceptable residual risk require strong risk management and strong internal controls. Risk areas with a high-risk appetite require relatively less risk management and internal control effort. Our main risks and our response to those risks are summarized on page 49 of this Integrated Annual Report.

KPN has a prudent risk appetite, which can be described per risk category as follows:

> Strategic risks: in the pursuit of our strategic objectives, KPN is willing to accept reasonable risks in a responsible way, taking into account our stakeholders' interests.

> Operational risks: KPN is committed to a high quality of customer service resulting in an increasing NPS. We aim to limit the number of interruptions in our networks, services and systems as much as possible. We implement strict policies to keep our customer data private, safe and secure.

> Financial risks: We strive for the right balance between a prudent financing policy, sufficient investments in the business and fair shareholder remuneration. KPN is committed to an investment-grade credit profile. Read more in Note 12 of the Consolidated Financial Statements.

> Compliance risks: we are committed to full compliance with relevant laws and regulations and have a zero tolerance approach to bribery and corruption, fraud and all other forms of (illegal) misconduct.

> Financial reporting risks: we have effective control frameworks in place to minimize the risk of material misstatements and errors in our financial statements.

4. Assess risks and countermeasures

KPN has implemented effective Internal Risk Management and Control Systems to manage its main risks. The main part of these systems comprise seven KPN Internal Control Systems, that cover the most relevant risk areas for KPN, as summarized in the table below:

Control System	Control system objective
Liquidity Management and Financial Framework	Maintaining sufficient liquidity for continuity purposes and maintaining financing flexibility
Year Plan & Year Outlook	Creating shareholder value
Network Service Levels	Maintaining customer service delivery levels
RFR GRIP Framework	Maintaining investor trust
Compliance Frameworks	Maintaining licenses to operate
Main non-financial KPIs	Measuring strategic success & integrated reporting
IT Security and Continuity	Mitigating cyber threats

Strategic objectives

Every year, we assess the top risks at Group (top down approach) and Segment level (bottom up) and, if necessary, we implement countermeasures to mitigate them within the defined risk appetite. We conducted risk assessment workshops with our Commercial and Operations segments, as well as with selected staff functions in the Corporate Center.

The business objectives are detailed in a strategic business plan. Every quarter, segments perform a 'most likely' forecast four to six quarters ahead on their main financials and key performance indicators (the rolling forecast). Segments update main risks and opportunities, resulting in a bandwidth of outcomes around expected performance. Each month, segment management discusses their actual performance with the Board of Management.

> Compliance & risk

Operational objectives
KPN has business continuity plans in place to safeguard the continuity of services to customers and critical systems and processes. To manage our information security and privacy risks, we implemented the KPN Security Policy as part of the BCF (for more details, refer to the separate Privacy and Security paragraphs on pages 32 and 33).

We have implemented ISO standards in designated areas to improve operational processes. Additionally, we continuously simplify services and processes. We implemented quality improvement plans such as 'First Time Right' and continued to focus on improving Net Promoter Scores (NPS). Risks related to climate change and compliance with new environmental legislations are incorporated in our risk management and control system. For example, flooding risks are managed in KPN's business continuity strategy. With our climate neutral performance for our own operations and continued focus on absolute energy reduction, we are in a very good position to meet new regulations and customers' expectations (read more in the Sustainability chapter on page 34).

Our main suppliers comply with the Supplier Code of Conduct. Via this code, suppliers confirm that they support and respect the protection of internationally proclaimed human rights and operate in the spirit of the Charter of the United Nations (e.g. by preventing discrimination, child labor or forced labor, and by recognizing and respecting the environment in their business operations). Compliance with environmental law is covered by our ISO14001 certificate.

Financial objectives
KPN's Corporate Treasury department manages risks related to cash positions, finance agreements, credit ratings, currency and interest exposures, and non-life insurance (see Note 12 to the Consolidated Financial Statements). Treasury has defined policies with clear boundaries for these risks. Compliance with these policies is monitored frequently.

As part of KPN's tax strategy, the Corporate Tax Department recommends the most tax-efficient and responsible approach in the interest of all stakeholders, while adhering to KPN's tax policy and complying with all relevant tax laws and regulations. This determines KPN's overall tax risk appetite. As KPN proactively engages with (Dutch) tax authorities, tax exposures (if any) are contained and under control. Besides a potential tax exposure, reputational risk is always part of the consideration to apply a particular tax-planning idea.

Financial reporting objectives
Our internal controls for Reliable Financial Reporting (also known as RFR GRIP Framework) ensure that material misstatements in KPN's Financial Statements are prevented or detected in a timely manner. Each quarter, Risk Management and KPN Audit assess the overall effectiveness of the controls before publication of the quarterly figures.

The Disclosure Committee examines all reports and documents containing financial information that are intended for external publication, to ensure that these fairly present KPN's financial position and results.

Compliance objectives
Our Compliance Risk Assessment (CRA) framework comprises an integrated framework that oversees risks mainly related to compliance with telecommunications, competition, financial services (e.g. credit) and privacy legislation. Additionally, we monitor compliance with Solvency II requirements (KPN Insurance). For compliance risks, relevant processes and controls have been implemented and are continuously monitored. For risks related to our regulated business (as designated by ACM to have significant market power), compliance controls are tested by dedicated staff all year round.

5. Report top risks, trends and incidents

Segment management provides the Board of Management with a quarterly assurance letter regarding the reliability of their financial reporting, the effectiveness of their internal controls over financial reporting, risk management and compliance with telecommunication laws, internal policies and other laws and regulations. Twice a year, Corporate Control reports top risks and countermeasures to the Board of Management, including main improvement actions, if any.

Summary of main risks and countermeasures
In the table on the right page a summary is given of KPN's main risks and countermeasures, including the expected trends and impact. It also lists the KPIs that are used to monitor the development of the risks and the realization of our risk appetite. The KPIs are frequently monitored in KPN's planning and control cycle and discussed in the Board's business reviews with segment management, including improvement actions where necessary.

For a more extensive list of our risks and countermeasures, see Appendix 8 included in the digital version of this Integrated Annual Report available on our website (www.kpn.com/annualreport).

Strategic objective	Risk	Risk category and Risk appetite	Main countermeasures (summary)	Impact
Grow	Increased competition from current competitors or new market entrants, or new disruptive technologies. Trend: →	Strategic risk KPN is willing to accept reasonable risks in a responsible way.	> Offer fixed-mobile services and competitive price/ portfolio combinations > Invest in quality of service and improve NPS > Introduce new innovative products	High: the described risk could lead to lower profitability as well as lower market shares. In the longer run, it could impact our continuity. **Monitoring KPI:** Market shares
Simplify, Grow	Damage, service interruptions, operational issues in KPN's technical infrastructure and IT. Trend: →	Operational risk KPN is committed to a high quality of customer services and to limit disruptions as much as possible.	> Monitor performance of technical infrastructure and IT > Strengthen and simplify the IT/TI > Back-up and recovery plans in case of emergencies (e.g. 'be alert' procedures)	Medium; the incidents could negatively impact KPN's customer satisfaction, reputation and profitability. **Monitoring KPI:** NPS NL Weighted downtime reduction
Simplify, Grow	Threats to the confidentiality, integrity or availability of KPN's networks, systems or (customer) data caused by cyberattacks or terrorism. Trend: ↗	Operational risk KPN is committed to limit incidents as much as possible and implements strict policies to keep our customer data private, safe and secure.	> Continue and reinforce strategic security programs, such as Permanent Vulnerability Management > Continued implementation of the KPN Security Policy > Continue and strengthen Security Operations Center	High; the incidents could lead to loss/theft of customer data, higher costs, penalties and reputational damage. This risk could impact our continuity. **Monitoring KPI:** PHOSI (Potential Harm Of Security Incident) # data leakages
Grow	Non-compliance with regulation, including privacy and tax regulations. New regulatory decisions in the EU and the Netherlands. Trend: ↗	Compliance risk KPN is committed to full compliance with relevant laws and regulations.	> Strengthening the effectiveness of the compliance organization and internal controls > Proactive internal compliance investigations > Proactive stakeholder and reputation management including dialog with regulators	Medium; the risk could affect KPN's future operations and profitability. **Monitoring KPI:** Fines # incidents reported to regulators
Innovate	Frequency auctions in the Netherlands could entail high costs. Trend: →	Strategic risk KPN is willing to accept reasonable risks in a responsible way.	> Preparation of auctions by experienced KPN team and external experts; simulation of auctions > Investigate alternative combinations of spectrum and advanced techniques to meet required technology	High; KPN may have to pay a high price for the required spectrum. This risk could impact our continuity. **Monitoring KPI:** N.A.
Innovate, Grow	Lack of new business initiatives to compensate declining existing business. Trend: →	Strategic risk KPN is willing to accept reasonable risks in a responsible way.	> KPN innovation initiatives, new business as well as strategic partnerships > Small in-country M&A and KPN Ventures to form partnerships with innovative companies.	High; lack of innovation could lead to lower profitability as well as lower market shares. In the longer run, this risk could impact our continuity. **Monitoring KPI:** Revenues new business

↗ risk is increasing (worsening) → risk is stable ↘ risk is decreasing (not as bad)

› Compliance & risk

As set forth by section 3 sub 1.c of the Non-financial information disclosure decree (Besluit bekendmaking niet-financiële informatie) of 14 March 2017, KPN identified and assessed its main risks regarding environmental, social and personnel matters, human rights and anti-bribery and corruption. For more details on these risks, see Appendix 3.

Internal Audit

KPN's internal audit function, KPN Audit assesses – in line witrh Dutch Corporate Governance requirements – the design and effectiveness of the Internal Risk Management and Control Systems (refer to page 46) and provides assurance to both the Board of Management and the Audit Committee concerning the 'In Control status' of KPN's organization and processes.

Moreover, KPN Audit conducts ad hoc financial, information technology and operational audits and special investigations. KPN Audit conducts its activities in a manner based on a continuous evaluation of perceived business risks, and has full and unrestricted access to all activities, documents/records, properties and staff. The Chief Auditor reports to KPN's CEO. Quarterly KPN Audit reports are submitted and discussed with both the Board of Management and the Audit Committee. KPN Audit liaises extensively with the external auditor, inter alia based on International Standard on Auditing 610.

Governance of risk management and compliance – three lines of defense

Although the Board of Management is ultimately responsible for risk management and compliance, it is business management's duty to effectively identify, assess and manage the main risks of the company, in line with the steps discussed in the previous paragraphs (first line of defense). The Risk Management and Compliance department (second line) are responsible for the design of the risk management and compliance policies and to support and challenge business management in their assessment and management of top risks. KPN Audit (third line) performs, where necessary, independent reviews on the design and operational effectiveness of the Internal Risk Management and Control Systems. The main results of both the risk assessments and the evaluation of the internal risk management and control systems, are shared with the Audit Committee of the Supervisory Board and discussed with the external auditor.

Description and evaluation of the internal Risk Management and Control Systems

As set forth by principle 1.2 of the Dutch Corporate Governance Code 2016 and related best practice provisions, KPN has designed and implemented Internal Risk Management and Control Systems, to identify and manage the risks associated with the company's strategy and activities. During 2017, a project team of Corporate Control and KPN Audit described and systematically assessed the effectiveness of these systems. A summary of the main internal risk management and control systems is provided in the preceding paragraphs.

During the assessment of the design and operating effectiveness of the systems, certain weaknesses and improvement actions were identified and implemented. However, none of these were classified as a major failing, as referred to in best practice provision 1.4.2 sub iii. For example, KPN changed and strengthened its permanent vulnerability management (protecting its systems against cyberattacks) and the calculation method of certain non-financial KPIs (improving their reliability).

During 2017, KPN was subject to five penalty cases for breaches of the law, all relating to telecommunication law. The penalties were all imposed before 2016. A final decision is still pending for four cases, the penalties for which amount to EUR 9,573,000. EUR 8,640,000 of this was preliminarily paid in accordance with Dutch regulations.

Statement by the Board of Management and Responsibility Statement

Statement by the Board of Management

The Board of Management is responsible for the effectiveness of the design and operation of KPN's Internal Risk Management and Control Systems. These have been designed to manage the risks that may prevent KPN from achieving its objectives. However, these Internal Risk Management and Control Systems cannot provide absolute assurance that material misstatements, fraud and violations of laws and regulations have been avoided. The Board of Management reviewed and analyzed:

- The strategic, operational, financial, financial reporting and regulatory and compliance risks, as discussed in section Summary of main risks and countermeasures on page 48 and 49; and
- The design and operational effectiveness of the Internal Risk Management and Control Systems, as discussed on pages 46 to 50 of this Integrated Annual Report.

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

With reference to best practice provision 1.4.3 of the Dutch Corporate Governance Code and the chapter 'Compliance & risk', including Appendix 8, in this Integrated Annual Report, the Board of Management states that, to the best of its knowledge:

i. this Integrated Annual Report provides sufficient insights into major failings in the effectiveness of the Internal Risk Management and Control Systems. There are no major failings to report;
ii. the aforementioned systems provide reasonable assurance that the financial reporting, as included in the Financial Statements on pages 76 to 130, does not contain any material inaccuracies;
iii. based on the current state of affairs, it is justified that the financial reporting, as included in the Financial Statements, is prepared on a going concern basis; and
iv. this Integrated Annual Report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of this report.

Responsibility Statement

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

- The Financial Statements of 2017 give a true and fair view of the assets, liabilities, financial position and profit or loss of KPN and its consolidated companies; and
- The Integrated Annual Report gives a true and fair review of the position as at 31 December 2017, the development during 2017 of KPN and its group companies included in the Financial Statements, together with a description of the top risks KPN faces.

The Hague, 23 February 2018

Eelco Blok
Chairman of the Board of Management
and Chief Executive Officer

Frank van der Post
Member of the Board of Management
and Chief Commercial Officer

Jan Kees de Jager
Member of the Board of Management
and Chief Financial Officer

Joost Farwerck
Member of the Board of Management
and Chief Operations Officer

> Composition of the boards

Board of Management

The Board of Management manages KPN's strategic, commercial, financial, CSR and organizational matters. The Board of Management currently consists of four members.

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

Composition of the Board of Management

Name	Position	Year of birth	Start of term	End of current term
E. Blok	Chairman of the Board of Management and Chief Executive Officer	1957	June 2006/2010/2014*	2018
J.C. de Jager	Board member and Chief Financial Officer	1969	September 2014	2018
F.H.M. van der Post	Board member and Chief Commercial Officer	1961	March 2015	2019
J.F.E Farwerck	Board member and Chief Operating Officer	1965	April 2013/2017*	2021

* Reappointment

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

Mr. Blok was appointed as a member of the Board of Management on 1 June 2006, and was responsible for KPN's Fixed division until 1 January 2007. Until 1 February 2010, he was Managing Director of the Business, Getronics and Wholesale & Operations segments (including iBasis). As of 1 February 2010, Mr. Blok assumed responsibility for KPN's international operations, comprising Mobile International and iBasis, KPN's wholesale international voice traffic carrier. He assumed the additional role of Chief Operating Officer in October 2010. He was appointed Chief Executive Officer in April 2011.

Mr. Blok joined KPN in 1983 and has had various management positions, including as director of KPN's Carrier Services, Corporate Networks and Fixed Net Operator, and he was responsible for Corporate Strategy & Innovation. More recently, he was Chief Operating Officer of KPN's former Fixed division. He was co-chairman of the National Cyber Security Council until October of this year. Since 18 April 2017, Mr. Blok is member of the Supervisory Board of PostNL N.V.

Mr. Blok will resign from office at the Annual General Meeting of Shareholders in 2018, having served two terms as Chairman of the Board of Management and a total of 12 years as a member of that board. Mr. Blok will be succeeded by Mr. Ibarra.

F.H.M. van der Post
Mr. van der Post is a member of the Board of Management and Chief Commercial Officer.

Mr. Van der Post began his career in the hospitality sector in 1985. His positions included that of general manager at the American and Amstel Hotels in Amsterdam for InterContinental Hotels, where he worked in a variety of international assignments.
In 2005, he joined the Jumeirah Group in Dubai, a chain of luxury hotels in the Middle East and Asia. In 2008, he was appointed Chief Operating Officer for the group. In 2011, he switched from the hospitality to the aviation industry, becoming executive director and board member of British Airways, where he was responsible for brands & marketing, products and the customer experience, including cabin crew and the London Gatwick BA unit.

J.C. de Jager
Mr. de Jager is a member of the Board of Management and Chief Financial Officer.

From 2007 to 2012, Mr. de Jager was a member of the Dutch government, first as State Secretary for Finance (from 2007 to 2010), thereafter as Minister of Finance (from 2010 to 2012). As Minister of Finance, Mr. de Jager's responsibilities encompassed the budget, general financial and economic policy, supervision of financial markets and cooperation with international financial institutions. As State Secretary for Finance, Mr. de Jager was responsible for many change processes, among others within the Dutch Tax and Customs Administration. From 1992 to 2007, Mr. de Jager founded and was Managing Partner at ISM eCompany, an eBusiness solutions company, for which he acted as special advisor after resigning from the Dutch Cabinet until he was appointed to the board of KPN in September 2014. Mr. de Jager is a member of the board of Stichting AECA Nederland and the chair of the Economic Board Zuid-Holland.

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

Mr. Farwerck started working at KPN in 1994 and held senior management positions in various divisions. He has been responsible for all of KPN's activities in the Netherlands as Managing Director Netherlands since February 2012, and has held responsible for the operating activities of KPN as Chief Operating Officer since September 2014. Mr. Farwerck is a member of the executive committee of VNO-NCW, a member of the board of Nederland-ICT, of the board of The Hague Security Delta, and of the board of Of FME, as well as a member of the Cyber Security Council. He is also a member of the Strategic Advisory Board TNO. He is Chairman of the board of the KPN Group company iBasis.

> Composition of the boards

Supervisory Board

The Supervisory Board oversees strategic and commercial policymaking by the Board of Management and the way in which it manages and directs KPN's operations. KPN's Supervisory Board currently consists of eight members.

At the Annual General Meeting of Shareholders on 12 April 2017, Mr. C.J. García Moreno Elizondo and Mr. D.J. Haank were re-appointed as members of the Supervisory Board. At an Extraordinary General Meeting of Shareholders of 4 September 2017, Mr. E.J.C. Overbeek was appointed as member of the Supervisory Board.
All members of the Supervisory Board comply with clause 2:142a of the Dutch Civil Code, which limits the number of positions in a supervisory or management board that a director may hold.

Two vacancies will arise at the closure of the Annual General Meeting of Shareholders in 2018, as Mr. Sickinghe and Mrs. Zuiderwijk will step down as they will reach the end of their four-year term of office.

Mr. Spanbroek, General Counsel and Company Secretary, acts as secretary to the Supervisory Board.

D.W. Sickinghe
Mr. Sickinghe was appointed Chairman of the Supervisory Board on 15 April 2015.

Mr. Sickinghe is Managing Director of Fortino Capital (Belgium). Furthermore, he is Chairman of the Supervisory Board of Van Eeghen & Co (the Netherlands), member of the board of uniBreda (Belgium) and member of the board of Guberna (Belgium).

Mr. Sickinghe was previously Chief Executive Officer and member of the Board of Telenet N.V. (Belgium) in the period 2001-2013. Prior to that, he held various management positions at Hewlett-Packard (Switzerland), NeXT Computer (France), Wolters Kluwer (the Netherlands) and was founder of Software Direct (France). Mr. Sickinghe is a Dutch citizen.

Composition of the Supervisory Board

Name	Year of birth	Start of term	End of current term	Committees: Strategy & Organization Committee	Nominating & Corporate Governance Committee	Audit Committee	Remuneration Committee
D.W. Sickinghe (Chairman Supervisory Board)	1958	9 April 2014	2018	x	**x**		x
P.A.M. van Bommel	1957	12 April 2012 13 April 2016*	2020			**x**	
C.J. García Moreno Elizondo	1957	10 April 2013 12 April 2017*	2021			x	
D.J. Haank (Vice-Chairman)	1953	7 April 2009 10 April 2013* 12 April 2017*	2021	**x**			
P.F. Hartman	1949	15 April 2015	2019	x	x		**x**
E.J.C. Overbeek	1967	4 September 2017	2021	x			
J.C.M. Sap	1963	15 April 2015	2019			x	
C.J.G. Zuiderwijk	1962	9 April 2014	2018	x	x		x

X Chairman X Member * Reappointment

P.A.M. van Bommel
Mr. van Bommel is currently a member of the Board of Management and CFO of ASM International N.V. and, as part of that position, also a non-executive director of ASM PT (Hong Kong).

Furthermore, he is a member of the Supervisory Board of Neways Electronics International N.V.

Before his appointment as CFO at ASMI, Mr. van Bommel was CFO at Odersun, CFO at NXP and CFO at various divisions of Philips. Mr. van Bommel is a Dutch citizen.

C.J. García Moreno Elizondo
Mr. García Moreno Elizondo is currently CFO of América Móvil. He holds several supervisory and advisory positions, including those of member of the Board of Grupo Financiero Inbursa and Nacional Financiera. He is also a member of the Supervisory Board of Telekom Austria Group.

Prior to joining América Móvil, Mr. García Moreno Elizondo held positions at among others the Mexican Ministry of Finance as the Director General of Public Credit and at the Swiss Bank Corporation Warburg as executive director and managing director. Mr. García Moreno Elizondo is a Mexican citizen.

D.J. Haank
Mr. Haank is the former CEO of SpringerNature, from which he resigned on 31 December 2017. He is a member of the Supervisory Council of the Dutch broadcast association AvroTros.

Before his appointment at Springer, Mr. Haank was the CEO of Elsevier Science and Executive Board Member of Reed Elsevier PLC. Mr. Haank is a Dutch citizen.

P.F. Hartman
Mr. Hartman spent 40 years working for KLM, the last seven of those as CEO. In 2013- 2017 he was the vice-chair of the Supervisory Board of Air France KLM Group. He is currently the chairman of the Supervisory Board of Fokker Technologies Group and of Texel Airport N.V. and a member of the Supervisory Board of Constellium B.V. Mr. Hartman is a Dutch citizen.

E.J.C. Overbeek
Mr. Overbeek is Chief Executive Officer of HERE Technologies. Having spent nearly 30 years in the ICT industry, Mr Overbeek has gained extensive experience in the global digital and communication industry.

Prior to joining HERE Technologies, he held several management roles at Cisco, including leading the global services organization and the Asia-Pacific, Japan & China region. Mr. Overbeek is a Dutch citizen.

J.C.M. Sap
Ms. Sap occupies several supervisory and other functions, including chairing the Supervisory Boards of the GGZ affiliate Arkin, the Netherlands Public Health Federation and Fairfood International. Ms. Sap is also a member of the Supervisory Board of KPMG N.V.

In addition, she is a partner at Camunico, a consultancy firm in the field of sustainable management. Between 2008 and 2012, Ms. Sap represented the Dutch Green Party, GroenLinks, in the lower house of the Dutch parliament, the last two years of which she was party leader. Before that, she worked as an economist in the fields of science, policy and business. She was, inter alia, head of the Incomes Policy department at the Ministry of Social Affairs and Employment. Ms. Sap is a Dutch citizen.

C.J.G. Zuiderwijk
Mrs. Zuiderwijk chairs the Board of Management of the Chamber of Commerce. She is currently a member of the Supervisory Board of APG and is also a member of Forum Smart Industry and of the NL2025 network.

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

› Composition of the boards

Insider transactions

KPN employees that have access to inside information because of their employment, profession or duties, including all members of the Board of Management and Supervisory Board, are subject to the Code of Conduct 'Inside Information'. This Code of Conduct comprises rules for the possession of and transactions in KPN securities by such employees. Members of the Board of Management and Supervisory Board are furthermore subject to reporting obligations to the AFM.

The following table provides an overview of transactions in 2017 by members of KPN's Board of Management and Supervisory Board.

Date	Name	Transaction	Price per share
1 February	E. Blok	Bought 35,000 ordinary KPN shares.	EUR 2.70
1 February	J.F.E. Farwerck	Bought 15,000 ordinary KPN shares.	EUR 2.69
1 March	F.H.M. van der Post	Vested 53,093 conditional KPN shares (1/4 of the conditional KPN shares awarded on 1 March 2015 as compensation payment) into 33,767 ordinary KPN shares (after sale of part of the shares to finance the income tax).	EUR –
10 April	E. Blok	Vested 68.75% of the 501,575 conditional KPN shares awarded as LTI 2014 into 177,424 ordinary KPN shares (after sale of part of the shares to finance the income tax).	EUR –
10 April	J.C. de Jager	Vested 68.75% of the 245,871 conditional KPN shares awarded as LTI 2014 into 86,973 ordinary KPN shares (after sale of part of the shares to finance the income tax).	EUR –
10 April	J.F.E. Farwerck	Vested 68.75% of the 226,201 conditional KPN shares awarded as LTI 2014 into 80,015 ordinary KPN shares (after sale of part of the shares to finance the income tax).	EUR –
13 April	E. Blok	Award of 412,889 conditional KPN shares.	EUR –
13 April	J.C. de Jager	Award of 210,492 conditional KPN shares.	EUR –
13 April	F.H.M. van der Post	Award of 226,684 conditional KPN shares.	EUR –
13 April	J.F.E. Farwerck	Award of 202,396 conditional KPN shares.	EUR –
2 May	E. Blok	Bought 20,000 ordinary KPN shares.	EUR 2.66
1 September	F.H.M. van der Post	Vested 53,095 conditional KPN shares (1/4 of the conditional KPN shares awarded on 1 March 2015 as compensation payment) into 33,768 ordinary KPN shares (after sale of part of the shares to finance the income tax).	EUR –

Stock ownership Board of Management[1]

Number of ordinary shares	31 December 2017	31 December 2016
E. Blok	983,331	750,907
J.C. de Jager	319,383	232,410
F.H.M. van der Post	194,502	126,967
J.F.E. Farwerck	211,086	116,071

1 Shares held by current members of the Board of Management (including vested shares in lock-up period). Share ownership relates to ordinary shares. In 2011, a share ownership recommendation was introduced whereby the members of the Board of Management are encouraged to acquire company shares equal to one times the annual fixed compensation for members of the Board of Management (excluding CEO) and two times the annual fixed compensation for the CEO (see Note 5). Retained vested shares as part of the LTI will be included in the share ownership recommendation.

Stock ownership Supervisory Board

Number of ordinary shares	31 December 2017	31 December 2016
D.W. Sickinghe	380,000	380,000
P.A.M. van Bommel	114,000	114,000
C.J. García Moreno Elizondo	–	80,820
D.J. Haank	24,351	24,351

> Report by the Supervisory Board

Supervisory Board Report: The year 2017

2017 brought another year of solid results for the company, both operationally and financially, despite a strong and diverse competitive landscape. Fixed-mobile convergence continued to deliver strong results in the Consumer segment, whereas the Business segment transformation is gradually progressing. The continued ambition to become the best service provider across all sectors in the Netherlands resulted in increasing Net Promoter Scores, a key indicator of customer satisfaction and loyalty. The Simplification program not only helped to better focus and to improve the quality of our service, but also lead to structurally lower cost levels. Throughout the year, the Supervisory Board reviewed the progress on the execution of the plans, and challenged both the plans and the results where relevant.

Strategic themes

In its meetings and in particular through the Strategy & Organization Committee, the Supervisory Board regularly discussed the key strategic themes of the company, including the Business segment transformation, the competitive landscape, network roll-out and investments in content. It furthermore discussed opportunities for mergers and acquisitions within the expressed framework of 'small, in country M&A'. It most notably reviewed and approved the acquisition of QSight IT, which strengthens KPN's position as a leading Dutch security services provider. The Supervisory Board furthermore discussed the best use of the stake in Telefónica Deutschland and approved the swap of part of that stake for shares in Telefónica SA, which were subsequently sold. The subsequent EUR 200m share buyback program also received the Supervisory Board's support.

In a separate meeting, the Supervisory Board discussed the views of the Board of Management on the vision for the company in the longer term, and the strategic choices to be made in this respect. We particularly value such open exchanges on critical long-term themes, and believe this adds important value to the debate between the Supervisory Board and the Board of Management.

Corporate social responsibility

The Supervisory Board was extremely pleased by the recognition for KPN's corporate social responsibility (CSR) activities, e.g. as the Industry Leader in the Dow Jones Sustainability Index, and by being recognized on the A-list of the Carbon Disclosure Project. Over the past years, CSR has become an integral part of KPN's strategy through highly relevant themes such as energy consumption, privacy & security and healthcare, where KPN can make a real impact in Dutch society. The goal to become largely circular by 2025 has the board's full support. And of course we congratulate het Mooiste Contact Fonds on its 10th anniversary.

CEO succession

In October, the Supervisory Board announced the intended appointment of Maximo Ibarra as the new CEO of the company, following the end of Eelco Blok's second term in that position at the Annual General Meeting of Shareholders in April 2018. The announcement followed a period of intensive and thorough deliberation by the Supervisory Board on the company's strategy and challenges for the coming period, the desired profile for the company's CEO in light thereof, and the evaluation of candidates to fit that profile. This process lead to the final conclusion to appoint Maximo Ibarra as the new CEO.

The Supervisory Board believes Maximo Ibarra to be a widely respected and dynamic leader with a proven track record in the telecommunications industry and a deep understanding of customer needs. As CEO of Wind in Italy, Maximo has successfully led the merger between Wind and H3G, creating Wind Tre, a leading integrated mobile and fixed player in the Italian market. We are excited to appoint him and convinced that with his wealth of experience and a demonstrated ability to lead, Maximo will be able to navigate KPN into its next phase.

The Supervisory Board is very grateful to Eelco Blok for his tremendous contribution to the company during his full career of 34 years. Eelco has been a member of the Board of Management for 12 years, of which seven as its chairman and CEO. During his successful tenure as CEO, he has been able to put KPN into a very strong position, as we can all see today. Eelco deserves a lot of credit for his relentless focus on execution and enormous personal drive. His leadership and commitment to the success and evolution of KPN has been impressive. Above industry-average investment in networks, simplification, digitalization and service have led to much stronger customer loyalty and reputation, providing a solid platform for growth. Furthermore, through a number of smart acquisitions Eelco has brought important innovation to KPN. We are grateful to Eelco for bringing his leadership, dedication and perseverance to KPN. He has been instrumental in the innovation at KPN and the renewal of our company culture.

As part of the arrangements around his resignation, Eelco Blok will receive a severance payment of one year's base salary, which fits the company's remuneration policy and the Dutch Corporate Governance Code.

Corporate governance

The new Dutch Corporate Governance Code, as presented in late 2016 and formally adopted by the Dutch government in 2017, emphasizes the need to focus on long-term value creation for the company. The implementation of the new code was discussed by the Supervisory Board on multiple occasions, with strong support for the main focal points of the new code, including the enhanced attention for long-term value creation, broad attention for risk management and culture as a key contributor to the integrity of the company. The Supervisory Board amended its own practices on a number topics to comply with the latest insights on good governance and, at the same time, was pleased to find that the company's existing practices were already for a large part compliant with these insights. In its December meeting, the Supervisory Board approved new by-Laws and Terms of Reference for both Boards and the Supervisory Board's committees, incorporating the changes in the Code.

The Supervisory Board continued its open dialogue with the Central Works Council, and was proud that KPN was rewarded the Driehoek 3D award for the cooperation between the Central Works Council, the Board of Management and the Supervisory Board.

Shareholders

For shareholders, 2017 showed robust returns, including the regular dividend, pass through of the dividend received from our stake in Telefónica Deutschland and a EUR 200 million share buyback program. KPN's total shareholder return (share price performance and returns) outperformed the relevant European Telecoms indices, but underperformed the broader market indices, such as the AEX Index. In its deliberations and decisions, the Supervisory Boards aims to take due account of our shareholders' interests at all times, and throughout the year we have had a number of contacts with shareholders in order to understand their concerns, listen to their inputs and benefit from their expertise. An investor perception study commissioned by the Board of Management was discussed in a Supervisory Board meeting and provided valuable inputs on the views of our shareholders.

The boards

Composition

In its evaluation of 2016, the Supervisory Board concluded it could benefit from more knowledge of, and experience in, the digital and communication industry. With the appointment of Edzard Overbeek in September 2017 we have strengthened our profile in this respect, and now have a composition that we believe to suit the needs of the company today. We will however continue to review our own composition and functioning over time, in order to ensure we continue to have the right knowledge, experience and diversity for the performance of our tasks. For an overview of the current skills and competences, please refer to the skills matrix.

At the end of the 2018 AGM, both Mrs. Zuiderwijk and Mr. Sickinghe are due to step down from the Supervisory Board, having reached the end of their first term in the office. The position of Mrs. Zuiderwijk is subject to the enhanced right of recommendation of the Central Works Council, which recommended her reappointment. Based on the skills matrix, the Supervisory Board believes Mrs. Zuiderwijk fits the profile of the Supervisory Board and the desired skills, and therefore happily accepts the recommendation. For the position of Mr. Sickinghe, key requirements include knowledge of an experience in the telecommunications industry, international experience, financial market expertise and strong leadership. The committee concluded that a reappointment of Mr. Sickinghe would best fit this profile. The Central Works Council supports the nomination.

> Report by the Supervisory Board

Skills / Characteristics	D.W. Sickinghe	D.J. Haank	P.A.M. van Bommel	C.J. García Moreno	C.J.G. Zuiderwijk	P.F. Hartman	J.C.M. Sap	E.J.C. Overbeek
Business leadership	x	x	x	x	x	x		x
Industry knowledge (Telco)	x			x				x
Industry knowledge (IT)	x				x			x
Commercial	x	x			x	x		x
Operational	x				x	x		x
Employment / social relations					x	x	x	
Society / government relations					x	x	x	
Corporate social responsibility							x	
Financial markets	x	x	x	x				
Finance, audit & risk	x	x	x	x			x	
Financial experts (Dutch Corporate Governance Code)			x	x				
International experience	x	x	x	x		x		x
Executive / Non-executive								
(Full-time) Executive position at another company	x	x	x	x	x			x
Mainly non-executive role						x	x	
Diversity								
Male	x	x	x	x		x		x
Female					x		x	

As for the composition of the Board of Management, the most important matter at hand was a decision on the position of the CEO, as already explained above. In addition, as the four-year term of office of Mr. de Jager will expire in the course of 2018, the Supervisory Board has also considered his reappointment as CFO. Given his past performance and the expectations of his contribution to the future of the company, the Supervisory Board concluded that it intends to reappoint Mr. de Jager for a second four-year term. The Supervisory Board thereby particularly valued his experience within KPN, his financial expertise, his entrepreneurial experience, his extensive experience gained during his career in both the private and public sector, as well as his operational leadership in the technology sector and his effective and open leadership style. Shareholders will be informed of this intention at the AGM in April 2018.

The Supervisory Board remains committed to ensuring that the Supervisory Board and Board of Management will consist of at least 30% female and at least 30% male members, thereby serving the interest of a balanced composition of the boards. When searching for candidates for available board seats, including the expansion of the Supervisory Board and the CEO succession in 2017, special attention has been given to identifying female candidates. However, in both cases, based on the profile for the position at hand, a male candidate finally proved to be the best choice for the company.

For upcoming vacancies, we aim to make further progress in reaching at least a 30% female representation. In this context it is noted however that, in case of potential reappointments, the Supervisory Board would first determine whether the existing member would be (proposed for) reappointment and aim for further female candidates only if the existing member will not be reappointed. Given that consideration, we believe the diverse composition of the Supervisory Board can be reached by 2022 at the latest. As for the positions in the Board of Management, this will highly depend on future vacancies and opportunities. The Supervisory Board supports KPN's diversity policy (see page 23), which should in time also lead to more internally promotable female candidates.

The Supervisory Board devoted fair time to its own permanent education, in particular around the new Dutch Corporate Governance Code, but it also received an introduction on quantum computing for instance. The Supervisory Board evaluated its own performance in its meeting in January 2018, and concluded that it was generally satisfied with its own performance, noting in particular strong and collegial cooperation amongst its members. As items for further improvement it noted obtaining relevant information from the company, sufficient outside-in views and expertise and a balanced and efficient agenda setting between the committees and the full board.

Meetings

The Supervisory Board met on 13 occasions, of which 8 were regularly scheduled. Most meetings took – at least partly - place with the Board of Management. The Supervisory Board however also held closed (parts of) meetings without members of the Board of Management attending, including around the CEO succession. Also outside of formal board meetings, members of the Supervisory Board were in frequent contact. The overall attendance at the Supervisory Board meetings was 92%. An overview of attendance per member of the Supervisory Board and per Committee is provided in the table below.

