Connected. By KPN.

Integrated Annual Report 2015 in facts, figures and people.


kpn
kpn

Connected. By KPN.

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

This Integrated Annual Report is about facts and figures, but moreover about 100 different people. About their plans, dreams and ambitions. These 100 persons have one thing in common: on a daily basis they use the services and networks of KPN.

They are the inspiration for all our plans and are therefore at the center of this Integrated Annual Report. View their different stories on www.kpn.com/annualreport

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Integrated Annual Report 2015

189. Colophon

Introduction by the CEO

Investing in an innovative future

Eelco Blok
CEO KPN

With innovative products and services that are increasingly valued by our customers, we are acquiring a strong reputation as the integrated ICT service provider in the Netherlands.

For KPN, 2015 is a year we look back on with satisfaction from a commercial, operational and financial perspective. Once again, our Net Promoter Score (NPS) – the yardstick for customer loyalty and customer satisfaction – increased across all segments. In consumer markets (both residential and mobile) and the business market, NPS was at an all-time high. This shows we are on the right track as far as the quality of our service is concerned. Customer numbers are growing; on the one hand because we have acquired more new customers and on the other because more of our existing customers have remained loyal to us. Growth figures in the consumer segment were impressive. The business market remained challenging in 2015. We saw a slight improvement at Business in comparison with recent years. As in previous years, the results of our sustainability efforts were most satisfying.

Upgrading our networks for our customers

We are responding to the growing customer demand for continuous accessibility, and fast and reliable fixed and mobile connections – whether for internet, calls, TV or business – by further improving our infrastructure, which is the foundation on which our service is based. In 2015, we again gave high priority to updating, improving and maintaining our fixed and mobile networks. We invested substantially in our copper and fiber networks, as a result of which more than two thirds of all households in the Netherlands could benefit from internet speeds of at least 100 megabits per second by the end of the year. More than three million customers now use our 4G mobile network and in May we launched an even faster version (4G+), which is available in the bigger Dutch towns and other parts of the Netherlands. We continued to further integrate our fixed and mobile networks. With our high-quality infrastructure, we make it easy for our customers to use our products and services everywhere.

Simplification

Our appealing commercial and operating results are boosted by simplifying our processes, IT and other systems, and our product and services portfolio. After 20 years, we said farewell to our youth brand Hi and transferred our Hi customers to the KPN brand. In April, we announced the sale of our Belgian subsidiary BASE to Telenet. We obtained regulatory approval from the European Commission in February 2016.

Thanks in part to simplification and greater efficiency, we reduced our costs to a fundamentally lower level. However, we realize, this is not yet enough. A new organizational structure, characterized by fewer management tiers, greater flexibility and more direct involvement by the Board of Management, will enhance our service by making it easier for our frontline employees to meet and respond to customers' wishes.

Improved financial results
Our financial performance improved in 2015, on the back of positive operating results and our simplification and efficiency campaigns. Although sales in the business market dipped slightly, our cost base improved, partly because we succeeded in systematically reducing our operating expenses. Our solid financial performance is also apparent from the strong growth in Free Cash Flow, which enabled us to grow our dividend in a sustainable way.

On the right sustainable track
Our aspiration to become the best service provider can only be achieved if we continue on a sustainable path. KPN became a climate-neutral company in 2015, five years earlier than we had initially planned. Our listing in the Dow Jones Sustainability Index – for the fourth consecutive year – confirms once more that sustainability is firmly and permanently embedded in our strategy and execution. Our new data center in Eindhoven received the Dutch ICT Environment Award. Opened in the summer of 2015, it is the first Tier IV and cradle-to-cradle data center in the Netherlands. Moreover, innovative technologies, and smart and efficient IT applications will increasingly contribute to making society more sustainable.

Sustainability is only one aspect of our corporate social responsibility and involvement. We also carry out activities under the banner of the KPN Mooiste Contact Fonds, which enables vulnerable groups in society to maintain social contact, such as chronically ill children and the elderly. In 2015, we enabled more than 800 sick children to stay in touch with their classroom from home or hospital via a communication set and keep up with their schoolwork. And we launched the Zilverlijn project with the National Foundation for the Elderly, where KPN volunteers call lonely seniors for a friendly chat. We are also working with the Dutch Kidney Foundation (Nierstichting) to make portable artificial kidneys a reality, thereby improving the lives of kidney patients.

Privacy & Security remains a top priority
The role that we play in society involves a certain vulnerability to security threats. We do our utmost to protect our customers and networks, and, moreover, enable our customers to protect themselves. By offering security services and being transparent about how and why we use certain data, we show our customers that we respect their privacy and safeguard their digital security at the same time.

Proud employees
We have high ambitions to improve the quality of our service even further. We create a work environment where inspiring leadership is the norm and our employees feel appreciated, having opportunities to develop their talents for the benefit of our customers. Our employee engagement was the best in three years and rose by seven percentage points to 77%. More than 80% of employees are proud to work for KPN. This gives rise to a business culture with high employee involvement.

New partnerships for new products
We are eager to form partnerships with talented, innovative companies, to foster outside-in innovation and enhance our involvement with start-ups. To that end, we set up KPN Ventures, an investment fund that enables us to partner with start-ups. Such interaction speeds up the development and commercialization of innovative applications. Another promising partnership is with French Actility, which is helping us realize a cost-effective and sustainable connection to the Internet of Things. We launched the so-called LoRA network in November in The Hague and Rotterdam and will implement it incrementally throughout the Netherlands up to June 2016.

ICT is the driver of innovative services
The Internet of Things will create a world in which everyday objects and appliances – even animals – are connected to the internet and can share information with each other. In just five years, there will be an estimated 50 billion of these connections, although it's not clear how soon markets and society will adopt the technology or recognize its far-reaching opportunities. This is the world that KPN is investing in. We help our customers in their digital transformation. New technology applications create new economic opportunities and contribute to a safer and cleaner world, thereby addressing one of the greatest challenges of our time.

I firmly believe we will succeed, as long as we embrace the development and implementation of innovative, advanced technologies, making ICT the driver of progress and the catalyst for a better climate.

Confidence in the future
Our good operational and commercial performance and stabilized financial performance give us great confidence in the future, in which sustainability and innovation will play an increasingly important role. KPN will persistently do its utmost best to make a difference for our customers and Dutch society as a whole by connecting them in a reliable and sustainable manner, thus making their personal and working lives more free, more simple and more fun.

> "Our good operational and commercial performance and the improved financial performance give us great confidence"

Watch Eelco's story:
kpn.com/annualreport/eelcoblok

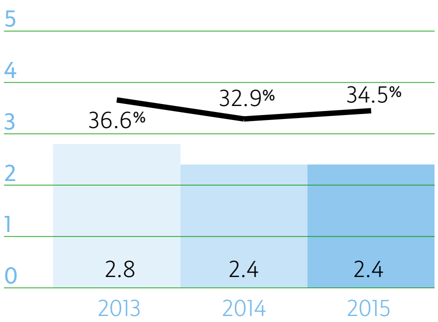
Our main achievements in 2015

Improving our performance

Adjusted EBITDA[1,2]

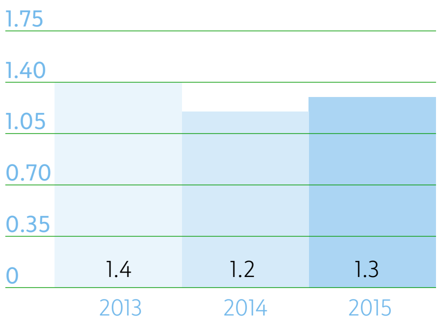
In billions of EUR

Adjusted EBITDA margin[1,2]



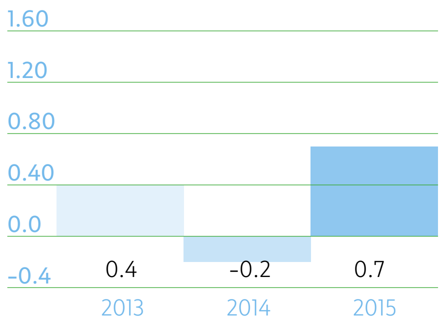
Capital expenditures[1]

In billions of EUR



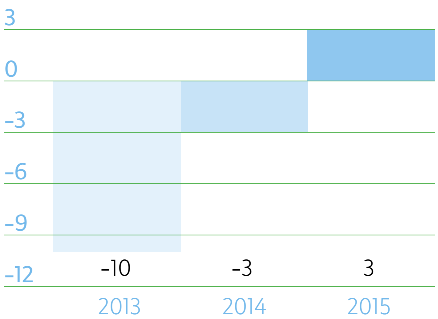
Free Cash Flow[1]

In billions of EUR



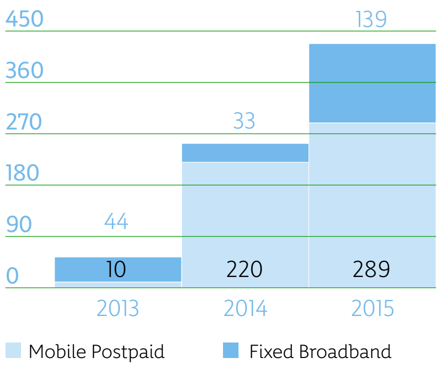
Customer satisfaction

Net Promoter Score
in the Netherlands



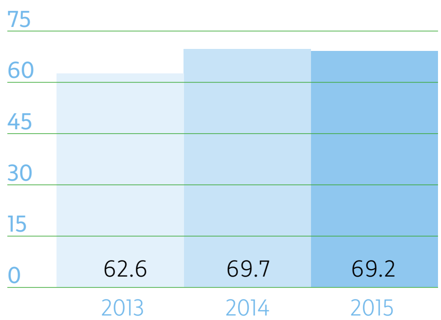
Consumer customer base growth

In thousands



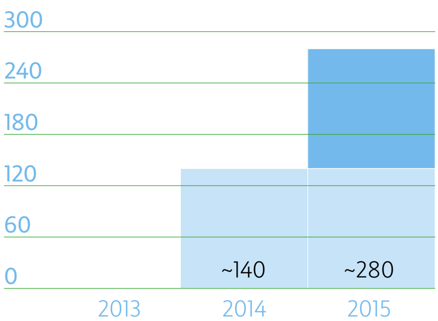
Reputation

RepTrak pulse score



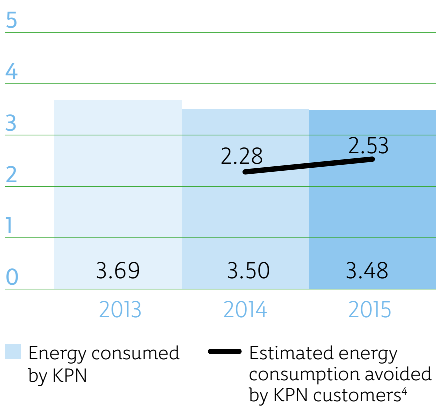
Realized cost savings Simplification program[3]

In millions of EUR

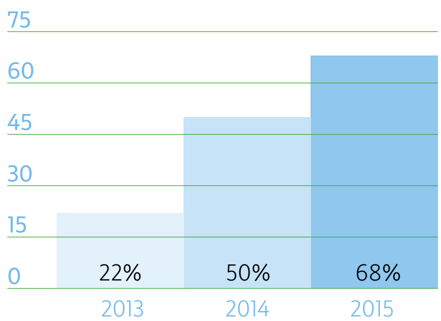


Energy consumption

In petajoules



Households with 100Mbps coverage



1) Based on continuing operations.
2) EBITDA adjusted for the impact of restructuring costs and incidentals. Reconciliations for 2014 and 2015 to be found in Appendix 1.
3) For more information, please see p25 of this report.
4) Estimated avoided energy consumption by customers from the use of our ICT solutions compared with KPN own energy consumption. For more information, please see p49 of this report.

KPN connects.

Connecting is our core business. During 2015, we achieved to connect even more people with various activities. On this page, we display some of the highlights.

99.8%

of the Dutch population has network accessibility. KPN invests to connect rural areas. More information on pages 58 to 60.

68%

of Dutch households have access to KPN high-speed internet of 100 Mbps or faster. More information on pages 58 to 60.

1,500,000

KPN SIM card subscribers at the end of 2015 for machine-to-machine communication.

56%

of fixed internet traffic currently consists of video streaming through Google, Netflix and others (46% in 2014).

~80,000

physical workspaces provided by December 2015.

50

Mbps is the average 4G download speed in cities end 2015, compared with 20 Mbps end 2014. More information on pages 58 to 60.

837

children were connected through KPN KlasseContact by the end of 2015. KlasseContact keeps chronically ill children connected to their classrooms and friends. More information on page 40.

720

vulnerable elderly and chronically ill children were accompanied by 450 KPN volunteers in the Rijksmuseum during the 'Mooiste Contactfonds-dagen'. More information on page 40.

811,000

retail customers connected in fixed-mobile bundles. More information on page 52 to 53.

Review of the year 2015

From TV Everywhere to the use of next generation small cells in crowded areas

January

- Introduced KPN TV Everywhere for iTV on smartphones and tablets;
- KPN's Olympic speed-skating marketing campaign named Best of Europe at the European Sponsorship Association Excellence Awards;
- Frank van der Post appointed as Chief Commercial Officer.

February

- Reached agreement on the sale of German contact center business SNT Deutschland;
- Boosted the 4G network by aggregating three frequencies for faster data-download speeds;
- Interactive website made 'Late Rembrandt' exhibition accessible to a broader audience.

March

- Hi rebranded to KPN;
- KPN's 'Royal' designation renewed for 25 more years by Dutch King Willem-Alexander;
- Launched KPN ÉÉN campaign for the corporate market.

July

- Acquired Dutch hosting and cloud services provider Internedservices Group;
- Won the 2015 IT Environment Award for new data center in Eindhoven, the first in the Netherlands with a Tier IV certification, the highest rating for accessibility;
- Fined EUR 8 million by Dutch Consumer and Markets Authority, ACM; an appeal is pending.

August

- All top-five spots in the sustainability monitor of 'Rank a Brand' held by KPN brands;
- Introduced SmartLife, an app-based home security service using a smartphone or tablet;
- Biggest temporary mobile network set up at SAIL Amsterdam 2015 tall ship event.

September

- Joined the United Nations initiative Global Goals for a better world;
- Listed in the global Dow Jones Sustainability Index (DJSI) for fourth consecutive year;
- Started testing high-quality 'Voice over LTE' (VoLTE);
- Chief Information Security Officer Jaya Baloo awarded Cyber Security Executive of the Year 2015 by Accenture.

April

- Initiated improvements to mobile coverage in less-populated areas;
- Duco Sickinghe appointed chairman of the Supervisory Board;
- Jolande Sap and Peter Hartman appointed members of the Supervisory Board;
- Agreed to sell BASE Company to Telenet.

May

- 4G+ high-speed connections became available to KPN customers in seven Dutch cities;
- Kicked off TEAMKPN Sports Fund, a sponsorship initiative to support lesser-known sports in the Netherlands;
- Introduced a choice of free TV packages for KPN Compleet customers.

June

- Set up KPN Ventures, a dedicated venture fund to accelerate innovation with start-ups;
- Increased mobile data bundles for business customers up to 20 GB;
- First new-look retail store opened in The Hague where customers can try out KPN products and services.

October

- Launched MKB Veilig, a security package to protect small and medium-size businesses against cybercrime;
- KPN's ethical hacking team 'Sector C' runners-up at the 2015 Global Cyberlympics;
- Added Netflix to KPN's interactive TV menu, making it even easier for customers to stream movies and TV shows.

November

- KPN's new LoRa network launched in Rotterdam and The Hague to boost the Internet of Things;
- Fixed network outage caused problems for internet-, TV- and telephone customers;
- KPN sold 150 million shares in Telefónica Deutschland for total proceeds of EUR 805 million;
- Launch of Play. by KPN: TV and on-demand content anytime, anywhere.

December

- ACM decided that KPN has to keep offering access on its fixed networks to competitors for another three years;
- KPN Mooiste Contact Fonds organized Christmas dinner for about 800 elderly;
- KPN first in the world to use the next-generation small cells (Ericsson RBS2203) in crowded areas.

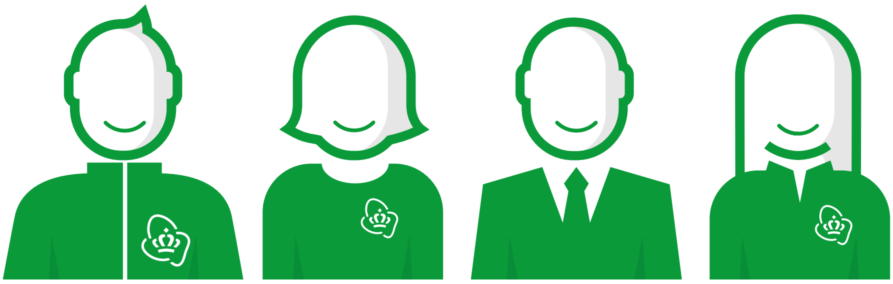
Our organization

The only integrated access provider in the Netherlands

Our people

14,077 FTEs

As of December 31, 2015



Our activities

Consumer Mobile

We offer customized mobile services and products, ensuring that people are connected anytime, anywhere.

Business

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

Consumer Residential

We provide a broad portfolio of services for households, such as internet, (interactive) TV and fixed telephony.

NetCo

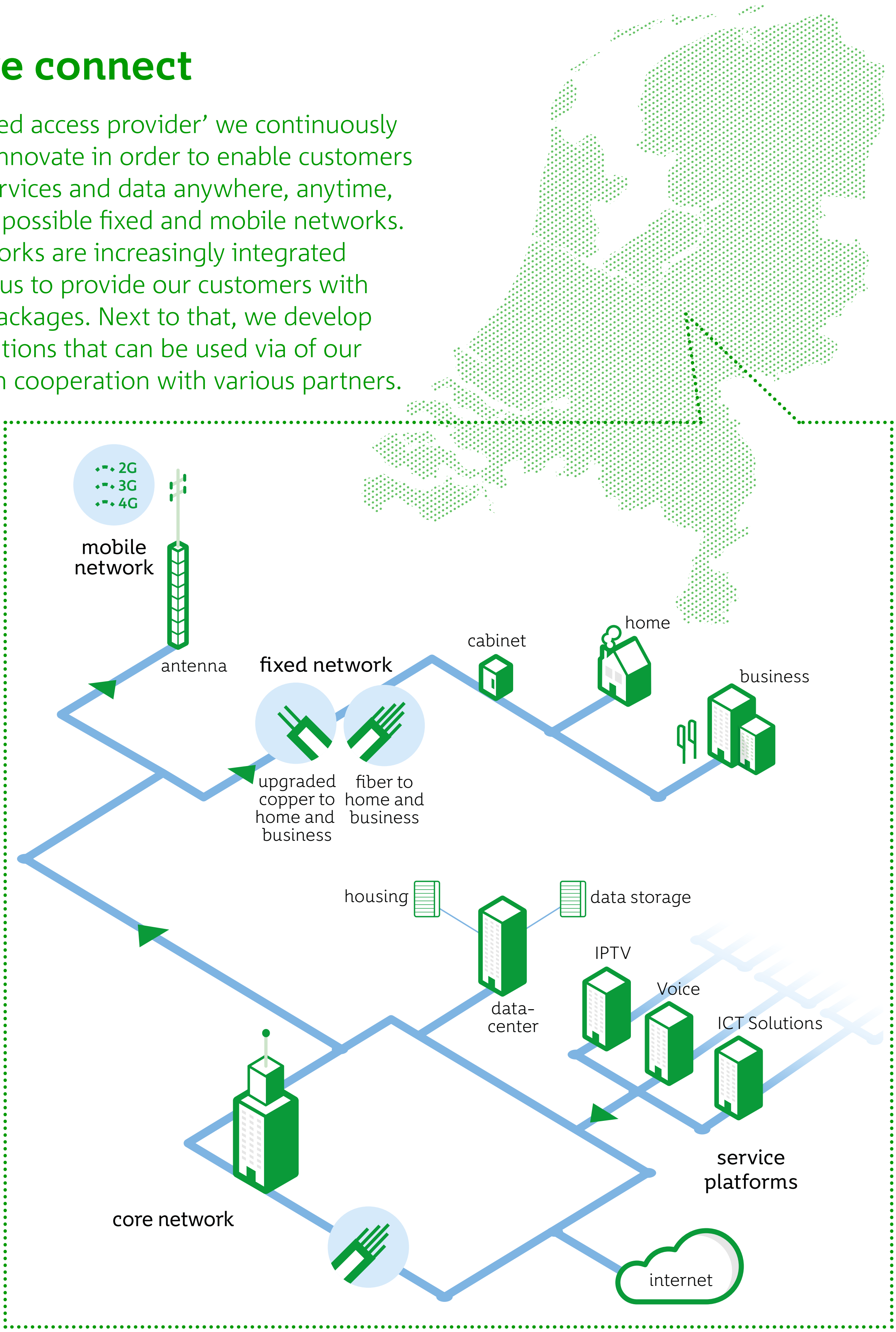
The beating heart of KPN, where infrastructure and IT coincide. This segment, which is responsible for the fixed and mobile networks, and fixed wholesale customers, makes it technically possible for KPN to run its services and deliver its products.

iBasis

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

How we connect

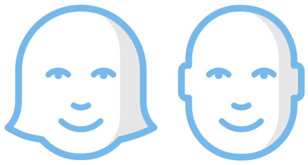
As 'integrated access provider' we continuously invest and innovate in order to enable customers to access services and data anywhere, anytime, on the best possible fixed and mobile networks. These networks are increasingly integrated and enable us to provide our customers with all-in-one packages. Next to that, we develop new applications that can be used via of our networks, in cooperation with various partners.



The value we create

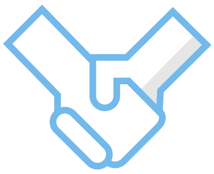
Connecting you, anytime, anywhere

Inputs



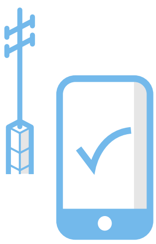
Skilled employees

Financial resources

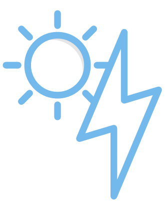


Key partnerships and customer insights

Network and customer equipment

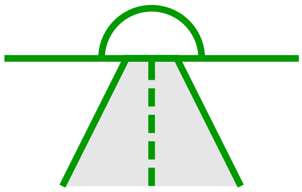


Mobile licenses

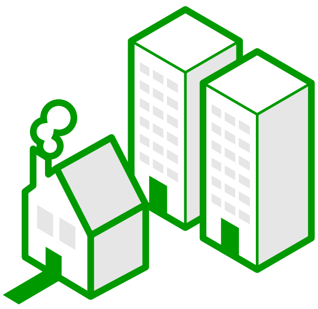


Green electricity

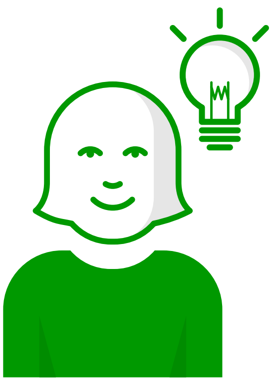
Business activities



Provide a positive customer journey

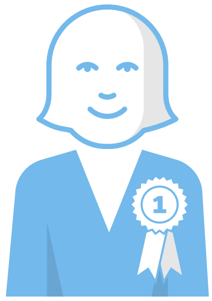


Connect by providing products and services, and running infrastructure



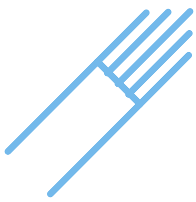
Develop innovative products and services, and upgrade infrastructure continuously

Strategic choices



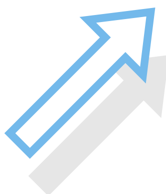
Strengthen our focus on customers and sustainable operations

- Provide the best service;
- Differentiate through innovative products;
- Continue environmental strategy;
- Improve financial stability and sustainability.



Simplify our portfolio and operations

- Provide integrated fixed and mobile services;
- Reduce costs.

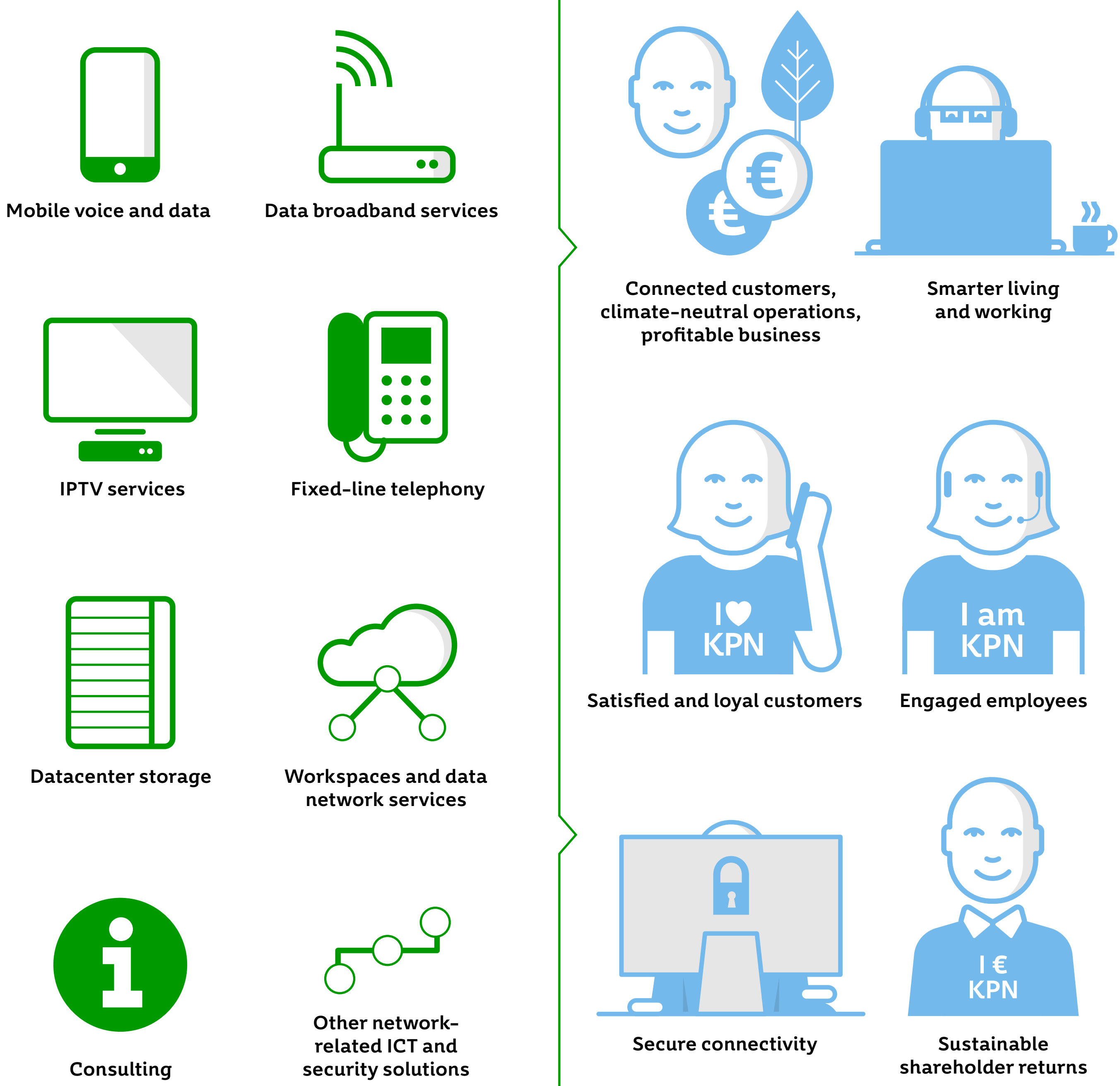


Grow our business

- Best network through continuous improvements;
- Generate new revenue streams.