All members had adequate time available to prepare themselves and give the required attention to the matters at hand. In the event members could not join a meeting, the Chairman discussed the matters at hand before and after the meeting, in order to obtain the input and views of all Supervisory Board members.

Name	Board (13)	Audit (4)	SOC (3)	RemCo (5)	NomCo (8)
Van Bommel	100%	100%			
Garcia Moreno	77%	50%			
Hartman	100%		100%	100%	100%
Haank	100%		100%		
Overbeek[1]	86%		0%		
Sap	100%	100%			
Sickinghe	92%		100%	100%	100%
Zuiderwijk	77%		100%	100%	100%
Total	**92%**	**83%**	**92%**	**100%**	**100%**

1 Mr. Overbeek joined the Board in the course on the year, and attended 5 out of 6 board meetings, but could not attend the one meeting of the SOC that was held since he joined.

Independence

At all times, the composition of the Supervisory Board was such, that the members were able to act critically and independently of one another, the Board of Management and any particular interest involved, as provided for under best practices provisions 2.1.7 to 2.1.9 of the Dutch Corporate Governance Code. Throughout the year, seven members of the Supervisory Board, including the Chairman, were independent from the company within the meaning of these provisions. Mr. García Moreno Elizondo, who was appointed upon the nomination of America Móvil, is not considered independent under provision 2.1.8 of the Dutch Corporate Governance Code.

See Note 21 of the Consolidated Financial Statements for information on related party transactions.

Committee Reporting

The Supervisory Board has established four Committees: The Audit Committee, the Remuneration Committee (RemCo), the Nomination and Corporate Governance Committee (NomCo) and the Strategy and Organization Committee (SOC). The main considerations and conclusions of each Committee were shared with the full Supervisory Board.

Audit Committee

The Audit Committee had four regularly scheduled meetings, all of which were also attended by the CFO, the external auditor Ernst & Young Accountants LLP (EY), the Internal Auditor and the Director Corporate Control and partly attended by the Chairman of the Supervisory Board. The committee also met separately with EY, which was appointed by the Annual General Meeting of shareholders as KPN's independent external auditor.

The Audit Committee reviewed and discussed in particular all financially relevant matters that were presented to the Supervisory Board, most notably the Annual Report, the quarterly results, (the financial and risk-related aspects of) the strategic plan and the outlook for 2018. It had a specific focus on the effectiveness and outcome of the internal control framework and the risk management systems of the company, for which it received and reviewed reports by the Internal Auditor, the Compliance Office and the Disclosure Committee. Each quarter, the Audit Committee also discussed in detail the matters included in the board report of the external auditor EY. At the start of the year, the Audit Committee reviewed the 2017 plans of the internal and external auditors, addressing the key topics for their audits.

Report by the Supervisory Board

The Audit Committee also kept close oversight on KPN's financing policy and profile and the related proposals for dividends, a share buyback program and bond redemptions. Also, the Audit Committee discussed the options to monetize part of the Telefonica Deutschland stake (and related use of proceeds) and monitored the execution thereof (through e.g. a swap in - and subsequent sale of - Telefónica shares).

The Audit Committee furthermore discussed other topics that were within its scope of attention, most notably compliance, fraud management and tax matters, and paid specific attention to such topics as IT/TI/Cybersecurity, changes in IFRS regulations and the execution of the new design of the finance organization.

Finally, the Audit Committee reviewed the performance evaluation of EY (and was satisfied with the results) and also performed a self-assessment by means of an extensive questionnaire. The overall outcome of the evaluation was positive and some attention points were defined. The Audit Committee also reflected on the impact of the new Dutch Corporate Governance Code on its functioning.

Strategy and Organization Committee
The Strategy and Organization Committee held three meetings in 2017, which were also attended by several members of the Board of Management and staff.

The committee worked with the Board of Management to evaluate aspects of the company's current and potential strategy, where relevant in preparation of decisions in the full Supervisory Board. The topics discussed were chosen by the Committee based on suggestions by Management or the Committee itself, and included such topics as the competitive landscape, the transformation of business market, (TV) content and the hybrid access strategy. The Committee on a regular basis reviewed relevant M&A developments and was kept updated on the progress of KPN Ventures. By discussing such topics, the committee enabled the full Board to gain an even better view of the impact of choices made on the company, hence improving the Supervisory Board's oversight, while having in-depth discussions with relevant members of staff.

Remuneration Committee
The Remuneration Committee met on five occasions during 2017. The CEO attended (parts of) the committee meetings. The Committee assisted the Supervisory Board in establishing and reviewing KPN's pay policy to ensure that members of the Board of Management are compensated consistently with that policy.

The committee defined the level of pay-out for individual members of the Board of Management as part of the STI plan 2016 and LTI grant 2014, and determined the financial and non-financial targets and performance criteria for the STI and LTI plans 2017. It reviewed the remuneration policy against the new Dutch Corporate Governance Code and made minor amendments in the execution of the policy to be fully compliant. It discussed the most relevant manner to report on pay ratios within the company, as set out in the remuneration report.

The Committee furthermore prepared the remuneration package for the new CEO, including the proposed base salary, for final decision-making by the Supervisory Board.
During an annual evaluation meeting with the individual members of the Board of Management, it took note of the views of their members on their own remuneration.
When engaging external experts, the Committee ensured that the expert was independent from the consultant used by the Company and acted solely on the instructions of the Committee on a basis in which conflicts of interest were avoided.
Further details on the remuneration policy are provided in the chapter 'Remuneration Report' starting on page 64.

Nomination and Corporate Governance Committee
The Nomination and Corporate Governance Committee met on eight occasions in 2017. It reviewed both the composition of the Board of Management and the Supervisory Board and lead the annual evaluation of the performance of the individual members of the Board of Management.

As for the Board of Management, the Committee lead the process and deliberations of the Supervisory Board around the CEO succession, as set out above. Among other things the committee prepared the desired profile of the CEO, and engaged an external consultant to search for candidates, which it subsequently evaluated. It presented the Supervisory Board with options for decision-making. In light of future board composition, it also performed a review of the senior management of the company.

The Committee furthermore evaluated the potential reappointment of Mr. de Jager, who will reach the end of his first term of appointment in September 2018. Given his past performance and the expectations of his contribution to the future of the company, the Committee concluded it was in the best interest of the company to recommend the reappointment of Mr. de Jager for a further four-year term.

As for the composition of the Supervisory Board itself, the Committee steered the process leading to the appointment of Mr. Overbeek, as well as the proposed reappointment of Mr. Sickinghe and Mrs. Zuiderwijk, who are due to step down at the 2018 AGM. As the latter process involved two members of the Committee, the Vice-Chairman of the Supervisory Board was also involved in this process. Please refer to the section of the Composition of the Boards above for a further explanation of the reasons for these nominations.

The Committee furthermore monitored the implementation of the new Dutch Corporate Governance Code in the company, and amongst others prepared the review of the new by-laws and Terms of Reference of the Boards and the Committees.

Financial Statements

The Financial Statements for the year ended 31 December 2017 were prepared by the Board of Management and approved by the Supervisory Board. The Report of the Independent Auditor, Ernst & Young Accountants LLP (EY), is included in the 'Other Information' on page 131.

The Supervisory Board recommends that the Annual General Meeting of Shareholders adopts these Financial Statements.

Final remarks

We exist by virtue of our customers. Our employees and management make us who we are. Our business partners enable us to reach our goals together. Our shareholders and bondholders trust us with their financial resources to allow us to finance our business. We aim to be an engaged member of Dutch society at large.

The Supervisory Board is grateful to all stakeholders for their contribution to our company.

Duco W. Sickinghe, Chairman

Peter A.M. van Bommel
Carlos J. García Moreno Elizondo
Derk J. Haank
Peter F. Hartman
Edzard J.C. Overbeek
Jolande C.M. Sap
Claudia J.G. Zuiderwijk

Remuneration Report

Introduction

We are committed to preserving your confidence and trust by presenting an accountable and transparent implementation of our remuneration policy.

KPN's core values are Customer, Together and Simplicity which form the essence of our organizational culture. Considering these core values and also being aware of the public debate surrounding the topic of executive remuneration, we strive to balance our core values and all stakeholder interests in our remuneration programs. We thereby emphasize on short- and long-term value creation through pay-for-performance based on financial and non-financial targets and benchmarked median pay levels. This ensures a strong alignment with the company's annual performance goals and long-term value creation strategy based on addressing the needs and challenges of society.

The Remuneration Committee's (the Committee) tasks are laid down in the terms of reference of the Committee. The Committee assists the Supervisory Board with establishing, implementing and reviewing the company's remuneration policy to ensure that members of the Board of Management are compensated in consistence with that policy.

The Chairman and members of the Remuneration Committee are appointed by the Supervisory Board. The Committee currently consists of Mr. Hartman (Chairman), Mr. Sickinghe and Mrs. Zuiderwijk.

KPN's remuneration policy; a balanced approach between market competitive standards and long-term value creation

The objectives and principles of KPN's remuneration policy are based on a balanced approach between market competitive standards, the ratio between fixed- and variable pay (with a focus on long-term value creation) and the economic and social contribution of the company linked to the non-financial parameters of the variable pay:

Objectives:	Principles:
Market competitive standards:	
Attracting, motivating and retaining the necessary leadership talent	Paying at market-median level
Complying with best practice in corporate governance	Enhancing transparency and clarity
Supporting a work environment where inspiring leadership is the norm	Differentiating by experience and responsibility, while promoting internal fairness
Ratio base/variable pay (focus on long-term value creation):	
Driving performance that generates long-term sustainable and profitable growth	Paying for performance
Encouraging customer satisfaction and loyalty, agility and innovation	Rewarding a customer centric approach
Economic and social contribution:	
Creating economic value by addressing the needs and challenges of society	Balancing all stakeholder interests

Overview

Executive remuneration at a glance — A
Highlights of KPN's remuneration policy and actual remuneration

Duties of the Committee — B
Insight into the duties of the Committee

Executive remuneration. policy – overview — C
In-depth insight into KPN's remuneration policy for the Board of Management and execution thereof

Supervisory Board pay policy — D
Highlights of KPN's pay policy for the Supervisory Board

A. Executive remuneration at a glance

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

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

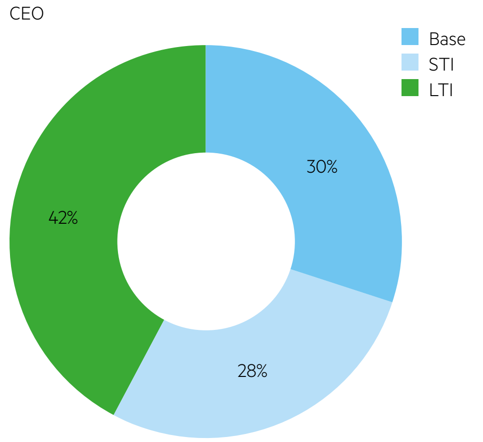
The ratio between fixed and variable pay

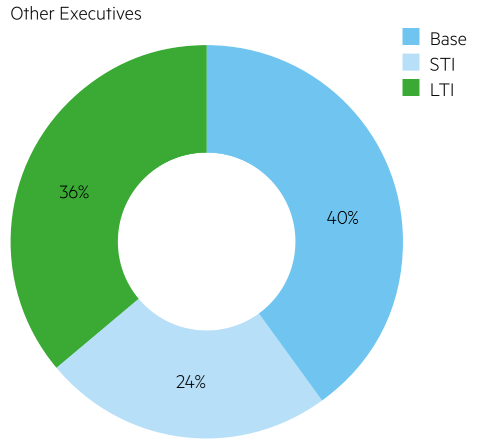
The ratio between fixed and variable pay is influenced by the extent to which targets are met. The following pie charts represent the pay mix for both the CEO and the other board members in case of an on-target performance. The different pay mix for the CEO (when compared to the other executives) reflects the outcome of the benchmark reference.

KPN's remuneration levels

KPN's remuneration levels are benchmarked against other companies in order to ensure that KPN's total level of compensation based on the pay mix is in line with KPN's remuneration policy and objectives, as described above. In order to benchmark pay levels, KPN uses an employment peer group of companies against which KPN competes for talent. The peer employment group consists of AEX-listed and European sector-specific companies. The advice of Korn Ferry Hay Group, an independent external consultant, is used by the Committee to ensure an objective benchmark for KPN's remuneration policy and levels of remuneration.

Remuneration policy





> Remuneration Report

Actual remuneration Board of Management

In thousands of EUR. See the section 'Personnel Expenses' section in the Consolidated Financial Statements for full disclosure of remuneration cost under IFRS principles. Actual remuneration 2017 shows elevated levels compared to the last year, a confirmation of the fact that the company has delivered results, outperforming its ambitions on both financial and non-financial aspects over the past 3-year's period, creating (long-term) value for all stakeholders.

Name	Year	Base	STI	Actual vested LTI over results in the past 3 years	Pension cost and social security	Total
Eelco Blok	2017	850	859	1,870[1]	269	3,848
	2016	850	531	1,031[2]	264	2,676
Jan Kees de Jager	2017	643	367	917[1]	124	2,051
	2016	625	238	505[2]	122	1,490
Frank van der Post	2017	700	363	1,474[1-3]	180	2,717
	2016	700	266	318[4]	171	1,455
Joost Farwerck	2017	611	332	843[1]	144	1,930
	2016	575	239	465[2]	139	1,418

1 Final measurement of the 2015 share grant was conducted in 2018, which leads to 172.86% vesting of the shares in April 2018. The amounts give an indication of the underlying value of the shares that will vest in April 2018 based on the closing share price of KPN at 15 February 2018 (EUR 2.56).
2 Final TSR measurement for the 2014 share grant was conducted in 2017, which led to vesting of shares in April 2017. The estimated numbers in the 2016 Remuneration Report are restated with the actual value at vesting with exception for Mr. van der Post as no 2014 share plan was granted to him.
3 In March and September 2017, part of the long-term compensation of Mr. van der Post vested as agreed at his appointment as Board member in 2015.
4 In March 2016, part of the long-term payment of Mr. van der Post vested as agreed at his appointment as Board member in 2015.

Incentives aligned with strategy and sustainable performance growth

The focus of KPN's strategy is on accelerating up- and cross-sell in bundles, growth in TV and IT services, finalization of business transformation and further improving customer experience. Combined with a flexible and simplified integrated network and operating model KPN continues to expand its superior access position by deploying innovative technologies. Together, this leads to an optimized financial framework and a growing dividend. The goals and objectives of this strategy are reflected in the short- to medium-term targets and long-term targets, which are used to compensate senior management for their performance. The performance measures also strengthen sustainable performance growth by focusing on both financial and non-financial performance indicators.

Level of variable compensation aligned with the company's risk profile

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

KPN's internal pay ratio

In line with the revised Dutch Corporate Governance Code (2016), KPN takes into account the internal pay ratios within the organization when formulating the remuneration policy. In light of transparency and clarity, KPN applies a methodology to calculate the internal pay ratio that is IFRS-driven (i.e. linked to KPN's Note 5 to the Consolidated Financial Statements).

KPN's internal pay ratio is calculated as the total CEO compensation divided by the average employee compensation (total personnel expenses divided by the average number of FTE)[5]. Consequently, KPN's calculated pay ratio in 2017 is 36 (2016: 33).

For further details see Note 5 to the Consolidated Financial Statements.

5 KPN has temporary employees, who are not included in the published FTE numbers. A like-for-like comparison is established by adjusting costs for "additional labor capacity" and "own work capitalized" in the calculation of the average employee compensation.

B. Duties of the Committee

Duties of the Committee

The Committee assists the Supervisory Board with:

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

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

In performing its duties, the Committee is assisted by an external remuneration consultancy firm (i.e. Korn Ferry Hay Group). The Committee is fully independent in the execution of its assigned responsibilities and ensures that the external remuneration consultancy firm acts on the instructions of the Committee and on a basis by which conflicts of interest are avoided. Further information on the activities of the committee in 2017 can be found in the Report by the Supervisory Board.

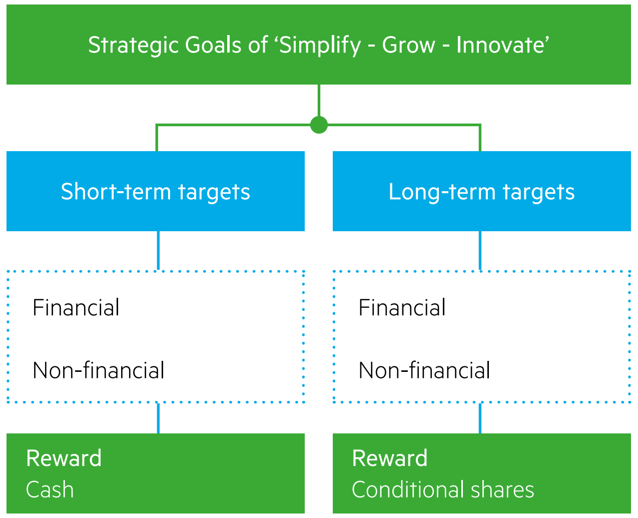
C. Executive remuneration policy – overview

Objectives of KPN's remuneration policy

The essence of our organizational culture is aimed at delivering results. KPN's remuneration programs therefore emphasize variable pay and long-term value creation.

Sustainable performance growth

The performance measures of the short- and long-term incentive plans are aligned with sustainable performance growth. The focus is on both financial and non-financial targets in order to support creation of economic value by addressing the needs and challenges of society. Examples of such non-financial performance measures are: customer satisfaction, loyalty and customer base, reputation targets and energy reduction targets. The alignment of KPN's remuneration policy with its strategic goals is reflected in the following overview.



Principles of KPN's remuneration policy

KPN's remuneration policy is guided by the following main principles:

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

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

Composition of employment market peer group and market assessment

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

> Remuneration Report

Employment peer group

AkzoNobel NV	BT Group Plc
DSM NV	Cap Gemini NV
Heineken NV	Portugal Telecom SA
Randstad Holding NV	Proximus SA
RELX NV/Plc	Swisscom AG
Royal Ahold Delhaize NV	Vodafone Group Plc
Royal Philips NV	Unilever NV/Plc

The Committee regularly reviews the peer group to ensure that its composition is still appropriate. The composition of the peer group might be adjusted as a result of mergers or other corporate activities. The relative size of KPN is taken into account when determining whether KPN's pay levels are in line with the market-median levels.

Base salary

The Committee determines appropriate base salary levels based on KPN's relative positioning in the peer group taken into account the underlying principles of the remuneration policy. Each year, the Supervisory Board considers whether circumstances justify an adjustment in base salary within the market-competitive target range for individual members of the Board of Management.

Short-term Incentives (STI): 70% financial and 30% non-financial targets

General

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

Objectives: focus on both financial and non-financial targets

The objective of this STI scheme is to ensure that the Board of Management is well incentivized to achieve company performance targets in the shorter term. Specific details on targets cannot be disclosed for performance measures, as this would require providing commercially sensitive information. The Committee uses scenario analysis to estimate the possible outcomes and decides whether a correct risk incentive is set for the members of the Board of Management with respect to the overall level of pay and pay differentials within the company.

Performance incentive zone

The target ranges for financial and operational performance comprise:
- A 'threshold' below which no incentive is paid;
- An 'on-target' performance level at which an 'on-target' incentive is paid; and
- A 'maximum' at which the maximum incentive is paid.

The STI is designed to strike a balance between the company's risk profile and the incentive to achieve ambitious targets. The pay-out methodology is based on a separate pay-out approach for each of the financial and non-financial targets. The Supervisory Board's ability to apply a discretionary factor ranges between 0.7 (reducing the incentive by 30%) and 1.3 (increasing the incentive by 30%). With this discretionary factor, the Supervisory Board is able to express the assessment of the overall individual performance of each member of the Board of Management. The Supervisory Board has agreed a set of non-financial KPI's with each individual member of the Board of Management. The performance based on these KPI's will be evaluated by the Committee annually and discussed with the individual Board members at the end of each year. The outcome of this discussion will be used by the Supervisory Board as a reference to determine the discretionary factor.

Discretion both upwards and downwards can be applied by the Supervisory Board if the outcome of the STI scheme would produce an unfair result or if the outcome would not be considered to reflect the basic objectives and principles of pay as outlined in this section.

Actual pay-out levels

Based on the financial and non-financial targets set by the Supervisory Board at the beginning of the year free cash flow (weighting 30%) performed above maximum while the targets EBITDA (weighting 25%), customer base (weighting 15%), Net Promoter Score (weighting 15%) and revenue (weighting 15%) performed, each, between threshold and target level.

Short-term Incentives (STI)

Component	Short-term incentives
Form of compensation	Cash
Value determination	'On-target' incentive equals 90% of base salary for the CEO and 60% of base salary for the other members of the Board of Management.
Targets	Targets typically are EBITDA, free cash flow, revenue and various measures of customer and employee satisfaction, customer loyalty and customer base. A circuit breaker is applicable as a minimum requirement for pay-out of the STI non-financial parameters.If this minimum requirement is not achieved, the non-financial parameters of the STI will not generate a pay-out.
Pay-out at threshold performance	25% of the 'on-target' incentive (i.e. 22.5% of base salary for the CEO and 15% of base salary for the other members of the Board of Management). Pay-out below threshold performance: 0% of the 'on-target' incentive.
Discretionary factor	A factor between 0.7, reducing the incentive by 30%, and 1.3, increasing the incentive by 30%.
Scenario maximum	Pay-out capped at 150% of the 'on-target' incentive (i.e. 135% of base salary for the CEO and 90% of base salary for the other members of the Board of Management).

Long-term Incentives (LTI)

Component	Long-term share-based compensation
Form of compensation	Shares
Value determination[1]	CEO: based on 135% of base pay. Other members of the Board of Management: based on 90% of base pay.
Targets	For 25% based on relative TSR versus peer group, for 25% on free cash flow, for 25% on earnings per share, for 12.5% on sustainability/environmental targets and for 12.5% on stakeholder/customer targets. Vesting of non-financial targets will be subject to achieving a cumulative net profit during the vesting period of three years (i.e. qualifier for vesting).
On-target	100% of the granted shares vest.
Scenario maximum	Position 1 in TSR peer group and maximum performance of financial and non-financial targets: 200% of the granted shares vest.

1 Based on the average share price of the first trading day after the AGM. Dividend paid during the vesting period will be included in the value determination.

Long-term Incentives (LTI): 75% financial and 25% non-financial targets

General

In addition to the base salary and the short-term annual cash incentive described above, a long-term incentive based on performance shares is used to ensure that the interests of the members of the Board of Management are aligned with those of its long-term (or prospective) shareholders and to provide an incentive for members of the Board of Management to continue their employment/service agreement relationship with the company.

The number of shares granted under this plan is based on a percentage of base pay as shown in the LTI table. The vesting methodology is based on a separate vesting approach for each of the financial and non-financial targets.

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

The non-financial parameters set are based on energy reduction and a reputation dashboard. See the relevant sections of this Integrated Annual Report for detailed information about energy reduction and reputation. The performance period of the LTI plan is set at three years. Vesting is, in principle, also subject to the condition that the member of the Board of Management has not resigned within three years of the date of the initial grant. The Committee uses scenario analysis to estimate the possible outcomes of the value of the

> Remuneration Report

shares vesting in coming years and decides whether a correct risk incentive is set for the members of the Board of Management with respect to the overall level of pay and pay differentials within the company.

See Note 5 of the Consolidated Financial Statements for a further description and valuation of the option and share plans.

Performance-measuring and peer group performance

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

Companies included in the peer group

BT Group Plc	Tele2 AB
Deutsche Telekom AG	Telekom Austria AG
Orange Belgium SA	Telia Company AB
Orange SA	Vodafone Group Plc
Proximus SA	Swisscom AG
TDC A/S	KPN NV

Position	Vesting schedule	Position	Vesting schedule
Position 1	200%	Position 5	100%
Position 2	175%	Position 6	75%
Position 3	150%	Position 7 and below	No vesting
Position 4	125%		

The table above provides the vesting schedules of the TSR part in the LTI plans. Please note that the peer group used for relative TSR reflects the relevant competitive market in which KPN competes for investor preference. As such, it is different from the employment market peer group, which is used to determine pay levels for the CEO and members of the Board of Management. The peer group may be adjusted if an individual company no longer qualifies as a relevant peer company. The vesting schedule for financial and non-financial targets other than TSR is: threshold performance 25%, on-target performance 100% and maximum performance 200%.

Performance incentive zone

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

Once vested, the shares will have to be held for a minimum period of two years. An exception to this rule is made for shares that are sold to cover income tax obligations in relation to the vested shares typically the value taxed as income equals the number of shares vested multiplied by the share price at the time of vesting. An external remuneration consultant calculates the end-of-year TSR peer group position and the number of shares vested based on this target, and makes certain that calculations are performed objectively and independently. The TSR is calculated based on the three-month average share price at the start and end of the performance period.

Discretion both upwards and downwards can be applied by the Supervisory Board if the outcome of the LTI incentive scheme would produce an unfair result or if the outcome would not be considered to reflect the basic objectives and principles of pay as outlined in this section.

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

Actual pay-out levels

	Weighting	Outcome	Vesting percentage
TSR	25%	150%	37.50%
EPS	25%	200%	50%
FCF	25%	141.42%	35.36%
Energy	12.5%	200%	25%
Reputation	12.5%	200%	25%
Total vesting			**172.86%**

The LTI plan 2015 vests in April 2018 and final TSR measurement for the 2015 LTI share grant was conducted as per February 15, 2018.
The vesting of the LTI plan 2015 is primarily based on both the solid relative financial performance and the strong performance on non-financial metrics such as energy reduction and reputation. The targets for the LTI plan 2015 were set at the grant date in 2015. During the vesting period 2015-2017 KPN was able to offset the revenue pressure and delivered stable adjusted EBITDA as well as growing free cash flow and growing dividend per share. This solid performance is also reflected in KPN's third relative position in terms of TSR performance in the peer group of 12 European telecommunications companies.

In 2017, KPN became the industry leader in the category Telecommunications of the Dow Jones Sustainability World Index (DJSI). This strong performance, including a year-on-year reduction in energy consumption despite an exponential increase in data traffic, is reflected in KPN's sustainability performance during the vesting period 2015-2017. Next to that, customer satisfaction in the Netherlands (NPS) improved during the vesting period 2015-2017 from on average -3 at the end of 2014 to on average +8 at the end of 2017. In addition, KPN's reputation as concluded by the Reputation Institute (the world's leading research and advisory firm for reputation) improved further during the vesting period.

Claw-back clause

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

Benefits

Pensions

Members of the Board of Management are eligible for a defined contribution pension plan with a contribution based on the fiscal defined contribution table that corresponds to a retirement age of 67, an annual accrual rate of 1.875% and a pension accrual capped at EUR 103,317 base pay. Board members receive a fixed gross allowance equal to the associated pension contribution paid by the company prior to 2015 for the base pay part above EUR 103,317.

Additional arrangements

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

Loans

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

Terms of employment

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

All members of the Board (including the CEO) are appointed for a period of four years, which is in line with the requirements of the Dutch Corporate Governance Code.

Severance arrangements

Severance payments for the CEO and members of the Board of Management are aligned with the revised Dutch Corporate Governance Code (2016) and equal one-year base salary. For Mr. van der Post, an exception to this policy was agreed, with a severance payment of 18 months base salary only during his first term of appointment, as accepted under the Dutch Corporate Governance Code in place at the time of his appointment.

Remuneration Report

Change in composition of the Board of Management
Following the EGM on 6 December 2017, the Supervisory Board will appoint Mr. Maximo Ibarra as member and chairman of the Board of Management of KPN as of the AGM on 18 April 2018. Mr. Ibarra will earn a base salary of EUR 935,000 per year and is also eligible for KPN's short-term variable cash incentive and KPN's long-term variable incentive. To ascertain a smooth transition, he will be engaged for transition activities and professional services as of the announcement date (20 October 2017). For this, as approved by the EGM on 6 December 2017, Mr. Ibarra will receive monthly advisory fees totaling EUR 195,000 in cash, EUR 200,000 in cash subject to a retention period and EUR 200,000 in shares subject to a retention period.

Outlook for 2018
The current remuneration policy will be reviewed in 2018 to ensure that the underlying principles continuously support KPN's short- and long-term strategy, with a specific focus on simplicity and long-term value creation. Any material adjustments (if any) will be subject to prior approval by the General Meeting of Shareholders in April 2019.

D. Supervisory Board pay policy

The Committee is responsible for reviewing and, if appropriate, recommending changes to the pay of the Supervisory Board. Any recommended changes to Supervisory Board pay must be submitted to the General Meeting of Shareholders for approval. Members receive an additional fee if a meeting is held in a country other than the member's country of residence. Shareholdings in the company held by Supervisory Board members serve as a long-term investment in the company and help to align their interest with those of KPN's other shareholders. No Supervisory Board member is granted shares as a form of pay. As a policy, the company does not provide loans or guarantees to its Supervisory Board members.

The table below shows the pay-out to Supervisory Board Members and fixed Committee fees on an annual basis.

Amounts in EUR	Annual fees
Chairman Supervisory Board	100,000
Vice-Chairman of the Supervisory Board	70,000
Member Supervisory Board	60,000
Chairman Audit Committee	20,000
Member Audit Committee	10,000
Chairman Strategy & Organization Committee	12,500
Member Strategy & Organization Committee	7,500
Chairman Remuneration Committee	10,000
Member Remuneration Committee	5,000
Chairman Nominating & Corporate Governance Committee	10,000
Member Nominating & Corporate Governance Committee	5,000

See Note 5 to the Consolidated Financial Statements (Personnel expenses) for details on actual remuneration of the Supervisory Board.

Peter F. Hartman (Chairman of the Remuneration Committee)
Duco W. Sickinghe
Claudia J.G. Zuiderwijk

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Consolidated Statement of Profit or Loss

For the year ended 31 December

€ million	Notes	2017	2016
Revenues	[4]	6,497	6,801
Other income		1	5
Total revenues and other income		**6,498**	**6,806**
Cost of goods & services		1,923	2,131
Personnel expenses	[5]	1,151	1,175
Information Technology / Technical Infrastructure		502	517
Other operating expenses	[6]	616	554
Depreciation, amortization and impairments	[10/11]	1,424	1,545
Total operating expenses		**5,616**	**5,922**
Operating profit		**882**	**884**
Finance income		69	112
Finance costs		-338	-641
Other financial results		28	112
Financial income and expenses	**[7]**	**-241**	**-417**
Share of the profit/ loss (-) of associates		1	-1
Profit before income tax from continuing operations		**642**	**466**
Income taxes	[8]	-157	-96
Profit for the year from continuing operations		**485**	**370**
Profit/ Loss (-) for the year from discontinued operations	[2]	-2	430
Profit for the year		**483**	**800**
Profit attributable to non-controlling interests		–	7
Profit attributable to equity holders of the company		483	793

Earnings per ordinary share after taxes attributable to equity holders of the company for the year in EUR	**[9]**		
> Basic (continuing operations)		0.10	0.07
> Diluted (continuing operations)		0.10	0.07
> Basic (discontinued operations)		–	0.10
> Diluted (discontinued operations)		–	0.10
> Basic (total, including discontinued operations)		0.10	0.17
> Diluted (total, including discontinued operations)		0.10	0.17

> Consolidated Financial Statements

Consolidated Statement of Other Comprehensive Income

For the year ended 31 December

€ million	Notes	2017	2016
Profit for the year		**483**	**800**
Other comprehensive income, net of tax			
Other comprehensive income to be reclassified subsequently to profit or loss when specific conditions are met:			
Net gain or loss (-) on cash flow hedges	[15]	14	-85
Currency translation differences	[15]	–	20
Fair value adjustment available-for-sale financial assets	[12]	16	-263
Net other comprehensive income/ loss (-) to be reclassified to profit or loss in subsequent periods		**30**	**-328**
Items of other comprehensive income not to be reclassified subsequently to profit or loss:			
Retirement benefits remeasurements		12	-57
Net other comprehensive income/ loss (-) not to be reclassified to profit or loss in subsequent periods		**12**	**-57**
Other comprehensive income/ loss (-) for the year, net of tax		**42**	**-385**
Total comprehensive income for the year, net of tax		**525**	**415**
Total comprehensive income for the year, net of tax, attributable to:			
Equity holders of the company		525	408
Non-controlling interests		–	7
		525	**415**
Total comprehensive income/ loss (-) attributable to equity holders of the company arises from:			
Continuing operations		527	-22
Discontinued operations		-2	430

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Consolidated Statement of Financial Position

Assets

€ million	Notes	31 December 2017	31 December 2016
Non-current assets			
Property, plant and equipment	[10]	5,811	5,969
Intangible assets	[11]	3,341	3,250
Associates		21	24
Available-for-sale financial assets	[12.1]	20	1,909
Derivative financial instruments	[12.3]	168	298
Deferred income tax assets	[8]	947	1,091
Trade and other receivables	[13]	141	61
		10,449	**12,602**
Current assets			
Inventories		61	47
Trade and other receivables	[13]	762	766
Income tax receivables	[8]	1	–
Available-for-sale financial assets	[12.1]	1,071	–
Other current financial assets	[12.1]	329	140
Cash and cash equivalents	[14]	856	1,179
		3,080	**2,132**
Assets and disposal groups classified as held for sale		**1**	**2**
Total assets		**13,530**	**14,736**

Equity and Liabilities

€ million	Notes	31 December 2017	31 December 2016
Equity			
Share capital		168	171
Share premium		8,445	8,651
Other reserves		-393	-451
Retained earnings		-5,951	-5,859
Equity attributable to holders of perpetual capital securities		1,089	1,089
Equity attributable to equity holders of the company		**3,358**	**3,601**
Non-controlling interests		–	–
Total equity	**[15]**	**3,358**	**3,601**
Non-current liabilities			
Borrowings	[12.2]	7,578	7,897
Derivative financial instruments	[12.3]	328	197
Deferred income tax liabilities	[8]	1	–
Provisions for retirement benefit obligations	[16]	218	262
Provisions for other liabilities and charges	[17]	103	89
Other payables and deferred income	[18]	62	62
		8,290	**8,507**
Current liabilities			
Trade and other payables	[18]	1,782	1,839
Borrowings	[12.2]	18	735
Derivative financial instruments	[12.3]	–	1
Income tax payables	[8]	16	4
Provisions for other liabilities and charges	[17]	66	49
		1,882	**2,628**
Total liabilities		**10,172**	**11,135**
Total equity and liabilities		**13,530**	**14,736**

> Consolidated Financial Statements

Consolidated Statement of Changes in Equity

€ million	Notes	Subscribed ordinary shares	Share capital	Share premium	Other reserves	Retained earnings	Equity attributable to holders of perpetual capital securities	Equity attributable to equity holders of the company	Non-controlling interests	Total equity
Balance at 31 December 2015		**4,270,254,664**	**171**	**9,847**	**-125**	**-6,000**	**1,089**	**4,982**	**69**	**5,051**
Profit for the year			–	–	–	793	–	793	7	800
Other comprehensive income for the year			–	–	-328	-57	–	-385	–	-385
Total comprehensive income for the year			**–**	**–**	**-328**	**736**	**–**	**408**	**7**	**415**
Share-based compensation	[5]		–	–	–	-10	–	-10	–	-10
Sold treasury shares			–	–	14	–	–	14	–	14
Paid coupon perpetual hybrid bond (net of tax)			–	–	–	-51	–	-51	–	-51
Dividends paid			–	–	–	-460	–	-460	-26	-486
Capital repayment	[15]		–	-1,196	3	–	–	-1,193	–	-1,193
Acquisitions			–	–	–	-89	–	-89	-57	-146
Other			–	–	-15	15	–	–	7	7
Total transactions with owners, recognized directly in equity			**–**	**-1,196**	**2**	**-595**	**–**	**-1,789**	**-76**	**-1,865**
Balance at 31 December 2016		**4,270,254,664**	**171**	**8,651**	**-451**	**-5,859**	**1,089**	**3,601**	**–**	**3,601**
Profit for the year			–	–	–	483	–	483	–	483
Other comprehensive income for the year			–	–	30	12	–	42	–	42
Total comprehensive income for the year			**–**	**–**	**30**	**495**	**–**	**525**	**–**	**525**
Share-based compensation	[5]		–	–	–	-7	–	-7	–	-7
Sold treasury shares			–	–	12	–	–	12	–	12
Share buyback and cancellation		-67,410,260	-3	-206	–	–	–	-209	–	-209
Paid coupon perpetual hybrid bond (net of tax)			–	–	–	-51	–	-51	–	-51
Dividends paid			–	–	–	-513	–	-513	–	-513
Other			–	–	16	-16	–	–	–	–
Total transactions with owners, recognized directly in equity		**-67,410,260**	**-3**	**-206**	**28**	**-587**	**–**	**-768**	**–**	**-768**
Balance at 31 December 2017		**4,202,844,404**	**168**	**8,445**	**-393**	**-5,951**	**1,089**	**3,358**	**–**	**3,358**

Consolidated Statement of Cash Flows

For the year ended 31 December

€ million	Notes	2017	2016
Profit before income tax from continuing operations		642	466
Adjustments for:			
– Net financial expense	[7]	241	417
– Share-based compensation	[5]	6	7
– Share of the profit/ loss (-) of associates		-1	1
– Depreciation, amortization and impairments	[10/11]	1,424	1,545
– Other non-cash income and expense		4	-23
– Changes in provisions (excluding deferred taxes)		-4	-68
Changes in working capital relating to:			
– Current assets		-26	42
– Current liabilities		-43	-163
Dividends received	[12.1]	71	110
Income taxes paid/received		-13	50
Interest paid		-349	-460
Net cash flow from operating activities		**1,952**	**1,924**
Disposal of available-for-sale financial assets	[12.1]	890	31
Acquisition of subsidiaries and associates (net of acquired cash)		-165	-37
Disposal of subsidiaries and associates (net of cash)		3	3
Investments in software		-307	-276
Investments in other intangible assets		-1	-26
Investments in property, plant and equipment		-832	-917
Disposals of property, plant and equipment		2	10
Changes in other current financial assets	[12.1]	-190	435
Other		-7	1
Net cash flow from investing activities		**-607**	**-776**
Dividends paid		-513	-487
Paid coupon perpetual hybrid bonds		-67	-67
Proceeds from borrowings		–	1,235
Repayments of borrowings and settlement of derivatives	[12]	-872	-2,137
Capital repayment	[15]	–	-1,193
Share repurchase	[15]	-209	–
Other		-4	-72
Net cash flow from financing activities		**-1,665**	**-2,721**
Total net cash flow from continuing operations		**-320**	**-1,573**
Net cash flow from operating activities from discontinued operations		-2	-7
Net cash flow from investing activities from discontinued operations		-3	1,183
Total net cash flow from discontinued operations		**-5**	**1,176**
Changes in cash and cash equivalents		**-325**	**-397**
Exchange rate differences		-1	–
Net cash and cash equivalents at 1 January		1,178	1,575
Net cash and cash equivalents at 31 December		**852**	**1,178**
Bank overdrafts		4	1
Cash and cash equivalents	**[14]**	**856**	**1,179**

> Consolidated Financial Statements

General Notes to the Consolidated Financial Statements

[1] General information

Koninklijke KPN N.V. (KPN or the company) was incorporated in 1989 and is domiciled in the Netherlands. KPN is registered at the Chamber of Commerce in The Hague (file no. 02045200). The address of KPN's registered office is Maanplein 55, 2516 CK, The Hague. KPN's shares are listed on Euronext Amsterdam.