Inputs Business activities Strategic choices

Integrated products and services | Value: connected anytime, anywhere



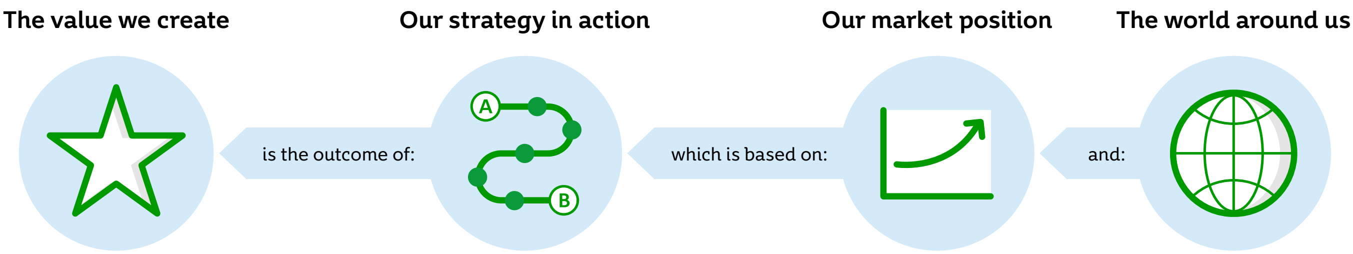
Integrated products and services | Value: connected anytime, anywhere

Our strategy

Strengthen, Simplify, Grow

	Strategic choice	What we did in 2015	Result	What we will do going forward	What we want to achieve
Strengthen	**Provide the best service**	• Aligned our customer processes further • Invested in a diverse workforce that is fit for the future	• NPS increased to +3 • Employee engagement score increased to 77%	• Improve customer service and stimulate customer loyalty • Take targeted actions to improve employee engagement	• Being the best service provider • Top employer
Strengthen	**Differentiate through innovative products**	• New TV features: Play. by KPN, TV Méér, Netflix on iTV • New partners and value added to KPN ZorgCloud • Nationwide test voice-over 4G • Introduction of Smarthome service	• IPTV NPS increased to +16 • Connected 4,387 ZorgCloud locations • Improved voice quality • First customers of Smarthome	• TV content aggregation through new partnerships • Further develop ZorgCloud with partners • Introduce new services in growth markets • Keep pace with security developments	• Improve customer preference for KPN (bundles and services) • Improve healthcare through ICT • Extend service into homes • Contribute to a safer internet
Strengthen	**Continue environmental strategy**	• Realization cradle-to-cradle and Tier IV data center • Continued energy reduction	• An environmentally friendly data center • Climate-neutral business operations	• Continue to reduce our own environmental footprint and the footprint of our customers	• Economical growth without a rise in CO_2 emissions • Make the transition towards a circular company
Simplify	**Provide integrated fixed and mobile services**	• Made multi play/quad play available for more customers	• 141,000 new multi play customers • 258,000 new quad play customers	• Further develop and market quad play offerings	• Reward existing customers and stimulate customer loyalty
Simplify	**Reduce costs**	• Further implementation of Simplification program	• Realization of ~280 million cost savings compared to end 2013	• Continue cost-savings program • Continue Simplification program	• A more simple organization and better processes for our customers at lower costs
Grow	**Best network through continuous improvements**	• Introduced LoRa • Further upgraded copper network • Further roll-out of fiber network • Increased capacity of core networks • Adding and stacking frequencies	• LoRa live in Rotterdam and The Hague • 68% of households have access to speeds of at least 100 Mbps • >2 million FttH passed • 2.5 times increase in 4G download speed in cities	• National roll-out of LoRa • Increase fiber penetration and upgrade copper network further • Further invest in capacity of 4G	• Provide the best network quality
Grow	**Build new revenue streams**	• Extended Cloud, Security and IoT services • Set up KPN Venture Fund	• Exposure of KPN in new business community, initial investments in growing companies	• Selectively invest in growth companies	• Grow our business

We combine the input from the world around us, our stakeholders and our own insights to identify potential areas for growth as well as areas where there is a need for improvement.



Our market position

What makes us stand out
- The only integrated access provider in the Netherlands;
- Largest scale of operations of the telecommunications infrastructure in the Netherlands;
- Only Dutch Telco able to offer a wide range of ICT services;
- High competence in network and cyber security;
- Well recognized and trusted partner for critical communication services;
- Strongly improved customer satisfaction than past years;
- Strong consumer base growth.

Points to improve
- Several legacy generations of systems, processes and services that require high maintenance and swift development, and increase complexity;
- Complex operations due to broad range of products and services;
- Ability to quickly adapt to changing market conditions.

Opportunities for growth
- Exponential growth in customer demand for connectivity resulting from data and network bandwidth;
- Customer needs for new ways to communicate (technology push) and collaborate (demand pull);
- Innovate with strategic partners;
- Technological developments in networks, software development, virtual networks and artificial intelligence;
- Recovering Dutch economy.

Challenges we face
- Competitive market conditions;
- Keeping our networks safe from information-security threats;
- Data volume growth requiring high investments, combined with challenging market conditions for monetizing;
- Continued asymmetric regulation;
- Disruptive technologies and new market entrances by Over The Top players.

The combination of our external and internal analysis help us to sharpen our strategy. The pillars – strengthen, simplify and grow – have been the basis for our strategic decisions over the past few years. See the table on the previous page for our strategic choices, the results in the past year and our goals for the future.

The world around us

The forces that impact our strategic choices

We continuously look at the world around us to analyze trends, stakeholder expectations and relevant topics, considering our impact, influence and the value we can create being an ICT provider.

Developments

Macro-economic and political developments

- Global social challenges are becoming ever more important. The United Nations presented the world's most essential challenges in their Global Goals list reaching from the reduction of global famine and poverty to better healthcare, education and climate action;
- Geo-political developments on Europe's borders and in the Middle East create uncertainty levels. On a national level, the Dutch economy is recovering, although the unemployment rate remains high;
- In addition, the number of freelancers and independent contractors in the Netherlands is rising. The number is currently more than 900,000 on a total labor force of 8.9 million.

Dutch societal and social developments

- Leading societal values are shifting from wealth to wellbeing, from competition to cooperation, and from possession to usage. Demands from customers no longer primarily focuses on products but rather on services;
- There is a growing attention and urgency in society around climate change and its effects because of leading new research around the 2015 climate conference in Paris;
- Information is more comprehensive and easier to access. The information era makes for more critical citizens, consumers and society as a whole;
- Transparency, fairness and open communication are therefore becoming a necessity;
- The Dutch population is growing older and ageing altogether. People live longer to a more care-intensive age, which puts a higher customer demand on healthcare and a greater societal need for innovation;
- Relations and boundaries within society are becoming increasingly flexible. For instance, the importance of the work-life balance to employees, their work relations in terms of temporary contracts and the increasing number of freelancers. Work itself is becoming more flexible as well: working anytime, anywhere.

Sector developments in the Netherlands

- Consumers are increasingly choosing integrated bundles with both fixed and mobile modules, instead of separate services;
- Connectivity is becoming more extensive, high-speed and IP-based. With new, integrated and more comprehensive services such as cloud computing and the Internet of Things, the dependency for customers and society on these connections is following a similar curve;
- Political and regulatory pressure is increasing on the subjects of cyber security and privacy. Phishing, identity theft, viruses and hacking activities are growing both in number and in impact, also working their way from personal computer systems and laptops towards mobile devices;
- The amount of digital data is growing at an exponential rate, doubling every two years. A large amount of value can be added just by identifying efficiencies created by the convergence of machines, data and analytics;
- Dutch telecom markets have become more mature and are no longer growing at the same rate as in recent years.

President VNO-NCW **Hans de Boer:**

"The physical infrastructure of fiberglass, cables and connections is the key to the future prosperity of the Netherlands"

Watch Hans' story:
kpn.com/annualreport/hansdeboer

Stakeholder expectations

Throughout the year, we are in constant interactive dialogue with our stakeholders. We ask them about their expectations of us, and these are the most important topics they mentioned.

Retail customers
- The best networks with the lowest number of disturbances;
- Value for money: good quality and properly functioning products and services;
- High-quality TV, mobile, and internet services;
- Sincere and proactive advice about the best possible subscriptions.

Business customers
- Professional service and advice;
- Guidance to a Cloud environment;
- Privacy and a secure network;
- New ways of connectivity and collaboration.

Employees
- Work that reflects their stage of life, well balanced with their personal life;
- Support in job continuity, especially for the 40+ and 55+ employee groups;
- Leadership that guides them into the new work processes needed for KPN.

Government and regulators
- Running the Dutch critical infrastructure and contributing to national (cyber) security;
- Fair competition.

Investor community
- Best-in-class networks and benefits of integrated services;
- Continuing good operational trends leading to further improving financial performance;
- Growing free cash flow leading to increased financial flexibility and attractive shareholder returns.

Suppliers
- Long-term cooperation; sustainable cost reduction
- Acceptable payment terms

Community
- Enable customers to be in control of their data;
- Serve as a facilitator, source of inspiration and catalyst in applying ICT for a more sustainable society;
- Offer the best quality, the best privacy and highest quality in data storage;
- Create value chains that include start-ups.

The topics that define our CSR themes

Besides the dialogue with our stakeholders, we annually assess our strategic themes based on several sources. We define the priority of CSR topics and the impact we can have. We rank the results in three categories: high-, medium- and low-priority topics. High priority topics are reflected in our six CSR themes and in the themes 'employees', 'suppliers' and 'sponsoring'. These topics are included in this report. The medium- and low-priority topics are included in the annexes of this report, the GRI index or on our website.

High priority CSR topics (out of 30 topics in total)
1. Direct economic value
2. Privacy & Security
3. Customer loyalty
4. Energy-use operations
5. Emissions operations
6. Quality and reliability of network
7. Innovation and investments
8. Sustainable employment
9. Indirect economic impact of products and services
10. Impact of products and services on social and environmental issues
11. Remuneration
12. Compliance
13. Diversity and equal opportunity
14. Sustainable suppliers

The assessment we performed in 2015 reconfirmed our CSR themes:

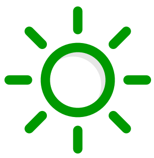
Transparent, reliable service provider

Best-in-class networks

Privacy & Security

The New Way of Living & Working

Healthcare of the Future



Energy efficient

Governance – Corporate Governance

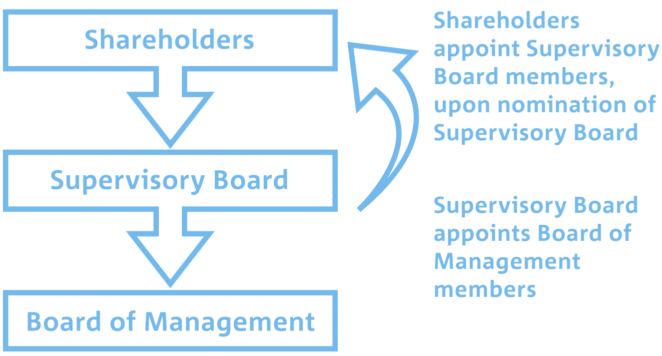
Stable steering in a dynamic environment

The corporate governance framework of KPN is based on our strategy and in line with the requirements of the Dutch Civil Code, the 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 September 11, 2015.

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 and affiliated/associated companies. In the performance of their duties, the members of the Board of Management and the Supervisory Board are guided by the interest of the company and the enterprise connected therewith. The Board of Management is accountable to the General Meeting of Shareholders in accordance with Dutch legislation.



Please see the section 'Composition of the Boards' starting on page 22, for information on the composition of the Board of Management and the Supervisory Board.

Shareholders

Share capital, Listings and indices

KPN authorized capital stock totals EUR 720 million, divided into 9 billion ordinary shares of EUR 0.04 each and 9 billion preference shares B of EUR 0.04 each. As of December 31, 2015, a total of 4,270,254,664 ordinary shares were outstanding.

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

General Meeting of Shareholders

The General Meeting of Shareholders holds the powers that have not been granted to other company organs, has the authority to appoint members of the Supervisory Board upon binding nomination by the Supervisory Board and to dismiss the Supervisory Board. The General Meeting of Shareholders is also entitled to approve the remuneration policy and share (option) plans for the Board of Management. Furthermore, a number of decisions are subject to the approval of the General Meeting of Shareholders, including decisions on company-transforming transactions, adoption of annual accounts and dividend proposals, and various corporate matters such as proposals to amend the Articles of Association of the company, to (de)merge or to dissolve the company, or to issue shares or reduce the issued capital of the company.

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

The Annual General Meeting of Shareholders to discuss the Annual Report and to approve the Financial Statements is held within six months of the end of a fiscal year. 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 50 million have the right to propose items for the agenda. Every shareholder has the right to attend a General Meeting of Shareholders in person or through written proxy, to address the meeting and to exercise voting rights.

Obligations to disclose holdings

Pursuant to the Dutch Financial Supervision Act ('Wet op het financieel toezicht' or 'Wft'), legal entities as well as natural persons must immediately notify the Dutch Authority for Financial Markets ('AFM') when a shareholding equals or exceeds 3% of the issued capital. The AFM must be notified again when this shareholding subsequently reaches, exceeds or falls below a threshold. This can be caused by the acquisition or disposal of shares by the shareholder or because the issued capital of the issuing institution has increased or decreased. Thresholds are: 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%. A natural or legal person holding a net short position in the issued capital of a company is to notify the AFM on each occasion that the position reaches the threshold of 0.5% of the issued capital of the company concerned and on each occasion that it reaches 0.1% above this level. The AFM incorporates these notifications in the public register, which is available on its website. See page 31 for the KPN shareholding as at December 31, 2015.

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

The General Meeting of Shareholders authorized the Board of Management (for a period of 18 months until October 15, 2016) to purchase shares in the company's own capital with the aim to support KPN's management and employee incentive plans in accordance with the Articles of Association of the company. The General Meeting of Shareholders also resolved to reduce the issued capital through cancellation of own shares held by the company in accordance with the Articles of Association, with the aim to further optimize the equity structure of the company. The number of shares to be canceled following this resolution will be determined by the Board of Management and is limited by the maximum of 10% of issued capital as per April 15, 2015. The General Meeting of Shareholders has designated the Board of Management as the body authorized to issue ordinary shares and to grant rights to subscribe for ordinary shares and to restrict and to exclude statutory pre-emptive rights of existing shareholders upon the issuance of ordinary shares or the granting of rights to subscribe for ordinary shares (for a period of 18 months, until October 15, 2016), with the aim to ensure continuing financial flexibility of the company. This authority is limited to a maximum of 10% of the issued capital as per April 15, 2015.

Resolutions by the Board of Management to acquire the company's own shares, to issue ordinary shares, to grant rights to subscribe for ordinary shares, or to restrict or exclude pre-emptive rights are subject to the approval of the Supervisory Board.

Supervisory Board

The Supervisory Board oversees strategic and commercial policymaking by the Board of Management and the way in which it manages and directs KPN's operations and affiliated/associated companies. Members of the Supervisory Board are appointed by the Annual General Meeting of Shareholders upon binding nomination by the Supervisory Board. The Central Works Council has an enhanced right to recommend persons for nomination 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.

KPN mechanic **Harold Smit:**

"Finding and solving technical problems gives us a good feeling"

Watch Harold's story:
kpn.com/annualreport/haroldsmit

Governance

Corporate Governance

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

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

Committees of the Supervisory Board

Four committees assist the Supervisory Board: the Audit Committee, the Remuneration Committee, the Nominating and Corporate Governance Committee, and the Strategy and Organization Committee. These committees assist the Supervisory Board in its decision-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 2015 can be found in the section 'Supervisory Board Report' starting on page 68.