KPN is a leading telecommunications and ICT provider in the Netherlands, offering fixed and mobile telephony, fixed and mobile broadband internet and TV to retail consumers. KPN is market leader in the Netherlands in infrastructure and network related ICT solutions to business customers. KPN provides wholesale network services to third parties and operates an IP-based infrastructure for international wholesale customers through KPN's US-based subsidiary iBasis.

The Financial Statements were approved for issuance by both the Supervisory Board and the Board of Management on 23 February 2018 and are subject to adoption by the Annual General Meeting of Shareholders on 18 April 2018.

[2] Summary of significant accounting policies

Basis of preparation

The Consolidated Financial Statements of KPN have been prepared:

- in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code;
- under the historical cost convention, except for available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss; and
- on a going concern basis.

Summary of significant accounting policies

The general accounting policies as applied are described below. Significant accounting policies are described in the Notes to these Consolidated Financial Statements.

Changes in accounting policies and disclosures

KPN applies new standards and amendments issued by the International Accounting Standards Board (IASB), when effective and endorsed by the European Union. KPN has not early adopted any of these standards.

For 2017, only the amendment to IAS 7 Statement of Cash Flows has had an impact on KPN. The amendment of IAS 7, effective as of 1 January 2017, requires additional disclosures on changes in assets and liabilities arising from financing activities, including disclosures of cash flow and non-cash flow movements (see Note 12).

Future implications of new and amended standards and interpretations

The IASB has issued several new standards and amendments with an effective date of 1 January 2018 or later. Only those with an expected material impact on KPN's financial performance and/or the presentation thereof are discussed.

IFRS 15 'Revenue from Contracts with Customers'

This new standard introduces new guidance on the recognition and measurement of revenues and also provides a model for the sale of some non-financial assets that are not an output of a company's ordinary business activities. KPN will adopt IFRS 15 retrospectively and will restate the 2017 financial information for comparison purposes in the 2018 Consolidated Financial Statements. In 2018, KPN will record a cumulative transitional adjustment at 1 January 2017, the date of initial application.

In 2017, KPN implemented for IFRS 15 a IT solution for collecting and integrating data from various sources. New IFRS 15 related processes and controls are implemented. Teams consisting of members of the core project team and representatives from Finance and Business functions, IT and source system experts have validated the results. The core project team has ensured that IFRS 15 is well understood and implemented consistently across the company.

Key impact of IFRS 15

In 2017, KPN completed the analysis of the cumulative transitional adjustment as at 1 January 2017. Accounting for all customer contracts in progress but not yet completed or starting after the date of application has been analyzed and revised for IFRS 15 impact, if any. The following impact of IFRS 15 will be visible in the 2018 Consolidated Financial Statements. The revenue profile of approximately 60% of KPN's revenues is impacted by the transition to IFRS 15. Under IFRS 15, service revenues will be EUR 317m lower in 2017, mainly driven by the reclassification of handset sale revenues to non-service revenues and proceeds from handset sales via partners in the indirect channel no longer being recognized as service revenues. Based on our analysis equity as at 1 January 2017 will increase by EUR 222m, and at 31 December 2017 by EUR 127m. Net income for the year 2017 will decrease with EUR 95m and EBITDA with EUR 113m under IFRS 15. From 2018 onwards, we expect that service revenues will be at a structurally lower level compared to previously reported under IAS 18 due to the reclassification of handset revenues and different accounting treatment of handset sales through the indirect channel as explained in more detail below. The transition to IFRS 15 will have no impact on the cash flow from operations and on the overall contract profitability.

Main differences between IAS 18 and IFRS 15

See the tables on page 84 for the IFRS 15 impact on KPN's Consolidated Statement of Profit or Loss 2017 and on KPN's Consolidated Statement of Financial Position. In March 2018, KPN will issue a more detailed analysis of the impact of the restatements by segment. The most significant differences with KPN's current accounting policies include the following:

- Postpaid mobile contracts via KPN shops and website: Under our current accounting policy, revenue related to the sale of handsets in postpaid mobile contracts is recognized up to the non-contingent cash received upfront, i.e. the amount the customer pays for the handset when it is delivered to the customer. Under IFRS 15, additional revenue will be allocated to the handset at the start of the contract. The amount of revenue is calculated based on the relative standalone selling price of the handset, regardless of the actual contract pricing. As an example, compared to the current accounting policies, a postpaid subscription with a handset will result in recognition of higher non-service revenues upon delivery of the handset to the customer and lower subscription fees (service revenues) during the subscription period. On adoption of IFRS 15, this change will pull forward revenue in the periods being restated, and KPN will recognize a contract asset for all open contracts at 1 January 2017.
- Postpaid mobile contracts via third parties: Under IFRS 15 handset-related dealer fees result in an unbilled receivable on the statement of financial position that will decrease when instalments are billed to the end-customer, i.e. handset-related fees will no longer be expensed as incurred as part of the costs of goods and services (see Note 6). The handset instalment payments are no longer accounted for as service revenues, but netted against the receivable. Under our current accounting policy, transaction-related dealer fees are expensed as incurred as part of the costs of goods and services. Under IFRS 15, transaction related dealer fees paid to acquire or retain subscribers are capitalized and recognized on a straight-line basis over the contract term of the underlying customer contract.
- Installation service consumer customers: Under our current accounting policy, no revenue is recognized if the installation service is provided free of charge. Installation services offered to consumer customers are generally considered a separate performance obligation. Under IFRS 15, revenue is then allocated to the installation service at the start of the contract, based on its relative standalone selling price, regardless of the actual contract pricing. The revenue recognition profile will change with upfront recognition of revenue for the installation service and a corresponding reduction in ongoing wireline service revenue over the contract period. The difference between the amount of revenue recognized and the amounts charged to the customer will be recognized as a contract asset.
- Transition phase of projects for business customers: Under our current accounting policy transition costs relating to fixed-price contracts involving managed ICT services are capitalized and subsequently amortized to profit or loss on a straight-line basis during the period the services are provided. Under IFRS 15, these transition costs are already recognized in the P&L during the project phase and also corresponding revenue is recognized earlier if the transition project is a separate performance obligation to which costs and revenues are allocated.
- Variable consideration: Revenue for variable consideration, including revenue related disputes, is currently recognized when it is probable that these will flow to the company and under IFRS 15 only when it is highly probable. As a consequence, such revenue may be recognized later when this higher threshold is met.
- Recognized contract assets will be included in the calculation of the provision for expected credit losses under IFRS 9 as set out on page 85.
- There will be a corresponding effect on income tax in relation to the above impacts.
- Consumer credit legislation: As of 1 May 2017, KPN is legally required to treat a handset combined with a postpaid subscription as a consumer loan under the Dutch Financial Supervision Act (Wft, Wet op het financieel toezicht) if the consumer customer repays the handset in monthly instalments and the credit amount is above EUR 250. The separate legal entity KPN Finance B.V. is the contract party in the loan agreement in both direct and indirect channels. The outstanding consumer loans in KPN Finance B.V. amount to EUR 114m at 31 December 2017. These consist of EUR 1m unconditional receivables classified in 'Trade and Other Receivables' and EUR 113m for conditional receivables that are not yet invoiced and are eliminated upon KPN group consolidation under IAS 18. As set out above, IFRS 15 considers this a contract asset for both consumer and business customers. As of 1 January 2018, the contract with consumer customers for the instalment payments of the handset has changed in both direct and indirect channels, resulting in an unconditional IFRS 9 receivable. Taken into account the low interest rates and contract duration, these receivables do not include a significant financing component.

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IFRS 9 and IFRS 15 impact on KPN's Consolidated Statement of Profit or Loss

€ million, unless indicated otherwise	2017 As published	IFRS 9 Adjustment	IFRS 15 Adjustment	2017 Restated
Service revenues	6,208	–	-317	5,891
Non service revenues	289	–	182	471
Other income	1	–	–	1
Total	**6,498**	**–**	**-135**	**6,363**
Cost of goods & services	1,923	–	-35	1,888
Personnel expenses	1,151	–	–	1,151
IT/TI	502	–	–	502
Other operating expenses	616	–	13	629
Depreciation, amortization & impairments	1,424	–	–	1,424
Total operating expenses	**5,616**	**–**	**-22**	**5,594**
Operating profit	**882**	**–**	**-113**	**769**
Finance income and expenses	**-241**	**–**	**–**	**-241**
Share of the profit of associates and joint ventures	1	–	–	1
Profit/Loss (-) before income tax from continuing operations	**642**	**–**	**-113**	**529**
Income taxes	-157	–	18	-139
Profit/Loss (-) for the period from continuing operations	**485**	**–**	**-95**	**390**
Profit/Loss (-) for the period from discontinued operations	-2	–	–	-2
Profit/Loss (-) for the period	**483**	**–**	**-95**	**388**
Earnings per ordinary share after taxes attributable to equity holders for the period (in EUR)				
- Basic (continuing operations)	0.10	–	-0.02	0.08
- Diluted (continuing operations)	0.10	–	-0.02	0.08
- Basic (discontinued operations)	0.00	–	–	0.00
- Diluted (discontinued operations)	0.00	–	–	0.00
- Basic (total, including discontinued operations)	0.10	–	-0.02	0.08
- Diluted (total, including discontinued operations	0.10	–	-0.02	0.08

IFRS 9 and IFRS 15 impact on KPN's Consolidated Statement of Financial Position

€ million	1 January 2017 As published	IFRS 9 Adjustment	IFRS 15 Adjustment	1 January 2017 Restated	31 December 2017 As published	IFRS 9 Adjustment	IFRS 15 Adjustment	31 December 2017 Restated
Trade and other receivables	766	-7	-5	754	762	-7	-5	750
Contract assets[1]	–	–	325	325	–	–	269	269
Contract costs	–	–	42	42	–	–	33	33
Deferred income tax assets	1,091	2	-63	1,030	947	2	-45	904
Total assets	14,736	-5	296[2]	15,027	13,530	-5	249[2]	13,774
Total equity	3,601	-5	222	3,818	3,358	-5	127	3,480
Contract liabilities	–	–	77	77	–	–	124	124
Total equity and liabilities	14,736	-5	296[3]	15,027	13,530	-5	249[3]	13,774

1 Under IFRS 9, a provision for expected credit losses will be recorded on the IFRS 15 contract assets. This transition impact is presented as part of the IFRS 15 impact.
2 Total assets figures include IFRS 15 adjustments regarding other line items of EUR -3m as of 1 January 2017 and EUR -3m as of 31 December 2017.
3 Total equity and liabilities figures include IFRS 15 adjustments regarding other line items of EUR -3m as of 1 January 2017 and EUR -2m as of 31 December 2017.

IFRS 9 'Financial Instruments'
This standard introduces new requirements for classification and measurement, impairment and hedge accounting of financial instruments and is effective as of 1 January 2018. KPN will adopt IFRS 9 retrospectively (except hedge accounting which will be applied prospectively) and will restate the 2017 financial information for comparison purposes in the 2018 Consolidated Financial Statements. In 2018, KPN will record a cumulative transitional adjustment at 1 January 2017 to revise historical financial data.
IFRS 9 impacts the valuation of certain contract assets which will be recognized as a result of IFRS 15.

The most significant differences of IFRS 9 with KPN's current accounting policies are:

- Available-for-sale financial assets:
  Fair value movements recorded in OCI are no longer recycled through the P&L (other financial results) for all assets recognized on the balance sheet as of 1 January 2018. This means that a decrease in the fair value which is considered permanent or a sale of these assets will no longer impact the P&L. There was no permanent decrease in fair value in 2017.
- Provision for trade receivables and contract assets:
  In addition to the provision for overdue trade receivables measured under the current accounting policy, a provision is recorded for the expected loss on trade receivables and contract assets not yet overdue.
- Hedge effectiveness testing of the cross-currency swaps and interest rate swaps:
  Cross-currency basis spreads are no longer included in the risk designation. This may lead in the future to differences in the amounts recorded for hedge ineffectiveness.

See table on page 84 for the IFRS 9 impact on KPN's reported 2017 results and the Corporate Statement of Financial Position.

IFRS 16 'Leases'
This standard introduces on balance sheet accounting for (almost) all leases. For lessees, the distinction between financial leases ('on balance') and operating leases ('off balance') is removed whereas for lessors, these two types of leases remain in place.

KPN is preparing for decisions on interpretations of the IFRS 16 accounting standard. As the new KPN accounting policies have not been finalized yet, no reliable estimate of the impact is available.
IFRS 16 requires the lease liability to be recognized at discounted value and, among other factors, requires that the likelihood of early terminations or expected use of renewal options are taken into account as well. Therefore, the amounts KPN will recognize as lease liability and right of use asset upon transition are not expected to be equal to the currently reported off balance sheet obligation related to operating leases as disclosed in Note 20. IFRS 16 will increase KPN's EBITDA due to the replacement of operating lease expenses with amortization charges of the lease assets and the interest expenses related to the lease liabilities. The impact on net profit is expected to be limited. The 'on balance' recognition of KPN's lease liabilities is not expected to have an impact on KPN's financing arrangements which do not contain any financial covenants.

KPN is implementing an IFRS 16 solution within its IT landscape. The majority of KPN's lease contracts is captured in one of KPN's four main lease management systems. These lease management systems will interface IFRS 16 relevant contract data to KPN's central IFRS 16 calculator (part of the IFRS 16 solution). Leases at subsidiary companies are also prepared for inclusion in the IFRS 16 calculator. All of KPN's lease contracts are under review and data hereof is enriched, either in the lease management systems or directly in the IFRS 16 calculator, for required IFRS 16 data such as appropriate discount rates.

IFRS 16 has been endorsed and will be effective as of 1 January 2019. KPN will not early adopt this standard in 2018. KPN intends to apply IFRS 16 using the full retrospective approach.

> Consolidated Financial Statements

Basis of consolidation
KPN's Consolidated Financial Statements include the financial results of its subsidiaries and incorporate KPN's share of the results from associates.

Subsidiaries are all entities directly or indirectly controlled by KPN. Control is defined as the power over an entity, i.e. the ability to govern the financial and operating policies, resulting in obtaining the gains or losses from the entity's activities. Subsidiaries are fully consolidated from the date on which control is obtained by KPN and are deconsolidated from the date on which KPN's control ceases. All intercompany transactions, balances and unrealized results on transactions with subsidiaries are eliminated.

Changes in ownership interests in subsidiaries without change of control that do not result in loss of control are accounted for as equity transactions. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Non-current assets and disposal groups held for sale
Non-current assets and disposal groups classified as held for sale as well as liabilities directly associated herewith are stated at the lower of carrying amount (book value) and fair value less costs of disposal if their carrying amount is recovered principally through a sale transaction rather than through continuing use. If fixed assets are transferred to held for sale, depreciation and amortization ceases. A disposal group classifies as a 'discontinued operation' based on its significance to the KPN Group.

Some results (and cash flows) may continue to arise following the unwinding of remaining positions of E-Plus (sold in 2014) and BASE Company (sold in 2016). In 2017 the result from discontinued operations amounted to EUR -2m and in 2016 EUR 430m, of which EUR 367m result on disposal (minus transaction costs) of BASE Company and EUR 63m tax adjustments E-Plus.

Foreign currency translation
The Financial Statements are presented in euro (EUR), which is KPN's presentation currency and functional currency. All amounts are rounded to millions unless stated otherwise.

Transactions in foreign currencies are translated into euro using the exchange rates applicable at transaction date. At reporting date, monetary assets and liabilities denominated in foreign currencies are translated to euro using the rates at reporting date. Exchange rate differences are recognized in profit or loss except when these differences are related to qualifying cash flow hedges and qualifying net investment hedges in which case the exchange rate differences are recorded in OCI. Exchange rate differences on non-monetary assets and liabilities are reported as part of the fair value gain or loss from that asset or liability. Exchange rate differences arising from the translation of the net investment in foreign entities, of borrowings and other currency instruments designated as hedges of such investments are recognized in OCI.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate at the reporting date.

Subsidiaries
For consolidation purposes, the results and financial position of subsidiaries are translated to euro at closing rate of the date of the financial position (assets and liabilities) or at the average exchange rates applicable for the specific reporting period (income and expenses). All resulting exchange differences are recognized in OCI.

Statement of Cash Flows
The Statement of Cash Flows is prepared using the indirect method. Cash flows denominated in currencies other than EUR are translated at average exchange rates. Cash flows relating to interest and taxes on profits and tax deductions relating to interest on perpetual hybrid bonds are included in the cash flow from operating activities. The consideration paid in cash for acquired subsidiaries is included in the cash flow from investing activities net of cash acquired. Cash flows resulting from the disposal of subsidiaries are disclosed separately, net of cash sold. Investments in property, plant and equipment, which are financed by financial leases, are not included in the cash flow used in investing activities.

Significant accounting estimates, judgments and assumptions made by management
These are evaluated continuously and are based on historic experience and other factors, including expectations of future events thought to be reasonable under the circumstances. Actual results may deviate from the estimates applied. Estimates are revised when material changes to the underlying assumption occur.

The accounting estimates, judgments and assumptions deemed significant to KPN's financial statements relate to:

Determination of deferred tax assets for losses carry forward and provisions for tax contingencies	Note 8
Determination of value in use of cash-generating units for goodwill impairment testing	Note 11
Assessments of exposure to credit risk and financial market risks	Note 12.4
The 'more likely than not' assessment required to determine whether or not to recognize a provision for idle cables, which are part of a public electronic communications network	Notes 17, 20

In preparing the Financial Statements, KPN has applied the concept of materiality to the presentation and level of disclosures. Only essential and mandatory information is disclosed which is relevant to an understanding by the reader of these Financial Statements.

[3] Segment reporting

The Netherlands
Commercial comprises the segments Consumer and Business. Operations represents the segments Wholesale and Network, Operations & IT (NOI). For general information on these segments read more in chapters Shareholder value, Integrated Products & Services and State-of-the art networks and ICT infrastructure. The Netherlands' Other segment includes the results of KPN's Corporate Center and eliminations.

iBasis
Through iBasis, KPN is a leading player in the international wholesale voice market in terms of minutes carried. iBasis offers a comprehensive portfolio of voice termination and data services for many of the world's largest fixed and mobile operators, as well as voice over broadband.

Other activities
Other activities comprise KPN Holding, remaining activities abroad and eliminations.

Changes organizational structure
Comparative financial information for 2016 has been restated to reflect a number of developments in KPN's internal management reporting. In terms of 2016 operating expenses, the main impact is visible in lower operating expenses for NOI and higher costs for the Wholesale segment.

The main restatements are:
- KPN moved six data centers, focused on offering colocation services, to a separate entity ('NL|DC') within Wholesale. As per KPN's policy, intercompany revenues are minimized; therefore revenues generated by NL|DC via the sales channel of Business remain recorded at Business. The related expenses moved from NOI to Wholesale.
- Reallocation of certain isolated customer related expenses from the cost of goods and services at Business to IT/TI at NOI as a better fit with the nature of these expenses and the way these are managed.
- Operating expenses for certain new business activities were moved from NOI to Business, where the related revenues were already recognized.

Segment performance
KPN has limited the intercompany transactions and settlements to those relevant for determining the tax return of KPN, for instance intercompany settlements with several subsidiaries, and those necessary for the capitalization of project costs.

The EBITDA of Consumer, Business and Wholesale represents the contribution margin of these segments and the EBITDA of NOI consists mostly of operating expenses. Due to the fact that KPN neither allocates interest expenses to segments nor accounts for taxes in the segments, the disclosure is limited to operating profit for the year.

For an explanation of incidental transactions included in Revenues, Other income and EBITDA, see Appendix 1.

Geographical information
(continuing operations, excluding deferred taxes and derivative financial instruments)

	The Netherlands		The Americas		Other		Total	
€ million	2017	2016	2017	2016	2017	2016	2017	2016
Non-current assets	9,264	11,129	67	81	2	2	9,333	11,212
Intangibles	3,294	3,195	47	55	–	–	3,341	3,250
PPE	5,791	5,945	20	23	–	1	5,811	5,969
Revenues & Other income	5,849	6,023	648	778	1	5	6,498	6,806

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Segmentation 2017

		Commercial		Operations						
€ million	Notes	Consumer	Business	Wholesale	NOI	Other[3]	Total The Netherlands	iBasis	Other activities[3]	KPN Group Consolidated
Statement of Profit or Loss										
External revenues[1]	[4]	3,133	2,154	540	18	3	5,848	648	1	6,497
Other income		–	–	–	2	–	2	–	-1	1
Inter-division revenues		19	44	136	1	-174	26	57	-83	–
Total		**3,152**	**2,198**	**676**	**21**	**-171**	**5,876**	**705**	**-83**	**6,498**
Operating expenses	[5/6]	-1,183	-1,005	-214	-1,072	-102	-3,576	-681	65	-4,192
EBITDA[2]		**1,969**	**1,193**	**462**	**-1,051**	**-273**	**2,300**	**24**	**-18**	**2,306**
DA&I	[10/11]	-182	-65	-20	-1,141	-5	-1,413	-10	-1	-1,424
Operating profit		**1,787**	**1,128**	**442**	**-2,192**	**-278**	**887**	**14**	**-19**	**882**
Total assets		**4,821**	**2,853**	**892**	**9,640**	**-6,970**	**11,236**	**288**	**2,006**	**13,530**
Total liabilities		**4,890**	**2,832**	**883**	**9,531**	**-15,556**	**2,580**	**164**	**7,428**	**10,172**

Segmentation 2016 (restated)

		Commercial		Operations						
€ million	Notes	Consumer	Business	Wholesale	NOI	Other[3]	Total The Netherlands	iBasis	Other activities[3]	KPN Group Consolidated
Statement of Profit or Loss										
External revenues[1]	[4]	3,121	2,255	625	15	5	6,021	779	1	6,801
Other income		–	–	1	2	-1	2	–	3	5
Inter-division revenues		22	54	134	–	-181	29	88	-117	–
Total		**3,143**	**2,309**	**760**	**17**	**-177**	**6,052**	**867**	**-113**	**6,806**
Operating expenses	[5/6]	-1,263	-929	-252	-1,125	-81	-3,650	-844	117	-4,377
EBITDA[2]		**1,880**	**1,380**	**508**	**-1,108**	**-258**	**2,402**	**23**	**4**	**2,429**
DA&I	[10/11]	-208	-76	-20	-1,168	-15	-1,487	-57	-1	-1,545
Operating profit		**1,672**	**1,304**	**488**	**-2,276**	**-273**	**915**	**-34**	**3**	**884**
Total assets		**4,225**	**2,751**	**898**	**9,782**	**7,325**	**24,981**	**334**	**-10,579**	**14,736**
Total liabilities		**4,352**	**2,730**	**888**	**9,523**	**-14,844**	**2,649**	**198**	**8,288**	**11,135**

1 External revenues mainly consist of rendering of services.
2 Earnings before interest, tax and depreciation, amortization and impairments.
3 Including eliminations.

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Notes to the Consolidated Statement of Profit or Loss

[4] Revenues

€ million	2017	2016
Rendering of services	6,208	6,566
Sale of goods	283	214
Other revenues	6	21
Total revenues	**6,497**	**6,801**

Accounting policy: Revenues
Revenue is measured at fair value of the consideration received or receivable for the sale of goods and services. Revenues are presented net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognized when it is probable that the economic benefits associated with a transaction will flow to KPN and the amount of revenue and associated costs can be measured reliably.

Rendering of services includes fees for usage of KPN's network and facilities, for example monthly subscription fees, and revenues from customer specific ICT solutions. Revenue is recognized upon rendering the service. Revenue from IT development is recognized using the percentage-of-completion method.

Sale of goods includes proceeds from hardware sales. Revenue is generally recognized when the product is shipped to the customer.

Contracts with customers that include multiple deliverables (e.g. handset sale combined with a mobile telecommunications contract) must be separated into individual elements, each with its own separate revenue contribution. The amount of revenue is then determined based on the relative fair value. If the fair value of the delivered item exceeds the cash received at the time of delivery, revenue is recognized up to the non-contingent cash receivable.

[5] Personnel expenses

€ million	2017	2016
Salaries and wages	879	872
Retirement benefits	88	77
Social security contributions	114	106
Additional labor capacity	117	158
Own work capitalized	-112	-105
Other	65	67
Total personnel expenses	**1,151**	**1,175**

In addition, there were employee redundancy costs which are not included in personnel expenses but in other operating expenses. See Note 17 'Provisions for other liabilities and charges' for information on employee redundancy costs.

Number of own personnel (FTE) per segment	31 December 2017	31 December 2016
Consumer	2,518	2,726
Business	3,511	3,302
Wholesale	221	215
Network Operations & IT	5,583	5,747
iBasis	295	323
Other	1,147	1,217
Total FTE	**13,275**	**13,530**

Share plans
KPN has granted shares (equity-settled) and share-based awards (cash-settled) on its shares to members of the Board of Management and senior management: the Performance Share Plan (PSP). The conditionally granted PSP award will vest after three years if the employee is still employed by KPN. Vesting is based on individual vesting of 25% relative TSR versus peer group, 25% Free Cash Flow, 25% Earnings Per Share, 12.5% on sustainability/environmental targets and 12.5% on stakeholder/customer targets. Vesting of non-financial targets will be subject to achieving a cumulative net profit during the vesting period of three years (i.e. a qualifier for vesting). The list of companies included in the peer group and the vesting schedule can be found under 'Long-term Incentives' in the 'Remuneration Report' section.

The main features of the awards granted under the PSP and Restricted Share Plan to KPN management are summarized on the next page.

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	Board of Management	Senior Management	Maximum term	Settlement type[1]	Vesting period	Holding period after vesting of/until
2014	X	X	5 years	Equity[2]	3 years	2 years
		X	3 years	Cash	3 years	–
2015	X		5 years	Equity[2]	3 years	2 years
		X	3 years	Cash	3 years	–
	X (CCO)[3]		4 years	Equity[2]	4 years	–
2016	X		5 years	Equity[2]	3 years	2 years
		X	3 years	Cash	3 years	–
2017	X	X	5 years	Equity[2]	3 years	2 years
		X	3 years	Cash	3 years	–

1 The cash-settled share awards will be settled in cash and no holding restrictions apply. An exception to the holding period for equity-settled plans is made with respect to shares that were sold upon vesting to cover the tax obligation on the vested shares. After vesting, the holder is able to sell a number of unconditional granted shares only up to the amount necessary to settle the wage taxes liability relating to the profit made on the stock compensation plan. Wage tax in the Netherlands is generally 52% of the total vested amount..
2 Including deferred dividend.
3 In April 2015, KPN's Chief Commercial Officer, Mr. Van der Post was granted shares which partially vest in 2016, 2017 and 2019 if he is still employed by KPN. For this plan, no other performance measures are applicable.

The total compensation expense associated with the share plans was EUR 11m in 2017 (2016: EUR 7m) and the related liability (for cash-settled shares) on 31 December 2017 was EUR 13m (2016: EUR 12m). This liability is included under Other payables and deferred income. For the 2014 Share Plan and share-based awards, the service conditions were met in the year 2017. The intrinsic value at vesting was EUR 8m.

The following table presents the number of shares and share-based awards in thousands under the share plans.

	Total 31 Dec 2015	Granted/ additional vesting[1-2]	Exercised/ Vested	Forfeited	Total 31 Dec 2016[3]	Granted/ additional vesting[2]	Exercised/ Vested	Forfeited[4]	Total 31 Dec 2017[3]	-of which: Non-vested
2014 Share-based awards Sr. Man.	2,948	241	–	-315	2,874	–	-1,976	-898	–	–
2014 Shares BoM/Sr. Man.	1,503	123	–	-161	1,465	–	-1,007	-458	–	–
2015 Share-based awards Sr. Man.	2,091	189	–	-64	2,216	–	–	-143	2,073	2,073
2015 Shares BoM	865	78	–	–	943	–	–	–	943	943
2015 Shares CCO	195	13	-49	–	159	–	-106	–	53	53
2016 Share-based awards Sr. Man.	–	2,529	–	–	2,529	–	–	-170	2,359	2,359
2016 Shares BoM	–	900	–	–	900	–	–	–	900	900
2017 Share-based awards Sr. Man.	–	–	–	–	–	1,205	–	-40	1,165	1,165
2017 Shares BoM	–	–	–	–	–	2,347	–	-41	2,306	2,306

1 On the basis of a 100% grant. The equity-settled share numbers do not include any deferred dividend during the vesting period. The deferred dividend during the vesting period will be granted in additional shares.
2 At grant date, the fair value is calculated using a Monte Carlo Simulation model except for the restricted shares. In April 2017, the fair value was EUR 2.43 (2016 grant: EUR 3.17) for the 2017 share-based award (cash-settled) and EUR 2.68 (2016 grant: EUR 3.17) for the 2017 equity-settled share grant for the Board of Management (excluding deferred dividend).
3 At 31 December 2017, the fair value of each cash-settled share-based award was measured, using recent strategic plans, forecasts and a Monte Carlo Simulation model, based on the most recent available share price of KPN and its performance compared with peer companies at the moment of valuation (i.e. closing share prices as at 31 December 2017). At 31 December 2017, the fair value is EUR 4.89 (2016: EUR 4.24) for the 2015 share-based award, EUR 2.29 (2016: EUR 2.52) for the 2016 share-based award and EUR 2.50 for the 2017 share-based award.
4 At the end of 2017, KPN held the 3rd position with respect to the 2015 share grant and at the end of 2016, KPN held the 6th position with respect to the 2014 share grant. This position and the outcomes of the other targets of this plan leads to 172.86% vesting in April 2018 of the 2015 share grant. Final TSR measurement for the 2015 share grant was conducted in February 2018.

The fair value of each award at the grant date is determined using the following assumptions:

€ million	2017 PSP	2016 PSP
Risk-free interest rate based on euro government bonds for remaining time to maturity of 2.7 years	-0.1%	-0.1%
Expected dividend for KPN (based on one year's historical daily data preceding the date of award)	2.6%	2.5%
Expected volatility (PSP grant based on 2.7 years' historical daily data) used for TSR	26.3%	27.8%
Share price at date of award (closing at grant date)	EUR 2.79	EUR 3.45

The following paragraphs provide detail on the actual remuneration of the Board of Management and the Supervisory Board. Please refer to the Remuneration Report for the executive pay policy.

Details of actual remuneration

The remuneration of the Board of Management representing the costs incurred by the company measured under IFRS principles.

Name	Year	Salary (EUR)	STI[1] (EUR)	LTI: Share awards[2] (EUR)	Pension costs[3] & social security (EUR)	Total (EUR)
E. Blok	2017	850,000	859,222	1,082,299	269,492	3,061,013
	2016	850,000	530,840	998,976	263,673	2,643,489
J.C. de Jager	2017	642,917	366,604	544,618	123,750	1,677,889
	2016	625,000	237,590	514,575	122,078	1,499,243
F.H.M. van der Post	2017	700,000	362,866	700,798	179,962	1,943,626
	2016	700,000	266,100	647,640	170,828	1,784,568
J.F.E. Farwerck	2017	610,833	332,477	498,478	143,876	1,585,664
	2016	575,000	239,400	454,324	139,475	1,408,199
Total current members	2017	2,803,750	1,921,169	2,826,193	717,080	8,268,192
	2016	2,750,000	1,273,930	2,615,515	696,054	7,335,499

1 Actual STI relates to performance in the current year but paid out in the following financial year. Please refer to the 'Short-Term Incentives' section in the Remuneration Report section for the actual pay-out levels per target in 2017.
2 The amounts in the table represent the cost recognized for shares in 2017 and 2016 based on their fair values at grant date. The fair value of the share-based award is recorded as cost over the vesting period. Please refer to the 'Long-Term Incentives' section in the Remuneration Report section for a further explanation. The amount for Mr. Van der Post includes his long-term compensation in cash.
3 In the pension costs, the costs for survivor's pension, disability coverage, administration as well as the gross allowances are included. The fixed gross allowance (for the base pay part above EUR 100,000) in 2017 was EUR 171,000 for Mr. Blok (2016: EUR 171,000), EUR 76,000 for Mr. De Jager (2016: EUR 76,000), EUR 119,000 for Mr. Van der Post (2016: EUR 119,000), and EUR 82,000 for Mr. Farwerck (2016: EUR 82,000).

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

	Grant date	Granted as of 1 January 2017	Vested in 2017[2]	Granted or forfeited in 2017[1-2]	As of 31 December 2017	Pre-tax fair value on grant date (EUR)[3]	Pre-tax market value on vesting date or end of lock-up in 2017 (EUR)	End of lock-up period
		Number of shares/share-based awards						
E. Blok	13/4/2017	–	–	412,889	412,889	1,106,543	–	13/4/2022
	14/4/2016	361,297	–	–	361,297	1,050,319	–	14/4/2021
	16/4/2015	378,878	–	–	378,878	1,104,904	–	16/4/2020
	10/4/2014	501,575	-369,632	-131,943	–	1,090,141	1,030,646	10/4/2019
J.C. de Jager	13/4/2017	–	–	210,492	210,492	564,119	–	13/4/2022
	14/4/2016	177,106	–	–	177,106	514,862	–	14/4/2021
	16/4/2015	185,724	–	–	185,724	541,618	–	16/4/2020
	26/9/2014	245,871	-181,193	-64,678	–	534,383	505,220	10/4/2019
F.H.M. van der Post	13/4/2017	–	–	226,684	226,684	607,513	–	13/4/2022
	14/4/2016	198,359	–	–	198,359	576,645	–	14/4/2021
	16/4/2015	208,012	–	–	208,012	606,614	–	16/4/2020
	1/3/2015[4]	159,283	-106,188	–	53,095	566,177	447,500	N/a.
J.F.E. Farwerck	13/4/2017	–	–	202,396	202,396	542,421	–	13/4/2022
	14/4/2016	162,938	–	–	162,938	473,674	–	14/4/2021
	16/4/2015	170,867	–	–	170,867	498,290	–	16/4/2020
	10/4/2014	226,201	-166,697	-59,504	–	491,633	464,802	10/4/2019

1 The shares granted to the Board of Management represent 30% of the total number of shares and share-based awards granted in 2017 to all employees. The 2017 grant numbers do not include any deferred dividend during the vesting period.
2 The deferred dividend during the vesting period will be additionally granted in shares.
3 Value is calculated by multiplying the number of share awards by the fair value at grant date.
4 Next to the vesting of shares, also EUR 148,750 vested of Mr. Van der Post's long-term cash compensation.
5 All shares are in the vesting period or lock-up period and are conditional.

See page 57 for stock ownership of members of the Board of Management and Supervisory Board.

Supervisory Board

The table below shows the actual fee received by each member of the Supervisory Board.

Amounts in €	Membership fee 2017	Committee fee 2017	Total 2017	Total 2016
D.W. Sickinghe	100,000	22,500	122,500	123,929
D.J. Haank	70,000	12,500	82,500	84,643
P.A.M. van Bommel	60,000	20,000	80,000	77,143
C.J. García Moreno Elizondo	60,000	10,000	70,000	70,000
C.J.G. Zuiderwijk	60,000	17,500	77,500	77,500
P.F. Hartman	60,000	22,500	82,500	80,357
J.C.M. Sap	60,000	10,000	70,000	70,000
E. Overbeek	15,000	1,875	16,875	–
Total	**485,000**	**116,875**	**601,875**	**583,572**

Accounting policy: Share-based compensation
For equity-settled plans, the fair value of shares granted to employees is measured at grant date. For cash-settled plans, the fair value of the liability for the awards granted is remeasured at each reporting date and at settlement date. The costs of share-based compensation plans are determined based on the fair value of the shares and the number of shares expected to vest. On each balance date, KPN determines whether it is necessary to revise the expectation of the number of shares that will vest. The fair value is recognized as personnel expense in profit or loss over the vesting period of the shares against an increase in equity in case of equity-settled share-based compensation plans and against recognition of a liability in case of cash-settled share-based compensation plans.

[6] Other operating expenses

In 2017, Other operating expenses comprised, among others, a net addition to the restructuring provision of EUR 86m (2016: EUR 45m). For more details, see Note 17.

Auditor's fees

The fees listed below relate to the services provided to KPN and its consolidated group entities by Ernst & Young Accountants LLP, as well as by other Dutch and foreign-based EY individual partnerships and legal entities, including their tax services and advisory groups:

€ million	2017	2016
Financial statements audit fees	4.0	3.8
Other assurance fees	0.8	1.0
Total audit fees	**4.8**	**4.8**
Tax fees	0.2	0.2
Total	**5.0**	**5.0**

The total fees of Ernst & Young Accountants LLP charged to KPN and its consolidated group entities amounted to EUR 4.8m in 2017 (2016: EUR 4.8m). The financial statements audit fees include the fees for professional services rendered for the audit of KPN's annual financial statements and the annual statutory financial statements of subsidiaries or services that are normally provided by the auditor in connection with the audits. The other assurance fees include the fees incurred for assurance and related services that are reasonably related to the performance of the audit or review of KPN's financial statements., such as revenue and IT-related assurance services and regulatory-related assurance services.

Accounting policy: Operating expenses
Operating expenses are divided in direct cost (cost of goods and services) and indirect cost (IT/TI, personnel expenses and other operating expenses).

Cost of goods and services are costs incurred in the context of a sales transaction and include subscriber acquisition and retention costs and traffic expenses. These costs are expensed as incurred. The cost of a handset is expensed when the handset is sold (as incurred), both as individual sale or as component of a multiple deliverable arrangement in combination with a subscription.

IT/TI stands for Information Technology and Technical Infrastructure. IT expenses relate to KPN's IT environment and include licenses and maintenance expenses for software and/or IT hardware when not directly related to a sales transaction. TI expenses are expenses related to KPN's fixed and mobile networks.

Personnel expenses include all expenses related to KPN's workforce, both related to own employees and external personnel.

Other operating expenses include expenses related to marketing and communication, billing and collection, housing and facilities.

[7] Financial income and expenses

€ million	Notes	2017	2016
Finance income		**69**	**112**
Interest on borrowings		-327	-402
Interest on provisions for retirement benefit obligations	[16]	-7	-7
Interest on other provisions		-4	-10
Tender premium		–	-222
Finance costs		**-338**	**-641**
Result on sale of equity instruments	[12.1]	30	–
Amortizable part of hedge reserve	[15]	-16	-10
Amortization discontinued fair value hedges		39	114
Derivative financial instruments not qualified for hedge accounting	[12]	-28	-28
Exchange rate differences		3	-2
Other		–	38
Other financial results		**28**	**112**
Total		**-241**	**-417**

Finance income included a dividend received from Telefónica Deutschland of EUR 70m (2016: EUR 110m). Interest on borrowings decreased by EUR 75m, which was mainly related to a lower gross debt position. Interest on borrowings included a non-cash amount of EUR 12m (2016: EUR 17m) relating to debt issue costs and similar costs, which are amortized over the remaining life of the respective bonds using the effective interest rate method.

In 2016, KPN completed a tender offer, in which KPN repurchased an aggregate principal amount of EUR 1.0bn across five Eurobonds with maturities between 2017 and 2024. The bond tender resulted in a EUR 160m loss in 2016 (tender premiums of EUR 222m and EUR 4m accelerated amortization recorded in Finance costs and EUR 66m gain from discontinued fair value hedges recorded in Other financial results). In 2016, line item Other in Other financial results included a gain of EUR 29m from the sale of KPN's stake in Jasper Wireless.

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[8] Taxation

The Netherlands

The tax book loss, which is recognized as a result of the sale of E-Plus in 2014, offsets KPN's taxable income in the Netherlands in the current and coming years. Dividends received, not qualifying as specific capital repayments, and/or capital gains realized (proceeds above tax book value) on KPN's shareholding in TEFD are subject to Dutch corporate income tax. The summary of the remaining tax book loss is provided on the next page.

KPN has an agreement with the Dutch tax authorities with respect to the application of the Dutch innovation box tax regime. This is a facility under Dutch corporate income tax law whereby profits attributable to innovation are taxed at an effective rate of 5%. This tax rate will increase to 7% as from 2018. The application of the innovation box resulted in a benefit of EUR 14m over 2017 (2016: EUR 17m).

Reggefiber Group mainly consists of one fiscal unity (which is not part of KPN's main fiscal unity) and has pre-fiscal unity tax losses carry forward. At 31 December 2017, a DTA of EUR 54m (2016: EUR 72m) was recorded, of which EUR 20m (2016: EUR 36m) relates to recognized tax losses carry forward.

See Note 19 Business combinations and other changes in consolidation for the impact of the acquisitions, which are separately liable for income taxes and for which no loss carry forward is available.

Income tax expense

€ million	2017	2016
Current tax	-27	-9
Deferred taxes	-130	-87
Income tax (charge)/benefit from continuing operations	-157	-96

The reconciliation from the Dutch statutory tax of 25% (2016: 25%) to the effective tax rate of 24.5% (2016: 20.6%) is explained in the table below. The tax expenses increased with EUR 61m from EUR 96m in 2016 to EUR 157m in 2017, mainly due to an improved PBT (EUR 43m more tax expenses), less available future tax benefits due to tax (rate) adjustments in the US of EUR 5m (included in deferred tax related to current year) and the implementation of the transition tax in the US of EUR 7m.

Net DTA of the Dutch fiscal unity with regard to the book loss on the sale of E-Plus

€ million	Net DTA	Realized	Unrealized	Offset by DTL	Net Loss
31 December 2015	**911**	**518**	**500**	**-107**	**3,644**
Movement 2016	-7	-48	1	40	-28
31 December 2016	**904**	**470**	**501**	**-67**	**3,616**
Movement 2017	-155	-161	–	6	-620
31 December 2017	**749**	**309**	**501**	**-61**	**2,996**

Deferred tax positions:

Deferred tax assets

€ million	Tax loss & other carry forwards	Unrealized liquidation losses	Bonds & hedges	Restriction on depreciation	Fiscal goodwill	Other[1]	Offset by DTL	Total[3,4]
31 December 2015	**596**	**552**	**45**	**188**	**58**	**132**	**-502**	**1,069**
Income statement benefit/(charge)	64	-34	102	-28	-10	-54	47	87
Transfer to current tax	-124	–	–	–	–	–	–	-124
Tax charged to OCI[2]	–	–	29	–	–	1	–	30
Other (exchange, reclassification, change in consolidation)	29	–	–	–	–	–	–	29
31 December 2016	**565**	**518**	**176**	**160**	**48**	**79**	**-455**	**1,091**
Income statement benefit/(charge)	-89	-17	-8	-19	-10	52	46	-45
Transfer to current tax	-94	–	–	–	–	–	–	-94
Tax charged to OCI[2]	–	–	-5	–	–	2	–	-3
Other (exchange, reclassification, change in consolidation)	-2	–	–	–	–	–	–	-2
31 December 2017	**380**	**501**	**163**	**141**	**38**	**133**	**-409**	**947**

1 Other deductible temporary differences include revenue recognition of EUR 71m (2016: EUR 15m). KPN entered into negotiations with the Dutch tax authorities to align the revenue recognition with IFRS15 (read more in Note 2). Such a redefined approach as per 2017 may result in a temporary difference as from 2017 onwards, without implications on cash taxes to be paid for periods ending FY17. This temporary difference will be reversed upon implementation of IFRS 15.
2 Tax charged to OCI relates mainly to the hedge reserve.
3 Of which EUR 131m to be recovered within 12 months (2016: EUR 117m).
4 Recoverability depending on future taxable results.

Deferred tax liabilities

	Taxable temporary differences							
€ million	Software development	DTL recapture[1]	Accelerated depreciation	Goodwill depreciation	PPA[3]	Other	Offset against deferred tax assets	Total[2]
31 December 2015	**183**	**107**	**121**	**46**	**52**	**40**	**-502**	**47**
Income statement (benefit)/charge	-16	27	-59	16	-5	25	47	35
Tax charged to Equity	–	–	–	–	–	-17	–	-17
Tax charged to OCI	–	-95	–	–	–	–	–	-95
Other (exchange, reclassification, change in consolidation)	-3	28	–	–	3	2	–	30
31 December 2016	**164**	**67**	**62**	**62**	**50**	**50**	**-455**	**–**
Income statement (benefit)/charge	-15	-18	-40	16	-7	7	46	-11
Tax charged to Equity	–	–	–	–	–	-17	–	-17
Tax charged to OCI	–	12	–	–	–	–	–	12
Other (exchange, reclassification, change in consolidation)	–	–	–	-8	29	-4	–	17
31 December 2017	**149**	**61**	**22**	**70**	**72**	**36**	**-409**	**1**

1 This relates to the unrealized capital gains on the stake in Telefónica Deutschland which are considered taxable in the Netherlands (recapture rule).
2 Of which EUR 1m to be recovered within 12 months (2016: EUR 0m).
3 See Note 19 Business combinations and other changes in consolidation for the impact of the acquisitions.

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Tax loss carry forward

€ million	31 December 2017 Tax loss carry forward	Maximum deferred tax asset	Recognized deferred tax asset	31 December 2016 Tax loss carry forward	Maximum deferred tax asset	Recognized deferred tax asset
Koninklijke KPN – corporate tax[1]	1,385	346	346	2,026	507	507
Other	177	46	34	258	72	58
Total KPN Group	**1,562**	**392**	**380**	**2,284**	**579**	**565**

1 Part of the tax book loss which is recognized as a result of the sale of E-Plus to TEFD is included in this amount. Of the remaining total tax book loss of initially EUR 4bn, EUR 1.2bn is recorded in the DTA for tax loss carry forward and EUR 2bn is recorded in the DTA for unrealized liquidation losses. The offset of losses with future profits is limited to 9 years.

Expiration of the available tax loss carry forward and recognized tax assets

€ million	31 December 2017 Tax loss carry forward	Maximum deferred tax asset	Recognized deferred tax asset	31 December 2016 Tax loss carry forward	Maximum deferred tax asset	Recognized deferred tax asset
2018	–	–	–	2	–	–
2019	3	1	1	5	1	1
2020	2	1	1	21	5	5
2021	9	2	2	22	5	5
2022	16	4	4	N/a	N/a	N/a
Later	1,531	384	372	2,233	568	554
Unlimited	1	–	–	1	–	–
Total KPN Group	**1,562**	**392**	**380**	**2,284**	**579**	**565**

Accounting policy: Taxation

Current income tax

The current income tax charge is calculated in accordance with the prevailing tax regulations and rates, taking into account non-taxable income and non-deductible expenses. The current income tax expense reflects the amount for the current reporting period that KPN expects to recover from or pay to the tax authorities. Current income tax related to items recognized directly in equity/OCI is recorded in equity/OCI and not in profit or loss. KPN's management periodically evaluates positions taken in the tax returns regarding situations in which applicable tax regulations are subject to interpretation and establishes provisions when deemed appropriate.

Deferred income taxes

Deferred income tax positions are recognized for temporary differences between the tax basis of assets and liabilities and their carrying values. DTAs are recognized for deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. DTAs are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Both the recognized and unrecognized DTAs are reassessed on each reporting date based on available projections. If future taxable profits are insufficiently available, derecognition may become inevitable unless certain exceptions can be applied. DTAs are recorded for deductible temporary differences associated with investments in subsidiaries and associates and are recorded only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

DTLs are recognized for all taxable temporary differences except when they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit or loss reported in the Statement of Profit or Loss nor the taxable profit or loss. Also, no DTLs are recorded for taxable temporary differences associated with investments in subsidiaries and associates when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax positions are stated at nominal value and are measured at the corporate income tax rates KPN expects to be applicable in the year when the asset is realized or liability is settled based on enacted or substantially enacted tax laws.

DTAs and DTLs are netted if there is a legally enforceable right to offset current tax assets against current tax liabilities and the DTAs/DTLs relate to income taxes levied by the same taxation authority on the same taxable entity or if, in case of different taxable entities, there is an intention either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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[9] Earnings per share

The following table shows the income and share data used in the calculations of the basic and diluted EPS.

€ million and number of shares	2017	2016
Profit for the year from continuing operations	485	370
Profit for the year from discontinued operations	-2	430
Profit for the year	**483**	**800**
Profit attributable to non-controlling interests	-	-7
Deduction for perpetual capital securities	-51	-51
Adjusted profit (loss) attributable to ordinary shareholders of the company	**432**	**742**
Weighted average number of subscribed ordinary shares	**4,225,436,268**	**4,259,762,228**
Dilution effects: options and non-vested shares	4,748,779	3,581,632
Weighted average number of subscribed ordinary shares including dilution effects	**4,230,185,047**	**4,263,343,860**

Earnings per ordinary share after taxes attributable to equity holders of the company for the year

in €	2017	2016
> Basic (continuing operations)	0.10	0.07
> Diluted (continuing operations)	0.10	0.07
> Basic (discontinued operations)	0.00	0.10
> Diluted (discontinued operations)	0.00	0.10
> Basic (total, including discontinued operations)	0.10	0.17
> Diluted (total, including discontinued operations)	0.10	0.17

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Share options and non-vested shares are regarded to have potential dilutive effects on the ordinary shares.

Coupons on the perpetual capital securities are deducted from the profit attributable to equity holders, since the perpetual hybrid bonds represent equity but do not constitute profit attributable to ordinary holders.

In the total basic earnings per share EUR 0.03 (2016: EUR 0.02) tax expense is included.

Notes to the Consolidated Statement of Financial Position

[10] Property, plant and equipment

Statement of changes in property, plant and equipment

€ million	Land and buildings	Plant and equipment	Other tangible non-current assets	Assets under construction	Total
1 January 2016	**525**	**5,230**	**38**	**208**	**6,001**
Investments	40	861	13	11	925
Depreciation	-67	-902	-15	–	-984
Impairments and retirements	-4	-12	–	-8	-24
Other	-5	1	-5	–	-9
Change in consolidation	–	60	–	–	60
Closing net book value	**489**	**5,238**	**31**	**211**	**5,969**
Cost	1,866	9,553	89	211	11,719
Accumulated depreciation/impairments	-1,377	-4,315	-58	–	-5,750
31 December 2016	**489**	**5,238**	**31**	**211**	**5,969**
Investments	42	712	14	70	838
Depreciation	-63	-902	-15	–	-980
Impairments and retirements	-3	-8	–	-14	-25
Other	–	-3	1	–	-2
Change in consolidation	1	5	4	1	11
Closing net book value	**466**	**5,042**	**35**	**268**	**5,811**
Cost	1,880	9,500	98	268	11,746
Accumulated depreciation/impairments	-1,414	-4,458	-63	–	-5,935
31 December 2017	**466**	**5,042**	**35**	**268**	**5,811**

The book value of property, plant and equipment (PPE) of which KPN as the lessee is the beneficial owner under financial lease programs amounted to EUR 59m (2016: EUR 32m). The book value of PPE of which KPN is the lessor under operating lease programs amounted to EUR 109m (2016: EUR 174m). The non-cancellable future minimum lease payments receivable related to these operating leases for 2018 are EUR 2m, which matures within one month.

Accounting policy: PPE

PPE are valued at cost less depreciation and impairment. The cost include direct costs (materials, direct labor and work contracted out) and directly attributable overhead costs. Asset retirement obligations are capitalized as part of the cost of tangible fixed assets and expensed as either depreciation over the assets' estimated useful life or as impairment charges.

PPE are depreciated using the straight-line method, based on estimated useful life, taking into account residual value. Land is not depreciated. PPE are reviewed for impairment whenever events or changes in circumstances indicate that the book value of the assets concerned may not be recoverable. An impairment loss is recognized for the amount by which the assets' book value exceeds its recoverable amount. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an assets' fair value less costs of disposal and its value in use.

Estimated useful lives of the principal PPE categories:

PPE category	Depreciation period
Land	No depreciation
Buildings	14 to 33 years
Network equipment	3 to 7 years
Network infrastructure	10 to 30 years
Vehicles	10 years
Office equipment	4 to 10 years

The assets' residual values and useful lives are reviewed at least annually and adjusted if appropriate. Interest is capitalized as an increase in PPE if the construction of assets takes a substantial period of time and the amount is material.

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[11] Intangible assets

Statement of changes in intangible assets with finite lives and goodwill

€ million	Goodwill	Licenses	Computer software	Software in development	Customer relationships	Other	Total
1 January 2016	**1,428**	**1,180**	**463**	**93**	**260**	**26**	**3,450**
Investments	38	–	326	-50	–	–	314
Change in consolidation	–	–	–	–	16	–	16
Amortization	–	-143	-307	–	-29	-7	-486
Impairments	-45	–	-5	-1	–	–	-51
Subsequent PPA, exchange rate differences and other	7	–	–	–	–	–	7
Closing net book value	**1,428**	**1,037**	**477**	**42**	**247**	**19**	**3,250**
Cost	2,237	2,083	1,021	42	351	73	5,807
Accumulated amortization/impairments	-809	-1,046	-544	–	-104	-54	-2,557
31 December 2016	**1,428**	**1,037**	**477**	**42**	**247**	**19**	**3,250**
Investments	106	24	296	11	2	–	439
Change in consolidation[1]	–	–	14	–	57	6	77
Amortization	–	-85	-291	–	-27	-7	-410
Impairments	–	–	-9	–	–	–	-9
Subsequent PPA, exchange rate differences and other	-5	–	–	–	–	-1	-6
Closing net book value	**1,529**	**976**	**487**	**53**	**279**	**17**	**3,341**
Cost	2,325	1,385	994	53	406	76	5,239
Accumulated amortization/impairments	-796	-409	-507	–	-127	-59	-1,898
31 December 2017	**1,529**	**976**	**487**	**53**	**279**	**17**	**3,341**

1 The change in consolidation mainly include the customer bases of QSight IT, DearBytes, Solcon and Cam IT.

Goodwill per CGU

€ million	31 December 2017	31 December 2016
Consumer	769	764
Business	679	578
Wholesale	40	40
iBasis[1]	41	46
Total	**1,529**	**1,428**

1 The change in goodwill relates to exchange rate differences.

Goodwill impairment tests

The annual impairment test as at 31 December 2017 did not indicate that the book value of KPN's goodwill is not recoverable. At 31 December 2017, the market capitalization of KPN was significantly higher than the book value of its equity. A test has been performed of the recoverable amount of the book value of each cash-generating unit (CGU), based on their value-in-use, which was determined by using the discounted cash flow method. Key assumptions used in the cash flow projections are estimated EBITDA, Capex, change in working capital and pre-tax weighted average cost of capital (WACC) and are not significantly different from those used in prior year. The cash flow projections are management's best estimate based on the most recent business plans and extrapolation to terminal values. The WACC is calculated using a Capital Asset Pricing Model.
For all four CGUs, the annual impairment tests in 2017 and 2016 resulted in positive headroom as at 31 December 2017 and 31 December 2016.

Key assumptions

CGU	Terminal sales growth[1]	Capex intensity	EBITDA margin	Discount rate
Consumer 2017	0%	20% – 23%	48% – 60%	7% – 8%
Business 2017	0%	10% – 17%	30% – 37%	7% – 8%
Wholesale 2017	0%	21% – 35%	55% – 64%	7% – 8%
iBasis 2017	0%	0% – 1%	2% – 4%	9% – 11%

1 Estimates after 10 years

Sensitivity to changes in key assumptions

Since the headroom of the Dutch CGUs is more than sufficient, no sensitivity analysis is disclosed for these CGUs. A reasonable possible change in assumptions would not result in an impairment. The following table gives an indication of value change of iBasis as at the end of 2017:

€ million	Value change iBasis -0.5pps	Value change iBasis +0.5pps
Terminal sales growth	(2) – (4)	2 – 4
Capex intensity	10 – 12	(10) – (12)
EBITDA margin	(10) – (12)	10 – 12
Discount rate	3 – 4	(3) – (4)

A negative sensitivity for an individual assumption would not directly result in an impairment, considering the margin of EUR 12m between the recoverable amount (approximately EUR 75m) and the carrying amount of iBasis, but then headroom would be reduced to nil.

Accounting policy: goodwill and intangibles with finite lives

The excess of the consideration transferred over the fair value of the identifiable net assets acquired in a business combination is recorded as goodwill. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is allocated to CGUs for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination. Goodwill is carried at cost less accumulated impairment losses and tested for impairment annually or whenever there is an indication that goodwill may be impaired. Goodwill is impaired if the recoverable amount is lower than the book value. The recoverable amount is defined as the higher of the fair value less costs of disposal and the value in use of the CGUs concerned. Impairment losses on goodwill are not reversed in the event that circumstances that triggered the impairment have changed.

Licenses and software are valued at cost less amortization and impairment. Amortization is calculated using the straight-line method over the economic useful life and commences at the date that services can be offered (available for use).

Internally developed and acquired software, not being an integral part of property, plant and equipment, is capitalized on the basis of the costs incurred, which include direct costs and directly attributable overhead costs incurred.

Other intangible assets such as customer relationships and trade names acquired in business combinations are capitalized at their fair values at acquisition date and are amortized using the straight-line method over the economic useful life.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset may not be recoverable. An impairment loss is recognized for the amount by which the book value of the licenses exceeds its recoverable amount. Impairments are reversed if and to the extent that the impairment no longer exists.

Intangible assets not yet available for use are tested annually for impairment or whenever KPN has an indication that the intangible fixed assets may be impaired. For example, licenses are tested as part of a CGU as licenses do not generate independent cash flows.

The amortization period of the intangible assets with finite lives are for licenses 5 to 20 years, software 3 to 5 years and other intangible assets 4 to 20 years.

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[12] Financial assets and financial liabilities

Summary of the financial assets and liabilities at carrying amount and fair value, classified per category.

		31 December 2017		31 December 2016	
€ million		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets FVPL					
Other current financial assets	[12.1]	329	329	140	140
Derivatives	[12.3]	168	168	298	298
Loans and receivables					
Trade and other receivables	[13]	521	521	430	430
Cash and cash equivalents	[14]	856	856	1,179	1,179
Available-for-sale financial assets	[12.1]	1,091	1,091	1,909	1,909
Total financial assets		**2,965**	**2,965**	**3,956**	**3,956**
Financial liabilities FVPL					
Derivatives	[12.3]	328	328	198	198
Loans and borrowings					
Borrowings	[12.2]	7,596	8,479	8,632	9,548
Trade and other payables	[18]	1,328	1,328	1,403	1,403
Total financial liabilities		**9,252**	**10,135**	**10,233**	**11,149**

Fair value measurement hierarchy as at 31 December 2017 (€ million)	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
Derivatives (cross-currency interest rate swap)	–	3	–	3
Derivatives (interest rate swap)	–	165	–	165
Available-for-sale financial assets				
Listed securities	1,071	–	–	1,071
Unlisted securities	–	–	20	20
Total assets	**1,071**	**168**	**20**	**1,259**
Financial liabilities at FVPL				
Derivatives (cross-currency interest rate swap)	–	293	–	293
Derivatives (interest rate swap)	–	35	–	35
Total liabilities	**–**	**328**	**–**	**328**

Fair value measurement hierarchy as at 31 December 2016 (€ million)	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
Derivatives (cross-currency interest rate swap)	–	84	–	84
Derivatives (interest rate swap)	–	214	–	214
Available-for-sale financial assets				
Listed securities	1,902	–	–	1,902
Unlisted securities	–	–	7	7
Total assets	**1,902**	**298**	**7**	**2,207**
Financial liabilities at FVPL				
Derivatives (cross-currency interest rate swap)	–	142	–	142
Derivatives (interest rate swap) and other	–	56	–	56
Total liabilities	**–**	**198**	**–**	**198**

Fair value estimation

Level 1: Fair value of instruments traded in active markets and based on quoted market prices. Level 2: instrument is not traded in an active market and fair value is determined by using valuation techniques based on maximum use of observable market data for all significant inputs. Level 3: one or more of the significant inputs is not based on observable market data, the fair value is estimated using models and other valuation methods. The valuation of available-for-sale unlisted securities is based on a discounted cash flow model.

[12.1] Financial assets

Available-for-sale financial assets

The decrease of the available-for-sale financial assets ("AFS FA") was mainly due to the sale of part of the stake in Telefónica Deutschland (TEFD). On 13 March 2017, KPN exchanged 6% of TEFD shares with a fair value of EUR 740m for approximately 1.4% of Telefónica's share capital. Subsequently, KPN sold the Telefónica shares during the first half of 2017, resulting in EUR 741m proceeds. In addition, KPN sold 25.5 million TEFD shares (0.9%) through various transactions during the fourth quarter of 2017. The fair value of KPN's 8.6% stake in TEFD was EUR 1,071m per 31 December 2017 (2016: EUR 1,867m for a 15.5% stake). In 2017, a net gain of EUR 49m in the fair value of the stake in TEFD has been recorded through Other Comprehensive Income. In 2017, KPN received a dividend from TEFD of EUR 70m (2016: EUR 110m) which has been recorded as Finance income.

In 2017, KPN sold its 11% equity share in Tecnocom, a listed Spanish ICT services company for an amount of EUR 38m to Indra Sistemas SA. The gain on the sale of EUR 30m has been recorded as Other financial results (Note 7).

Other AFS FA include minority stakes of which the largest is Actility SA, a provider of network solutions and managed information systems for the Internet of Things market with a carrying value of EUR 7m (2016: EUR 3m).

Other current financial assets

Other current financial assets include investments in short-term money market funds for EUR 329m (2016: EUR 140m), which are held at fair value through profit or loss (FVPL). These funds have low volatility, with an investment objective of preservation of principal.

Accounting policy:
AFS financial assets and financial assets at FVPL

AFS FA include equity investments which, after initial measurement, are subsequently measured at fair value. Unrealized gains or losses are recognized in OCI. When the investment is derecognized, the cumulative gain is recognized in P&L. When the investment is impaired, the cumulative loss is also recognized in P&L. A significant or prolonged decline for recognizing an impairment on available-for-sale equity instruments is defined by 20% or 9 months measured at reporting date. Financial assets at FVPL are recognized at fair value with net changes in fair value presented as finance costs / income. These assets are classified as current or non-current depending on the expected timing of realization.

[12.2] Financial liabilities

Borrowings

The carrying amounts and fair value of borrowings are as follows:

	31 December 2017		31 December 2016	
€ million	Carrying amount	Fair value	Carrying amount	Fair value
Eurobonds EUR	3,903	4,194	4,641	4,994
Eurobonds GBP	1,504	1,884	1,557	1,952
Global Bonds USD	1,070	1,152	1,202	1,275
Hybrid Bonds (GBP and USD)	946	1,064	1,030	1,113
Other borrowings	173	185	202	214
Total borrowings	**7,596**	**8,479**	**8,632**	**9,548**
– of which: current	**18**	**18**	**735**	**736**
– of which: non-current	**7,578**	**8,461**	**7,897**	**8,812**

The fair value for Eurobonds, Global Bonds and Hybrid Bonds is based on the listed price of the bonds. Other borrowings include financial lease obligations, cash collateral received on derivatives, bank overdraft and other loans.

KPN's weighted average interest rate on the borrowings outstanding before swaps at 31 December 2017 was 5.2% (2016: 5.2%), including EUR hybrid bonds, classified as equity. The weighted average interest rate after swaps was 4.5% (2016: 4.6%). Excluding all hybrid bonds, the average interest rate on the senior bond portfolio after swaps at 31 December 2017 was 3.9% (2016: 4.1%).

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Bonds
On 17 January 2017, KPN redeemed the 4.75% coupon Eurobond 2006-2017 with a remaining outstanding principal amount of EUR 720m, in line with the regular redemption schedule.

Hybrid bonds

	Nominal	Nominal €	Coupon	Classification	Redemption	First call date	Swapped	Credit rating
EUR Hybrid Bond	1,100	1,100	6.125%	Equity	Perpetual	14 Sep 2018	N/a	BB/Ba2
GBP Hybrid Bond	400	460	6.875%	Liability	14 Mar 2073	14 Mar 2020	Fixed 6.78%	BB/Ba2
USD Hybrid Bond	600	465	7.000%	Liability	28 Mar 2073	28 Mar 2023	Fixed 6.34%	BB/Ba2

KPN may, at its discretion and subject to certain conditions, elect to defer payments of interest on each of the three hybrid bonds. Arrears of interest must be paid if dividends are paid on ordinary shares, in the event of early redemption, and for the GBP/USD hybrid bonds at final maturity. KPN does not recognize accruals for coupon payments on the EUR hybrid bond (EUR 67m per year). If an accrual had been recognized, the amount would have been EUR 20m at 31 December 2017. The three hybrid bonds are for 50% treated as equity and 50% as debt in KPN's gross and net debt definitions.

Accounting policy: Borrowings
After initial recognition, loans and borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the P&L over the period of the borrowings using the effective interest method. The amortized cost is calculated by taking into account any discounts or premiums on acquisition or issuance and transaction costs. The effective interest rate amortization is recognized in the P&L as finance costs.

Changes in liabilities arising from financing activities

€ million	Borrowings	Derivative financial instruments	Net liability
Balance as of 1 January 2016	**9,700**	**-612**	**9,088**
Exchange differences	-287	291	4
Movements recorded as net cash flows arising from/used in financing activities:			
> Proceeds from borrowings	1,235	-	1,235
> Repayments of borrowings and settlement of derivatives[1]	-1,931	-12	-1,943
> Other financing cash flows	-	-54	-54
Other non-cash flow movements[2]	-85	287	202
Balance as of 31 December 2016	**8,632**	**-100**	**8,532**
Exchange differences	-253	255	2
Movements recorded as net cash flows arising from/used in financing activities:			
> Repayments of borrowings and settlement of derivatives[1]	-749	-20	-769
Other movements[2]	-34	25	-9
Balance as of 31 December 2017	**7,596**	**160**	**7,756**

1 In the Consolidated Statement of Cash Flows this line item includes a payment of EUR 90m in 2017 and a receipt of EUR 32 million in 2016 regarding cash collateral on derivatives (presented as non-current other receivables) and tender premiums of EUR 222m in 2016.
2 Other movements predominanty are fair value adjustments and in 2016 include the impact of the exercise of the GroupIT option (Derivative financial instruments).

[12.3] Hedging activities and derivatives
KPN uses derivatives solely for the purpose of hedging underlying exposures.

€ million	31 December 2017	31 December 2016
Assets	168	298
Liabilities	-328	-198
Total derivatives	**-160**	**100**
of which: designated in a hedge relationship	**-291**	**-59**
of which: other derivatives not designated in a hedge relationship	**131**	**159**

The ineffective portion of the fair value hedges and cash flow hedges recognized in the P&L during 2017 resulted in a loss of EUR 1m (2016: EUR 1m loss).

Derivatives positions are reported on a gross basis. Part of the derivatives portfolio is subject to master netting agreements that allow netting under certain circumstances. If netting had been applied, the total derivatives asset position would be EUR 32m and the total derivatives liability position would be EUR 192m at 31 December 2017 (2016: EUR 124m and EUR 24m respectively).

Bonds denominated in foreign currency
Bonds denominated in foreign currencies are hedged with cross-currency swaps. The currency exposure is hedged by effectively fixing the countervalue in foreign currency to euro and by hedging the interest rate exposure by swapping the fixed interest rates in foreign currency to fixed rates in euro. The hedges are until maturity of the underlying senior bonds, or until the first call date in case of the hybrid bonds.
For these hedges, KPN meets the criteria of, and also applies, cash flow hedge accounting. The effectiveness of the hedges are determined at inception and on a quarterly basis. KPN uses the cumulative dollar offset method for its cash flow hedges related to cross-currency swaps. Part of KPN's derivatives portfolio contains reset clauses or collateral postings at pre-agreed dates (see Note 12.4 'Liquidity risk').

Bonds denominated in EUR
In 2011, Eurobonds with maturities on 21 September 2020, 4 October 2021, and 30 September 2024, were swapped to a floating rate based on three-month Euribor using fixed-to-floating interest rate swaps. Subsequently in May 2015, KPN swapped the floating rate exposure on these bonds to a fixed rate for the remaining maturity of these bonds and discontinued fair value hedge accounting for the fixed-to-floating interest rate swaps. The cumulative gain of EUR 224m will be amortized to earnings until maturity of the bonds. The balance of the unamortized gain was EUR 88m at 31 December 2017 (2016: EUR 108m).
Since May 2015, KPN holds the interest rate swaps on these bonds at FVPL for an amount of EUR 131m per 31 December 2017 and recorded a loss of EUR 28m in 2017, excluding amortization of discontinued fair value hedges (2016: EUR 28m loss).
The Eurobond maturing on 11 September 2028, has been swapped to a floating rate based on six-months Euribor using fixed-to-floating interest rate swaps. For this hedge, KPN meets the criteria of, and also applies, hedge accounting.

Accounting policy: Derivatives and hedging activities
Derivatives are recognized at fair value. Gains and losses arising from changes in fair value are recognized as finance cost/income during the period in which they arise to the extent that the derivatives have no hedging designation or they are ineffective.

Derivatives related to loans are designated as either cash flow or fair value hedges. KPN applies hedge accounting as this recognizes the offsetting effects on the P&L.
At the inception of transactions, KPN documents the relationship between the derivative and hedged item, the nature of the risk being hedged, the strategy for undertaking transactions, whether the hedge relationship is expected to be effective and how this is tested.