Board of Management

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

Corporate Social Responsibility (CSR) governance

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

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

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

Compliance with the Dutch Corporate Governance Code

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

The current Dutch Corporate Governance Code entered into force on January 1, 2009. KPN fully endorses the underlying principles of the Dutch Corporate Governance Code, which is reflected in a policy that complies with all best practice provisions thereof. Until November 27, 2015, KPN deviated from the best practice III.2.1: "All Supervisory Board members, with the exception of not more than one person, shall be independent within the meaning of best practice provision III.2.2." On April 10, 2013, Mr. García Moreno Elizondo and Mr. Von Hauske Solis were appointed as members of the Supervisory Board. Both are officers of KPN's major shareholder, América Móvil, and are therefore not independent within the meaning of the Dutch Corporate Governance Code. Since Mr. Von Hauske Solis stepped down as a member of the Supervisory Board on November 27, 2015, KPN complies with all the best practice provisions.

The text of the Dutch Corporate Governance Code as well as KPN's application thereof in accordance with the "apply 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 conflict of interest or 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 any discussion 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.

During 2015, no conflicts of interests occurred.

External auditor

The external auditor is responsible for the audit of the financial statements. The external auditor reports to the Board of Management, the Audit Committee and the Supervisory Board to discuss findings pertaining to their agreed upon procedures or audit of the quarterly and annual financial results. The external auditor attends the Annual General Meeting of Shareholders to answer questions pertaining to the auditor's report as included in the Annual Report. The Audit Committee approves every engagement of the external auditor, after pre-approval by the internal auditor in order to avoid potential breaches of the external auditor's independence. The internal auditor attended part of the Audit Committee meetings, all of the meetings were attended by the external auditor. The Annual General Meeting of Shareholders appoints the external auditor on a yearly basis, upon recommendation by the Board of Management and the Supervisory Board. For the role of internal audit see page 63.

The 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 amount of ordinary shares, minus one share and minus any shares already issued to the Foundation. Upon exercise of the call option, 25% of the nominal value of EUR 0.04 per Class B preference share needs to be paid by the Foundation. The Board of Management can decide to request the Foundation to pay the remainder. Such decision is subject to the approval of the Supervisory Board. 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, amongst 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), P. Bouw (Vice-Chairman), M.W. den Boogert, H. Zwarts and J.E.F. Klaassen. The Board of Management and the members of the Board of the Foundation share the view that the Foundation is independent from KPN in accordance with parts c and d of the first subsection of article 5:71 of the Dutch Act on financial supervision.

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

See Note 20 Equity of the Consolidated Financial Statements for information on The Foundation Preference Shares B KPN.

Kickboxer **Jacintha Risamasu**

"I Skype people in Mexico to show how I train and see their fights."

Watch Jacintha's story:
kpn.com/annualreport/jacintharisamasu

Governance

Composition of the Boards

Supervisory Board

KPN's Supervisory Board currently consists of seven members. The composition of the Supervisory Board changed in 2015. At the Annual General Meeting of Shareholders of April 15, 2015, Mr. P.F. Hartman and Ms. J.C.M. Sap were appointed as members of the Supervisory Board.

On November 27, 2015, Mr. Von Hauske Solis stepped down as a member of the Supervisory Board. Mr. Spanbroek, General Counsel and Company Secretary, acts as secretary to the Supervisory Board.

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

A vacancy will arise at the closure of the Annual General Meeting of Shareholders in 2016. Mr. Van Bommel will step down since he will have reached the end of his four-year term of office.

Composition of the Supervisory Board

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

X Chairman X Member

* Reappointment
** Financial experts within the meaning of the Dutch Corporate Governance Code

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

Mr. Sickinghe is Managing Director of Fortino (Belgium). He furthermore is Chairman of the Supervisory Board of Van Eeghen & Co (the Netherlands) and 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 has 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.

D.J. Haank
Mr. Haank is currently CEO of SpringerNature. 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.A.M. van Bommel
Mr. Van Bommel is currently a member of the Board of Management and CFO of ASM International N.V. Mr. Van Bommel is also non-executive director of ASM PT (Hong Kong) and a member of the Supervisory Board of Neways.

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.

P.F. Hartman
Since 2013, Mr. Hartman has been vice-chair of the Supervisory Board of Air France/KLM Group. Before that, he spent 40 years working for KLM, the last seven of those as CEO. He is a chairman of the Supervisory Board of Fokker Technologies Group and a member of the Supervisory Board of Koninklijke Ten Cate, a non-executive director of Constellium and a member of the Supervisory Board of Wageningen UR.

In addition, Mr. Hartman is chair of the Advisory Council for Aeronautics Research in Europe (ACARE) and a member of the Advisory Boards of Space Expedition Corporation and the Nederlands Lucht- en Ruimtevaartfonds (Dutch Aviation and Space Travel Foundation). Mr. Hartman 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 Supervisory Board of Telekom Austria Group, and member of the Boards of Grupo Financiero Inbursa and Nacional Financiera.

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

J.C.M. Sap
Ms. Sap dedicates herself to making the business world and society at large more sustainable. She is sustainability ambassador for the Dutch textile and clothing sector and occupies several supervisory and other functions, including chairing the Supervisory Boards of the GGZ affiliate Arkin, the Netherlands Public Health Federation, Fairfood International and KPMG N.V. (member).

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, among other things, head of the Incomes Policy department at the Ministry of Social Affairs and Employment, and director of the LEEFtijd center of expertise, a consultancy for sustainable employment issues. Ms. Sap is a Dutch citizen.

C.J.G. Zuiderwijk
Mrs. Zuiderwijk is chairman of the Board of Management of the Chamber of Commerce. She is currently a member of the Supervisory Board of APG and member of the Board of PubliQ.

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

Governance

Composition of the Boards

Board of Management

Composition of the Board of Management

Currently, the Board of Management consists of four members. As per March 1, 2015, Mr. Van der Post was appointed as a member of the Board of Management and Chief Commercial Officer.

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

Name	Position	Year of birth	Start of term	End of current term
E. Blok	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

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

Mr. Blok joined KPN in 1983 and has had various management positions, including as director of KPN's Carrier Services, Corporate Networks and Fixed Net Operator, and he was responsible for Corporate Strategy & Innovation. More recently, he was Chief Operating Officer of KPN's former Fixed division. He is co-chairman of the National Cyber Security Council.

J.C. de Jager

Mr. De Jager is member of the Board of Management and Chief Financial Officer.

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

F.H.M. van der Post

Mr. Van der Post is member of the Board of Management and Chief Commercial Officer.

He 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 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.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 had been responsible for all KPN's activities in the Netherlands as Managing Director Netherlands since February 2012, and in September 2014 he became responsible for the operating activities of KPN as Chief Operating Officer. Mr. Farwerck is a member of the executive committee of VNO-NCW and a member of the Board of Nederland-ICT. He is Chairman of the Board of the KPN Group company iBasis.

Insider transactions

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

The following table provides an overview of transactions in 2015 by members of KPN's Board of Management and Supervisory Board.

Date	Name	Transaction	Price per share
February 4	J.C. de Jager	Bought 49,430 ordinary KPN shares	EUR 2.86
February 4	D.W. Sickinghe	Bought 250,000 ordinary KPN shares	EUR 2.84
February 4	J.F.E. Farwerck	Vesting of 24,741 restricted shares awarded within the KPN Restricted Share Plan 2012–2015 into 11.876 ordinary KPN shares[1]	EUR –
February 4	J.F.E. Farwerck	Bought 27,000 ordinary KPN shares	EUR 2.85
March 1	F.H.M. van der Post	Award of 194,763 conditional KPN shares as compensation payment as approved by the General Shareholders Meeting on January 9, 2015	EUR –
April 16	E. Blok	Award of 347,454 conditional KPN shares	EUR –
April 16	J.F.E. Farwerck	Award of 156,695 conditional KPN shares	EUR –
April 16	J.C. de Jager	Award of 170,320 conditional KPN shares	EUR –
April 16	F.H.M. van der Post	Award of 190,759 conditional KPN shares	EUR –
April 23	E. Blok	Cancellation of 156,693 conditional KPN shares due to non-fulfilment of performance criteria	EUR –
April 23	J.F.E. Farwerck	Cancellation of 53,606 conditional KPN shares due to non-fulfillment of performance criteria	EUR –
April 30	E. Blok	Bought 25,000 ordinary KPN shares	EUR 3.35
April 30	J.C. de Jager	Bought 46,000 ordinary KPN shares	EUR 3.33
June 4	C.J. García Moreno Elizondo	Bought options for 40,810 KPN shares	EUR 5.02
July 29	J.C. de Jager	Bought 48,980 ordinary KPN shares	EUR 3.57
July 29	F.H.M. van der Post	Bought 25,250 ordinary KPN shares	EUR 3.56
July 29	J.F.E. Farwerck	Bought 25,000 ordinary KPN shares	EUR 3.51
August 5	E. Blok	Bought 4,978 ordinary KPN shares	EUR 3.62
October 27	E. Blok	Bought 4,630 ordinary KPN shares	EUR 3.45

1) After sale of part of the shares to finance the income tax.
2) 2 AMX bonds with a nominal value of 100,000 each, convertible into 20,405 KPN shares each.

Prior to his appointment as member of the Board of Management as per March 1, 2015, Mr. Van der Post held 25,750 ordinary KPN shares. This transaction was notified to the AFM upon his appointment.

Stock ownership Board of Management[1]

Number of ordinary shares	December 31, 2015	December 31, 2014
E. Blok	634,717	600,109
J.C. de Jager	206,410	62,000
F.H.M. van der Post	51,000	–
J.F.E. Farwerck	91,071	27,195

1) Shares held by current members of the Board of Management (including vested shares in lock-up period).

Report by the Board of Management

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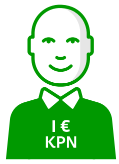
CCO KPN **Frank van der Post:**

“We can help customers make the digital transition”

Watch Frank’s story:
kpn.com/annualreport/frankvanderpost

Group performance – Financial and operational performance

Financial and operational performance



Note: All KPN Group figures presented are based on KPN's continuing operations and do not include the financial results of BASE Company, unless stated otherwise.

Group financial results

In 2015, we achieved strong customer base growth in our consumer segments as a result of our focus on excellent customer experience driven by our best-in-class networks and innovative services. The continued uptake of our fixed-mobile bundles has driven a significant reduction in churn. For more details of the financial and operational performance per segment, see Segment performance and Note 3 of the Financial Statements. Appendix 1 to this Integrated Annual Report includes KPN's adjusted analysis which explains the bridge between the reported and adjusted results per segment.

Revenues
in millions of EUR

7,008

2014: 7,409

Adjusted revenues
in millions of EUR

7,018

2014: 7,352

EBITDA
in millions of EUR

2,324

2014: 2,866

Adjusted EBITDA
in millions of EUR

2,419

2014: 2,417

EBITDA margin

33.2%

2014: 38.7%

Adjusted EBITDA margin

34.5%

2014: 32.9%

Our Simplification program delivered run-rate Capex and Opex savings of approximately EUR 280 million and approximately 1,450 FTE reductions, both compared with the end of 2013, the start of the program. Following the good progress in 2015, the run-rate Capex and Opex savings target has been increased from more than EUR 400 million (as announced in February 2015) to approximately EUR 450 million by the end of 2016 compared with 2013.

Revenues and other income

Adjusted Group revenues and other income were 4.5% (EUR 334 million) lower compared with last year. KPN continued to grow its Consumer base but this was offset by the impact of the ongoing decline of business market size. The negative impact of incidentals on revenues and other income for 2015 (EUR 10 million) was due to changes in revenue related provisions and deferred revenues at Business.

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

EBITDA

Adjusted Group EBITDA increased by 0.1% (EUR 2 million) compared with 2014. Customer base growth and the positive impact of cost savings offset lower EBITDA at Business.

EBITDA was impacted by restructuring costs of EUR 100 million (2014: EUR 80 million). The net positive impact of incidentals on EBITDA in 2015 amounted to EUR 5 million (2014: net positive impact of EUR 529 million). Incidentals in 2015 included a release of the asset retirement obligation at NetCo (EUR 6 million) and a change in provisions at Other activities (EUR 10 million), partly offset by changes in revenue-related provisions and deferred revenues at Business (EUR 11 million).

Incidentals in 2014 included (among others) the release of pension provisions (EUR 477 million), the release of incidental provisions of EUR 17 million and a positive impact from the tax settlement benefit (EUR 30 million).

Operating profit

Group operating profit (EBIT) decreased by EUR 504 million compared with 2014 (-42%) due to EUR 542 million lower EBITDA, of which EUR 477 million related to the release of pension provisions, offset by lower depreciation, amortization and impairment charges (EUR 38 million).

Financial income and expenses

Total financial income and expenses decreased by EUR 796 million to EUR 105 million (net finance costs) compared with 2014, mainly caused by book gains and dividends related to KPN's shareholding in Telefónica Deutschland in 2015 and expenses in 2014 related to a bond tender and Reggefiber.

Finance income included the EUR 146 million dividend received on the shareholding in Telefónica Deutschland (2014: nil). Finance costs decreased as a result of the lower gross debt position in 2015 (EUR 120 million) and the bond tender costs recorded in 2014 (EUR 236 million). Other financial results in 2015 include a realized book gain on the sale of shares of Telefónica Deutschland (EUR 184 million), whereas 2014 included expenses related to Reggefiber (refer to Note 29).

Income taxes

In 2015, KPN recognized a tax expense of EUR 81 million (2014: EUR 45 million). The effective tax rate for KPN's continuing operations for 2015 is 13.4% (2014: 14.6%), mainly due to recognition of liquidation losses in 2015 and settlements with the Dutch tax authorities in 2014 related to previous years. Also, 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%. For KPN, this facility is a driver to reduce the effective tax rate in the Netherlands.

Without one-off effects, the effective tax rate for KPN's continuing operations would have been around 21% in 2015. The effective tax rate (continuing operations) is expected to gradually increase to approximately 22% in 2017. See Note 9 of the Consolidated Financial Statements for further information on KPN's tax position.

Net Profit

Net profit increased by EUR 263 million (>100%) compared with last year mainly as the lower net finance costs and depreciation, amortization and impairment expenses offset the lower EBITDA.

Our main CSR achievements

KPN's achievements are also reflected in the value that we add to society. Here we present a summary of those achievements. In Appendix 2, we present the complete set of KPIs that measure our societal impact.

Transparent, reliable service provider
- NPS NL: +3;
- Simplified Consumer Mobile portfolio by 73% and Business portfolio by 36%.

Best-in-class networks
- Improved mobile coverage in less-populated areas;
- Pilot 5G;
- Launch of LoRa;
- 2 million homes passed FttH.