Changes in the fair value of an effective derivative, which is designated as a fair value hedge, along with the gain or loss on the hedged item that is attributable to the hedged risk, are recorded as finance cost/ income. Changes in the fair value of an effective derivative, which is designated as a cash flow hedge, are recorded in OCI for the effective part, until the P&L is affected by the variability in cash flows of the designated hedged item. The ineffective part of the cash flow hedge is recognized as finance cost/income. If an underlying transaction has ceased to be an effective hedge or in case of early redemption of the hedged item, hedge accounting is discontinued prospectively which means that subsequent changes in fair value are recognized in the P&L as finance cost/income. The cumulative amount recorded in OCI is released in the P&L.

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[12.4] Financial risk management and policies

Financing policy
KPN strives for the right balance between a prudent financing policy, investments in the business and shareholder remuneration. KPN is committed to an investment grade credit profile. It is the policy to utilize excess cash for operational and financial flexibility, (small) in-country mergers and acquisitions and/or shareholder remuneration.

The Net Debt/EBITDA ratio is one of the drivers for KPN's credit rating and is based on the nominal value of borrowings. The difference between carrying value and nominal value of borrowings includes: (1) carrying value adjustments resulting from fair value hedges and (2) in case of foreign currency bonds, the difference between the nominal amount at the prevailing spot rate and the swapped nominal amount in EUR.

€ million	31 December 2017	31 December 2016
Borrowings	7,596	8,632
Bank overdraft	-4	-1
Perpetual hybrid bonds	1,100	1,100
50% equity credit for hybrid bonds	-1,013	-1,013
Cash collateral paid on derivatives	-114	-24
Difference between carrying value and nominal value	-335	-617
Adjusted gross debt	**7,230**	**8,077**
Net cash and cash equivalents	852	1,178
Short-term investments	329	140
Net Debt	**6,049**	**6,759**
Normalized EBITDA	2,417	2,429
Net Debt/EBITDA	**2.5x**	**2.8x**

Financial risk management
KPN is exposed to a variety of financial risks. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on KPN's financial position and performance. Derivatives are used to hedge certain risk exposures (see 12.3). The financial risks are managed by KPN's Treasury department under policies approved by the Board of Management. These policies are established to identify and analyze financial risks, to set appropriate risk limits and controls, and to monitor adherence to those limits. KPN's key financial risks are the following:
> Credit and counterparty risk;
> Liquidity risk; and
> Market risk.

Credit and counterparty risk
Credit risk arises from the possibility of asset impairment occurring when counterparties are unable to meet their obligations in transactions involving financial instruments. Capital preservation is KPN's main priority when investing excess cash. KPN's counterparty policy sets limits for the maximum exposure per counterparty, which are primarily based on credit ratings, investment periods and collateral. The minimum counterparty credit rating (Moody's equivalent) is A3 for cash balances and for entering into new derivative transactions. Cash balances used for working capital purposes can also reside at banks with lower credit ratings.

As at 31 December 2017, KPN's cash balances and short-term investments were held in bank accounts, bank deposits, money market funds and tri-party repurchase agreements with maturities up to three months. The majority of cash balances were invested with counterparties with a credit rating equivalent to A2 at Moody's or stronger and the counterparties of outstanding derivatives have a credit rating equivalent to Baa1 or higher with Moody's. A credit valuation loss of EUR 1m (2016: 1m loss) was recorded related to interest rate swaps or cross-currency swaps recorded as fair value and cash flow hedges.

Credit risk on trade receivables is controlled using restrictive policies for customer acceptance. Credit management is focused on mobile services. Before accepting certain new customers in this segment, the creditworthiness of prospective clients is checked. In addition, KPN keeps track of the payment performance of customers. If customers fail to meet set criteria, payment issues must be resolved before a new transaction will be entered into.

KPN's policy is to provide financial guarantees only to wholly-owned subsidiaries. At 31 December 2017, KPN had parent guarantees and bank guarantees outstanding to third parties for various Dutch wholly-owned subsidiaries. The carrying amount of financial assets including cash represents the maximum credit exposure, which amounts to EUR 2,965m at 31 December 2017 (2016: EUR 3,956m). On 31 December 2017, total outstanding bank guarantees amounted to EUR 8m (2016: EUR 8m), which were issued in the ordinary course of business.

Liquidity risk
Liquidity risk is the risk that KPN will not be able to meet its financial obligations associated with financial instruments as they become due. KPN's approach to managing liquidity is to ensure sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage.

Maturity analysis of the financial liabilities based on the remaining contractual maturities on 31 December 2017.

€ million	Borrowings: Bonds and loans[1]	Borrowings: Interest on bonds and loans[2]	Borrowings: Financial lease obligations	Borrowings: Other debt and Cash collateral	Derivatives: Derivatives inflow (including interest)	Derivatives: Derivatives outflow (including interest)	Trade and other payables and accrued expenses	Total
2018	-	293	11	63	-269	217	1,168	1,483
2019-2022	2,264	988	29	12	-1,499	1,353	–	3,147
2023 and further	4,925	1,156	27	-	-3,722	3,532	–	5,918
Contractual cash flows	**7,189**	**2,437**	**67**	**75**	**-5,490**	**5,102**	**1,168**	**10,548**

1 Includes the GBP and USD Hybrid Bonds with final maturities in 2073 (redemption value of EUR 951m). The EUR perpetual Hybrid Bond is not included as it has no stated maturity date.
2 Interest payments on the GBP and USD Hybrid Bonds (EUR 66m per year until the first call dates in 2020 and 2023 respectively) are not included. KPN may, at its discretion and subject to certain conditions, elect to defer payments of interest on these hybrid bonds. Any arrears of interest must be paid at the latest at redemption in 2073, the amount of which cannot be reliably measured because of the duration of the hybrid bonds.

Part of the derivatives contain reset clauses or collateral postings at pre-agreed dates, in order to mitigate counterparty exposure during the life of the swap. These reset clauses will result in early euro settlement obligations in cash with the swap counterparty, which could lead to additional cash inflows or outflows before maturity. During 2017, KPN paid net collateral of EUR 111m (2016: paid EUR 46m), according to pre-agreed settlement schedules. In order to reduce liquidity risks, the reset clauses or collateral postings are spread over different points in time.

Available financing sources
In addition to the available cash and cash equivalents and short-term investments and cash flows from operations, KPN has the following committed financing resources available:

Revolving credit facility
In June 2017, KPN exercised a one-year extension option for its EUR 1.25 billion revolving credit facility, which brings the maturity of the revolving credit facility to 1 July 2022. The facility contains another one-year extension option, which could extend the maturity to July 2023. The facility is used for general corporate purposes and does not contain any financial covenants. The facility was undrawn per 31 December 2017.

Capital resources covenants
KPN's existing capital resources contain the following covenants as at 31 December 2017, which could trigger additional financial obligations or early redemption of the outstanding indebtedness. All senior bonds issued after 1 January 2006 (EUR 5.4bn at 31 December 2017) contain a change of control clause. KPN may be required to early redeem, in case certain changes of control occur and within this change of control period (max. 90 days) a rating downgrade to sub-investment grade occurs. The hybrid bonds also contain a change of control clause by means of which KPN has the possibility to repurchase the hybrid bonds at par. A 5% interest step-up applies if a rating downgrade occurs during the change of control period in respect of that change of control. In addition, many of KPN's capital resources contain a covenant prohibiting KPN from entering into any amalgamation, demerger, merger, corporate restructuring or reorganization, unless prior written consent has been given by a majority of the lenders or bondholders or the resulting company assumes all of the rights and obligations with respect to the loans or bonds.

Market risk
KPN is exposed to various kinds of market risks in the ordinary course of business. These risks include foreign currency exchange rate risk and interest rate risk.

Foreign currency exchange rate risk
Foreign currency risks mainly result from settlement of international telecommunications traffic and purchase of assets and primarily consists of GBP and USD exposure. Foreign currency exchange rate risks related to bonds that are not denominated in euro are hedged into euro in line with KPN's hedging policies.

As a result of currency fluctuations, the value of subsidiaries could fluctuate and affect the financial position and equity positions from year to year. These translation exposures are not hedged.

Group companies and business operations are obliged to hedge their firm commitments and highly predictable anticipated transactions in non-functional currencies by forward contracts. Accordingly, KPN's Treasury department matches and manages the intercompany and external exposures using forward exchange contracts. No hedge accounting is applied for these hedge instruments.

At 31 December 2017, more than 99% of cash and cash equivalents was denominated in the functional currency of the related entities. More than 98% of the net amount of trade receivables and more than 94% of the amount of trade payables was outstanding in the functional currency of the related entities.

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Interest rate risk and interest rate profile
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. Borrowings, derivatives, cash and cash equivalents are subject to interest rate risk.
With regard to interest rate risk exposure, KPN periodically evaluates the desired mix of fixed and floating interest rate liabilities, balancing the benefit of lower interest costs vs. the variability of cash flows. Any interest exposure longer than one year is considered to be fixed. KPN may use derivative financial instruments to adjust the desired interest rate exposure. As of 31 December 2017, 92% of KPN's interest-bearing gross debt (excluding bank overdraft) was at fixed interest rates (2016: 100%).

In November 2017, KPN swapped the 1.125% coupon on the 2016 - 2028 Eurobond to six-months Euribor to adjust the mix of fixed and floating rate interest rate liabilities.
With a view to the existing and forecasted debt structure, KPN could enter into additional future derivatives to further adjust the mix of fixed and floating interest rate liabilities.

At 31 December 2017, a sensitivity analysis with regard to interest rate risk on interest-bearing liabilities (excl. cash flow hedges) showed that, ceteris paribus, each adverse change of 100 bps in six-months Euribor would hypothetically not result in higher interest costs per annum because of the outstanding cash & cash equivalents which also carry a floating interest.

Cash flow hedges
At 31 December 2017, KPN carried out a sensitivity analysis with regard to interest rate and currency risk on the cash flow hedges. KPN applies cash flow hedge accounting on all bonds not denominated in Euro. With all other variables held constant, KPN calculated the hypothetical impact of changes in interest rates based on various scenarios. This would hypothetically result in a higher or lower value on the balance of the hedge reserve, which is included in equity attributable to equity holders. In a similar way, KPN calculated the hypothetical impact of changes in the EUR/USD rate and the EUR/GBP rate, holding all other variables constant. The results of the analyses are shown in the table below, indicating the hypothetical impact on the fair value of the cross currency swaps (excluding the partially offsetting impact on the hedged items):

€ million (before tax)	Change	GBP 2017	GBP 2016	USD 2017	USD 2016	Total 2017	Total 2016
Change in interest rate	+1%-point	-8	-15	-11	-3	-19	-18
	-1%-point	9	17	11	2	20	19
Change in FX rate	+10%-point	70	72	60	81	130	153
	-10%-point	-86	-85	-73	-99	-159	-184

Prospective effectiveness testing indicates that all cash flow hedges are expected to be highly effective. As a consequence, the expected impact on the P&L is immaterial.

Derivatives held at fair value
At 31 December 2017, KPN carried out a sensitivity analysis with regard to the fair value of interest rate swaps (excluding the partially offsetting impact on the hedged items) :

€ million	Change	2017	2016
Changes in EUR interest rates	+1%-point	-61	-5
	-1%-point	68	5

For a sensitivity analysis on interest rate risk with regard to pensions, read more in Note 16.

Offsetting financial assets and financial liabilities

Financial assets
The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements:

€ million	Gross amount	Financial liabilities set off	Net amount in balance sheet	Not Offset: Financial instruments/Cash collateral	Net amount
31 December 2017					
Cash and cash equivalents	856	–	856	-4	852
Derivatives	168	–	168	-48	120
Trade and other receivables	123	-59	64	–	64
Total	**1,147**	**-59**	**1,088**	**-52**	**1,036**
31 December 2016					
Cash and cash equivalents	1,179	–	1,179	-1	1,178
Derivatives	298	–	298	-69	229
Trade and other receivables	135	-38	97	–	97
Total	**1,612**	**-38**	**1,574**	**-70**	**1,504**

Financial liabilities
The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

€ million	Gross amount	Financial assets set off	Net amount in balance sheet	Not offset: Cash collateral	Net amount
31 December 2017					
Derivatives	328	–	328	-114	214
Trade and other payables	151	-59	92	–	92
Total	**479**	**-59**	**420**	**–114**	**306**
31 December 2016					
Derivatives	198	–	198	-24	174
Trade and other payables	172	-38	134	–	134
Total	**370**	**-38**	**332**	**-24**	**308**

For the financial assets and liabilities summarized above, each agreement between KPN and the counterparty allows for net settlement of the relevant financial assets and liabilities when both parties elect to settle on a net basis.

Accounting policy:
Offsetting financial assets and liabilities
Financial assets and liabilities are offset and reported on a net basis on the balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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[13] Trade and other receivables

€ million	31 December 2017 Current	31 December 2016 Current
Trade receivables – gross	423	437
Provision for doubtful trade receivables	-44	-64
Trade receivables – net	**379**	**373**
Other receivables	25	31
Accrued income	259	263
Prepayments	99	99
Total	**762**	**766**

€ million	31 December 2017 Non-current	31 December 2016 Non-current
Other receivables	117	27
Accrued income and prepayments	24	34
Total	**141**	**61**

The carrying amounts of trade and other receivables approximate their fair value. Trade and other receivables are non-interest bearing.

The aging of the gross trade receivables is as follows:

€ million	31 December 2017 Gross	31 December 2017 Provision	31 December 2016 Gross	31 December 2016 Provision
Amounts undue	226	3	241	1
Past due 0–90 days	107	6	91	9
Past due 91–360 days	28	12	47	24
More than one year	62	23	58	30
Total	**423**	**44**	**437**	**64**

Accounting policy: Trade and other receivables
Trade and other receivables classify as loans and receivables, a category of financial assets with fixed or determinable payments that are not quoted in an active market and created by KPN by providing money, goods or services directly to a debtor, other than:
> those KPN intends to sell immediately or in the short-term, which are classified as held for trading; and
> those for which KPN may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available-for-sale.

Loans and receivables are initially recognized at fair value, and subsequently measured at amortized cost using the effective interest rate method, less provisions for impairment. The amortized cost value may equal the initial cost value if there is no maturity. The amortized cost is calculated by taking into account any discounts or premiums on acquisition and transactions costs. The effective interest rate amortization is recognized under finance income or finance costs.

A provision for impairment is established when there is objective evidence that KPN will not be able to collect all amounts due according to the original terms of the receivables.

[14] Cash and cash equivalents

Cash and cash equivalents consist of highly liquid instruments, mainly balances on bank accounts, bank deposits, AAA-rated money market funds and tri-party repurchase agreements, all with initial maturities of three months or less.

The main items causing the decrease in cash and cash equivalents were the bond redemption in the first quarter of 2017 partially offset by retained cash flow during the year.

€ million	31 December 2017	31 December 2016
Cash	321	490
Short-term bank deposits, repurchase agreements and money market funds	535	689
Total cash and cash equivalents	**856**	**1,179**

Accounting policy: Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within borrowings in current liabilities.

[15] Equity

Limitations in distribution shareholders' equity
Total distributable reserves at 31 December 2017 amounted to EUR 3,021m (2016: EUR 3,267m). For further details on non-distributable reserves, see Note C of Corporate Financial Statements.

Share capital
Authorized capital stock totals EUR 720m divided into nine billion ordinary shares of EUR 4ct each and nine billion preference shares B of EUR 4ct each. At 31 December 2017 a total of 4,202,844,404 ordinary shares were outstanding and fully paid-in. In 2017, 67,410,260 shares were repurchased (total cost of EUR 209m). These shares were subsequently cancelled. Dutch law prohibits KPN from casting a vote on shares KPN holds (treasury shares). The ordinary shares and preference shares B carry the right to cast one vote each. The ordinary shares are registered or payable to the bearer. Shareholders may request the company to convert their registered shares to bearer shares but not vice versa.

Share premium
In 2017, the share premium reserve decreased with EUR 206m due to the cancellation of repurchased shares. The additional paid-in capital is exempt from Dutch tax up to an amount of EUR 9,450m at 31 December 2017 (2016: EUR 9,431m).

€ million, unless indicated otherwise	Number of treasury shares	Treasury shares reserve	Hedge reserve	Fair value reserve AFS financial assets	Currency translation reserve	Total Other reserves
Balance at 1 January 2016	**11,599,450**	**-132**	**-268**	**259**	**16**	**-125**
Movements recorded in OCI (net)	–	–	-85	-261	20	-326
Sold treasury shares	-1,265,159	14	–	–	–	14
Other	–	3	–	-17	–	-14
Balance at 31 December 2016	**10,334,291**	**-115**	**-353**	**-19**	**36**	**-451**
Movements recorded in OCI (net)	–	–	14	16	–	30
Sold treasury shares	-1,161,443	12	–	–	–	12
Reclassification	–	–	–	16	–	16
Balance at 31 December 2017	**9,172,848**	**-103**	**-339**	**13**	**36**	**-393**

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Hedge reserve

€ million	31 December 2017	31 December 2016
Effective portion cash flow hedges[1]	-261	-278
Amortizable part[2]	-192	-193
Hedge reserve	**-453**	**-471**
Tax effect	114	118
Hedge reserve, net of tax	**-339**	**-353**

1 The effective portion of cash flow hedges will be recognized in the P&L in line with the maturities of the related derivatives (see Note 12.3).
2 The amortizable part of the hedge reserve is amortized over the remaining life of the related bonds (between 2016 and 2030). The impact on the P&L will be EUR 17m in 2018.

Treasury shares reserve
KPN purchased shares in its own capital for delivery upon exercise of share options by management and personnel under the share option and performance share plans (Note 5). Votes on purchased shares may not be cast and do not count determining the number of votes required at a General Meeting of Shareholders. In 2017 and 2016, no shares were purchased for the share option and performance share plans. In 2017 and 2016, shares were sold in connection with vesting grants of the KPN Restricted Share Plan (see Note 5).

Treasury shares are accounted for at cost, representing the market price on the acquisition date. The proceeds at delivery of the treasury shares are recognized directly in the other reserves.

Equity attributable to holders of perpetual capital securities
The EUR 1.1bn hybrid bond with a 6.125% coupon is subordinated to KPN Group's senior creditors but ranks above the ordinary and preference shareholders in the event of the company's winding up. This hybrid bond has a perpetual maturity and can, at KPN's discretion, first be redeemed in September 2018. The hybrid bond is classified as equity (perpetual capital securities). For interest payments and credit ratings, see Note 12.2.

Foundation Preference Shares B KPN
KPN has granted a call option, which is not limited in time, to the Foundation Preference Shares B KPN (the Foundation) to acquire preference shares B. For further information about the Foundation, see the chapter Corporate governance.

KPN is of the opinion that the call option does not represent a significant fair value due to the fact that the preference shares B, issued after exercise of the call option, bear interest linked to Euribor.

Dividend per share
At the Annual General Meeting of Shareholders, to be held on 18 April 2018, a final dividend of EUR 7.3ct per share will be proposed in respect of 2017. In August 2017, KPN paid an interim dividend in respect of 2017 of EUR 3.7ct per share, in total EUR 156m, bringing the total regular dividend in respect of 2017 to EUR 11ct per share. These financial statements do not reflect the proposal for the remaining dividend payable.

In May 2017, the dividend received from KPN's stake in TEFD was distributed to KPN shareholders as a special interim cash dividend of EUR 1.7ct per ordinary share (EUR 72m). Total dividend in respect of 2017, including the additional interim cash dividend, will then amount to EUR 12.7ct per ordinary share.

In April 2017, KPN paid a final dividend of EUR 6.7ct per share in respect of 2016, in total EUR 285m. The total dividend in respect of 2016 was EUR 12.5ct per ordinary share including the additional interim cash dividend of EUR 2.5ct per share in relation to the dividend received from KPN's stake in TEFD.

[16] Retirement benefits

Retirement benefits are provided through a number of defined contribution plans and funded and unfunded defined benefit plans. The most significant plans are described below.

KPN main pension plan
KPN's main pension plan covers employees in the Netherlands who are subject to KPN's collective labor agreement and employees with an individual labor agreement and is externally funded through Stichting Pensioenfonds KPN. This plan is a collective defined contribution pension plan and is accounted for as a defined contribution plan because KPN has no other obligation than to pay the annual contribution which is a fixed percentage of the pensionable base.

Getronics UK and US
The Getronics US and UK operations were divested in 2008 and 2012 respectively. The closed and frozen pension plans of the former US and UK operations remained with KPN and are accounted for as a defined benefit plan. The assets of the plans are held separately from KPN in independently administered funds except for two supplemental executive retirement plans in the US. The UK plan operates under the regulations of the UK Pensions Regulator and the main US plan under the provisions of the Employee Retirement Income Security Act (ERISA). The deficit in the plans' funding must be recovered by the investment returns in the plans' assets and contributions by KPN. The pension plans in the UK and US expose KPN to a number of risks which can have an impact on the future contributions by KPN and the liability recorded in its balance sheet. The most significant risks are summarized below:

- Asset volatility: the pension plans' assets are predominantly invested in equity securities and other return seeking assets and therefore the plans' funding levels are exposed to equity market risks;
- Interest rate risk: a decrease in interest rates will increase the plans' liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings;
- Inflation risk: in the UK the indexation of the accrued benefits is unconditional and is based on a combination of consumer and retail price indices and therefore the UK plan is exposed to inflation risk; and
- Life expectancy: the plans provide benefits for the life of the members, so increases in life expectancy will result in an increase in the plans' liabilities.

Other
KPN has a number of other funded (insured) plans in the Netherlands and an unfunded transitional early retirement plan (provision of EUR 47m as at 31 December 2017, last payment expected in 2021), which are all closed to new entrants. Furthermore, with regard to the insured plans, based on Dutch law, KPN could be required to make contributions if participants of these plans require a value transfer to another pension fund or insurer. However, the risk related to these value transfers is limited and therefore no provision has been recognized for these plans.

Provisions for retirement benefit obligations
The provisions for retirement benefit obligations consist of the net defined benefit liability regarding pension plans and early retirement plans which are accounted for as defined benefit plans as described above. See the table on the next page for a specification of the balance sheet position.

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€ million	Defined benefit obligation[2] 2017	Defined benefit obligation[2] 2016	Fair value of assets 2017	Fair value of assets 2016	Net defined benefit liability (asset) 2017	Net defined benefit liability (asset) 2016
Balance as of 1 January	**769**	**2,039**	**-507**	**-1,780**	**262**	**259**
Included in profit or loss:						
Operating expense[1]	1	-1,348	3	1,339	4	-9
Interest expense (income)	21	57	-14	-50	7	7
Included in OCI:						
Remeasurements loss (gain):						
> Actuarial loss (gain)[3]	19	145	–	–	19	145
> Return on plan assets excluding interest income	–	–	-29	-87	-29	-87
> Effect of movements in exchange rates	-46	-49	32	33	-14	-16
Total	**-27**	**96**	**3**	**-54**	**-24**	**42**
Other:						
Employer's contribution[4]	–	–	-31	-37	-31	-37
Benefits paid	-46	-75	46	75	–	–
Balance as of 31 December	**718**	**769**	**-500**	**-507**	**218**	**262**

1 Operating expense includes:
- Amendment gains in 2016 at Voorzieningsfonds Getronics (SVG), liquidated in 2017, due to reduction of the charges for administration expenses (EUR 4m) and transfer of part of SVG's assets and accrued benefit obligations to the KPN pension fund on 1 April 2016 (EUR 7m);
- Amendment gain in 2017 of EUR 1m due to an increase in the retirement age of the transitional early retirement plan;
- Settlement gain in 2016 at SVG of EUR 4m (EUR 1,317m defined benefit obligations minus EUR 1,313m plan assets); and
- Settlement loss in 2016 of EUR 1m due to lump sum payments to certain participants of the US plan (EUR 22m defined benefit obligations minus EUR 23m plan assets).

2 The measurement date for all defined benefit plans is 31 December.
3 The actuarial loss (gain) in 2017 and 2016 consists of demographic assumptions (EUR -8m and EUR -5m), financial assumptions (EUR +20m and EUR +149m) and experience adjustments (EUR +7m and EUR +1m).
4 Includes EUR 3m lumpsum payments in 2017 for (unfunded) supplemental executive retirement plans in the US which are expected to be settled in 2018.

Defined benefit obligations

Actuarial assumptions

The key actuarial assumptions used in the calculation of the defined benefit obligations are as follows:

	31 December 2017 Getronics UK	31 December 2017 Getronics US	31 December 2017 Other	31 December 2016 Getronics UK	31 December 2016 Getronics US	31 December 2016 Other
Discount rate (%)	2.5	3.6	1.7	2.7	4.1	1.8
Expected salary increases (%)	N/a	N/a	2.0	N/a	N/a	2.0
Expected benefit increases/indexation (%)	2.1-3.1	N.a.	0.5	2.3–3.3	N/a	0.5
> Life expectancy for pensioners at the age of 65:						
Male	23.1	20.7	21.7	23.0	21.7	21.4
Female	24.9	22.7	23.9	25.0	24.2	23.6

The discount rate is based on yield curves of AA corporate bonds with maturities equal to the duration of the benefit obligations and in the applicable currency. As at 31 December 2017, the (weighted) average duration of the defined benefit obligation was 14 years. Assumptions regarding life expectancy are based on published statistics and mortality tables that include allowances for future improvement in mortality. The mortality table used in the Netherlands is the projected table AG 2016 which includes projected improvement rates varying by year of birth, corrected for fund specific circumstances. The mortality table used in the UK is the 93% of SAPS S2PXA tables CMI 2016 projection with a 1.5% long-term improvement and in the US the RP-2006 with Scale MP-2017. The life expectancy at the age of 65 is expected to increase in the next 20 years by approximately two years in the UK and the US.

Sensitivity analysis

The table below shows the approximate impact on the defined benefit obligation of a change in the key actuarial assumptions of 0.5% and in the case of life expectancy of a change of one year.

€ million	31 December 2017 Increase	31 December 2017 Decrease	31 December 2016 Increase	31 December 2016 Decrease
Discount rate	-48	54	-54	60
Expected salary increases	–	–	–	–
Expected benefit increases	28	-22	27	-25
Life expectancy	26	-26	27	-27

Plan assets

The assets of all defined benefit pension plans as at 31 December 2017 and 2016 comprise of:

€ million	31 December 2017	31 December 2016
Quoted in active markets:		
Equity securities	36%	30%
Fixed income securities[1]	27%	25%
Real estate[2]	1%	1%
Commodities[3]	1%	1%
Derivatives[4]	–	–
Other[5]	7%	11%
Other:		
Fixed income securities[1]	7%	10%
Real estate[2]	2%	2%
Other[5]	19%	20%

1 Including inflation-linked bonds (per Standard & Poor's rating).
2 As at 31 December 2017, none of the investments in real estate were located in Europe.
3 Includes investment funds which invest in financial instruments related to commodities such as energy, agricultural products and precious metals.
4 Includes interest rate swaps, interest rate swaptions and put options on equity securities.
5 Mainly insurance contracts.

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Strategic investment policies
The strategic investment portfolios of the defined benefit plans (before hedging) at year-end 2017 were as follows:

	Getronics UK	Getronics US	Other plans
Equity securities	35%	45%	1%
Fixed income securities (including inflation-linked bonds)	35%	25%	0%
Other	30%	30%	99%
Total	**100%**	**100%**	**100%**

In both the UK and the US, a roadmap is in place to move to more fixed income exposure as the funded status improves. The Getronics UK pension fund does not hedge interest rate risks, currency risks and equity risks. The Getronics US pension fund does not hedge currency and equity risks but partially hedges interest rate risk.

As the pension funds mainly invest in the global investment funds, a minor part of these investments could be related to KPN equities. The pension funds do not have direct investments in KPN equities.

Expected contributions and benefits
In 2017, the total employer's contributions and benefit payments for all defined benefit and defined contribution plans amounted to EUR 117m (excluding discontinued operations), consisting of EUR 86m employer's premiums for defined contribution plans, EUR 15m contributions for funded defined benefit plans and EUR 16m payments for unfunded plans.
The amount of employer's contributions in 2018 for the remaining defined benefit pension plans is estimated to be EUR 24m for both funded and unfunded plans. The total amount of employer's premiums to be paid in 2018 for the defined contribution plans is estimated to be EUR 89m.

Accounting policy: Provisions for retirement benefit obligations

Pension obligations
The liability recognized in respect of all pension and early retirement plans that qualify as defined benefit obligation is the present value of the defined benefit obligation less the fair value of plan assets. KPN uses actuarial calculations (projected unit credit method) to measure the obligations and the costs. For the calculation, actuarial assumptions are made about demographic variables (such as employee turnover and mortality) and financial variables (such as future indexation and the discount rate). The discount rate is determined by reference to market rates. These are interest rates of high-quality corporate bonds that are denominated in the currency in which the benefit will be paid and that have terms to maturity approximating the terms of the related liability. A net defined benefit asset may arise where a defined benefit plan has been overfunded. KPN recognizes a net defined benefit asset in such a case only when future economic benefits are available to KPN in the form of a reduction in future contributions or a cash refund. Actuarial gains and losses are recognized immediately in OCI.

Past service costs, curtailments and settlements are recognized immediately in the P&L.
The amount of pension costs included in operating expenses with respect to defined benefit plans consist of service cost, past service costs, curtailments and settlements and administration costs. Net interest on the net defined benefit liability is presented as part of finance costs.
For pension plans that qualify as a defined contribution plan, KPN recognizes contributions as an expense when an employee has rendered service in exchange for those contributions.

[17] Provisions for other liabilities and charges

€ million	31 December 2017	31 December 2016
Restructuring provision	60	45
Asset retirement obligations	41	34
Other provisions	68	59
Total provisions for other liabilities and charges	**169**	**138**
of which: non-current	**103**	**89**
of which: current	**66**	**49**

Statement of changes in provisions

€ million	Personnel	Contractual	Total restructuring	Asset retirement obligation	Other provisions	Total provisions
Balance at 1 January 2016	**38**	**41**	**79**	**36**	**41**	**156**
of which: current portion	**38**	**9**	**47**	**3**	**9**	**59**
Additions	55	3	58	–	33	91
Releases	–	-13	-13	-2	–	-15
Usage	-70	-9	-79	-3	-15	-97
Other movements	–	–	–	3	–	3
Balance at 31 December 2016	**23**	**22**	**45**	**34**	**59**	**138**
of which: current portion	**23**	**6**	**29**	**6**	**14**	**49**
Additions	90	–	90	9	23	122
Releases	–	-4	-4	–	–	-4
Usage	-65	-6	-71	-1	-21	-93
Other movements	–	–	–	-1	7	6
Balance at 31 December 2017	**48**	**12**	**60**	**41**	**68**	**169**
< 1 year	**46**	**2**	**48**	**1**	**17**	**66**
1 - 5 year	**2**	**6**	**8**	**9**	**9**	**26**
> 5 year	**–**	**4**	**4**	**31**	**42**	**77**

Restructuring provisions
Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Termination benefits are recognized when KPN is demonstrably committed either to terminating the employment according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after 31 December are discounted to present value.

Other long-term employee obligations employee benefits include jubilee or other long-service employee benefits, long-term disability benefits and, if they are not fully payable within 12 months after the end of the period, bonuses and deferred compensation. The expected costs of these benefits are accrued over the period of employment using an accounting method similar to that for defined benefit pension plans, except that actuarial gains and losses and past-service costs are recognized immediately in the P&L.

Asset retirement obligations
The provision for asset retirement obligations is based on. assumptions of the estimated costs of removal, discount rate and estimated period of removal, which vary per type of asset. As defined in the Telecommunications Act, the obligation for landlords to tolerate cables terminates as soon as those cables have been idle for a continuous period of 10 years. Due to the fact that the date, when the cables will become idle, is uncertain and KPN is not able to predict whether and when a landlord will place a request for removal, KPN is not able to make a reliable estimate of the impact and therefore no provision was recognized at 31 December 2017 nor at 31 December 2016.

Other provisions
Other provisions relate to various risks and commitments, onerous contracts, claims and litigations (see Note 20).

Accounting policy: Provisions for other liabilities and charges
Provisions for asset retirement obligations, restructuring costs and legal claims are recognized when KPN has a present legal or constructive obligation as a result of past events, and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

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[18] Deferred income, trade and other payables

	31 December 2017		31 December 2016	
€ million	Current	Non-current	Current	Non-current
Trade payables	631	–	640	–
Deferred income	265	39	230	40
Accrued interest	161	–	197	–
Accrued expenses	495	–	502	–
Social security and other taxes payable	211	–	241	–
Other payables	19	23	29	22
Total	**1,782**	**62**	**1,839**	**62**

Deferred income mainly concerns amounts billed in advance for fixed fees and subscriptions.

Accounting policy:
Deferred income, trade and other payables
Deferred income, trade and other payables classify as 'borrowings' within KPN's financial liabilities. For the accounting policy, see Note 12.

> Consolidated Financial Statements

Other Notes to the Consolidated Financial Statements

[19] Business combinations and other changes in consolidation

Changes in consolidation in 2017

KPN acquired a 100% interest in the following companies in 2017:

Name	Description	Segment	Acquisition date
DearBytes B.V.	Provider of cyber security services	Business	31 January
Divider B.V.	IT provider of specialized VPN and network solutions	Business	23 February
Vrieservice B.V.	Provider of telecom-munication services mainly for small and medium-sized enterprises	Business	23 March
Solcon Internetdiensten N.V.	Internet services provider mainly to consumers	Consumer	29 June
Cam IT Solutions B.V.	Provider of IT services to the healthcare and public sector	Business	15 August
Qsight IT Holding B.V. and InSpark Holding B.V.	Providers of cyber security services	Business	11 December

Purchase price allocation of these acquistions:

Recognized amounts of identifiable assets acquired and liabilities assumed (in € million)	
Intangible assets[1]	77
Property, plant and equipment	11
Other non-current assets	5
Trade and other receivables	26
Net cash and cash equivalents acquired	3
Deferred income tax liabilities	-18
Non-current borrowings & liabilities	-15
Trade and other payables and deferred income	-42
Total identifiable net assets	**47**
Cash consideration	148
Liability for contingent consideration	5
Total consideration	**153**
Goodwill	**106**

1 Including customer bases, valued at EUR 58m.

The purchase price allocation is provisional.

In aggregate, the acquisitions contributed EUR 36m to revenue, EUR 3m to EBITDA and EUR -2m to net profit of KPN in 2017. If all acquisitions had taken place at the beginning of the year, revenues of KPN Group would have been EUR 66m higher, EBITDA EUR 4m higher and net profit EUR 6m lower.

Changes in consolidation in 2016

On 30 June 2016, KPN acquired a 100% interest in Dekatel Nederland B.V., provider of telecommunication services mainly for small and medium sized enterprises. On 1 January 2016, KPN obtained control of Glasvezelnet Amsterdam B.V.

Accounting policy: Business combinations
KPN uses the acquisition method to account for business combinations. The consideration paid is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their fair values at the acquisition date. When a business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the P&L.

Contingent considerations are recognized at fair value at acquisition date and subsequent changes to the fair value are recognized in the P&L. Contingent considerations classified as equity are not remeasured and subsequent settlement is counted for within equity.

For each business combination, KPN elects to recognize any non-controlling interest in the acquiree either at fair value or at the proportionate share in the acquiree's net assets. Acquisition-related costs are expensed as incurred.

The excess of the consideration paid, non-controlling interests recognized and the acquisition date fair value of any previous equity interests in the acquiree over the fair value of KPN's share of the net assets acquired is recorded as goodwill. If negative goodwill occurs in case of a bargain purchase, the difference is recognized directly in the P&L.

> Consolidated Financial Statements

[20] Commitments, contingencies and legal proceedings

Commitments

€ million Due by period	Less than 1 year	1–5 years	More than 5 years	Total 31 December 2017	Total 31 December 2016
Capital and purchase commitments	845	204	10	1,059	976
Rental and operational lease contracts	134	363	278	775	821
Guarantees and other	3	-	152	155	155
Total commitments	**982**	**567**	**440**	**1,989**	**1,952**

The capital and purchase commitments mainly relate to minimum contractual obligations with regard to network operations, mobile handsets and telco services.

The rental and operational lease contracts mainly relate to buildings, site rentals, mobile towers and vehicles. The majority of agreements include options for renewal. These options have not been included in the off balance sheet obligations unless they have been exercised. Also, most rental fees are subject to periodic indexation. In addition, the majority of contracts can be cancelled by KPN only, with a notice period of 12 months.

The minimum non-cancellable sublease amounts expected to be received as at 31 December 2017 amount to EUR 7m (31 December 2016: EUR 8m). These amounts mainly relate to subleases of buildings and site sharing arrangements.
The total net costs of rental and operating leases amounted to EUR 192m in 2017 (2016: EUR 191m) and is (mainly) included in other operating expenses.

Guarantees consist of financial obligations of Group companies under certain contracts guaranteed by KPN. A total amount of EUR 153m relates to parent guarantees (2016: EUR 155m).

Accounting policy: Leases
Leases where KPN as lessor retains a significant portion of the risks and rewards of ownership of the leased asset are classified as operating leases. The assets remain on the balance sheet and are depreciated over the assets' useful life. Lease payments received from lessees are recognized as revenue on a straight-line basis over the lease period. Payments by KPN as lessee under operating leases are charged to the P&L on a straight-line basis over the period of the lease (net of any incentives received from the lessor). If a sale-and-leaseback transaction results in an operating lease, the profit or loss is calculated using the fair value of the assets sold and recognized in the P&L immediately.

Leases where KPN as lessee has assumed substantially all risks and rewards of ownership are classified as finance leases. KPN then recognizes the leased assets on the balance sheet at the lower of the fair value and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables in the balance sheet. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the assets' useful life and the lease term. If a sale-and-leaseback transaction results in a finance lease, any excess of sale proceeds over the carrying amount is deferred and recognized in the P&L over the lease term.

In case KPN acts as lessor in a finance lease, the transaction is accounted for as a normal sale and the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is deferred and recognized as interest over the lease term.

Contingent liabilities

Legal and tax proceedings
KPN is involved in a number of legal and tax proceedings that have arisen in the ordinary course of its business, including commercial, regulatory or other proceedings. Periodically KPN carefully assesses the likelihood that legal and tax proceedings may lead to a cash outflow, and recognizes provisions in such cases/matters if and when required. However, the outcome of legal proceedings can be difficult to predict with certainty, and KPN can offer no assurances in this regard.

In some cases, the impact of a legal proceeding may be more strategic than financial and such impact cannot properly be quantified. Below is a description of legal proceedings or contingent liabilities that could have a material impact for KPN.

VAT benefit
Revenues at Consumer include a VAT benefit due to a change in the VAT calculation methodology, the consequence of the introduction of new mobile consumer propositions in August 2016. This has resulted in a lower remittance of VAT from August 2016 onwards of approximately EUR 3m per month. Although the view of KPN is not shared by the Dutch Tax Administration, based on the current legislation, KPN concluded that a positive outcome of this dispute is probable and therefore not recorded a provision.

Idle cables
See Note 17 for a contingent liability related to idle cables and the accounting policy of provisions.

Indemnification
In KPN's Articles of Association and in a further decision by the Board of Management, which was approved by the Supervisory Board, KPN has indemnified the members and former members of KPN's Board of Management and Supervisory Board, as well as a number of KPN's officers and directors and former officers and directors, against liabilities, claims, judgments, fines and penalties incurred by such officer or director as a result of any threatened, pending or completed action, investigation or proceeding (whether civil, criminal or administrative) brought by a third party in relation to acts or omissions in or related to their capacity as officer or director. The indemnification does not apply to claims and expenses reimbursed by insurers, nor to an officer or a director adjudged to be liable for willful misconduct ('opzet') or intentional recklessness ('bewuste roekeloosheid').

[21] Related-party transactions

KPN considers none of the related-party transactions to be material on an individual basis, except for the transactions with shareholders. Transactions between Group companies are not included in the description as these are eliminated in the Consolidated Financial Statements.

Transactions with shareholders
América Móvil, S.A.B. de C.V. ('AMX') published on 13 February 2018, in its fourth quarter 2017 report, that it owned 21.1% of KPN's ordinary share capital at 31 December 2017. The total value of sales transactions by the continuing operations of KPN in 2017 with AMX, its subsidiaries and associated companies amounted EUR 10m (2016: EUR 4m) and the total value of purchase transactions amounted EUR 21m (2016: EUR 13m). The total trade receivables and payables at 31 December 2017, amounted EUR 1m and less than EUR 1m respectively (31 December 2016: EUR 5m and EUR 4m respectively).

Other shareholding equaling or exceeding 3% of the issued capital:
- On 17 January 2017, Franklin Mutual Series Fund, Inc. notified the AFM that it held 5.00% of the shares and voting rights.
- On 23 August 2017, Capital Group International Inc. notified the AFM that it held 3.01% of the voting rights.
- On 20 December 2017, BlackRock, Inc. notified the AFM that it held 3.98% of the shares and 4.91% of the voting rights related to KPN's ordinary share capital.

To KPN's knowledge, no other shareholder owned 3% or more of KPN's issued share capital as at 31 December 2017. KPN did not enter into agreements with AMX or other shareholders which could have a material impact on KPN's Financial Statements.

Transactions with associated companies
The total value of sales transactions and purchase transactions by the continuing operations of consolidated KPN companies with associated companies and other non-consolidated companies in 2017 amounted to approximately EUR 23m resp. EUR 5m (2016: EUR 16m resp. 7m). The total trade receivables and payables as of 31 December 2017, amounted EUR 3m and less than EUR 1m respectively (31 December 2016: EUR 4m resp. EUR 1m).

Transactions with directors and related parties
For details of the relation between directors and the company, see the 'Remuneration Report' on pages 64 to 72 of this Integrated Annual Report. Directors in this respect are defined as key management and relate to those having authority and responsibility for planning, directing, and controlling the activities of an entity, either directly or indirectly. At KPN, key management consists of the members of the Board of Management and Supervisory Board.
The company was not a party to any material transactions, or proposed transactions, in which members of the Supervisory

Board or Board of Management or close members of their families had a direct or indirect material interest.

The total value of sales transactions by KPN's continuing operations in 2017 with parties in which members of the Supervisory Board or Board of Management or close members of their families had a direct or indirect material interest amounted EUR 18m (2016: EUR 14m) and the total value of purchase transactions amounted EUR 24m (2016: EUR 7m), all in the ordinary course of business. The total trade receivables and payables 31 December 2017, amounted EUR 5m and EUR 4m respectively (31 December 2016: EUR 3m and EUR 2m respectively).

[22] Legal structure

Name of significant subsidiaries and other principal interests	Country of incorporation	Percentage ownership/voting interest
KPN B.V.:	The Netherlands	100
> iBasis Inc.	The Netherlands	100
> KPN Consulting B.V.	US	100
> KPN EuroRings B.V.	The Netherlands	100
> KPN Finance B.V.	The Netherlands	100
> Reggefiber Group B.V.	The Netherlands	100
> Telfort Zakelijk B.V.	The Netherlands	100
> XS4ALL Internet B.V.	The Netherlands	100
KPN Mobile N.V.:	The Netherlands	100
> KPN Mobile International B.V.	The Netherlands	100
Getronics B.V.:	The Netherlands	100
> Getronics Finance Holdings B.V.	The Netherlands	100
Telefónica Deutschland Holding AG	Germany	8.6

[23] Proposed appropriation of result

On outstanding Class B preferred shares, a dividend is paid out equal to the average of the 12-month Euribor increased by 1%. If the 12-month Euribor is no longer determined, the dividend on preference shares will be calculated based on the yield on State loans. Subsequently, subject to the approval of the Supervisory Board, the Board of Management will determine what proportion of net income remaining after payment of the dividend on any Class B preferred shares will be appropriated to the reserves. The part of the profit remaining after the appropriation to the reserves shall be at the disposal of the AGM. At 31 December 2017, no Class B preferred shares were outstanding.

In August 2017, a regular interim dividend of EUR 3.7ct per ordinary share was paid (total amount of EUR 156m). The Board of Management, with the approval of the Supervisory Board, will propose to the AGM to pay a final regular dividend of EUR 7.3ct per ordinary share in respect of 2017 (total amount of EUR 306m to be increased by dividend on shares issued in 2018 before the ex-dividend date).

In addition, the received dividend on KPN's shareholding in TEFD, was distributed in May 2017 as a special interim cash dividend of EUR 1.7ct per share (total amount of EUR 72m). This brings the total dividend in respect of 2017 to EUR 12.7ct per ordinary share (2016: EUR 12.5ct).

Distribution of the proposed final dividend requires an amount of EUR 51m to be withdrawn from the distributable part of shareholders' equity which is proposed to the AGM.

[24] Subsequent events

KPN has evaluated events up to publication date of these Financial Statements of this Integrated Annual Report and determined that no subsequent event activity required disclosure.

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Corporate Statement of Profit or Loss

For the year ended 31 December

€ million	Notes	2017	2016
Total revenues and other income		–	**1**
Other operating expenses		-9	3
Depreciation, amortization and impairments		–	-2
Total operating expenses		**-9**	**1**
Operating profit		**-9**	**2**
Finance income		71	111
Finance costs		-328	-625
Other financial results		-12	71
Intercompany interest (net)		-747	-701
Financial income and expenses	[A]	**-1,016**	**-1,144**
Income from subsidiaries[1]		1,251	1,630
Profit before income tax		**226**	**488**
Income taxes[2]		257	305
Profit for the year		**483**	**793**

1 2016 includes EUR 414m with respect to discontinued operations.
2 2016 includes EUR 16m with respect to discontinued operations.

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Corporate Statement of Financial Position

Before appropriation of results

Assets

€ million	Notes	31 December 2017	31 December 2016
Non-current assets			
Financial fixed assets			
Investments in subsidiaries		18,307	33,335
Derivatives		168	298
Deferred taxes		990	1,094
Other fixed financial assets		119	1,897
Total non-current assets	**[B]**	**19,584**	**36,624**
Current assets			
Accounts receivable from subsidiaries		155	173
Current income tax receivable		558	–
Other receivables and accrued income		20	24
Available-for-sale financial assets		1,071	–
Other current financial assets		330	141
Cash and cash equivalents		682	1,026
Total current assets		**2,816**	**1,364**
Total assets		**22,400**	**37,988**

Equity and Liabilities

€ million	Notes	31 December 2017	31 December 2016
Equity			
Subscribed capital stock		168	171
Additional paid-in capital		8,445	8,651
Treasury shares reserve		-103	-115
Hedge reserve		-339	-353
Legal reserves	[C]	169	163
Retained earnings	[C]	-6,554	-6,798
Equity attributable to holders of perpetual capital securities		1,089	1,089
Profit (loss) current year		483	793
Total equity attributable to equity holders		**3,358**	**3,601**
Provisions			
Provisions for retirement benefit obligations		46	52
Other provisions		23	25
Total provisions	**[D]**	**69**	**77**
Non-current liabilities			
Loans [E]	[E]	16,807	16,362
Derivative financial instruments		328	197
Other long-term liabilities		100	123
Total non-current liabilities		**17,235**	**16,682**
Current liabilities			
Accounts payable to subsidiaries	[F]	1,457	16,579
Derivative financial instruments		–	1
Other current liabilities	[G]	110	844
Accruals and deferred income		171	204
Total current liabilities		**1,738**	**17,628**
Total equity and liabilities		**22,400**	**37,988**

> Consolidated Financial Statements

Notes to the Corporate Financial Statements

The principles for the recognition and measurement of assets and liabilities and determination of the result (hereafter referred to as 'Accounting policies') of the Corporate Financial Statements of Koninklijke KPN N.V. are the same as those applied to the Consolidated Financial Statements under IFRS (applying the option provided in Article 362 sub 8, Part 9, Book 2 of the Dutch Civil Code). The Consolidated Financial Statements have been prepared in accordance with the IFRS (see Notes to the Consolidated Financial Statements).

The expected impact of the new IFRS standards (IFRS 9, IFRS 15 and IFRS 16) as described in Note 2 of the Consolidated Financial Statements have corresponding effect on the Corporate Financial Statements.

Investments in consolidated subsidiaries are measured at net asset value. Net asset value is based on the measurement of assets (including goodwill), provisions and liabilities and determination of profit based on the principles applied in the Consolidated Financial Statements.

[A] Financial income and expenses

€ million	2017	2016
Finance income	**71**	**111**
Interest on borrowings	-322	-395
Tender premium	–	-222
Other	-6	-8
Finance costs	**-328**	**-625**
Amortizable part of hedge reserve	-16	-10
Amortization discontinued fair value hedges	39	114
Derivative financial instruments not qualified for hedge accounting	-28	-28
Other	-7	-5
Other financial results	**-12**	**71**
Intercompany interest (net)	**-747**	**-701**
Total	**-1,016**	**-1,144**

Finance income includes a dividend received from Telefónica Deutschland (TEFD) of EUR 70m (2016: EUR 110m).
In 2017, interest on borrowings decreased by EUR 73m, which was mainly related to a lower gross debt position.
Intercompany interest (net) mainly includes interest of 8.5% on an intercompany loan provided by KPN Mobile N.V., part of loans payable to subsidiaries (Note F).

[B] Non-current assets

€ million	Group companies	Derivatives	Deferred taxes	Other financial fixed assets[1]	Total
Balance at 1 January 2016	**31,566**	**530**	**1,003**	**2,309**	**35,408**
Exchange rate differences	27	–	–	–	27
Income from Group companies after taxes	1,630	–	–	–	1,630
Capital contributions	9	–	–	–	9
Fair value adjustments	–	-232	–	-382	-614
Other[2]	103	–	91	-30	164
Total changes	**1,769**	**-232**	**91**	**-412**	**1,216**
Balance at 31 December 2016	**33,335**	**298**	**1,094**	**1,897**	**36,624**
Exchange rate differences	-6	–	–	–	-6
Income from Group companies after taxes	1,251	–	–	–	1,251
Decrease due to sale	–	–	–	-846	-846
Decrease due to settlement[2]	-16,284	–	–	–	-16,284
Capital contributions	23	–	–	–	23
Fair value adjustments	–	-130	–	49	-81
Reclassification[3]	–	–	–	-1,071	-1,071
Other[4]	-12	–	-104	90	-26
Total changes	**-15,028**	**-130**	**-104**	**-1,778**	**-17,040**
Balance at 31 December 2017	**18,307**	**168**	**990**	**119**	**19,584**

1 The fair value adjustment relates to the stake in TEFD.
2 Decrease relates to the settlement of several intercompany financial current account positions of total EUR 16,284m (see Note F).
3 Reclassification of TEFD from non-current to current available-for-sale financial assets.
4 Deferred taxes mainly relates to the decrease in share price of the stake in TEFD. The deferred tax liability related to TEFD decreased to EUR 61m (2016: EUR 67m).

> Consolidated Financial Statements

[C] Equity attributable to equity holders
For a breakdown of equity attributable to equity holders, refer to the Consolidated Statement of Changes in Equity and the Notes thereto.

Legal reserves
Legal reserves (net of tax) are presented below:

€ million	Revaluation reserve property, plant and equipment	Cumulative translation adjustments	Capitalized software development costs	Fair value reserve available-for-sale financial assets	Other non-distributable reserves	Total
Balance at 1 January 2016	**31**	**16**	**146**	**259**	**54**	**506**
Exchange rate differences	–	20	–	–	–	20
Addition/(release) retained earnings	-7	–	-59	–	-48	-114
Other	–	–	–	-249	–	-249
Balance at 31 December 2016	**24**	**36**	**87**	**10**	**6**	**163**
Addition/(release) retained earnings	-4	–	-5	3	12	6
Balance at 31 December 2017	**20**	**36**	**82**	**13**	**18**	**169**

Pursuant to Dutch law, limitations exist relating to the distribution of equity attributable to equity holders. Such limitations relate to the subscribed capital stock as well as to legal reserves required by Dutch law as presented above. The total distributable reserves at 31 December 2017, amounted to EUR 3,021m (2016: EUR 3,267m). Dutch law also requires that in determining the amount for distribution, the company's ability to continue to pay its debt must be taken into account, including the euro perpetual hybrid bonds which are classified as equity under IFRS.

The movements in the fair value reserve available-for-sale financial assets mainly relates to the value of the stake in TEFD (increase in 2017 and decrease in 2016).

Retained earnings
Movements in retained earnings were as follows:

€ million	2017	2016
Balance at 1 January	**-6,798**	**-6,869**
Profit/loss of previous year	793	638
Coupon perpetual hybrid bond (net of tax)	-51	-51
Dividend ordinary shares	-513	-460
Actuarial gain/loss pensions and other post-employment plans (net of tax)	12	-57
Release/addition legal reserves	-6	114
Acquisitions	–	-89
Fair value adjustment available-for-sale financial assets	16	-14
Other	-7	-10
Balance at 31 December	**-6,554**	**-6,798**

Retained earnings can be reconciled with the Consolidated Statement of Financial Position as follows:

€ million	31 December 2017	31 December 2016
Retained earnings as per Consolidated Statement of Financial Position	**-5,951**	**-5,859**
Revaluation reserve	-20	-24
Capitalized software development costs	-82	-87
Other non-distributable reserves	-18	-6
Reclassification fair value adjustment available-for-sale financial assets	–	-29
Profit for the year	-483	-793
Retained earnings as per Corporate Statement of Financial Position	**-6,554**	**-6,798**

[D] Provisions
Movements in provisions were as follows:

€ million	Retirement benefit obligations	Other provisions	Total
Balance at 1 January 2016	**67**	**22**	**89**
Additions/releases to income	3	6	9
Additions/releases directly in OCI	5	–	5
Usage	-23	-3	-26
Balance at 31 December 2016	**52**	**25**	**77**
Additions/releases to income	2	3	5
Additions/releases directly in OCI	9	–	9
Usage	-17	-5	-22
Balance at 31 December 2017	**46**	**23**	**69**

The provisions for retirement benefit obligations relate to early retirement plans (see Note 16 to the Consolidated Financial Statements).

[E] Loans
Loans include bonds outstanding for EUR 6,477m (2016: EUR 6,680m) and hybrid bonds outstanding for EUR 946m (2016: EUR 1,030m), see also Note 12 to the Consolidated Financial Statements.

Furthermore, the loans also include loans from subsidiaries for EUR 9,384m (2016: EUR 8,652m). This mainly relates to a loan payable to KPN Mobile N.V., which bears interest of 8.5% and must be repaid in full, including accrued interest, in 2034.
The loan is subordinated to the unsecured and unsubordinated creditors of KPN N.V., but ranks ahead of the hybrid capital securities issued by KPN N.V. as long as by their terms these hybrid capital securities are expressed to rank pari passu with the preference share of KPN N.V. and the preference shares issued by KPN N.V. (if any). There are no loans from subsidiaries with maturity dates in 2018.

[F] Accounts payable to subsidiaries
Accounts payable to subsidiaries decreased significantly, mainly due to lower intercompany financial current accounts of total EUR 1,065m (2016: EUR 16,755m) as a result of the settlement of several intercompany financial current account positions which are currently not relevant to continue. Furthermore, it consists of interest to be paid to KPN Mobile N.V. of EUR 200m, intercompany settlement of net current income tax position of EUR 186m and operational financial current account of EUR 6m. The financial current accounts have indefinite duration. The interest is annually determined and based on twelve month Euribor increased by 0.15%, and a risk premium attached by the market to the specific KPN credit risk.

> Consolidated Financial Statements

[G] Other current liabilities

€ million	31 December 2017	31 December 2016
Current portion of loans	–	720
Social security and other taxes payable	109	124
Bank overdrafts	1	–
Total	**110**	**844**

[H] Commitments and contingencies

Commitments by virtue of guarantees amounted EUR 155m (2016: EUR 155m).

KPN has issued several declarations of joint and several liabilities for various Group companies in compliance with Article 403, Book 2 of the Dutch Civil Code. These declarations of joint and several liabilities for Group companies are included in a complete list of subsidiaries and participating interests, which is available at the offices of the Chamber of Commerce in The Hague.

Directors' remuneration

See Note 5 to the Consolidated Financial Statements on employee benefits.

The Hague, 23 February 2018

Board of Management	Supervisory Board
Eelco Blok	Duco W. Sickinghe
Jan Kees de Jager	Peter A.M. van Bommel
Frank van der Post	Carlos J. García Moreno Elizondo
Joost Farwerck	Derk J. Haank
	Peter F. Hartman
	Edzard J.C. Overbeek
	Jolande C.M. Sap
	Claudia J.G. Zuiderwijk

> Other Information

Combined Independent Auditor's Report

Dear Shareholders and members of the Supervisory Board of Koninklijke KPN N.V. (KPN),

Please find below the main conclusions and main features of our audit and review. For the full text of the independent auditor's report, which includes the assurance report on sustainability, please refer to the next pages.

Summary

Conclusions

Object of audit or review	Outcome of our work performed
Financial statements 2017 (consolidated and corporate)	True and fair view
Sustainability information 2017: CO_2 emission data 2017 (Scope 1 and 2) of own operations in the Netherlands and the underlying energy data	Reliable and adequate view (reasonable assurance)
Sustainability information 2017 in selected chapters and appendices	Reliable and adequate view (limited assurance)
Other information, including the Reports by the Board of Management and the Supervisory Board	No material misstatements to report

Main features of our audit & review

What we have done	Scope of our work	Materiality	Key audit & assurance matters
Audit of financial statements 2017 (consolidated and corporate)	Netherlands United States of America	EUR 45 million, which represents 2.0% of EBITDA	> Valuation (in)tangible assets, incl. goodwill > Valuation deferred tax assets > IFRS15 > Reliability of IT systems, including security and cybercrime
Audit of CO_2 emission data 2017 (Scope 1 and 2) own NL operations and the underlying energy data	Netherlands	5% deviation	> No areas of specific focus
Review of sustainability information for 2017 in selected chapters and appendices	Scope varies per country	Specific materiality levels for each element of the sustainability information in scope	> CO_2 Scope 3 estimates, energy savings by customers > RepTrak pulse score, Net Promoter Score
Procedures for Other information, including Reports by the Board of Management and Supervisory Board	Full reports	Similar materiality as our audit or review scopes.	> No areas of specific focus

> Other Information

Combined independent auditor's report on the 2017 financial statements and sustainability information

Our conclusions

Based on the procedures we have performed and the evidence obtained, we have come to the following conclusions:

> With respect to audit procedures performed; in our opinion,
- the consolidated financial statements give a true and fair view of the financial position of KPN as at 31 December 2017 and of its result and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the corporate financial statements give a true and fair view of the financial position of KPN as at 31 December 2017 and of its result for 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code;
- CO_2 emission data 2017 (Scope 1 and 2) of own operations in the Netherlands and the underlying energy data as presented on page 34 of the Integrated Annual Report present, in all material respects, a reliable and adequate view, in accordance with the Global Reporting Initiative (GRI) Standards and the supplemental KPN reporting criteria as disclosed in Appendix 3 of the Integrated Annual Report.

> With respect to review procedures performed on the sustainability information in scope;
> nothing has come to our attention that causes us to believe that the sustainability information in scope, does not present in all material respects, a reliable and adequate view of KPN's policy and business operations with regard to sustainability and the thereto related events and achievements for the year ended 31 December 2017 in accordance with the GRI Standards and the supplemental KPN reporting criteria as disclosed in Appendix 3, 'Transparency', of the Integrated Annual Report.

> With respect to procedures performed based on the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720, we conclude that the other information included in the Integrated Annual Report, including the Reports by the Board of Management and Supervisory Board:
- Is consistent with the financial statements and does not contain material misstatements;
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

Basis for our conclusions

We performed our assurance engagements in accordance with Dutch law, including the Dutch Standards on Auditing and the Dutch Standard 3810N, "Assurance engagements relating to sustainability reports", which is a specified Dutch Standard that is based on the International Standard on Assurance Engagements (ISAE) 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information". Our responsibilities under those standards are further described in the section: Our responsibilities in this report.

We believe the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Our Independence

We are independent of KPN in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. This includes that we do not perform any activities that could result in a conflict of interest with our independent assurance engagement. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics)'.

Our scope

Our engagements scope

The Integrated Annual Report 2017 (hereafter: the Report) of KPN consists of the financial statements and other information, including Reports by the Board of Management and Supervisory Board, that provides altogether an overview of the policy, activities, events and performances related to both the financial position and the sustainable development of KPN during reporting year 2017. The following information in the Report has been in scope for our assurance engagements:

> The consolidated financial statements, comprising:
- The Consolidated Statement of Financial Position as at 31 December 2017;
- The Consolidated Statements of Profit or Loss, Other Comprehensive Income, Changes in Group Equity and Cash Flows for 2017;
- The Notes comprising a summary of the significant accounting policies and other explanatory information.

> The corporate financial statements, comprising:
- The Corporate Statement of Financial Position as at 31 December 2017;
- The Corporate Statement of Profit or Loss for 2017;
- The Notes comprising a summary of the accounting policies and other explanatory information.

> The sustainability information in scope consists of:
- Reasonable assurance - CO_2 emission data 2017 (Scope 1 and 2) of own operations in the Netherlands and the underlying energy data as presented on page 34 of the Integrated Annual Report;
- Limited assurance - The sustainability information in the following chapters and appendices:
  - Chapters: 'KPN at a glance', Who we are and what we do' and 'The long-term value we create';
  - Appendices: Appendix 1-7. This includes Appendix 5: Social figures, Appendix 6: Environmental figures (including Scope 3 CO_2 emissions) and Appendix 7: GRI Content Index, which are available on the website of KPN.

> The other information, including the Reports by the Board of Management and Supervisory Board included in the Report pursuant to the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720 concerning our obligation to report about the management board report and other information.

Limitations in our engagements scope

Unexamined prospective information

The sustainability information contains prospective information, such as ambitions, strategy, targets, expectations and estimates. Inherently, the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the sustainability information.

Unreviewed references to external sources

The references to external sources or websites in the sustainability information are not part of the sustainability information as reviewed by us. We therefore do not provide assurance on this information.

Our scope for the group audit of the financial statements

KPN is head of a group of entities, both in the Netherlands and abroad. The Dutch entities and segments thereby form the majority of the business and there are relatively smaller operations in the United States of America. The financial information of all these entities has been included in the consolidated financial statements.

Our group audit mainly focused on the more significant segments in the Netherlands, including 'Consumer' , 'Business', 'Wholesale' and 'NOI' as well as 'iBasis' (United States of America).

Due to their significance and/or risk characteristics, we performed full scope audit procedures on the financial information of all above mentioned segments. For the segment in the United States of America we used EY component auditors who are familiar with local laws and regulations to perform detailed audit procedures to obtain sufficient coverage for financial statement line items from a consolidated financial statements perspective.
Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole. The group engagement team has visited the component team.

At other group entities we performed review procedures or specific audit procedures. The group consolidation, financial disclosures and a number of complex items were audited by the group engagement team at the company's head office. These included revenue assurance, purchase price allocation, taxation, fixed assets and goodwill impairment, pensions, derivative financial instruments, hedge accounting and share-based payments. We involved several EY specialists to assist the audit team, including specialists from our tax, valuations, sustainability, actuarial and treasury departments.

By performing audit procedures at segment and at corporate level as mentioned above, together with the involvement of specialists, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Reporting criteria

The information in the scope of our engagements needs to be read and understood together with the reporting criteria, for which KPN is solely responsible for selecting and applying, taking into account applicable law and regulations related to reporting. The criteria used for the preparation of the Report and thus relevant for our examination are described below. We consider the reporting criteria used relevant and suitable for our assurance engagements.

Consolidated Financial Statements:	International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code.
Corporate Financial Statements, Report by the Board of Management and the Supervisory Board:	Part 9 of Book 2 of the Dutch Civil Code.
Sustainability information including the CO_2 emission data 2017 (Scope 1 and 2) and the underlying energy data:	GRI Standards ('comprehensive' option) of the Global Reporting Initiative (GRI) and the supplemental reporting criteria developed by KPN as disclosed in Appendix 3: Transparency of the Report. These criteria include the Greenhouse Gas Protocol (WRI/WBCSD).

> Other Information

Materiality

General:
The scope of our assurance procedures is influenced by the application of materiality. Our assurance engagements aim to provide assurance about whether the financial statements and the sustainability information in scope are free from material misstatement. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the (economic) decisions of users taken on the basis of the Report. The materiality affects the nature, timing and extent of our assurance procedures and the evaluation of the effect of identified misstatements on our conclusions.

Financial statements:
For the audit of the financial statements our considerations regarding the materiality are as follows.

Materiality	EUR 45,000,000
Benchmark used	2.0% of earnings before interest, tax, depreciation and amortization (EBITDA).
Additional explanation	The users of the financial statements of a for-profit entity typically focus on operating performance, particularly profit before tax. Over the past years KPN's profit before tax heavily fluctuated, resulting from the impact of the discontinuance of operations and other non-recurring transactions. Furthermore, we note that in KPN's external communications, earnings before interest, tax, depreciation and amortization (EBITDA) is commonly used to report on financial performance. Considering these aspects, we have concluded that EBITDA is the most appropriate and stable benchmark for KPN to base our materiality upon. The materiality is thereby set at EUR 45,000,000, using a percentage of 2.0%, which is at the lower end of a generally accepted range. Last year we used the same percentage and amount.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in the financial statements in excess of EUR 2.25 million, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Sustainability information:
Based on our professional judgment we determined materiality levels for each part of the sustainability information as a whole. When evaluating our materiality levels, we have taken into account quantitative and qualitative considerations as well as the relevance of information for both stakeholders and the organization.
For CO_2 emission data 2017 (Scope 1 and 2) of own operations in the Netherlands and the underlying energy data we have determined the materiality at 5% deviation.

Other information, including the Reports by the Board of Management and Supervisory Board:
With respect to the materiality applied to our procedures performed on the other information in our capacity as auditor of KPN and with the knowledge that we have as auditor to conclude whether the other information would not be appropriate or obviously incorrect;
- where the other information contains information that has also been in scope of our assurance engagements regarding the financial statements or sustainability information, similar materiality for this information has been applied;
- in other cases, our assessment for materiality was based on findings that could influence the decisions of the users dependent on our evaluation of the relevance of that information for these users.

Key audit & assurance matters

Key audit and assurance matters are those matters that, in our professional judgment, were of most significance in our assurance procedures for the financial statements and the sustainability information in scope. We have communicated the key audit and assurance matters to the Supervisory Board. The key audit and assurance matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our assurance procedures for the financial statements and the sustainability information in scope as a whole and to conclude thereon, and we do not provide a separate conclusion on these matters.

In previous year 'Sale of BASE Company N.V.' has been identified as key audit matter. Since KPN finalized the sale of BASE Company N.V. in 2016 and we completed our audit thereon, this is no longer a key audit matter. Following the adoption of IFRS 15 by KPN retrospectively and the related restatement of 2017 financial information, a new key audit matter 'IFRS 15' has been included.

General observation:
For the audit of the financial statements, we rely on KPN's internal control framework and its governance. The framework is maintained by the business and continuously tested by KPN Risk Management and KPN Audit. The Management Board and Audit Committee are being informed of the outcome of the tests performed on a quarterly basis. For purposes of our audit, we assess the adequacy of the framework and we test the work of KPN Risk Management and KPN Audit. We believe that KPN's internal control framework meets the required criteria and it allows us to perform a system based audit in an effective manner. The key audit matters addressed below are all covered by KPN's internal control framework and have been audited by us with satisfactory results. For the interest of the reader, we highlight the most important elements we focused on in 2017.

Key audit matter	How our audit addressed the matter	Key observations
Valuation of (in)tangible assets, including goodwill		
Under IFRS, it is required to annually test the amount of goodwill and intangible assets with an indefinite life for impairment. KPN's disclosures about goodwill and intangible assets are included in Note 11. No impairments of goodwill and intangible assets with indefinite life were recorded during 2017. On assets with finite lives an impairment test has to be performed if indications of impairment exist. Some triggering events were identified, for example in the area of hardware and software that required impairment testing and for which minor impairments were recorded. The impairment tests were important for our audit as the related asset amounts are significant and the assessment process itself is complex and requires judgment. The impairment test includes assumptions that are affected by future market or economic conditions.	We compared forecasted revenue and profit margins for all cash generating units with the approved KPN strategic plans. We also verified the assumptions to which the outcome of the impairment test is most sensitive and reviewed the sensitivity analysis as included in Note 11 of the financial statements. Our audit procedures included, among others, using EY valuation specialists to assist us in verifying the assumptions and methodologies used by KPN.	We concur with management that there is no need for impairments of goodwill and intangible assets with indefinite life. We concur with management on the impairments recorded.

Key audit matter	How our audit addressed the matter	Key observations
Taxes		
Deferred tax At 31 December 2017, the deferred tax assets are valued at EUR 947 million, related disclosures are included in the notes to the consolidated statement of profit or loss in Note 8. This item was significant to our audit because the assessment process is complex and judgmental and is based on assumptions that are affected by expected future market or economic conditions.	Our audit procedures related to the deferred tax assets included, amongst others, using EY tax specialists to assist us in verifying and interpreting the agreement ('vaststellingsovereenkomst') reached with the Dutch tax Authorities and evaluating the assumptions, such as expected future taxable income and methodologies used by the company. This entailed reviewing the company's latest approved strategic plan. We discussed this plan with management and determined the reasonableness of the assumptions used regarding the recoverability of the deferred tax assets and assessed the plan's assumptions and sensitivities.	We concur with the deferred taxes recorded.

Other Information

Key audit matter	How our audit addressed the matter	Key observations
IFRS 15		
IFRS 15 'Revenue from Contracts with Customers' will be adopted by KPN retrospectively whereby 2017 financial information will be restated in the 2018 financial statements. It will have a significant impact on revenue recognition as disclosed in Note 2. In 2017, KPN completed the analysis of the cumulative transitional adjustment at 1 January 2017 as well as the impact on 2017.	We reviewed the IFRS 15 restatements of the balances as of 1 January 2017 and 31 December 2017 as well as the disclosures included in the Integrated Annual Report in Note 2.	We agree with the restatements and the disclosures made in the Integrated Annual Report in Note 2.
Reliability of IT systems, including security, cybercrime and data privacy		
At KPN, processes are highly automated and KPN continuously invests in simplification and improvement of IT systems, which has led to several changes in 2017 that have been discussed on page 21. Reliability and security of IT systems are thereby high on the agenda of KPN and for that purpose KPN's internal control framework includes several controls to ensure, inter alia, proper identity, access and change management of its IT systems. KPN also has a security team in place focusing on policies, security management and a team of ethical hackers. This team tests the security of KPN's IT environment and imitates behavior of hackers to stay continuously up to date with the latest developments and helps KPN in managing their own security risks, including cybercrime and data privacy.	As part of our audit, we have reviewed the quality of KPN's IT systems and the controls embedded therein with a purpose to express an opinion on the financial statements. For this purpose, we performed our own procedures and reviewed and tested the work done by KPN Risk Management and KPN Audit. Since this is highly specialized work, our audit team includes IT specialists. As part of our testing, we reviewed change management procedures, access management procedures, the continuity of IT systems and we reviewed the implementation of new IT systems.	In a few instances, we identified situations where controls needed improvement. KPN has set-up remediation procedures that we have also reviewed and tested with satisfactory results.

For the assurance procedures concerning the sustainability information in scope, we identified the following key assurance matters:

Key assurance matter	How our assurance procedures addressed the matter	Key observations
Estimations and assumptions in CO_2 Scope 3 and energy savings by customers		
Inherent to the nature of information on CO_2, Scope 3 and energy savings by customers is that they are to a large extent based on the use of estimates and underlying assumptions	Our review procedures focused on evaluating the suitability and consistent application of the reporting criteria and assessing the reasonableness of the assumptions made. We have also reviewed whether the disclosures in the integrated annual report are adequate.	We assessed the suitability and consistent use of the reporting criteria and agreed that methodologies used are sufficiently disclosed in Appendix 3 including the restatement of comparative figures for Scope 3.
Disclosure of methodology for RepTrak pulse score (reputation) and Net Promoter Score in the Netherlands (customer satisfaction)		
The indicators RepTrak and NPS are identified by KPN as part of their representation of key achievements. The indicators are measured by third parties. The outcome is influenced by the methodology used by the third party.	Our review procedures focused on evaluating whether the methodology is suitable and consistently applied, assessing whether the transparency on the methodology in KPN's Integrated Annual Report is sufficient for a proper understanding by the reader.	We assessed the suitability and consistent use of the reporting criteria and agreed that methodologies used are sufficiently disclosed in Appendix 3, including the restatement of comparative figures for RepTrak.

Report on other legal and regulatory requirements

Engagement
We were engaged by the Supervisory Board as auditor of Koninklijke KPN N.V. on 9 April 2014, as of the audit for the year 2015 and have operated as statutory auditor since that date.