Privacy & Security
- Privacy Waarborg (2014) extended with Security check – Level Gold;
- 2nd place in international ethical hacker competition Cyberlympics.

The New Way of Living & Working
- Campaigned to encourage people to travel less and meet virtually instead;
- Developed theme on the future of work.

Healthcare of the Future
- 25,489 healthcare customers provided with comfort services;
- 4,387 chemists, practitioners, hospitals and IPSs connected to ZorgCloud.

Energy efficient
- Climate-neutral;
- First Tier IV datacenter in NL;
- Switched off old equipment and saved over 75,000,000 kWh in 2015.

Group performance – Financial and operational performance

Financial and operational performance

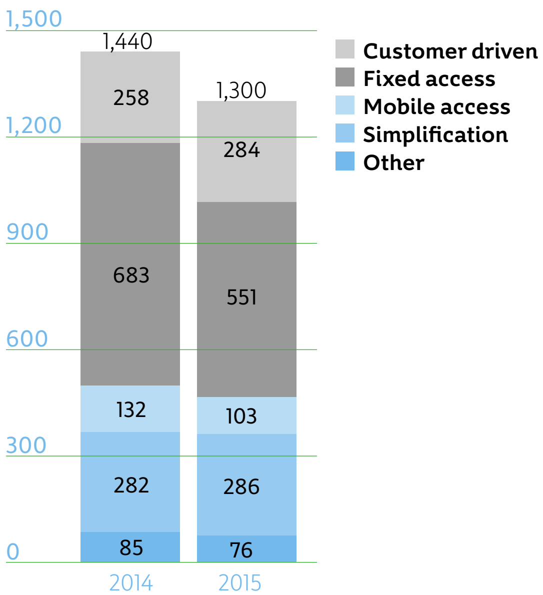
Cash flow, Free Cash Flow

Free Cash Flow for 2015 was EUR 849 million higher year-on-year at EUR 698 million. Excluding the EUR 146 million dividend received from Telefónica Deutschland, Free Cash Flow for 2015 was EUR 552 million, EUR 703 million higher year-on-year. The increase was mainly driven by EUR 172 million lower interest paid as a result of the lower gross debt level and EUR 574 million of non-recurring items impacting 2014 Free Cash Flow, partly offset by EUR 61 million higher Capex. Excluding the non-recurring items, the 2014 Free Cash Flow would have been EUR 423 million. These non-recurring items in 2014 included EUR 242 million payment related to reduced supplier payment terms, EUR 235 million payment related to pension agreements and settlement of legal claims (EUR 80 million).

Capex

Capex increased to EUR 1,300 million in 2015 compared with EUR 1,239 million in 2014, mainly due to consolidation of Reggefiber. Capital intensity is still relatively high due to investment programs in network capacity and speed, and Simplification. In fixed, FttC/FttH investments will drive fiber penetration to approximately 80% of Dutch households at the end of 2016, which is expected to result in approximately 85% coverage of households with access to speeds of at least 100 Mbps. In mobile, additional investments to increase available download speeds via carrier aggregation with 1800 MHz are expected to be largely completed by the end of 2016. Finally, IT investments related to Simplification were higher in 2015; these will drive Capex savings in 2016 and beyond.

Capex
In millions of EUR



Tax

The corporate tax department is responsible for KPN's overall tax position and optimal use of subsidy opportunities. KPN adheres to KPN's tax strategy and policy (available at www.kpn.com/taxstrategy).

In line with aforementioned tax strategy and policy, our Tax Control Framework is continuously monitored and optimized. In 2015, we redesigned the key controls for among others corporate income tax. Furthermore we provide a (internal) Tax in-control statement. Herewith, KPN secures that we maintain compliant with our tax strategy and policy (see Risk Management section on page 63). In The Netherlands KPN participates in a co-operative compliance program: KPN signed a covenant with the Dutch tax authorities to self-assess and transparently discuss KPN's current and potential future tax issues (enhanced supervision, 'horizontal monitoring'). This covenant is based on mutual trust and transparency.

The following Tax KPI's apply for 2015:

EBIT tax rate
23.7%

Normalized ETR
20.6%

Effective tax rate (ETR)
13.4%

Cash tax rate (CTR)
-3.0%

Geographical tax overview (in millions of EUR) for 2015:

	Total Segment Netherlands	iBasis	Other	KPN continuing operations
Total revenues	6,176	920	-88	7,008
Operating profit	771	12	-75	708
Profit/loss before tax	668	12	-75	605
Corporate Income Tax expense	**-76**	**-5**	**–**	**-81**
Corporate Income Tax cash flow	**20**	**-2**	**–**	**18**

Disposal group held for sale: BASE Company

On April 20, 2015, KPN announced that it reached an agreement to sell BASE Company to Telenet. BASE Company is classified as 'disposal group held for sale' as of April 15, 2015. On February 11, 2016, KPN sold BASE Company to Telenet for EUR 1,325 million. See Notes 19 and 32 of the Financial Statements for further information.

In 2015, the profit from discontinued operations of EUR 135 million comprised of the positive result of BASE Company (EUR 148 million) and remaining expenses related to E-Plus (EUR 13 million).

Outlook

- Adjusted EBITDA in line with 2015;
- Capex ~EUR 1.2 billion;
- Free Cash Flow (excluding TEFD dividend) > EUR 650 million;
- Additional cash flow via expected dividend from 15.5% stake in Telefónica Deutschland.

Shareholder returns and remuneration

KPN intends to pay a dividend per share of EUR 0.08 in respect of 2015. An interim dividend of EUR 0.03 per share was paid in September 2015. In respect of 2016, a dividend per share of EUR 0.10 is intended. Dividends are intended to grow in line with KPN´s Free Cash Flow growth profile.

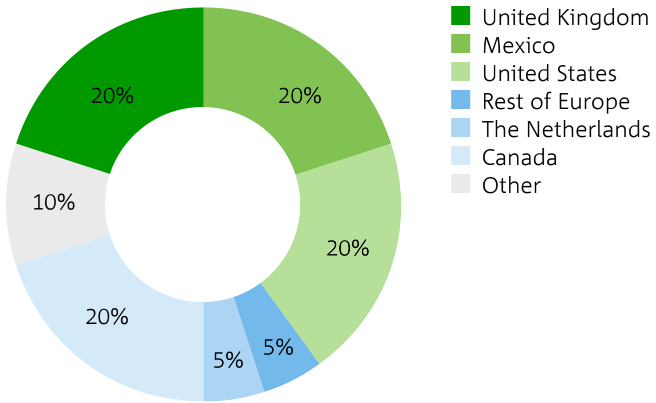
On May 13, 2015, KPN received a dividend from its stake in Telefónica Deutschland of EUR 146 million over 2014, which KPN has distributed to KPN shareholders as an additional interim cash dividend (EUR 0.034 per share).

In November 2015, KPN reduced its stake in Telefónica Deutschland from 20.5% to 15.5% by selling 150 million shares of Telefónica Deutschland for an amount of EUR 805 million. These proceeds are considered excess cash. In February 2016, KPN sold BASE Company to Telenet for EUR 1,325 million. After compensating for loss of EBITDA generated by BASE Company, EUR 900 million is considered excess cash. KPN intends to distribute approximately 70% of the combined excess cash obtained through these transactions to its shareholders in 2016 in the form of a EUR 1.2 billion capital repayment (EUR 0.28 per share). This capital repayment is subject to shareholder approval at the AGM on April 13, 2016 and is expected to made payable in June 2016.

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

KPN Shareholding

Estimated geographic breakdown per December 31, 2015 (based on institutional holdings)



Share ownership

- On March 21, 2014, Discovery Capital Management, LLC notified that it held 3.77% of the voting rights related to KPN's ordinary share capital;
- On October 1, 2014, Franklin Mutual Series Fund, Inc. notified that it held 3.63% of the shares and voting rights related to KPN's ordinary share capital;
- On April 30, 2015, BlackRock, Inc. notified that it held 5.01% of the shares and 5.87% of the voting rights related to KPN's ordinary share capital;
- On February 9, 2016, América Móvil, S.A.B. de C.V. ('AMX') published that it held 21.1% of the shares and voting rights related to KPN's ordinary share capital as at December 31, 2015.

To KPN's knowledge, no other shareholder owned 3% or more of KPN's issued share capital as at December 31, 2015.

Financial calendar 2016

February 3, 2016
Publication of full-year 2015 results

February 25, 2016
Publication of 2015 Integrated Annual Report

March 7, 2016
Capital Markets Day

April 13, 2016
Annual General Meeting of Shareholders

April 29, 2016
Publication of first-quarter 2016 results

July 27, 2016
Publication of half-year 2016 results

October 27, 2016
Publication of third-quarter 2016 results

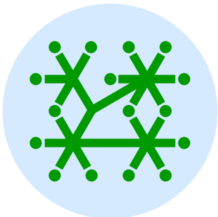
Note that these dates may be subject to change.

Group performance – Innovation

At the forefront of innovation

It is important that KPN is at the forefront of innovation to become the best service provider. We continuously innovate and invest in our networks, products and services, so our customers can benefit from emerging trends and technologies that will enhance user experience.

Launch of Internet of Things (IoT) Academy



Introduction of KPN Ventures

% reduction of propositions in the consumer mobile segment*

73%
2014: ~65%

% reduction of propositions in the business segment*

36%
2014: ~20%

*The reduction of propositions is compared with 2013, the reference date of our simplification program

Our vision on innovation

With innovation, we can improve our existing products and services and develop a steady stream of new ones that give us an edge in a highly competitive and rapidly evolving industry. Creating value for our customers is fundamental to who we are and what we do. We want to be an innovative partner for all our stakeholders.

KPN New Business enhances innovation

To capitalize on our unique position in the market and be at the forefront of innovation, we established ‘KPN New Business’ in 2015. This new department manages innovation through a proprietary three-step process: search, qualify and incubate. ‘Search’ means the KPN New Business team is continuously looking for promising ideas, talking to customers, suppliers, innovative start-up companies, technology experts and thought leaders. In the ‘qualify’ stage, the team assesses whether the selected ideas fit our strategy, are relevant to our customers and represent a feasible business case. Once an idea is approved and a business plan is drafted, it enters the ‘incubate’ stage. We set up a small, dedicated ‘incubator’ start-up business that works with partners to execute the idea and grow the business until these initiatives can become a freestanding new business line within KPN.

KPN Ventures

In 2015, we introduced an investment fund called KPN Ventures. KPN Ventures is an initiative by KPN to empower disruptive innovation by enabling entrepreneurs to foster the development of their start-ups. In the current fast-pacing economic environment, we strongly believe that game-changing innovations are more and more developed outside the corporate office, in innovation- and venture business around the world. Our venture fund is able to support and boost the development and commercialization of new innovations in order to make them accessible for customers early on. The KPN Venture Fund has an initial amount of EUR 35 million available for selected investments for the coming years to invest both directly in start-ups as well as indirectly.

KPN New Business aims to stimulate an entrepreneurial culture among KPN’s employees and is always open to receiving ideas from people inside and outside our company.

Responding to trends

Stakeholder feedback plays an important role in our innovation process. Trends in society and technology also guide the way we approach innovation. Products and services we develop based on these trends can contribute to resolving issues in society. One trend where we see concrete opportunities is the Internet of Things (IoT). Connecting millions of objects to the internet and with each other is relevant to KPN as a ‘connectivity’ expert. We also see opportunities in the data generated by connected objects. KPN can provide secure and safe data storage services and enable the intelligent use of IoT generated data. With these capabilities, we aim to be the IoT enabler in the Netherlands.

We set up an IoT Academy in 2015 to explore IoT-related business opportunities. We organized workshops and ‘hackathons’, where start-ups, technology providers and corporates could explore ways in which the IoT can address business challenges. We firmly believe the IoT can help resolve issues in society. Examples include using location sensors in cars to reduce traffic jams in cities, or using sensors to improve waste management by indicating when a public bin needs to be emptied. We work with partners to develop innovative products based on the ‘open innovation’ concept, meaning we share insights and technology that allow us and our partners to develop innovative products and services faster and more efficiently.

Executing new ideas

In 2015, ideas in four areas reached the incubator stage of our innovation process and we took steps to start their implementation. These were LoRa, 'smart city', SmartLife and security.

LoRa

LoRa is a network that enables 'long range' communications using very low power levels. Sensors with only a very small battery can be connected to the internet for five to 15 years using LoRa, enabling a wide range of applications. For instance, sensors placed in industrial plants and cities can detect CO_2-emissions and pollution emitted by cars, helping policymakers to monitor and improve air quality; or LoRa-connected sensors in bridges and roads can monitor vibrations and send data on the condition of building materials, enabling more efficient maintenance. Other possible uses include using sensors to track and trace bicycles or shopping carts. Working with our business partners, we aim to become the leading enabler in the Internet of Things market in the Netherlands using LoRa and M2M-networks such as 2G/3G/4G.

Smart city

Smart city refers to IoT-based products that make city living more convenient and environmentally friendly. For instance, we are investigating the use of movement sensors to turn on street lighting only when a vehicle or person passes, saving electricity. Another smart city concept is using sensors to show where there is an available parking space. This could reduce vehicle emissions in cities because cars won't have to drive around looking for parking. It is our preference to work with partners in developing opportunities like these.

KPN SmartLife

KPN SmartLife is the new Smart Home-services category that KPN launched in October 2015 with the introduction of SmartLife Veilig, a home security solution. Consumer research has shown increasing interest of consumers in connected services within and around the home. Users want services that provide peace of mind and are easy to use. KPN believes that end-2-end Smart Home services that are relevant to users can improve the quality of life of these users. KPN SmartLife offers integrated services and aims to make life within and around the home easier. SmartLife can be remote controlled through the secure SmartLife-app, wherever the user is and whenever he wants. KPN is working with partners in order to offer end-to-end solutions to its users. For SmartLife Veilig, KPN is working with security company Trigion for alarm follow up. Furthermore, KPN integrates point solutions such as Philips Hue to its SmartLife offering in order to offer users a richer experience. The line-up of SmartLife Veilig offers customers freedom of choice and customization to a user's personal situation. The SmartLife portfolio will be built further in 2016, leading to a rich and user-customizable portfolio that consists of multiple modules.

Security

Cyber security is an issue of growing concern in the Netherlands and we are exploring ways to enhance security. In addition to our portfolio for the corporate market, in 2015 we started offering a service to help small and medium-size enterprises (SMEs) identify weak spots in their systems and defend against hackers. Based on this analysis, we can propose measures to improve their security and help these companies safeguard their business continuity. In addition, we are developing a solution that will allow banks to offer secure mobile payment applications to their customers. We have applied this technology in a Dutch pilot to test the use of smartphones to pay for public transport instead of the current smartcards (OV chipkaart).

Simplifying existing products

Digitization and simplification are the main measures of our efforts to improve our internal processes, leading to a shorter time to market and higher customer satisfaction. Uniform, simplified processes also improve employee satisfaction. With digitization, we want to offer our customers the same excellent service and seamless customer experience across all our channels, with a special focus on online sales and services. With simplification, we meet customers' demand for simple, easy-to-use products and services. The steps we take to digitize and simplify are based on customer feedback and a longer-term plan to realize IT improvements.

In 2015, we introduced KPN ID, a new simplified log-in procedure that enables customers to use the same ID and password to log in to our different services and products, such as TV, internet, mobile and telephony accounts. We continued to migrate customer data to our new, improved IT domain; 64% of our residential base has been migrated towards a future-proof IT domain per end 2015. We choose IT applications based on their customer friendliness. In 2016, we expect to continue to improve and rationalize our IT applications portfolio and realize a further reduction of approximately 11% in applications.

Dilemmas

A challenge we are dealing with is that innovation can only be managed and controlled to a certain extent. The outcomes of innovation processes are often unpredictable, while significant investments and efforts need to be made. To make sure we don't lose a lot of time and money, we want to be more like a start-up and move fast for innovation to be effective.

Group performance – Privacy & Security

Leading the way in cyber security and privacy

The more we work, shop and socialize online, the harder it becomes to keep information private and the more vulnerable we are to cybercrime. We believe that we should be able to enjoy the benefits of global connectivity without worrying about the privacy and security of your communications. We continuously strive to secure our systems, products, and services to create a safe digital environment that, in turn, guards customer privacy.

% of Dutch people that feel their data is safe with KPN[1]

73%

2014: 69%

# of customers that choose opt-in for sharing personal data

330,851

2014: 156,677

2nd place in international ethical hacker competition Cyberlympics

2014: 3rd

Introduction of KPN SmartLife Veilig

1) Measured as 'top 3 companies where my data are safest' from a list of 12 key ICT and social media companies in the Netherlands.

Information security includes organizational, technical and process measures to protect our customers and networks against cyberattacks. Privacy is about assuring customers they can trust us to keep their digital data safe. This trust goes hand-in-hand with being transparent about why and how we use their data (for example, to improve our services based on customer roaming patterns), and giving customers the choice of whether or not to share their data with us.

In 2015, 73% of the Dutch people believed that their data was safe with KPN[1]. In 2014, this was 69%.

Our security approach

Keeping our systems safe demands continuous vigilance and rapid adaptability, especially since we must counter attacks that are increasingly sophisticated. Our security model is based on the security lifecycle approach: *prevent*, *detect*, *respond* and *verify*. We have a strategy and a policy team to *prevent* security attack, a REDteam of ethical hackers to pro-actively *detect* vulnerabilities, a Computer Emergency Response Team (CERT) to *respond* to incidents and a Senior Security Officers team (SOC) to *verify* and embed security in the business. The SOC & CERT monitor our systems and networks 24/7. They detect vulnerabilities and incidents, and provide a rapid response and resolution.

We continue to invest in multi-level public private partnerships to safeguard and strengthen the digital domain and cyber security. KPN works closely with the Dutch National Cyber Security Center on an operational (CERT), a tactical (Telecom

Chief Information Security Officer KPN **Jaya Baloo:**

"KPN is the Netherlands. The Netherlands is KPN"

Watch Jaya's story:
kpn.com/annualreport/jayabaloo

ISAC) and a strategic (Cyber Security Council, NCSC Council) level. Because of our close cooperation with other CERTs, NCSC, software and hardware vendors, we have been able to take rapid measures to protect our network and that of our customers.

An example of a cyber threat we have defended against this year was the 'Stagefright' bug. We have also warned customers about false emails via kpn.com.

In the summer of 2015, there was an allegation that the NSA had tapped KPN transit connections in Germany via the Bundesnachrichtendienst. Since this tapping allegedly happened 10 years ago on the Deutsch Telekom transit part of the connectivity, it was not possible to thoroughly confirm nor deny these allegations, despite intense effects investigations.

Ethical hacking

Our REDteam once again proved its ethical hacking expertise, advancing to the finals of the 2015 Global CyberLympics. KPN became second in the final round amongst the world's top ethical-hacking teams. Furthermore, in 2015, we asked the REDteam to launch an internal attack exercise in order to match the advances of new attacks and thereby strengthen our network accordingly. We also further developed CERTteam's so-called 'honeypots'. These are servers that appear to be part of our network but are used to attract hackers so we can observe their tools and methods, and by doing so hopefully prevent real attacks.

In recognition of her outstanding leadership and excellence in cyber security, our Chief Information Security Officer, Jaya Baloo, was named Cyber Security Executive of the Year by Accenture.

Improving internet safety

Making the internet safer for children is a key focus area for KPN. In 2015, a study of emerging trends among young internet users was commissioned by the European ICT Coalition for Children Online. KPN is a member of the coalition. The study was outlined in June and the ICT Coalition invited all stakeholders (NGOs, the European Commission) to share their comments, feedback and ideas to help members shape their future actions. The outcomes were presented and discussed with stakeholders at the ICT Coalition forum event in January 2016. KPN will use these outcomes to plan its future actions.

Fighting malware

The KPN Abuse team was able to help on average 72% of customers resolve malware infections within eight hours in 2015. This was well below our 98% target, largely due to several incidental system issues at the start of the year. Repeated manual synchronizations of customer contact information database have improved the score over the last quarter to 91%. The automation of this process will clear the last gap towards 98% and is completed by the end of January 2016. Another (continued) KPN initiative to fight malware infections is the Abuse Information Exchange. Here, internet providers share information about possible malware infections, enabling us to alert and inform our customers better. It is our belief that, the joined approach has contributed to a decline in the overall infection rate.

Enhancing digital security

We implemented four initiatives in 2015 to increase trust and improve the security of our infrastructure.

1. In 2014, we achieved the Dutch 'Privacy Waarborg'. In 2015, we furthermore achieved a gold standard for security from the committee of Privacy Waarborg.

2 KPN signed and implemented the Mutually Agreed Norms for Routing Security (MANRS), a global industry initiative to improve internet security. The measures enhance trust between providers to create a safer and stronger internet for all users. Implementing MANRS shows KPN's commitment to providing secure and trustworthy communications for all.

3. We improved kpn.com security and were upgraded from an F to a B rating by independent body SSL Labs. SSL is the standard protocol for encrypted network communication.

4. KPN believes true strength can be achieved through cooperation. To that end, we developed an open-source application to provide our security policy as well as multiple tools so that others can benefit from our efforts in the field. This application will be launched in the first quarter of 2016.

Thought leadership

With our knowledge, we can help other companies improve their own security practices, making the Netherlands more secure overall. Our experts share their insights at both national and international conferences, in publications, and through campaigns such as Alert Online. It was the third year that we partnered with this national campaign to raise public awareness of online privacy and security issues. In 2015, the focus was on doing business responsibly in a digital environment, especially for small and medium enterprises. For the first time, we involved KPN customers and other interested parties and live-streamed all events via YouTube. We also blogged on the Alert Online website. In three days, we had about 700 participants who signed up for our three sessions on Advance Persistent Threats, IoT security and the future of cryptography.

During the Cyber Security Week in April 2015, the NCSC One conference and Global Conference on Cyberspace (GCCS) took place. The CISO of KPN gave the opening keynote at the NCSC One conference and led the discussion about ethical hacking at the GCCS. Our CEO prominently featured during a stakeholder panel on emerging security threats. During the GCCS, the Cyber Security guide for business was launched, which we sponsored and helped to create.

Group performance

Privacy & Security

The changing privacy landscape

Data protection and privacy laws in the Netherlands and Europe are changing. This will have consequences not just for KPN but for any business that gathers and stores digital information. For example, if there is a data breach, companies will have to notify their users and the authorities within 24 hours or risk a fine of up to EUR 820,000. Once the new General Data Protection Regulation (GDPR) takes effect, companies will have to appoint a data protection officer to oversee how they process data and they will have to delete information about individuals if requested to do so under the right to be forgotten. They will also have to design privacy into new products and assess the impact of those products on users' privacy.

Preparations are being made to comply with these future requirements. KPN already fulfills a number of the new GDPR requirements. We have a data privacy officer, we only process traffic data for marketing and sales activities if the subscriber has given his prior consent, we are developing 'privacy by design' products, and we carry out privacy impact assessments, although not yet consistently across the company. While we will honor a customer's right to rectification and delete their data at their request, there is certain information about customers and product use that we are legally obliged to keep. We have to keep invoices for tax purposes, for example.

In 2015, we took the first steps to simplify KPN's privacy statement. We want to be more transparent and make it clear and easy for our customers to understand how and why we use their data and what we do with it. We will continue this in 2016.

Stakeholder expectations

Ongoing discussions with our stakeholders show a growing awareness of privacy issues among customers, politicians, policymakers and the general public. In dialog with multiple Dutch business customers, KPN is acknowledged for its neutrality and the trust that is very closely related to it. They mention a need for a trusted party to facilitate the exchange of information and acknowledge KPN as a partner who could fulfill this role. Transparency, neutrality and security are the key success factors. They advise us to take a neutral position: no interference in the contents of communication. Our Golden Rules and strategic positioned Data & Analytics organization are there to govern this.

It is our policy to tell our customers how we use their data to develop our business, and to give them the option of sharing their information with us. This makes it harder for us to compete with companies that process their customer data without explicitly asking permission.

At the end of 2015, 331 thousand customers opted to let KPN process their data so we can improve and personalize what we offer those customers. This was above our target of 300 thousand. Opting in is a signal that customers trust us to treat their information with care.

New initiatives

KPN is developing more products with enhanced privacy as a built-in feature. In November 2015, we released Play. by KPN, an app that allows users to watch films and TV shows on their smartphone or tablet. Unlike existing on-demand services, Play customers have to give us permission before we can monitor their viewing behavior, for example to recommend related content.

The Dutch government is looking to introduce an electronic identity system (eID) in the Netherlands by 2017. We aim to become the leading player in this area. We are working with the government to develop the system, known as Idensys, which will become the standard way for people and businesses to access government services and provide personal information. We did not meet our target for 8,000 Dutch citizens to use a KPN eID by the end of 2015, due to the introduction of the national eID (in a public private cooperation) was delayed from Q4 2015 to Q1 2016.

Furthermore, we introduced new security products last year, such as a security scan for SMEs, and Smart Life, a home automation security system.

Raising awareness

We launched a national consumer-awareness campaign to promote safe internet behavior including the tools consumers can use to clean (remove) possible infections from their home computer systems. The campaign was run in cooperation with the Dutch government's 'safe internet' website (veiliginternetten.nl). Its content and graphics were designed so every internet service provider could use the material in their own customer communications, maximizing the campaign's effectiveness.

A new internal classroom-training program aims to educate employees about subjects such as privacy. 528 people attended the mandatory sessions in 2015, building on the previous year's 'Get the Code' e-learning modules. And to raise awareness among staff about hacking, we held a 'capture the flag' event, where participants could learn to think like a hacker.

Dilemmas

We respect our customers' right to privacy, in line with national regulations and international human rights. At the same time, we have to comply with national laws requiring us to disclose information to the national investigation agencies. This is part of our license to operate, meaning we are obliged to facilitate this in our infrastructure and cooperate with lawful interception orders as specified in the Telecommunication Act. We treat these warrants with the utmost care and responsibility. We have a liaison office available 24/7 to facilitate interaction with law enforcement for all KPN brands. We assess incoming warrants and check on various aspects to filter out any uncertainty.

If we note a deviation, we reject the warrant, inform the agency involved and follow relevant procedures. In 2015, we have rejected 1.3% of the warrants received.

In 2015, 99.3% of the interception orders concerned telephone numbers, 0.1% regarded email addresses and in 0.6% of the cases we were ordered to intercept IP addresses.

Dutch telecom data retention law

A Dutch court ruling in March 2015, found the Dutch telecom data retention law of 2009 to be invalid. This set in motion a process to destroy data that had been retained under this law. A month after the ruling, the regulator carried out an inspection and verified the data had been destroyed.

Proposals for a new data retention law and a new Dutch intelligence and security law are actively being reviewed and KPN has provided its comments on both initiatives in public consultation. The proposed changes include non-specific bulk interception powers for any form of telecom or data transfer and require mandatory cooperation by providers of communication services. The direct impact on our customers' privacy, the impact on our network integrity, and the lack of sufficient oversight and transparency are key elements of our comments. In addition, the measures our industry must take to comply with the proposed laws are regarded as a cost risk for the providers. KPN will continue to contribute to the public debate in a bid to improve the proposed conditions.

Privacy

KPN aims to be the most trusted operator in the Netherlands. To increase trust, we want to give our customers more clarity about how and why we process data and how data can help us improve our services to benefit them.

We will create more awareness about digital ethics, which are changing as a new generation of users comes online. Younger users who are growing up in an online and digital world are already behaving differently online. This raises questions about how the internet affects young brains, the levels of acceptance and risk, and how we should approach these youngsters who are interested in explicitly choosing whether or not their data is used.

Looking forward

Security

We will continue to proactively detect and defend our systems and products against rapidly evolving and persistent cyber threats, as well as investing in our people and in technology to keep pace with security developments.

We want to improve our capability to detect and stop virus and malware, and create better mechanisms to detect and stop email spam and phishing for both ourselves and our customers.

We want to contribute to a safer internet, not just for KPN customers but for all users everywhere. We will seek to work with other internet service providers to make routing infrastructure more resilient and secure by actively participating in projects such as the router resilience manifesto, as well as coming up with our own innovations. This will help prevent BGP (Border Gateway Protocol) hijack attacks, where large blocks of internet traffic are illegally redirected.

We see the need for cryptography that can withstand the computing capabilities of quantum computing – a new type of computer that will be powerful enough to decrypt all current cryptography. This will leave secure services everywhere vulnerable. KPN has to prepare for a post-quantum world so we can continue to protect our customers and their data.

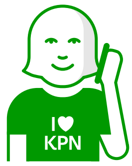
Manager Calamities Be Alert KPN **Richard Ricke:**

"Incidents only close when customers can use the service again."

Watch Richard's story:
kpn.com/annualreport/richardricke

Group performance – Quality and reputation

Becoming the best service provider



It is our ambition to become the best telecom service provider in the Netherlands. Our reputation and the extent to which people recommend us are good indicators of how well we are doing. More importantly, it's a part of our core company strategy to further strengthen our quality and reputation.