No prohibited non-audit services
We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Responsibilities

Responsibilities of Board of Management and the Supervisory Board
The Board of Management (hereafter: management) is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the other information, including the Report by the Board of Management in accordance with Part 9 of Book 2 of the Dutch Civil Code and the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Management is also responsible for the preparation of the sustainability information in accordance with the GRI Standards (Comprehensive option) and the supplemental reporting criteria of KPN, including the identification of stakeholders and the determination of material topics. The choices made by management in respect of the scope of the Report and the reporting criteria are set out in the section entitled "Appendix 3, Transparency" in the Report.

Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the Report that is free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's (financial) reporting process.

Our responsibilities
Our objective is to plan and perform the assurance assignment in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusions.

Our assurance procedures aimed at obtaining reasonable assurance have been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud. The assurance procedures performed to obtain limited assurance are aimed on the plausibility of information and vary in nature and timing from, and are less in extent, than for obtaining reasonable assurance. The level of assurance obtained in review engagements is therefore substantially less than the assurance obtained in audit engagements.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the financial statements and sustainability information. The materiality affects the nature, timing and extent of our assurance procedures and the evaluation of the effect of identified misstatements on our conclusion.

We apply the 'Nadere voorschriften kwaliteitssystemen' (Regulations for Quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other applicable legal and regulatory requirements.

A further description of our responsibilities is included in the Annex to the combined independent auditor's report.

The Hague, 23 February 2018

Ernst & Young Accountants LLP

Signed by F.J. Blenderman

> Other Information

Annex to the Combined Independent Auditor's Report

Work performed

We have exercised professional judgment and have maintained professional skepticism throughout the assurance engagements performed by a multi-disciplinary team, in accordance with Dutch Standards on Auditing and the Dutch Standard 3810N for assurance on sustainability information, ethical requirements and independence requirements.

Our audit to obtain reasonable assurance about the financial statements (consolidated and corporate) included the following:
- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Our review to obtain limited assurance about the sustainability information included the following:
- Performing an external environment analysis and obtaining an insight in relevant social themes and issues and the characteristics of the organization.
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information, including the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by management.
- Obtaining an understanding of the reporting processes for the sustainability information, including obtaining a general understanding of internal control relevant to our review engagement.
- Reconciling the relevant financial information with the financial statements.
- Obtaining an understanding of the procedures performed by the internal audit department of KPN.
- Identifying areas of the sustainability information where material misstatements, whether due to fraud or error, are likely to arise, and performing further procedures aimed at determining the plausibility of the sustainability information responsive to this risk analysis. These procedures consisted amongst others of:
  - Interviewing management and relevant staff at corporate level responsible for the sustainability strategy, policies and results.
  - Interviewing relevant staff responsible for providing the information as disclosed in the sustainability information, carrying out internal control procedures on the data and consolidating the data in the sustainability information.
  - Reviewing relevant internal and external documentation, on a limited test basis; and
  - An analytical review of the data and trends submitted for consolidation at corporate level.
- Evaluating the presentation, structure and content of the sustainability information as a whole, including the disclosures, in relation to the reporting criteria used.

In addition to the procedures mentioned above, for CO_2 emission data 2017 (Scope 1 and 2) of own operations in the Netherlands and the underlying energy data we performed following to obtain reasonable assurance:
- Obtaining a more detailed understanding of systems and reporting processes, including where relevant to our assurance engagement, testing the design, existence and the operating effectiveness of the relevant internal controls during the reporting year.
- Conducting more in-depth analytical procedures and substantive testing procedures on the relevant data.
- A visit to the datacenter in Aalsmeer to validate source data and to evaluate the design of internal control and validation procedures.
- Investigating relevant internal and external documentation a test basis to determine whether the sustainability information in the Report is reliable.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed on the other information is less than the scope of those performed in our audit of the financial statements.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the assurance procedures and significant findings, including any significant findings in internal control that we identify during our assurance procedures. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements, the review of the sustainability information in scope and the audit of the CO_2 emission data 2017 (Scope 1 and 2) of own operations in the Netherlands and the underlying energy data of the current period and are therefore the key audit & assurance matters. We describe these matters in our combined independent auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

> Appendices

Appendix 1: Alternative performance measures

In the discussion of KPN's financial results, a number of alternative performance measures (non-GAAP figures) are used to provide readers with additional financial information, that is regularly reviewed by management. These non-GAAP figures should not be viewed as a substitute for KPN's financial results as determined in accordance with IFRS, which are presented in KPN's Consolidated Financial Statements. Also, the additional information presented is not uniformly defined by all companies, including KPN's peers. Therefore, the non-GAAP figures presented may not be comparable with similarly named numbers and disclosures by other companies. In addition, readers should be aware that certain information presented is derived from amounts determined under IFRS, but is not in itself an expressly defined GAAP measure. Such non-GAAP measures should not be viewed in isolation or as an alternative to an equivalent GAAP measure.

KPN's management considers these non-GAAP figures, combined with GAAP performance measures and in conjunction with each other, most appropriate to measure the performance of the Group and its Segments. The non-GAAP figures are used by management for planning, reporting (internal and external) and incentive purposes.

KPN's main non-GAAP figures are explained below.

EBITDA

KPN defines EBITDA as operating result before depreciation (including impairments) of PPE and amortization (including impairments) of intangible assets. Note that KPN's definition of EBITDA deviates from the literal definition of earnings before interest, taxes, depreciation and amortization and should not be considered in isolation or as a substitute for analyses of the results as reported under IFRS as adopted by the European Union.

€ million	2017	2016 (restated)
Total revenues and other income	**6,498**	**6,806**
Cost of goods & services	1,923	2,103
Personnel expenses	1,151	1,175
Information technology / Technical infrastructure	502	547
Other operating expenses	616	552
Total operating expenses (excl. D&A)	**4,192**	**4,377**
EBITDA	**2,306**	**2,429**

Adjusted revenues and adjusted EBITDA

Adjusted revenues and adjusted EBITDA, together also referred to as the adjusted results, are derived from revenues (including other income) and EBITDA, respectively, and are adjusted for the impact of restructuring costs and incidentals. Incidentals are non-recurring transactions which are not directly related to day-to-day operational activities at or over EUR 5m unless significant for the specific reportable segment.

> Appendices

The following table shows the key items between reported and adjusted revenues for the full year.

Revenues

€ million	FY 2017 reported	Incidentals	FY 2017 adjusted	FY 2016 reported restated	Incidentals	FY 2016 adjusted restated	Δ y-on-y reported	Δ y-on-y adjusted
Consumer	3,152	–	3,152	3,143	–	3,143	0.3%	0.3%
Business	2,198	–	2,198	2,309	–	2,309	-4.8%	-4.8%
Wholesale	676	-2	678	760	26	734	-11%	-7.6%
Network, Operations & IT	21	–	21	17	–	17	24%	24%
Other (incl. eliminations)	-171	–	-171	-177	–	-177	-3.4%	-3.4%
The Netherlands	**5,876**	**-2**	**5,878**	**6,052**	**26**	**6,026**	**-2.9%**	**-2.5%**
iBasis	705	–	705	867	–	867	-19%	-19%
Other activities	1	–	1	4	–	4	-75%	-75%
Intercompany revenues	-84	–	-84	-117	–	-117	-28%	-28%
KPN Group	**6,498**	**-2**	**6,500**	**6,806**	**26**	**6,780**	**-4.5%**	**-4.1%**

The following table specifies the revenue incidentals in more detail:

Revenue incidentals (€ million)	Segment	FY 2017	FY 2016
Change in revenue related provisions	Wholesale	-2	26
KPN Group		**-2**	**26**

The following table shows the key items between reported and adjusted EBITDA for the full year.

EBITDA

€ million	FY 2017 reported	Incidentals	Restruc-turing	FY 2017 adjusted	FY 2016 reported restated	Incidentals	Restruc-turing	FY 2016 adjusted restated	Δ y-on-y reported	Δ y-on-y adjusted
The Netherlands	2,300	-25	-76	2,401	2,402	32	-41	2,411	-4.2%	-0.4%
iBasis	24	–	–	24	23	–	–	23	4.3%	4.3%
Other activities	-18	–	-10	-8	4	14	-4	-6	n.m.	33%
KPN Group	**2,306**	**-25**	**-86**	**2,417**	**2,429**	**46**	**-45**	**2,428**	**-5.1%**	**-0.5%**

The following table specifies the EBITDA incidentals in more detail:

EBITDA incidentals (€ million)	Segment	FY 2017	FY 2016
Changes in revenue related provisions	Revenues	-2	26
Addition to asset retirement obligation	Other operating expenses	-7	–
Change of provisions	Other operating expenses	-16	6
Release of provisions	Other operating expenses	–	14
KPN Group		**-25**	**46**

Simplification savings or Simplification program

KPN's Simplification program is directed at realizing run-rate savings in both capital expenditures (Capex) and operating expenses (Opex). The Simplification program is aimed at innovation Capex and the operating expense categories Personnel expenses, Information Technology / Technical Infrastructure expenses and Other operating expenses, excluding restructuring costs and incidentals. Through its nature the program will also result in a reduction of FTEs. The baseline for measurement of the second wave Simplification savings is Capex and operating expense levels at the end of 2016. The baseline is adjusted for major changes in the composition of the Group in the years 2017-2019 (acquisitions and disposals). The second wave of the Simplification program has generated run-rate savings of approximately EUR 110m by the end of 2017.

Free Cash Flow (FCF)

FCF is defined as cash flow from continuing operating activities plus proceeds from disposals of PPE minus Capex (investments in PPE and software).

€ million	2017	2016
Net cash flow provided by operating activities from continuing operations	**1,952**	**1,924**
Capex	-1,139	-1,193
Proceeds from real estate	2	10
Free cash flow from continuing operations	**815**	**741**

Net Debt/EBITDA ratio

In then Net Debt/EBITDA ratio, KPN defines Net Debt as the nominal value of interest bearing financial liabilities excluding derivatives and related collateral, representing the net repayment obligations in euro, taking into account 50% of the nominal value of the hybrid capital instruments, less net cash and short-term investments. The EBITDA in this context is normalized EBITDA, a 12-month rolling total EBITDA excluding restructuring costs, incidentals and major changes in the composition of the Group (acquisitions and disposals). The calculation of the Net Debt/EBITDA ratio is provided in Note 12.4 of the Financial Statements.

> Appendices

Appendix 2: Overview and connectivity of non-financial information

Reference	P	Strategic pillar	High material topics Medium material topics	Theme/ KPI	Target 2017	Result 2017	Result 2016	Result 2015	Target 2018	Target 2019 and beyond	GRI KPI/ref	Impact/SDG
Value for stakeholders			**Digital transformation**									
Customer value	14	Innovate; Leadership & culture	- Customer loyalty *	- NPS NL	9	8	6	3	11	> 15 in 2020	Marketing and labeling	9. Industry, Innovation & Infrastructure
				- NPS Consumer Mobile	13	14	10	9	16			
				- NPS Consumer Fixed	13	11	10	9	15			
				- NPS Business:	0	-1	-3	-10	3			
				- NPS KPN Fixed-Mobile		25						
				- Reputation (RepTrak)[1]		70.5	67.4	70.8				
Integrated products and services	16	Grow; Optimize customer value, Best services		- Revenue-generating units per household		2.19	2.16	2.07			Economic performance	11. Sustainable Cities and Communities
				- Average revenue per household		€ 43	€ 41	€ 39				
				- Wholesale mobile customers		775k	778k	817k				
				- Wholesale fixed connections		931k	1,001k	1,029k				
				- iBasis: Average revenues per minute		EUR 3.8ct	EUR 4.1ct	EUR 4.3ct				
				- iBasis: Number of minutes		18.7bn	20.9bn	21.4bn				
State-of-the-art networks and ICT infrastructure	20	Innovate; Best connectivity	- Quality and reliability of network *	- Weighted downtime (compared to last year YTD)	-30%	-38%	+ 55%	-61%	-30% c/w 2017		Indirect economic Impacts ICT infrastructure investments	9. Industry, Innovation & Infrastructure
				- % of households with possibility of acces to at least 100 Mbps connection	78-80%	76%	75%	68%	[2]			
				- Average download speed copper	N/a	N/a			>30 Mbps			
				- Average download speed fiber	N/a	N/a						
				- # of customers connected in rural areas with 4G or combined 4G/DSL solutions	N/a	N/a			>100 Mbps 20,000			
				- Average 4G download speed	40 Mbps	58 Mbps	51 Mbps	50 Mbps in cities	58 Mbps			
				- Usage of total data traffic		4.7 Tbps	3.4 Tbps	2.6 Tbps				
Sustainable employability	23	Innovate; Leadership & culture	- Sustainable employment - Diversity and equal opportunity	- Overall percentage of women at KPN in the Netherlands	25%	23%	24%	25%	27,5%	30% (exact year still to be determined).	Employment Diversity and equal opportunity Non-discrimination Labor/management relations/ Occupational helth and safety Training and education	5. Gender Equality 8. Decent Work and Economic Growth 4. Quality Education
				- Employee survey score for Engagement	75%	80%	77%	77%	80%	>75%		
				- Sustainable employability: % of employees with a new external job after active participation in an outplacement program	82%	83%	87%	83%	>80%	>80%		
Shareholder value	25	Grow: Maximize value of assets and services	- Economic value *	- Adjusted EBITDA		€2,417m	€2,428m	€2,419m			Economic performance	
				- Free cash flow[3]		€745m	€631m	€552m				
				- Capex		€1.14bn	€1.19bn	€1.3bn				
Value for society			**Digital transformation** *									
Innovation	29	Grow; Build new revenue streams	- Innovation and investments - Impact of products and services	- Revenues from New services		€ 134m	€115m	N/a			Indirect economic impacts ICT infrastructure Investments	8. Decent Work and Economic Growth 11. Sustainable Cities and Communities
				- M2M Subscribers (#SIMs)		~3.6m	~2.5m	~1.5m				
				- % of KPN employees in NL who feel they can work in line with The New Way of Living and Working	90%	77%	82%	80%	90%	90%		

1 KPN used to report the December score in the Integrated Report. In 2017 this score was 68.6. As from 2017, KPN yearly reports the fourth quarterly average in the Integrated Report, which is in line with the figures of similar KPIs, like the NPS. See Appendix 3 for further details.
2 No new target due to a focus change to download speeds as opposed to coverage.
3 Free cash flow excluding Telefónica Deutschland dividend.
* High material topic

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Reference	P	Strategic pillar	High material topics Medium material topics	Theme/ KPI	Target 2017	Result 2017	Result 2016	Result 2015	Target 2018	Target 2019 and beyond	GRI KPI/ref	Impact/SDG
Reliability: Privacy and security	32	Innovate: Best connectivity	- Security * - Privacy and identity * - Impact of products and services	- % of customers helped (within eight hours) who were unintentionally infected by malware - % of Dutch people that believe their data is safe with KPN	98% 70%	99% 70%	96% 70%	72% 73%	98.5% 70%	99% >2020 (exact year still to be determined) 70% until 2020	Customer privacy Secure use of products and services	9. Industry, Innovation & Infrastructure
Sustainability: Environmental performance	34	Grow: Build new revenue streams	- Environmental performance * - Impact of products and services	- % Reduction of energy consumption KPN Group compared to 2010 - Absolute car fuel savings compared to 2010 - Data centers: more energy efficient compared to 2010 (PUE) - Collecting customer equipment (KPN specified) - % Reuse and recycling - Energy savings by customers as % of KPN Group - Climate-neutral own operations - CO_2 reduction in the chain (scope 3) - Fossil fuel-free cars added to fleet (lease pool + engineers)	21% 40% 15.5% 80% N/a 56% 100% Roadmap ready N/a	24% 43% 15% ~85% 53% 60% 100% 12% 7%	20% 39% 15% 74% 46% 54% 100% N/a N/a	18% 35% 13% 62% 47% 49% 100% N/a N/a	22% 44% 15.5% 85% 55% 64% 100% Projects to reduce 15%	25% in 2020 / 55% in 2030 100% new cars without CO_2 emissions from 2025 19% in 2020; 2030: on top with top 3 in Europe New equipment in networks offices and for KPN-owned devices circular > 2025 ~100% circular operations and services in 2025 >80% in 2020 100% until 2050: from 2030 without compensating for car fuels (science-based target) 20% reduction emissions in 2025 compared to 2014; 50% reduction Scope 3 emissions in 2040 compared to 2014 (science-based target) 100% in 2025	Materials Energy Emissions Effluents and waste Environmental compliance	12. Responsible Consumption and Production 13. Climate action
Sustainability: Solutions for a sustainable supply chain	38	Grow: Build new revenue streams	- Sustainable suppliers - Impact of products and services	- % realized improvements on corrective action plans - % high-risk Tier I, Tier II and Tier III suppliers audited - % Circular procurement - Sustainable solutions with impact > 1 year including a cost saving component for KPN.	60% 35% 3 suppliers 4	82% 42% 7 suppliers	77% N/a N/a N/a	58% N/a N/a N/a	70% 40% 15 suppliers 4	N/a 40% ~100% circular for new products from 2025[4]. 4	Supplier environmental assessment Freedom of association and collective bargaining Bargaining Child labor Forced or compulsory labour Human rights assessment Supplier social assessment	17. Partnership for the Goals 12. Responsible Consumption and Production
Sustainability: Social Inclusion	40	Grow: Build new revenue streams	- Community investment - Digital inclusion - Diversity and equal opportunity - Impact of products and services *	- # Elderly facilitated to life independently - % chronically ill children provided with a KPN Klasgenoot - # of people with secure digital access to healthcare - # of ill people facilitated with self-measurement	15,500 100% N/a 17,500	11,446 100% (1109) N/a 11,860	11,317 100% (987) N/a 12,245	N/a 837 N/a N/a	12,500 100% 22,500 N/a	Self-reliance for ~160.000 end-users in 2020 with smart monitoring services 100% In 2020 significant contribution to triple aim (better health, better quality, better value)	Non discrimination Diversity and equal opportunity Indirect economic impacts ICT infrastructure investments	Reducerd inequalities 11. Sustainable Cities and Communities" 8. Decent Work and Economic Growth 11. Sustainable Cities and Communities

4 For customer owned equipment a circular alternative will be available.
* High material topic

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Appendix 3: Transparency

About this report

Scope sustainability information

The purpose of the information in this report is to inform our stakeholders about our role in society, in connection with our main strategic objectives and targets. We regard as stakeholders all people and organizations affected by our operations or with whom we maintain a relationship, such as customers, employees, shareholders, banks, suppliers, journalists, partners and social organizations. For more information on our stakeholder approach for specific stakeholder groups, see Stakeholder dialogue in this Appendix. The scope of the information in this report covers the KPN Group including subsidiaries in which KPN has a majority shareholding. The scope has not changed compared with last year's report. Unless stated otherwise, references to KPN should be read as referring to the KPN Group. In this report (including the GRI Content Index and social and environmental appendices published on our website), KPN in the Netherlands refers to all the activities of the KPN Group in the Netherlands. Outside the Netherlands, our divisions are iBasis and Ortel Mobile. For our non-financial information, we include new acquisitions in our report as of the first full year of ownership. Non-financial information for divestments that occurred during the reporting year is excluded for the full year. The data in this report refers to KPN's performance and not to that of our subcontractors, unless stated otherwise. The full scope of the financial information is reported in the Consolidated Financial Statements (pages 76 to 138).
This report specifically reviews developments and performance in 2017 and is based on topics identified as high material for KPN. Aspects of a more static nature (such as our management approaches to our CSR themes and our stakeholders) or with less reporting priority (such as our impact on biodiversity and the list of external memberships) are included in the GRI Content Index (www.kpn.com/annualreport) or reported on corporate.kpn.com/dutch-society.htm.

Reporting criteria non-financial information

The Integrated Annual Report is published on 26 February, 2018. We have prepared this report in line with the International Integrated Reporting Council (IIRC) Integrated Reporting (IR) framework. For the sustainability information included in this report we followed the Global Reporting Initiative (GRI) Standards - Option Comprehensive and self-developed reporting criteria as disclosed in this Appendix. We comply with the EU Directive Non-Financial Reporting, and integrated all elements in our Integrated Annual Report.

EU Directive 2014/95/EU: Non-Financial Information and Diversity information reference table

Requirements EU Directive	Subtopic	Chapter / Page reference
A brief description of the business model	The business environment	Our purpose and the world around us, p.6 Our strategy and activities, p 8-9 Our value creation model, p. 10-11 Our capitals to operate, p. 13
	Organisation and structure	Our strategy and activities, p 8-9 Our value creation model, p. 10-11 Our capitals to operate, p. 13
	Markets where the undertaking operates	Our purpose and the world around us, p.6 Our strategy and activities, p 8-9 Our value creation model, p. 10-11 Our capitals to operate, p. 13
	Objectives and strategies	Our strategy and activities, p 8-9 Our value creation model, p. 10-11 Our capitals to operate, p. 13
	Main trends and factors that may affect the undertaking's future development	Our purpose and the world around us, p.6
Relevant social and personnel matters (e.g. HR, safety etc.)	A description of the policies pursued, including due dilligence.	Sustainable employability, p. 22
	The outcome of those policies.	Sustainable employability, p. 22
	Principle risks in own operations and within value chain.	Sustainable employability, p. 22 Appendix 8: List of top risks, p. 184-190
	How risks are managed.	Compliance & risk, p.46 Appendix 8: List of top risk, p. 184-190
	Non-financial key performance indicators.	Sustainable employability, p. 22
Relevant environmental matters (e.g. climate-related impacts)	A description of the policies pursued, including due dilligence.	Sustainability, p. 34 Environmental performance, p.34
	The outcome of those policies.	Sustainability, p. 34 Environmental performance, p.34
	Principle risks in own operations and within value chain.	Sustainability, p. 34 Environmental performance, p.34 Compliance & risk, p.46
	How risks are managed.	Compliance & risk, p.46
	Non-financial key performance indicators.	Sustainability, p. 34 Environmental performance, p.34
Relevant matters with respect for human rights (e.g. labor protection)	A description of the policies pursued, including due dilligence.	Sustainability throughout the supply chain, p.38
	The outcome of those policies.	Sustainability throughout the supply chain, p.38
	Principle risks in own operations and within value chain.	Sustainability throughout the supply chain, p.38
	How risks are managed.	Compliance & risk, p.46
	Non-financial key performance indicators.	Sustainability throughout the supply chain, p.38
Relevant matters with respect to anti-corruption and bribery	A description of the policies pursued, including due dilligence.	Implement a strong risk culture, p. 46 Insider transactions, p. 56 Sustainability throughout the supply chain, p.38
	The outcome of those policies.	Implement a strong risk culture, p. 46 Insider transactions, p. 56 Sustainability throughout the supply chain, p.38
	Principle risks in own operations and within value chain.	Implement a strong risk culture, p. 46 Appendix 8: List of top risks, p. 184-190
	How risks are managed.	Implement a strong risk culture, p. 46
	Non-financial key performance indicators.	Implement a strong risk culture, p. 46 Sustainability throughout the supply chain, p.38
Insight into the diversity (Board of Management and Supervisory board)	A description of the policies pursued.	Diversity & inclusion, p.23 Report of the Supervisory Board, p.58"
	Diversity targets	Diversity & inclusion, p.23 Report of the Supervisory Board, p.58
	Description of how the policy is implemented	Diversity & inclusion, p.23 Report of the Supervisory Board, p.58
	Results of the diversity policy	Diversity & inclusion, p.23 Report of the Supervisory Board, p.58

The Option - Comprehensive of the GRI Standards means that KPN reports on all general standard disclosures and all specific standard disclosures related to identified material topics. The process for defining the material topics and report content, as well as the list of material topics, is described in the materiality determination. The results of this assessment (list of material topics for KPN, including their reporting priority) determine which GRI indicators are set out in the Integrated Report and which indicators are featured only on our website or in our GRI Content Index. The overview can be found in the GRI Content Index in Appendix 7: GRI Content Index. In addition to these GRI Standards, KPN has included the pilot version of the Telecommunications Sector Supplement, as published by GRI in 2003, in determining material disclosures, resulting in five additional topics and indicators in the GRI Content Index. For one high material topic, customer loyalty, KPN uses and reports bespoke performance indicators, as outlined in the GRI Index in Appendix 7.

The GRI Content Index specifies the aspect boundaries and omitted indicators where relevant (including clarifications). This Integrated Annual Report has been prepared in accordance with the GRI Standards: Comprehensive option. Where available and relevant, the report includes data for previous years. Quantitative data concerning the workforce and financial results set out in this report has been collected using our financial data management system. The remaining data, set out in this report, has been collected using a standardized questionnaire that was completed with data from information management systems by the responsible KPN business units. The Internal Audit and Corporate Control departments used consistency and availability of supporting evidence as the basis for their assessment of the data reported at group level. Validation criteria set out in advance were also used to assess the data.

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External assurance
In order to provide our stakeholders comfort over the reliability of our reporting, we engaged EY as an independent assurance provider to perform an assurance engagement with the aim of obtaining reasonable assurance on CO_2 emission data 2017 (Scope 1 and 2) of own operations in the Netherlands and the underlying energy data as presented on page 34 of the Integrated Annual Report and limited assurance on other sustainability information as disclosed in the following chapters and appendices:
- Chapters: KPN at a glance, Who we are and what we do and The long-term value we create;
- Appendices: Appendix 1-7: This includes Appendix 5: Social figure', Appendix 6: Environmental figures (including Scope 3 CO_2 emissions) and Appendix 7: GRI Content Index, which are available on the website of KPN.

The key social and environmental figures, which are available in the Appendices 5 and 6 on www.kpn.com/annualreport, are also part of this report. Partly, they provide more detailed numbers on key figures that reflect on high material topics within the report (such as CO_2-emissions and electricity consumption). The report contains prospective information, such as ambitions, strategy, targets, expectations and projections. Inherent to this information is that actual future results may be different from the prospective information and therefore it may be uncertain. Therefore, the assumptions and feasibility of this prospective information is not covered by the external assurance.

The Audit Committee approved every engagement of the external auditor, after pre-approval by the internal auditor, in order to avoid potential breaches of the external auditor's independence. For EY's assurance report we refer to p. 131.

Reporting ambitions
KPN adheres to several reporting benchmarks, like the Dow Jones Sustainability Index (DJSI) and the Transparency Benchmark. By doing this, we keep improving our performance and our way of reporting by comparing it with that of peers and expectations from the industry and other stakeholders. Our reporting ambitions for the following years are to:
> keep reporting in line with the IIRC framework and in accordance with GRI standards;
> keep reporting on high material topics;
> report more on qualitative and quantitative value creation for society; and
> maintain a leading position in several benchmarks like the Dow Jones Sustainability Index (DJSI) and the Transparency Benchmark.

Scoping and calculation methodologies environmental figures

Calculation and determination of reported emissions
In the Integrated Annual Report, KPN reports the CO_2 emissions in the chapter Sustainability and in Appendix 6. Reporting is done in accordance with the guidance and standards of the Greenhouse Gas Protocol and the ISO 14064-1 standard. KPN uses the operational control approach when reporting CO_2 emissions. Carbon dioxide (CO_2) is the most relevant greenhouse gas to KPN. Where available, we have taken CH_4 and N_2O into consideration in our greenhouse gas emissions information. We use the term 'CO_2-emissions' to refer to the greenhouse gas emissions reported on. These are stated in CO_2 equivalents. The net Scope 2 emissions are market based and calculated based on the tank-to-wheel (TTW) CO_2-emissions factors for renewable electricity. For renewables (wind, biomass, solar) the TTW values are all zero. The CO_2-emissions of the well-to-tank (WTT) phase are accounted for in our Scope 3 emissions (category 3 – Fuel and energy related activities). The gross emissions disclosed on page 34 are location based and calculated with grid mix emissions factors. The KPN emissions report is subdivided as follows:

Scope 1 – Direct emissions:
> Fuel consumption of the lease vehicle fleet (employees' passenger vehicles and commercial vehicles)
> Heating of buildings (gas)
> Consumption of coolants for air conditioning and/or cooling
> Fuel consumption of emergency power generators

Scope 2 – Indirect emissions:
> Electricity consumption of the fixed and mobile networks, datacenters, offices and shops
> District heating
> District cooling

Accuracy
The accuracy of the electricity consumption data is a key factor in the reliability of the CO_2-emissions calculations. In the data collection process, a number of factors affect the accuracy of the collected data. In general, the data originating from direct measurements and recordings or invoices including measurements from third parties are the most accurate. As our electricity providers estimate the electricity consumption for a part of our network operations because not in all cases a monthly meter reading is performed, some uncertainty exists about the accuracy and completeness of our energy consumption. To improve accuracy and transparency we are migrating to remote readable meters.

Scope 3 – Other indirect emissions:
> Emissions in our upstream value chain (during the production phase of our products, services and equipment at our suppliers)
> Emissions in our downstream value chain (during the use phase including recycling and disposal of the products, services and equipment).

We have used two main methodologies to calculate our Scope 3 emissions:
> Spend-based method which takes procurement data and calculates the emissions within an environmentally extended economic input-output (EEIO) model to assess the emissions. We used actual data covering January to November and extrapolated to full year.
> Process-based method which uses quantity-based data to evaluate the emissions associated with specific activities, e.g. kWh of energy usage or quantity of materials purchased to manufacture goods.

We have improved our calculation method for our Scope 3 reporting. For categories 1, 2 and 9, we updated the accuracy of the used inflation factors and we improved our calculation method to include all spend not only in the reporting year but also for the 2014 - 2016 figures. We restated categories 11 & 13 for the years 2015 and 2016 using a new more accurate reported grid mix for grey electricity in the Netherlands. We updated our base year figures (2014) accordingly, but did not adjust our Scope 3 reduction targets: 20% in 2025 and 50% in 2040 compared to base year 2014.

Calculation of emission methods, coverage and assurance is described in the table below.

Scope CO_2	Standard	Scope	Coverage	Approach	Location- / Market-based	Assurance	Emission factor / Green energy
Scope 1	GHG Protocol Scope 1 Guidance	KPN Group	98% of all KPN business units and subsidiaries (Opex/FTE)	Operational control approach	Market based	NL: Reasonable Non.NL: Limited	co2emissiefactoren.nl version 9-1-2018 Gold standard & forest compensation
Scope 2	GHG Protocol Scope 2 Guidance	KPN Group	98% of all KPN business units and subsidiaries (Opex/FTE)	Operational control approach	Market based	NL: Reasonable Non.NL: Limited	co2emissiefactoren.nl version 9-1-2018 100% green electricity
Scope 3 Cat: 1, 2, 5, 9	GHG Protocol Scope 3 Guidance	Netherlands	98% of all KPN business units and subsidiaries (Opex/FTE)	Spend based (Environmentally Extended Input Output data (EEIO) approach)	Location based	Limited	UK DEFRA 2014
Scope 3 Cat: 3, 6, 7, 11, 13	GHG Protocol Scope 3 Guidance	Netherlands	98% of all KPN business units and subsidiaries (Opex/FTE)	Process and activity based	Location based	Limited	co2emissiefactoren.nl version 9-1-2018
Scope 3 Cat: 4, 8, 10, 12, 14, 15	GHG Protocol Scope 3 Guidance	Netherlands	98% of all KPN business units and subsidiaries (Opex/FTE)	Not applicable for KPN	Not applicable	Limited	Not applicable

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Calculation methodology avoided energy consumption by ICT services
The calculation of the avoided energy consumption, CO_2 e emission and the cost reduction for our customers is based on models per service. The results are presented on page 37 and in Table 8 of Appendix 6: Environmental Figures.

Avoided energy consumption	Percentage of avoided energy consumption	Kind of avoidance (most impact)	Source KPN measurement	Source external information
Teleworking (enabled by KPN connectivity)	74%	Avoided travel	Number of customers	Publicly available statistics and reports from CBS[1]; KiM[2], TNO[3] and Telecompaper Research including rebound effect from heating/light at home
KPN Audioconferencing	7%	Avoided travel	Number of audio-conferencing; average number participants per meeting	Statistics and reports (see above)
KPN Colocation (Housing)	6%	Energy savings	Energy efficiency KPN datacenter	Energy efficiency ICT environment customer
KPN Hosting	2%	Energy savings	Energy efficiency KPN datacenter	Energy efficiency ICT environment customer
Dematerialization	7%	Energy and raw materials savings	CD and DVD papers avoided by e.g. Spotify, Netflix	Life cycle information products
iTV Cloud solution	1%	Energy and raw materials savings	Number of customers, energy consumption KPN Cloud for iTV	
Managed workspaces (KPN Werkplek)	0%	Energy savings	Number of KPN Werkplekken	Publicly available data on energy consumption laptops and tablets
KPN Video Conferencing	3%	Avoided travel	Number of videoconferences; average travel savings per meeting	

In the calculation we used actual data covering January to November and extrapolated to full year. For some parameters in the Teleworking calculation different values were published. The approach in those cases was to take the average between the lowest reported value and the highest reported value in reports and research. This was done for the following parameters: number of telecommuters, the saved office space due to teleworking and the extra energy consumption at home when working at home (rebound effect). Cost savings were calculated by multiplying average fuel, electricity and gas prices published by CBS and Milieucentraal by the estimated avoided net energy consumption.
These KPN volumes and reference values are based on several sources:
> Actual measurements (by KPN, by customers or other sources);
> Publicly available data and statistics from governments, research institutes, and sector organizations (e.g. CBS, GeSI, ITU, CarbonTrust);
> External expertise from consultancy firms Scenario analyses based on KPN's savings calculation tool; and
> Expert judgments (KPN product management and other sources).

Other calculation methodologies

RepTrak
RepTrak is developed by the Reputation Institute and is used as a method to calculate the reputation score of companies worldwide. The RepTrak methodology measures also the drivers of reputation and the consequences for supportive behaviour. The Reputation Institute's policy is to adjust all RepTrak scores by standardizing them against the aggregate distribution of all scores obtained from the Reputation Institutes's Annual Global RepTrak Pulse. Standardization has the effect of lowering scores in countries that tend to over-rate companies, and has the effect of raising scores for companies in countries that tend to rate companies more negatively.
All RepTrak scores are culturally standardized. This means that all RepTrak results are comparable across countries, industries and over time. Every month, the progress on the key attributes that stimulate reputation and supportive behavior is measured. The results are based on a minimum of 300 respondents per company each quarter. The data collection method is an online interview of 20 minutes. The qualified respondents have to be familiar or very familiar with the company. Per 1 January 2011, Reputation Institute started using an updated cultural bias adjustment procedure, whereby the cultural adjustment analysis was rebased based on the latest reputation scores.

Because KPN was already in the midst of the process of setting KPIs, KPN requested the Reputation Institute to report KPN's reputation scores using the 'old' cultural bias adjustment analysis. Hence, this report shows 'unrebased' reputation scores for KPN. KPN used to report the December score in the Integrated Report. In 2017 this score was 68.6. As from 2017, KPN reports the fourth quarterly average in the Integrated Report every year, which is in line with the figures of similar KPIs, like the NPS.

Net Promoter Score (NPS)
We use NPS as the leading indicator to measure customer loyalty. The NPS results included in this report are calculated and provided by a leading market research company in the Netherlands.

NPS is based on direct customer input, with the key question being whether a customer would recommend KPN to someone else.. Depending on the score they give, the customer is classified as a 'promoter' or a 'critic'. The NPS is calculated by subtracting the percentage of 'critics' from the percentage of 'promoters'. The result is displayed as an absolute number instead of a percentage, within a range of -100 to +100.
In this report, all NPS results refer to Q4 of the respective year, based on a 3-month rolling average (December 17 is based on October 17, November 17 and December 17). The NPS Consumer (Consumer Residential and Consumer Mobile) and NPS Business reflect a weighted average based on sales. The main score for NPS NL is the average of the segments NPS consumer mobile', NPS consumer residential' and NPS Business.

100 Mbps access
The KPI '% Households with possibility of at least a 100 Mbps connection' applies to households with the possibility to get access to internet download speeds of at least 100 Mbit per second. The reported percentage is calculated by dividing the number of household connections, to whom this applies, by the total number of households in the Netherlands.

The download speed that we report is the theoretical speed that we should be able to deliver to the service provider.

The KPI is measured monthly. In this report, the results are based on the situation at the end of December 2017. This KPI is a successor of the KPI '% Households with possibility for more than 40 Mbps connection'. In all the years that we published these KPIs, we always published December's figures.

Usage of Total data traffic
We use the data demand peak as the key indicator to measure continuous growth of data usage within our networks.

1 CBS: (Centraal Bureau voor de Statistiek of the Dutch government)
2 KiM: Kennisinstituut voor Mobiliteitsbeleid - Ministery of Infrastructure and Environment)
3 TNO: Dutch organisation for applied scientific research

The peak figures included in this report are provided by the KPN Capacity Management department. The data demand peak for main traffic streams (expressed as data in terabit per second) is based on maximum loads for these streams measured continuously in five minute timeframes. These streams are KPN i-TV, Netflix, Google and other internet traffic. In this report all annual data demand peaks refer to Q4 (October, November and December) of the respective year.

Stakeholder engagement and materiality determination

Materiality
The annual materiality assessment makes sure we are aware of what happens in our surroundings, where we have impact and how we can add focus to our efforts. It is performed to make sure we report on all relevant topics in this Integrated Report. The assessment is approved by the Board of Management. The process consists of three steps:

Step 1: Identification of relevant aspects and other topics
KPN annually updates a shortlist of relevant topics based on internal and external developments. Relevant topics are those with which KPN has or can have an impact, inside the organization and in the value chain or society. Where relevant, topics are further defined and missing topics are added, including topics identified during media scans and stakeholder dialogues. Updating the shortlist resulted in incorporating the topic 'Non-discrimination' in the topic 'Diversity and equal opportunities'. In order to cover the content the following topics are renamed:

Topics name in 2016	Topics name in 2017
Tax policy	Tax position
Direct economic value	Economic value
Internal human rights issues	Internal human rights adherence.

Due to the focus on value creation in this year's Integrated Annual Report, the value retention topics, 'Remuneration' and 'Compliance and risk', are not included in the shortlist. Especially since these topics are required topics to report on from legal reporting requirements.
During an internal consultation held with employees representing all sections of KPN, the shortlist is validated. This has led to the addition of the topics 'Digital transformation' and '(Digital) knowledge and education'. The topic Privacy and security was split into the topics 'Privacy and Identity' and 'Security'. The topic 'Fair marketing communications' has been renamed 'Fair marketing and communication'.

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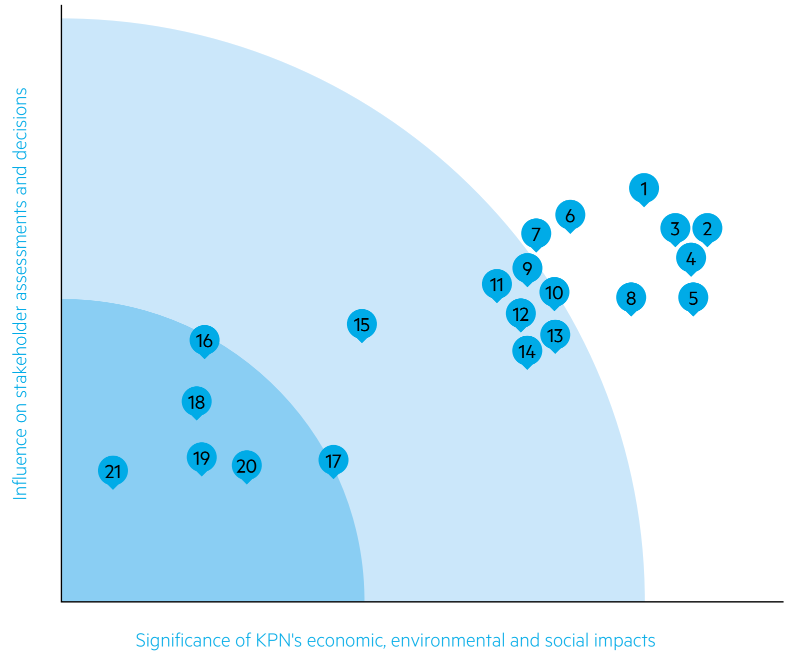
Step 2: Determining reporting priority
The second step aims to assess the relative impact KPN has with the identified topics on society. The outcome is presented on the graphically in the materiality matrix below and used as both input and validation of our (CSR) strategy, policies and approach and reporting scope. KPN assesses all relevant topics on: (1) the significance of KPN's impacts and (2) the influence on stakeholder decisions.

The determining of the materiality involves the following processes:
> an internal consultation held with employees representing all sections of KPN in order prioritize the shortlist topics from KPN's perspective; and
> desk research in order to prioritize the shortlist topics from our stakeholder's perspective. The research is based on a media search and a comparison with several peers, NPS analysis, investors opinion, and input of the advisory board.

Materiality assesment



1. Customer loyalty
2. Quality and reliability of network
3. Digital transformation
4. Security
5. Economic value
6. Privacy and Identity
7. Environmental performance
8. Impact of products and services
9. Innovation and investments
10. Digital inclusion
11. Sustainable employment
12. Community investment
13. Sustainable suppliers
14. Fair marketing communication
15. Diversity and equal opportunities
16. Tax position
17. (Digital) knowledge and education
18. Internal human rights adherence
19. Electromagnetic fields/radiation
20. Participation in public policy development
21. Biodiversity

The combination of the horizontal axis and the vertical axis determines the degree of impact that KPN has with the topic on society. KPN divides the results into three categories:
> High material topics: we aim to fulfill a leading role on these topics. By developing policies, setting targets and defining KPI's to monitor and report on our impact.
> Medium material topics: we want to demonstrate our social responsibility regarding these topics.
> Low material topics: these are topics we monitor, but do not necessarily report on.

In order to see where the aspect can be found and which GRI topics are translated into KPN topics, please see the cross-reference in the connectivity matrix.

Step 3: Implementation
Based on the priority outcomes of the materiality determination, approved by the Board of Management, we determine the topics to be addressed in the report, including the scope and aspect boundaries of all material topics. Business units are informed on new and altered topics to be acted and reported on, to prepare reporting systems, enhance internal mechanisms, develop reporting definitions and, where relevant, targets. Timelines are developed and new/altered topics are included in the relevant reporting process mechanisms.

Stakeholder dialogue
KPN is in continuous dialogue with a diverse set of stakeholders, with equally diverse interests and motivations. These dialogues take place on different levels within our organisation and are often a part of our daily business.
In the table below, we provide insight into all the interactions we have had with different stakeholders.

Stakeholder group	What they expect	How we engage (incl. frequency)	Main topics in 2017	Our response
Employees	Employees expect us to provide personal possibilities to strive in the dynamic workplace. For them, this translates into a tailor-made workplace (physical, technology, learning and development); simplicity in data, organisation, technology and processes; transparency in the organisation and from leadership and a recognisable culture and values. New generations expect generational awareness, dynamic career perspectives, continuous feedback, mentoring and coaching and empowerment and agility.	To some the changing conditions in the world and the labor market may feel like a threat. That is a natural reaction and we feel it as our responsibility as an employer to both create awareness of the consequences of the fast changing environment and encourage and enable people to seize the possibilities it offers. In the long run, KPN's HR function will more and more be using data & digital and robotisation & AI to create an employee experience in response to increasing consumerism that will take shape in alternative employment relations.	> Leadership that supports our culture as described in the KPN Greenprint. > Strategic Workforce Management that focuses on rationalisation and standardisation, contract independent sourcing and capacity planning. > A future-proof organisational design with room for authenticity and diversity. > Proactive and valuable people & data analytics. > Integral management of our HR chains in which run and change are balanced. > Performance management with room for new ways of working that leads to empowered employees. > Right sizing of our collective labor conditions to support this.	> Development of our engineers and retail sales people. > Agile on Tour to support continuous personal development. > Future-proof individuals and organisation' as main theme in preparing for the CLA negotiations.
Government and regulators	Government and regulators expect us to comply with the rules and regulations and meet the requirements for licensing. Furthermore, they expect us to be climate responsible and transparent in our communication. Their goal is, amongst others, to create a level playing field and protect the interests of end-users. They expect us to run infrastructure and services considered as very important to the Dutch economy and Dutch society at large and to create coverage of high speed networks, wireless and wireline.	We proactively engage with government and regulators. As the incumbent in the Netherlands, there are special obligations imposed on us, in particular to enable competition via regulated access to our fixed network. We engage in a continuous dialog to explain our efforts and results. Furthermore, we work together with (local) governments on innovation (e.g. IoT) projects which result in energy and cost savings.	> Avoiding non-compliance > Integrity and transparency > For the next three years, ACM wants KPN to continue to grant its competitors access to its copper and fiber-optic network. > Concerns have been increasing concerning national (cyber) security throughout 2017.	> We continued our compliance efforts through programs such as optimizing our business control system, external reviews, benchmarking, enhanced compliance training and top management meetings. We work continuously to meet compliance requirements through clear and practical legal advice, clear operational procedures, related control mechanisms, and clear and safe ways to report potential misconduct. We interact closely with the ACM in relation to compliance, incidents and potentially different views on the interpretation of the law.
Investor community	The investor community – financial markets in general, our shareholders, debt investors and research analysts – expects us to be extensive and transparent. We should be clear in our strategy, objectives and outlook, and transparent about executive remuneration. Their main interest is our commitment to creating value. They want timely and accurate updates and ample opportunity to seek clarification and ask questions	We organize key corporate events such as the Annual General Meeting of Shareholders, capital markets days, and meetings with investors during roadshows and conferences, analysts and credit rating agencies. We also provide relevant company information through timely press releases and regular publications such as our quarterly results and Integrated Annual Report.	> Best-in-class networks and benefits of integrated services. > Solid operational performance with a combination of converged customer base growth and a strong focus on value creation supporting financial results. > Free cash flow growth potential leading to increased operational and financial flexibility, and attractive shareholder returns.	> We increased the fixed-mobile customer base leading to stronger customer loyalty and low churn levels. > We provided 76% of households with access to at least 100 Mbps. > We realized a stable adjusted EBITDA and growing free cash flow in 2017 compared to full year 2016. > We grew our regular dividend per share, distributed the dividend received on our Telefónica Deutschland stake to KPN shareholders and we completed a share buyback program of € 200m.

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Stakeholder group	What they expect	How we engage (incl. frequency)	Main topics in 2017	Our response
Suppliers	Our suppliers expect to maintain a long-term commitment and cooperation with us. Furthermore, they expect simple contracts, fair prices and acceptable payment terms. Together we should look for opportunities regarding sustainable cost reduction.	KPN has a central Corporate Procurement Organization (CPO) that is responsible for contracting deals with suppliers. We make sure the principles of our suppliers' CSR policies are in line with our own. We are constantly in touch with our suppliers and invite them to our annual Supplier Day. We increasingly partner with them on sustainable solutions. We are also a member of the Joint Audit Cooperation (JAC), an association of 13 telecom operators aiming to verify, assess and develop the (CSR) implementation across the manufacturing centers of important multinational suppliers.	> KPN has the ambition of becoming close to 100% circular in 2025. To succeed we need cooperation of suppliers in order to improve efficiency, lower costs and make equipment and products more environmentally friendly.	> Together with our suppliers we implemented sustainable solutions which resulted in cost reduction, reduction in energy and material use. > We aim for all suppliers we do business with to comply with the KPN Supplier Code of Conduct or have their own equivalent code. Our Code of Conduct helps to ensure that all of our suppliers are committed to conducting its business in an ethical, legal environmentally, respecting human rights and socially responsible manner as well as JAC standards. > We continue to raise awareness of sustainability among our buyers and suppliers. In order to achieve 100% close to circular products we need support of all suppliers. On 9 October 2017, KPN and 7 suppliers have signed a manifesto. This manifesto expresses the commitments of KPN and suppliers to explore the value and expected impact on the environment of specific projects and initiatives in support of KPN's circular business model by focusing on four areas: using less virgin raw material, extending product lifetime, reusing and recycling all products and improving energy efficiency as much as possible.
Business customers	Our customers in enterprising the Netherlands rapidly face the opportunities and threats of the digital transformation. Customer needs are changing fast. Business customers expect effortless ICT solutions that are always connected on any device. Our customers expect simplicity in managing their ICT services, a strong vision on IT and cloud developments. Customers expect us to guide them so they benefit from all the ICT developments.	Of course we talk with our business customers via our Business Partners, account managers, in our XL stores and our contact centers. New this year is that we engage through our in-house KPN Experience Lab in which we test the needs and experience of the customers daily. We also engage customer panels, quarterly market research, round table discussions, workshops connecting customers' strategies with KPN's and social media through our B2B platform The Digital Dutch. We closely monitor our (business) customers' satisfaction and loyalty through NPS. We organized the yearly RijksmuseumTop for about 350 business associates. We have improved our customer service. Last year, more than 500 business customers joined us through MijnKPN Grootzakelijk, the portal for large-scale customers, which enables them to easily do business online with KPN.	> Strong portfolio > Improve customer experience, measured by NPS > Re-positioning as an ICT service provider > Excellent delivery & customer Service > Privacy and security in our networks	> With the improved KPN ÉÉN, we offer our business customer a complete and flexible ICT portfolio. > We offered Cloud, workspace, Internet of Things and security services to gradually establish our leading position as an ICT player. > Our sales organization has turned further into a more IT centric approach because IT becomes more leading in the ICT solutions of our customers. > We further developed vertical partnerships to create business solutions for customers, for example with local government, healthcare institutions and educational organizations.

Stakeholder group	What they expect	How we engage (incl. frequency)	Main topics in 2017	Our response
Retail customers	Our retail customers expect high-quality products and service for the right price. This includes failure-free networks, clear propositions and processes, a quick and proper response to questions and complaints and good communication. They want sincere and proactive advice about the best possible subscriptions that meet their needs. Besides that, they want their loyalty to be acknowledged and appreciated.	Of course, we constantly communicate with our retail customers in our stores, via our call centers and our engineers and online in forums and live chats. Besides that, we monitor what is said about KPN on social media, both positive and negative and we also use tools, such as the monthly NPS and ReptrakTM, to monitor our reputation.	> Being always connected (connected anytime, anywhere) > Improved online customer service experience > Providing a high-quality TV offer > New financing and roaming regulations for mobile plans	> We proactively offer free engineer service to customers experiencing sub-optimal WiFi performance > We started offering free Mobile data to 4P customers with a temporary in-home disturbance, so they quickly regain internet connectivity through our mobile network. > We improved broadband connectivity for customers in rural areas via combining fixed network and 4G network connectivity
Society	Society expects us to make a positive mark on Dutch society. They expect us to be socially and environmentally responsible and to be a good corporate citizen. They want products and services that help to solve social and environmental issues. Furthermore, they expect us to be a frontrunner in sustainability and other societal issues by creating sustainable partnerships. KPN has the potential to lead debates. On the privacy field, mobile data is extremely powerful. How to balance between 'private' and 'public' is the next big question.	We are active in working groups initiated by NGOs and participate in or liaise with organizations such as the European Telecommunications Network Operators' Association (ETNO), International Telecom Union (ITU), the United Nations Global Compact Foundation, the Dutch Association of Investors for Sustainable Development (VBDO) and the ICT Coalition. In 2017, we joined Circle Economy. Furthermore, we organize an annual dialogue with stakeholders to discuss our contribution to society and the desired next steps. We organize an Advisory Board meeting four times a year, which we renewed in 2017.	> When involved in societal discussions like smartphone use in traffic or protecting children online, choose subjects where you have an actual impact on change. Educate your stakeholders and open up a debate. > SDGs should be integrated in your strategy, because they will be on the worldwide agenda for the next 13 years. > Try to make your impact more clear, both positive and negative and make sure it is independent research. > During a stakeholder dialogue on tax, we discussed what KPN can do to remain transparent and clear in regards to the chosen tax policy. Updating stakeholders on a regular basis was a key aspect in this discussion.	> We launched a campaign on our green character, we joined in a government campaign on the use of smartphones in traffic and work on the development of a bicycle lock for smartphones. Together with VBDO, we conducted a webcast for investors and analysts in order to discuss our sustainable strategy. > We focused on fewer SDGs which we integrated in our strategy. > We decided to do a new impact study that will be more closely related to our strategy and to customer focus. We chose to change to a new method and partner.

How we engage with policymakers

KPN actively engages with policymakers in politics and government and sponsors activities which help to debate in the public arena the consequences of digitalization and develop actions to cope with them. For KPN, as a predominantly Dutch operation, policy is primarily shaped in Brussels and in The Hague. The focus of our engagement is there. To increase relevance with policymakers, the aim is to cooperate as much as possible with other likeminded companies and therefore KPN participates in trade organizations which are active at the European level and in the Netherlands and contributes to these organizations. These contributions accounts for the majority of the disclosed amounts. The sums apportioned to Brussels are part of the sums disclosed in the Transparency Register, to which KPN has subscribed from the start. The Transparency Register also encompasses an estimation of the cost of staff. KPN also participates in global organisations like GSMA, which aim to develop the mobile industry worldwide, and which also engage with policymakers in Europe and elsewhere. Finally, KPN contributes to ITU, which is a standardisation body and a United Nations Agency, but which is not a trade organisation and therefore is not included in the sums presented.

KPN refrains from any sponsorship of political parties, political individuals or government institutions. Management upholds strict standards on ethical and transparent behaviour. Employees who are politically active have to ask for permission if they have paid political functions, e.g. as member of municipal of regional councils. In the past years, KPN has always had the policy to approach policy makers directly. External public affairs agencies are not paid to speak on behalf of KPN.

KPN presents the amount of money spent on public affairs in three categories. KPN does not disaggregate these figures further as KPN is not at liberty to divulge the contributions to individual organizations.

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Type of trade organization	Geographic scope	Spend in 2017 in EURO	Focus of membership (non-exhaustive)
Trade bodies representing interests of mobile operators worldwide	Global	30,000	Develop the mobile industry worldwide with focus on level playing field and predictability of the law. Create common standards and encourage sustainable innovation.
Trade body representing Europe's telecommunications network operators	European Union	126,912	Create a level playing field within the EU based on an unambiguous and predictable legal situation. Focus on the European Electronic Communications Code, the General Data Protection Regulation, ePrivacy, and the Privacy Shield.
Confederation of Netherlands Industry and Employers	Netherlands and the European Union	411,972	Monitor and influence nationwide issues that are of importance across sectors. Examples include creating a prosperous investment climate, fiscal climate, social agenda and a digital agenda.
Trade association for IT, telecom, internet and companies	Netherlands	32,500	Monitor, influence and increase awareness of (issues in) the digital economy, e.g. on continuity and security and privacy.
Trade association in the technology industry	Netherlands	5,000	Monitor and influence national policies in particular for the manufacturing industries, such as health care, metallurgy, microconductor industry, and the digital industry.
Trade association for the positioning of the Netherlands defense- and safety-related industry	Netherlands	47,434	Monitor and influence national policies specifically in the field of national security.

Dilemmas
Because KPN deals with many stakeholders, we face dilemmas and we are forced to make choices. In this section, we outline two dilemmas that we faced in the past year.

Fiber roll-out
In 2017, our Hybrid Access Strategy attracted attention from the media. Having access to best-in-class networks for our customers is one of our spearheads. The costs to achieve this ambition are however significant, resulting in a tactical dilemma of weighing the cost of delivering this ambition against the social benefits. The downside of the fiber roll-out is that it is time-consuming and we are forced to prioritize some areas over others. Local regulations sometimes further slowdown the implementation processes. On the other hand the need for fast internet appears to differ. We see that certain customer groups are not yet interested in our fiber products. Therefore, a phased roll-out as part of our Hybrid Access Strategy seems to be the most straightforward solution from both the financial and social point of view. By investing in fiber (FttH) and upgrading our fixed network (FttC) at the same time we ensure that our infrastructure remains best-in-class. By doing so we will also be able to reach a higher coverage with faster internet in the shorter term. In the upcoming years, we expect that this dilemma between investing in FttH and/or FttC will remain relevant and we are keen to continue the dialogue with our stakeholders. We will do our best to achieve the best balance between financial impacts and social benefits.

Engaging with suppliers in high-risk categories on systemic issues
Through our audits at high risk suppliers we gain visibility and understanding of non-conformities with our Supplier Code of Conduct. Depending on the outcome of these audits, we establish corrective action plans in collaboration with the supplier in question. Even though we realized a higher percentage of improvements on corrective action plans, we are still experiencing some delays in closing all issues. These delays are often linked to systemic issues, which are difficult to be solved by individual suppliers on their own. An example of such an issue is keeping working hours within the norm set by legislation, where the limit corresponds poorly with the culture and wishes of the employees.
Although such practices are clearly against our way of working, we believe that simply terminating relationships with these suppliers is not an adequate way forward. Elimination of such practices requires commitments from various stakeholders, including national / local governments, private sector and individuals. KPN is therefore a strong contributor to the JAC program, which has grown today to 13 telecom operators, sharing resources and best practices to develop long-term solutions in the different layers or tiers of the ICT supply chain globally.

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Appendix 4: Glossary

This glossary lists the key terms and concepts included in the Integrated Annual Report.

2G
Second generation mobile system, which is based on the GSM universal standard.

3G
Third generation mobile system, which is based on the UMTS universal standard.

4G
Fourth generation mobile system, a standard for wireless communication delivering high-speed data for mobile phones and data terminals.

A

ACM (Authority for Consumers and Markets)
The ACM acts as a regulator in the Netherlands and is responsible for monitoring compliance with anti-trust rules.

ADR
American depository receipt.

Adjusted revenues and adjusted EBITDA
Adjusted revenues and adjusted EBITDA are derived from revenues (including other income) and EBITDA, respectively, and are adjusted for the impact of restructuring costs and incidentals. Incidentals are non-recurring transactions which are not directly related to day-to-day operational activities at or over EUR 5m unless significant for the specific reportable segment.

ARPU (average revenue per user)
ARPU is the sum of connection fees, monthly fixed subscription revenues, traffic revenues and gross service provider revenues less related discounts during a one-month period, divided by the average number of customers during that month. Gross service provider revenues represent revenues generated by third-party providers. KPN accounts for the net part as gross service provider revenues.

Average 4G download speed
The average download speed is based on the results of a speedtest that customers initiate on 4G with their smartphone. Robot measurements and customers that use other networks than KPN's are excluded from the results.

B

BCF (Business Control Framework)
The BCF contains all corporate policies and guidelines that are mandatory for KPN segments and entities. It forms the cornerstone of the governance of the KPN Group.

Bit
A binary digit (bit) is the smallest unit of information. Internet speeds in this report are expressed in Megabits per second (Mbps).

Broadband
Broadband refers to telecommunication that provides multiple channels of data over a single communications medium, typically using some form of frequency or wave division multiplexing.

C

Capital expenditures (Capex)
Investments in property, plant and equipment and software.

CDP
The CDP (formerly, the Carbon Disclosure Project) is a joint initiative of investors worldwide that questions and benchmarks listed companies on their approach to climate change.

Churn (calculated on an annual basis)
The number of customers no longer connected to a operator's network divided by the operator's customer base.

Circular economy
The circular economy is a generic term for an industrial economy that is producing no waste and pollution and in which material flows are of two types biological nutrients, designed to re-enter the biosphere safely, and technical nutrients, which are designed to circulate at high quality in the production system without entering the biosphere.

CISO (Chief Information Security Office)
CISO is responsible within KPN for the security of the IT and TI architecture. Part of this office are the CISO REDteam, KPN's ethical hacking team and the CERT (Computer Emergency Response Team) that acts in case of a (potential) cyber-attack.

CISO labs
CISO labs develop new secure and cryptographic products. Together with other companies and universities we have started research projects in regards to, amongst others, post-quantum cryptography.

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Climate-neutral
For KPN, climate neutral means operating with zero net CO_2 emissions.

Cloud services
Cloud services are standardized IT capability (services, software or infrastructure) delivered via internet technologies in a pay-per-use, self-service way.

CO_2
Carbon dioxide is a gas that is created when fossil fuels such as oil and coal are burned. Carbon dioxide is a greenhouse gas.

Conflict minerals
Conflict minerals are minerals mined under conditions of armed conflicts and human rights issues. These minerals are used in a variety of products, including consumer electronic devices such as mobile phones.

CSR (corporate social responsibility)
CSR, to KPN, is the integrated vision of entrepreneurship, in which the company takes responsibility and creates value in economic (profit), ecological (planet) and social (people) terms. We incorporate CSR into our business and by doing so, take our social responsibility and contribute to societal challenges.

Customer base
Customer base is the total number of subscribers.

D

DEFRA
UK Department for Environment Food & Rural Affairs. DEFRA published conversion factors to calculate greenhouse gas emissions.

DJSI (Dow Jones Sustainability Index)
The DJSIx is a collection of indices that track the performance of companies that are frontrunners in terms of CSR. The DJSI is based on an analysis of corporate economic, environmental and social performance. There are several sub-indices based on geographical parameters.

DSL (digital subscriber line)
DSL is a technology for bringing high bandwidth information to homes and small businesses over copper PSTN lines. The widely used term xDSL refers to different variations of DSL, such as ADSL, HDSL, VDSL and SDSL.

E

EBITDA
Operating result before depreciation and impairments of PPE and amortization and impairments of intangible assets.

EEIO (Environmentally extended input output data)
EEIO models estimate energy use and/or GHG emissions resulting from the production and upstream supply chain activities of different sectors and products. The resulting EEIO emissions factors can be used to estimate cradle-to-gate GHG emissions for a given industry or product category. EEIO models are derived by allocating national GHG emissions to groups of finished products based on economic flows between industry sectors.

F

FTE (full-time equivalent)
The equivalent of the number of employees with a full-time contract.

FttC (Fiber-to-the-Curb)
FttC is defined as an access network architecture in which optical fiber extents to street cabinets 'on the curb'.
The final part of the connection to the home consists of copper

FttH (Fiber-to-the-Home)
FttH is defined as an access network architecture in which the final part of the connection to the home also consists of optical fiber.

FttO (Fiber-to-the-Office)
FttO is fiber connection for business customers to the offices.

G

GHG (Greenhouse Gas) Protocol
The GHG Initiative is a multi-stakeholder partnership of business, non-governmental organizations (NGOs), governments and others that develop internationally accepted GHG accounting and reporting standards for organizations.

Global Goals
See Sustainable Development Goals

Green electricity
Green electricity is electricity from renewable sources. KPN only uses wind energy and electricity from biomass that does not compete with food production.

Greenprint
Greenprint is a description that helps us to work towards the same goal; achieving the desired customer experience and in the end become the best service provider. Based on the why, who, what and how of our existence.

GRI (Global Reporting Initiative)
The Global Reporting Initiative is an organization that publishes international standards for CSR reporting.

H

Hybrid cloud
Hybrid cloud is a cloud computing environment which uses a mix of on-premises, private cloud and third-party, public cloud services with orchestration between the two platforms. By allowing workloads to move between private and public clouds as computing needs and costs change, hybrid cloud gives businesses greater flexibility and more data deployment options.

I

ICT
Information and communication technology.

Industry-adjusted ranking
This ranking takes into account the impact of its industry's reputation on a company's score Internet of Things (IoT).

Internet of Things
The Internet of Things connects objects such as garbage bins or cars via a chip with the internet. This offers a lot of opportunities, such as Smart City solutions.

IPTV
IPTV is a system through which television services are delivered using the internet protocol suite over a packet-switched network such as the internet. iTV is KPN's IPTV offering in the Netherlands.

ISO (International Organization for Standardization)
This organization is responsible for international management standards such as ISO 14001, ISO 140064-1, ISO 27001 and ISO 22301 (mentioned in this report).

iTV
iTV stands for interactive TV. With iTV, the customer can easily choose when, where and what programs to watch.

J

JAC (Joint Audit Cooperation)
The JAC is a cooperation of 13 European telecommunication operators (including KPN) focusing on the social, ethical, and environmental conditions across their supply chains.

K

KPN Classmate
Through the KlasseContact project of the KPN Mooiste Contact Fonds, chronically ill children can use an ICT-set (a KPN Classmate) to take a virtual seat in the classroom.

KPN Mooiste Contact Fonds
This KPN foundation supports societal initiatives aimed at stimulating social contact, by combining people and technological resources to the best advantage.

L

LoRa (Long range)
Network architecture to connect millions of low-energy and low-data devices to the internet in a cost-effective way. This opens up countless application possibilities for KPN's Internet of Things (IoT).

LTE (Long-term evolution)
LTE, commonly marketed as 4G LTE, is a standard for wireless communication of high-speed data for mobile phones and data terminals.

M

Market share
Market share is the percentage or proportion of the total available market that is being serviced by KPN. These figures are based on externally available market data, which may not be completely accurate, and may partially be based on estimates.

Mbps (Megabits per second)
Mbps is a unit of data transfer rate equal to one million bits per second. The bandwidths of broadband networks are often indicated in Mbps.

MHz (Megahertz)
MHz is one million hertz (a unit of frequency).

Multi play
Propositions combining more than one product and/or type of service is considered a multi play proposition. Triple-play and quad-play propositions are types of multi play propositions.

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Multi play seats
The number of multi play seats is based on KPN brand fixed or mobile connections. IT services are not included.

MVNO (Mobile virtual network operator)
A mobile operator that does not have its own spectrum or its own network infrastructure. Instead, MVNOs have business arrangements with 'traditional' mobile operators to buy minutes of use to sell to their own customers.

N

NPS (Net Promoter Score)
NPS is a tool for measuring customer loyalty, based on whether customers would recommend KPN to someone else.

NWLW (New Way of Living and Working)
The NWLW means being able to work without the constraints of time and place with the use of modern technology.

Normalized EBITDA
Normalized EBITDA is defined as a 12-month rolling total EBITDA excluding restructuring costs, incidentals and major changes in the composition of the Group (acquisitions and disposals).

O

OTT
In broadcasting, over-the-top content (OTT) refers to the delivery of audio, video, and other media over the internet for which no subscription to a traditional cable or satellite operator is required. A famous example is WhatsApp, which is replacing text messaging.

P

PUE (power usage effectiveness)
An international standard for the calculation of energy efficiency of data centers, which compares the total data center electricity consumption with the electricity consumption of equipment used for customer purposes. In the calculation, data centers with an occupation rate less than 25% are not taken into account.

R

RepTrak
RepTrak, developed by the Reputation Institute, is a method to calculate a reputation score of companies. KPN's reputation is based on three out of twelve RepTrak attributes that are kept confidential and are stable over the years.

RGU (Revenue generating unit)
RGU is the total of all subscribers receiving standard broadband internet or telephony services over KPN's network at a given date. Thus, one subscriber who receives a bundle of KPN's services (telephony, internet and TV) would be counted as three RGUs.

Roaming
Transfer of mobile traffic from one network to another, referring to the exchange of international mobile traffic.

S

Scope 1
Direct greenhouse gas emissions occurring from sources that are owned or controlled by an organization.

Scope 2
Indirect greenhouse gas emissions from the generation of purchased electricity, heating or cooling consumed by an organization.

Scope 3
Other direct greenhouse gas emissions as a consequence of the activities of the company, but occurring from sources not owned or controlled by an organization.

Service revenues
Service revenues are defined as the aggregate of connection fees, monthly subscription fees and traffic fees. The term service revenues refers to wireless service revenues.

SIM card (Subscriber identity module card)
A chip card inserted into a mobile phone, which contains information such as telephone numbers and memory for storing a directory.

#SMARTer2030
Back in 2008, GeSI launched the first report of the SMART series, the SMART2020, followed by SMARTer2020 in 2012. In 2015, the #SMARTer2030 report has been launched with the aim to extend our horizon to 2030 and to look at ICT-enabled sustainability from a holistic point of view. The translation of the #SMARTer2030 research into opportunities for KPN and the Netherlands followed in 2016.

SME
SME refers to Small and Medium Enterprises.

SOC (Security Operations Center)
The SOC monitors the high-risk systems of KPN in order to quickly act in case of security risks or incidents.

SoHo
SoHo refers to Small Office / Home Office companies.

Stakeholder
Stakeholders are the people or organizations with an interest in the company, such as customers, employees, shareholders, suppliers, governments and media.

Subscriber
A subscriber is defined as an end-user with a connection to the mobile or fixed networks and/or service platforms of KPN. The subscriber is included in the subscriber base if there is a direct or indirect (business, wholesale) billing relationship, either prepaid or postpaid, with the following exceptions:
> if the connection is owned through wholesale by full MVNOs or fixed line access parties; or
> if the connection has been inactive for a specific time period (prepaid or postpaid without contract).

Sustainable Development Goals (SDGs)
On 25 September, 2015, countries within the United Nations adopted 17 goals to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda. Each goal has specific targets to be achieved in 2030. Also known as Global Goals.

SWOT Analysis
Strategic planning tool to find strengths, weaknesses, opportunities and threats.

T

Tier standards (I to IV)
Telecommunications Infrastructure Standard for data centers. Tier levels describe the availability of data at a location. The higher the tier, the greater the availability. Tier IV is the highest level and entails independent dual-powered cooling and expected data availability of 99.995% or higher.

Transparency Benchmark
The Transparency Benchmark is a yearly benchmark which investigates the content and quality of the sustainability reports of Dutch enterprises.

Transparency International Netherlands
Transparency International Netherlands is the Dutch part of Transparency International (TI), a non-governmental organization which combats corruption worldwide.

Triple play
Term used to describe the provision of telephony, internet and television services to a household by a single provider.

TSR (Total shareholder return)
A measure of the performance of different companies' stocks and shares over time. TSR is calculated by the growth in capital from purchasing a share in the company assuming that the dividends are reinvested each time they are paid. This growth is expressed as a percentage as the compound annual growth rate.

U

Usage of total data traffic
The data demand peak for main traffic streams is based on continuous five minute timeframe measurements. These streams consist of KPN iTV, Netflix, Google and other internet traffic.

V

VBDO (Vereniging van Beleggers voor Duurzame Ontwikkeling)
The Dutch Association of Investors for Sustainable Development (VBDO) works to create a sustainable capital market, a market that considers not only financial criteria but also non-financial, social and environmental criteria. VBDO's vision is to increase sustainability awareness among companies and investors.

Virgin materials
Materials sourced directly from nature in their raw form, such as wood or metal ores. Manufacturing products using virgin materials uses much more energy and depletes more natural resources, as opposed to producing goods using recycled materials.

VoLTE (Voice over LTE)
VoLTE allows the voice service to be delivered as data flows within the LTE data bearer.

W

Weighted downtime reduction
The weighted downtime concerns the average monthly time period in which a combination of KPN platforms and systems is inaccessible to clients and customers.

Colophon

For additional information
KPN Investor Relations
Tel: +31 (0) 704460986
ir.kpn.com
ir@kpn.com

Published by
Royal KPN N.V.
P.O. Box 30000
2500 GA The Hague
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registration number 02045200

Content and organization
Royal KPN N.V.

RRED Communications
www.rred.nl

Stampa Communications
www.stampacommunications.com

Sustainalize
www.sustainalize.nl

Concept and design
De Designpolitie
www.designpolitie.nl

Online
We would like to thank everyone who participated in the videos, that can be viewed on our Integrated Annual Report website: www.kpn.com/annualreport

The inside pages of this publication have been printed on PaperWise, a new generation of paper and board with a very low environmental impact. The cover has been printed on wood-free white offset paper (FSC).

Forward-looking statements and management estimates
Certain of the statements we have made in this Integrated Annual Report are 'forward-looking statements'. These statements are based on our beliefs and assumptions and on information currently available to us. They include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance or expense improvements and the effects of future legislation or regulation.

Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words 'believe', 'expect', 'plan', 'intend', 'anticipate', 'estimate', 'predict', 'potential', 'continue', 'may', 'will', 'should', 'could', 'shall', or the negative of these terms or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. No undue reliance should be put on any forward-looking statements. Unless required by applicable law or applicable rules of the stock exchange on which our securities are listed, we have neither the intention nor an obligation to update forward-looking statements after distribution of this Integrated Annual Report. All market share information in this financial report is based on management estimates based on externally available information, unless indicated otherwise.

The terms 'we', 'our' and 'us' are used to describe the company; where they are used in the chapter Segment performance, they refer to the business concerned.

We always aim to further improve our CSR activities and reporting. Therefore, we highly appreciate your feedback, questions and comments on our Integrated Annual Report and CSR activities. Please contact mvo@kpn.com.

Royal KPN N.V.
Maanplein 55
2516 CK The Hague
The Netherlands

P.O. Box 30000
2500 GA The Hague
The Netherlands

www.kpn.com