+3

Overall NPS KPN NL
2014: -3

3rd

Third place among European telecoms in the RepTrak ranking

RepTrak pulse score of 70.8
2014: 67.1

837

Children provided with a KPN Classmate
2014: 540

2,270 times employees volunteered for KPN Mooiste Contact Fonds
2014: 1,955

563,000 visits to Late Rembrandt exhibition online

Reputation

Our efforts to strengthen our reputation focus on improving the quality of our products and services and on increasing customer satisfaction. Crucially, we also focus on the value we create for society. We connect millions of people in the Netherlands every day. More than this, we use our fixed and mobile networks, and IT expertise to help society in other ways, from using technology to connect sick children to their classrooms, to brighten the day of a lonely elder person with a friendly phone call. Because reputation is part of our core company strategy, our reputations goals are part of the Long-Term Incentives.

RepTrak results

Over the past three years, we have seen an increase in the reputation of KPN, resulting in a reputation score around 70. This is much better than the average RepTrak score in the telecom industry. KPN's reputation showed a marked improvement in 2015, climbing to third place among European telecoms in the Reputation Institution's annual RepTrak ranking of the world's most reputable companies. In the Netherlands, RepTrak monitors the 30 largest Dutch companies, including KPN.

For several years, our reputation target has been based on three RepTrak attributes. Our performance in all three areas in 2015 indicates our initiatives to enhance our reputation are having a positive influence. We put this down to our focus on the quality, simplicity and clarity of our products and services, our customer service, value for money, carbon-neutral footprint – we became carbon neutral in 2015 – and contribution to society. All of these factors are building a stronger KPN brand.

Customer loyalty

In 2015, we again concentrated on simplifying our products and processes, and improving our customer service, to make KPN more attractive to our new and existing customers.

We introduced simpler mobile propositions with higher data bundles. For our business customers in the corporate and large business segment, we launched KPN ÉÉN, an integrated fixed, mobile and internet package. We also offered business customers free mobile data upgrades, which were well received and led to higher recommendations of KPN.

In addition, we improved our existing portfolio for the business market. For example, we implemented a site survey that led to a higher Net Promoter Score (NPS) for KPN ÉÉN among medium-size companies from -35 to -8. The NPS for OPIB, our internet and phone package for businesses, also improved due to the introduction of real-time cleaning.

In the Consumer segments we simplified and improved our product portfolio and merged our copper and fiber propositions. We introduced Play. by KPN, an on-demand TV and movie service, and made it possible for people living at the same address to share data MBs with each other. Based on acquired insights, we introduced several other initiatives that improved the customer experience and increased customer loyalty among consumers. These include offering music-streaming service Spotify; Begin Gemist, which allows TV viewers to restart a program; and TV everywhere for iTV online, an app for watching television on a tablet or smartphone.

We are especially proud of our results in transitioning and retaining customers of our former Hi brand to the KPN brand. This was the result of mapping the customers journey to see from their perspective where and how we could help them, thereby improving our service.

Results 2015

Our efforts to establish KPN as the best service provider helped to lift the average NPS for KPN in the Netherlands to +3. NPS is the method we use to measure the loyalty our customers, based on whether or not they will recommend KPN to others. Our NPS score rose in all segments, shown in the infographic below. This positive trend shows we are doing the right things to improve customer loyalty.

Customer feedback

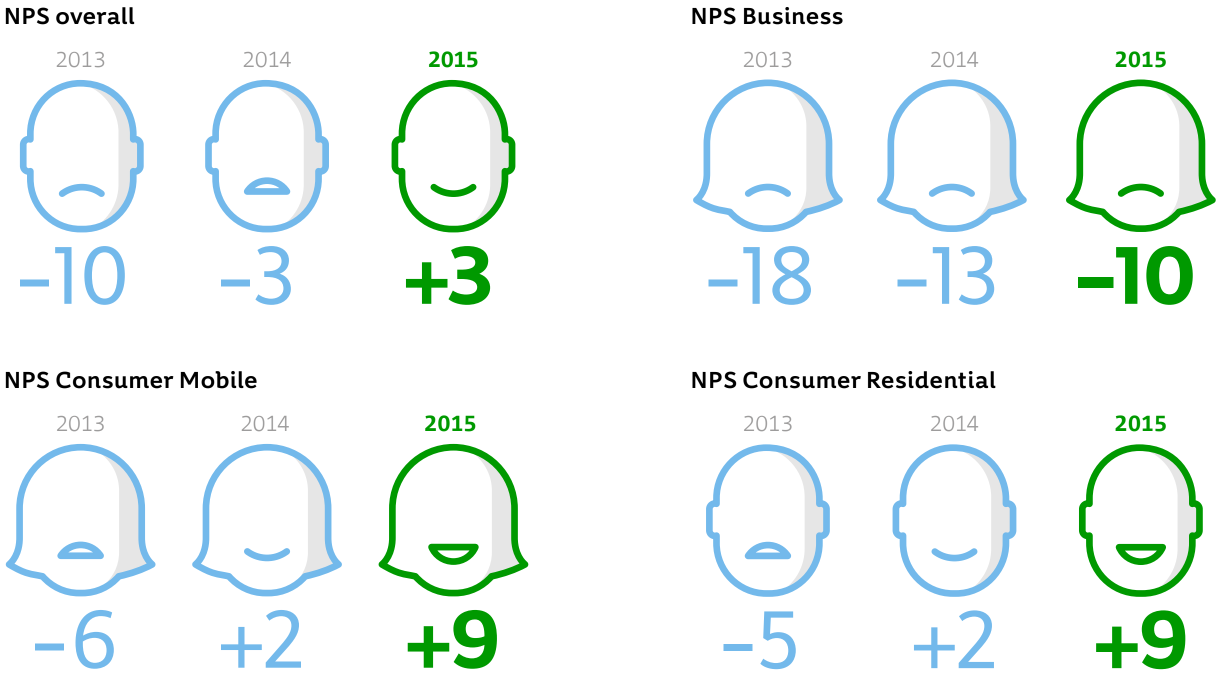
We listen to our customers to improve our service. We apply ‘closed loop feedback’ (CLF), which means we survey customers immediately after each interaction (in call centers, retail shops or with engineers in the field) to get their feedback and, if necessary, act to improve their satisfaction. NPS scores increased, especially at our Business Market contact centers for middle-size, large and corporate business customers. Also customer satisfaction for Consumer Mobile contact centers rose.

Based on our customer research, we can conclude that access to the network is more important for customers than network speed. Without access, they feel they are missing a ‘lifeline’. We therefore made a real effort to improve the accessibility of our network.

In response to customer research, we initiated a project to create a single-user identity for all KPN services. This allows customers to log in to all their fixed line and mobile services with the same user name and password. The first phase, implemented at the end of 2015, gave customers one identity for their fixed services. The second phase will extend to mobile services in 2016.

One area we are looking to improve is billing, where there is still high customer dissatisfaction. We have initiated projects to address this and expect to see the results of this in 2016.

NPS scores



Group performance

Quality and reputation

Sponsorship

KPN connects people in the Netherlands. This is the leading principle of our sponsorship activities. Like our core business activities, the projects we support connect people, either through technology or through sports and cultural events. Notably, the KPN Mooiste Contact Fonds, which connects socially isolated people; we sponsor Dutch speed skating, a much-loved sporting tradition; the Rijksmuseum, home to the national art collection; and a new initiative, the TEAMKPN Sports Fund.

KPN Mooiste Contact Fonds

Our charity program, the KPN Mooiste Contact Fonds, aims to use KPN's people and technology resources to connect isolated people who are in need of social contact. These include the elderly and chronically ill children. We provide both long-term support for initiatives and help to start up new projects. In 2015, employees and partners volunteered 2,270 times for various projects.

Our 'Hello, anybody out there?' corporate marketing campaign successfully raised the program's public profile and more than 20% of Dutch people are now aware of the fund and its purpose. The campaign was perceived as KPN's most sympathetic yet, and contributed to raising awareness of our efforts to be a good corporate citizen.

We made progress in 2015 on our KlasseContact project with partner EDventure, enabling 837 chronically ill children at home to stay in touch with their school friends via our KPN Classmate digital device.

To stimulate social interaction in 2015, we organized four communal dinners for socially isolated people in partnership with the Dutch National Elderly Fund and the Salvation Army. These were attended by 720 guests and 450 KPN volunteers. And for our Mooiste Contact Day, we partnered with the Salvation Army to arrange a social outing to the Rijksmuseum.

We started a new project in 2015 with the National Foundation for the Elderly. Zilverlijn is a phone service that aims to combat loneliness among the elderly. This is a major social issue that affects about 1 million Dutch people. Through the Zilverlijn project, KPN volunteers engaged with elderly people in a personal telephone chat.

We also collaborated with the Dutch Kidney Foundation in helping to free patients from frequent and lengthy hospital stays, which can be socially isolating, by setting up a trial for mobile kidney dialysis at home. Our common goal is to ultimately develop a wearable artificial kidney in which mobile technology will play a vital role.

School pupil **Brett Koelewijn:**

"I hope for the future that I don't need to use KPN Classmate anymore"

Watch Brett's story:
kpn.com/annualreport/brettkoelewijn

KPN main sponsor of Dutch speed skating (KNSB)

KPN has sponsored the Royal Dutch Skating Association (KNSB) since 2010. Speed skating is an immensely popular Dutch sport, and sponsoring the national team and related activities help us strengthen our reputation among fans and gain their loyalty, goodwill and preference for our brand. Following the success of the Dutch team at the last Winter Olympics, KPN invited 25,000 customers to attend the national speed-skating championships in 2015.

KPN main sponsor of Rijksmuseum

As part of our ongoing relationship with the Rijksmuseum, we use technology to connect more people to Dutch art and culture. In 2015, we were the main sponsor of the 'Late Rembrandt' exhibition. For the first time, more than 100 of Rembrandt's later works from collections around the world were displayed together in Amsterdam. We created and built a digital platform to connect the new with the old world, where art lovers could view the Late Rembrandt exhibition online. The platform attracted 563,025 visits – even more than the number of visitors that attended the exhibition itself. We are proud of our contribution to the exhibition's online and offline success.

TEAMKPN Sports Fund

In 2015, we launched the TEAMKPN Sports Fund. This is a social initiative to support lesser-known sports in the Netherlands. Although Dutch people participate in many different sports, often with great success, not all sports share the same opportunities. The TEAMKPN Sports Fund was set up to provide financial support for teams from sports that can use a helping hand. These must be sports recognized by the Netherlands Olympics Committee*Netherlands Sports Federation (NOC*NSF) but not mainstream.

The first two teams we are supporting are the Dutch Men's Basketball team and the Dutch Men's Water Polo team. With our financial support, the national basketball team can compete in the European Championships in Zagreb, while the water polo team is going to the European Championships and can even qualify for the Olympic Games in Rio 2016.

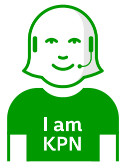
Speed skater **Ireen Wüst:**

"I nearly have 112,000 followers on Twitter"

Watch Ireen's story:
kpn.com/annual/ireenwust

Group performance – Our people

An engaged and confident KPN team



Our people are the driving force of our customer experience and ultimately our business success. We want them to be confident about the future, at a time characterized by fast and radical change and less job certainty. As an employer, we help them develop and give them the tools to develop their skills, stay healthy and enhance their value as an employee.

25%

% of female employees
2014: 24%

83%

% of redeployment of employees < 1 year after leaving KPN
2014: ~80%

4.3%

% of absenteeism[1]
2014: 3.8%

77%

Employee engagement
2014: 70%

Our people strategy

In 2015, we set about transforming into a simpler, more focused organization that is ready for the future: one that is increasingly digitized and automated, with new ways of working, and in which the population is ageing. We concentrated our HR activities on four areas we identified in 2014 to align our people strategy with our corporate strategy: being a connected organization, being a future-proof employer, simplifying our organization, and simplifying HR processes and tools.

ÉÉN KPN: a connected organization

A connected organization starts at the top. We want inspirational leaders who can guide their employees, both in terms of what they are expected to deliver and the skills they need to do so. Our performance management system looks at the value people create. Managers set the strategic direction for their teams, but each individual defines their contribution to realizing this. We provide personal development tools such as the KPN Academy, where employees can develop their skills and learn new ones. Each employee has a budget for job-related training, as well as a personal employability budget.

Being an attractive employer

To attract and retain talented people with the right competencies, we initiated a project in 2015 to build KPN as a strong employer brand. Sentiment towards KPN among employees improved and 69% said they would recommend KPN as an employer. Our annual employee survey also showed 82% of people are proud to work at KPN and of our contribution to society, and 71% states KPN is a front runner in the Netherlands regarding its contribution to society. Overall engagement rose to 77% in 2015 from 70% in 2014.

Externally, our image as a top employer improved too. KPN jumped 17 places to number 15 in an independent survey of top employers in the Netherlands, and ranked number one among employers in the Dutch telecoms sector. The brand image survey is carried out annually among readers of Intermediair magazine for professionals with a higher education. In IT functions, where KPN is ranked third as an employer, people especially valued the pleasant atmosphere among colleagues, the challenging nature of their work and the good work-life balance.

1) This percentage is excluding KPN Corporate Market BV and other participations

Simplified HR

To simplify our HR processes, we switched to a new personnel information system in 2015 – a mammoth task we expect to complete by the end of 2016. With simpler processes, we can shorten our value chain in building the organization and competences KPN needs to achieve its strategic goals. Simplification also means using simpler, clearer language when we communicate with our people.

Simplified organization

To prepare our company for the future, we reorganized our business around our core activities and customer service. This makes us more agile and better able to respond to changing markets, trends and customer expectations. Simplification mostly means integrating or stopping activities – leading to job losses. In 2015, we reduced net 436 FTEs in our Business segment, but grew net 197 FTEs employees in our Consumer Residential segment to connect new customers and extend our service.

Redeployment

We develop our people and enable them to gain skills that are transferable, whether to another position inside KPN, or to another employer. When jobs become redundant, we work with two external partners to help these people move into new jobs. This outplacement program has a very high success rate: 83% of the participants who ended the program in 2015 found a new employment within a year, in line with our target. In 2015, a study conducted among 190 participants who ended the program in between June 2013 and June 2015 showed that 180 of them (95%) still have a form of employment. In 2015, 29 moved to new jobs within KPN, we placed 210 people externally of which 14 started their own companies.

We are currently working to improve the placement rate among the remaining 17% by raising their awareness of the importance of continuously developing their professional skills and of the tools we have available to equip them for a new career. It is important to continuously develop knowledge and skills, as this is one of the main contributions in finding a new job. The success of our work-to-work program was recognized by Dutch Social Affairs & Employment Minister Lodewijk Asscher, who selected KPN for a visit and talked with our people about the possibilities in development and our work-to-work program.

Chief Human Resources Officer KPN **Janine Vos:**

"In planning for the future, we stress three things: professionalism, vitality and willingness to change"

Watch Janine's story:
kpn.com/annualreport/janinevos

Group performance

Our people

Diversity

Our workforce should reflect our society. This means employing people from different age groups, backgrounds and beliefs, as well as more women. We believe diverse viewpoints and perspectives help teams achieve better results. We can also serve our customers better if we can identify with each other.

Despite our efforts to employ more women, especially in senior management positions, we fell short of our 30% target. In 2015, 25% of our workforce comprised of women. Among middle managers, this was 17%, and among top managers 18%. We intend to sharpen our focus in this area in 2016. At least half of candidates put forward for vacant positions have to be women. We have the necessary female talent in our organization, the challenge is promoting these women into senior positions.

Ageing society
The Dutch population – and our workforce – is ageing. We help our older employees to plan for their next life phase, offering financial advice, pension planning and skills training for people aged 55 years and older. As part of our diversity approach, we help to make our managers aware of the specific qualities that each life stage offers. To increase understanding and collaboration between the different age groups, our young potentials coach senior managers in digital competencies. We employ older people in our call centers to help elderly customers with queries that tech-savvy youngsters may not relate to.

Social return
We are committed to employing people with a disability and those in a weak position in the labor market, especially young people. This is in line with Dutch law on work participation and youth unemployment. We made huge strides on social return in 2015 – a prerequisite to participate in government tenders. We helped 40 people with a labor market disadvantage to improve their position with on-the-job training. This also had a positive effect on KPN colleagues, who took pride in helping them gain work experience. The project was run in collaboration with recruitment agency Randstad, who will place these trainees in other positions.

Health and vitality

We believe healthy workers are more engaged and can cope better with day-to-day work stresses. It also helps to reduce absenteeism. In 2015, absenteeism was 4.3%[1], which is above our 3.9% target. This follows two years of falling absenteeism. In response, we stepped up our efforts to combat absenteeism, offering extra facilities through HR, such as weekly progress updates, e-learning and a single point of contact, and expanding the services of our absenteeism expert in areas with the highest rates. We introduced ichange2, a more user-friendly version of our interactive coaching program.

Stress-related illnesses are rising in our 24/7 society and we encourage our people to take care of their mental health through initiatives such as stress-management workshops and mindfulness training. We have a community of active employees who represent KPN in football, hockey and other sports tournaments. This gives us a base from which to promote healthy lifestyles.

1) This percentage is excluding KPN Corporate Market BV and other participations

The New Way of Living & Working

The way we work at KPN is changing. We are equipping our people with tools that allow them to work at any time and from any location. These include cloud computing, video and teleconferencing and collaborative platforms such as Skype for Business and TEAMKPN, our social network connecting colleagues. This helps our people to better balance their work and private lives, with the aim of increasing their satisfaction and productivity. There is also an environmental benefit because it reduces the need to commute, cutting carbon emissions.

Our aim is for 90% of our people to feel they can adopt this ‘New Way of Living & Working’. In 2015, 80% did so, a slight improvement on 78% in 2014.

% of our people feel they can adopt The New Way of Living & Working

80%

2014: 78%

Changing behavior
Interviews with managers, our annual employee survey and a poll on TEAMKPN helped us identify some of the reasons we are still falling short of our target. We found that not everyone knows how to use the technology. People in new or different roles after an internal reorganization are more reluctant to work this way and some managers have a more traditional management style.

These are issues that we will address as we prepare our people for the future of work, which will be increasingly flexible and remote. Looking to 2016, we will introduce more ‘hot desking’, which means reducing the number of desks available so our people will share workspaces rather than having their own permanent desks.

In 2015, based on feedback from managers, we started drafting guidelines for remote and flexible working. These include considerations on whether our people can work after hours (evenings and weekends) instead of during 'normal' working hours, whether it's acceptable to work at home while caring for children and whether people have to physically attend meetings. Once agreed upon by the Steering Committee, the guidelines will be distributed to managers via our Lead by Example management program.

Employee productivity
In 2015, we introduced a dashboard that measures the technology our people use to work, where they work and their travel behaviors. We are initiating a study into labor productivity in conjunction with Tilburg University. Furthermore, we are looking at ways to stimulate the use of video conferencing, for example, and encourage our people to collaborate more online.

Dilemmas

We are transforming the way we work and encourage our people to take more initiatives from the bottom up. But how can we in HR stimulate bottom-up behavior without instructing people from the top down?

And should we first implement all our policies and programs, for example culture and leadership initiatives, before we create new ones, or can we move away from those that seem to become less relevant as our business evolves?

Not everyone in our company is ready yet to adopt the 'New Way of Living & Working'. This raises the question whether we should leave the choice up to our people and their managers, or whether remote and flexible working is the KPN norm – something it is already perceived to be, and which is included in our collective labor agreement.

Customer Expert KPN **Nadia Salem:**

"KPN has a good balance between young and old. We all fit together"

Watch Nadia's story:
kpn.com/annualreport/nadiasalem

Group performance – Our suppliers

Long-term supplier relations through sustainability and trust

We cooperate closely with our business partners and suppliers to improve quality, stimulate innovation and reduce costs. When we procure goods and services, we look for partners who share our commitment to deliver sustainable products and services, and who comply with laws and regulations related to good working practices.

8.6 GWh

energy savings per year through new street cabinets

58%

of improvements realized after 2014 audits

6

'sustainable solutions' implemented
2014: 5

audited 46% of high-risk suppliers on site
2014: 41%

Sustainable developments in 2015

Cooperation with suppliers led to initiatives to improve efficiency, lower costs, and make equipment and products more environmentally friendly. In 2015, we met our target to initiate and implement six 'sustainable solutions' projects with our suppliers. The three foremost are:

- Replacing on-street telephone and internet street cabinets with a smaller version that requires no cooling. The new street cabinets look better, emit less CO_2 and, in combination with our fiber network, are expected to provide fast 100 Mbps internet connections to 85% of Dutch households by the end of 2016. The project will save 8.6 GWh in energy per year, the equivalent of the electricity consumption of 2,780 households;
- We introduced energy-efficient company vans into our car fleet for about 200 new KPN engineers; next to that we replaced the existing 250 vans. In total, these 450 vehicles consume less fuel than previous versions and emit 10% fewer CO_2-emissions. We will also pilot the use of fully electric cars for our regional managers;
- We worked with a supplier to analyze how we order and distribute company laptops. Based on this, we were able to bundle these orders, rather than shipping each laptop individually on demand, reducing transport costs and emissions. Centralizing stock supplies at our main office locations will lead to extra savings.

Partnering on sustainability with our suppliers has become business as usual. We are improving on carbon emission and energy consumption gradually. After 2016, we aim to introduce a target that supports becoming a circular company.

Raising standards in our supply chain

KPN is a member of the Joint Audit Cooperation (JAC), an industry initiative of 10 telecom operators to monitor and raise social, environmental and ethical standards within the supply chain. One way JAC does this is by conducting on-site audits of high-risk suppliers. Currently, a new online JAC platform is being created for members to share information about on-site audits and corrective action plans. We expect this will make it easier for JAC members to monitor suppliers and ensure they comply with our standards.

The JAC supply chain guidelines were developed in consultation with telecoms stakeholders and cover topics such as child labor, fair remuneration, health and safety, the environment, and ethics. JAC members intend to develop key performance indicators to accompany the guidelines; another key topic is having dialogs with suppliers about the working hours.

We audited 46% of high-risk suppliers on site. These on-site audits are conducted by independent experts on behalf of KPN and the other members of the Joint Audit Cooperation (JAC). In 2015, together with JAC, we expanded these audits to the suppliers of our suppliers for the first time, reflecting our ambition to engage with the entire supply chain. In 2015, we audited 12 high-risk Tier II and Tier III suppliers. We are willing to increase the number of Tier II supplier audits in 2016, by cooperating with the JAC.

On-site audits help to raise sustainability standards and working conditions in the supply chain. When non-compliance or other issues are detected at a supplier, we draft a corrective action plan and monitor the supplier's progress. Our high-risk suppliers realized 58% of the required improvements identified during the 2014 audits. In three cases, we re-audited the suppliers to assess whether improvements were made.

Conflict minerals

In 2015, we strengthened the criteria for our suppliers around the minerals they use and they now have to comply with international guidelines on conflict minerals as well as JAC standards for sustainable mining as part of the JAC supply chain guidelines. This is particularly relevant for tin mines in Indonesia. When our high-risk suppliers are not transparent about how they mine tin, we try to convince them to become more transparent by joining the 'tin working group' of the Sustainable Trade Initiative, an international organization promoting sustainability in international trade. Two major suppliers joined the tin working group of the Sustainable Trade Initiative in 2014-2015.

Other initiatives

We continue to raise awareness of sustainability among our buyers and suppliers, for instance by making information available in an external trade magazine and via the Partner Board, the platform where we consult our preferred suppliers.

Our top 135 suppliers attended our third annual Supplier Event in December, which focused on innovation. We discussed ways for us and our suppliers to increase and facilitate cooperation with innovative suppliers. During the Supplier Event we announced the Procurement Innovation Hub, to encourage collaboration across all business segments and suppliers to accelerate innovation within KPN.

Dilemma

KPN is a relatively small operator in the global telecom sector, compared with the large producers of electronic equipment. Our experience shows that our purchasing position, even as part of JAC, is sometimes not as strong as we would like it to be. A few large producers of electronic devices and mobile phones are not willing to sign our Supplier Code of Conduct or cooperate with the on-site audit process. Facing the widespread popularity of their products and comparable market shares in the consumer and business markets, it would be difficult to consequently terminate our relationship with these suppliers. However, all suppliers that sign our contracts are aware of our Supplier Code of Conduct, which is included in our associated contract documentation, or have their own equivalent code.

Independent consultant Human Rights@Work
Liesbeth Unger:

"KPN has a good overview of its risk suppliers"

Watch Liesbeth's story:
kpn.com/annualreport/liesbethunger

Group performance – Environmental performance

Reducing the environmental impact of society

Our environmental efforts are not only focused on our own activities. We also help our customers to emit less CO_2 and use less energy with our products and services. We believe ICT is the key to unlocking a better future for our planet and its people.

Reduced energy consumption compared with 2010

18%

2014: 17%

Climate neutral for own operations

0kTon

2014: 12kTon

Energy saved in networks NL

77GWh

2014: 41GWh

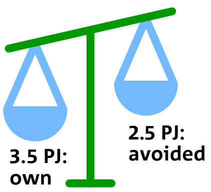
First Tier IV cradle-to-cradle datacenter in the Netherlands opened

Car fuel reduction compared with 2010

38%

2014: 34%

Estimated avoided energy consumption for our customers by using our products and services



73% of our own energy consumption

Strategy

Our environmental and climate strategy is based on a two-fold approach:

1. Enabling the energy-saving and environmental impact reduction of ICT
2. Reducing our impact on the environment.

Climate change is an important and growing issue worldwide. KPN takes responsibility to reduce its own carbon footprint and energy consumption, and we help our customers to do so too. We want to decouple business growth from emissions growth – not just for us but also for our customers. In this, information and communication technology (ICT) will be crucial. On one hand, the demand for ICT products and services is fueling our business growth, while on the other hand, ICT enables us – and our customers – to work more energy efficiently, for example via the cloud rather than commuting to the office, so CO_2-emissions don't increase.

The role of ICT in separating business and emissions growth is supported by the findings of the Global e-Sustainability Initiative's SMARTer2030 report, to which KPN contributed. It found that the use of ICT can contribute to a 20% reduction of global CO_2-emissions by 2030, holding emissions at 2015 levels. In 2016, a KPN and Dutch version of the SMARTer2030 report will be realized.

We are convinced that our environmental strategy and performance give us a competitive edge. Our business benefits from lower operational costs as a result of our energy savings, and we help our customers to save money and lower their own environmental impact by using ICT products and services. Given that KPN is a major Dutch energy consumer – we use about 0.8% of the Netherlands' total electricity consumption – our activities in this area have a real impact. The steps we have taken to reduce our environmental footprint strengthen our credibility as a responsible company.

Although energy consumption accounts for most of KPN's environmental impact, we also have an impact in other areas. These include the use of scarce natural resources in devices such as mobile phones, and managing the disposal of old and discarded electronic equipment (e-waste), as well as other waste, dust and smoke emissions from cars. We seek to limit our impact on the planet's finite resources and to help our customers do the same. To assess how we are doing in this, we initiated a project with the Cor Wit Fund, which sponsors research into the value telecommunications add to society. The project evaluated whether and to what extent KPN products and services help people to limit their impact on the environment, for example by flex-working or teleconferencing.

The impacts of the scope in the project were the avoided GHG emissions and the reduction effects on fossil fuel depletion, agricultural land use and particulate matter emissions. These reductions are largely due to consuming less fuel for commuting and less natural gas and electricity consumption in offices, while using less paper requires less agricultural land. The findings include rebound effects such as using more energy at home and the energy used by IT equipment. For details, see full report (http://corporate.kpn.com/voor-nederland/energie.htm).

Enabling customers to reduce their environmental impact

Our products and services help our customers avoid energy consumption and carbon emissions. For instance Teleworking (internet access needed), videoconferencing and audioconferencing result in a significant reduction in traveling. For 2020, our aim is that this avoided energy consumption equals KPN's own energy consumption. To measure this, we calculate the impact of certain products and services for our consumer and business customers. The total enabling effect for customers was calculated based on measured data, publicly available statistics, internationally recognized studies and expert judgments. For 2015, we calculated an estimated avoided energy consumption of 2.53 PJ and 177 kTon CO_2 avoided emissions. The 2.53 PJ represents 73% of our own energy consumption. In 2014, we calculated 30%. The most important reason for the increase is that we have better and more reliable figures on the number of Teleworkers. We also applied this new approach to our 2014 calculation which resulted in an increase from 30% to 65%. See appendix 3 for more information about the calculation method. For our consumer customers, we added the effect of hard-drive-free TV modems to our calculations and dematerialization (reduced use of CDs and DVDs). This includes the impact of additional energy consumption of cloud storage. The cloud is not only more energy efficient but also prevents multiplication as it only stores a link to the original film or program. For our business customers, we added KPN Werkplek. In 2016, we hope to add some effects of IoT and new services using LoRa. See also the graph on page 6 in our main achievements.

Manager Energy Management KPN **Marga Blom:**

"We can share our experiences with customers"

Watch Marga's story:
kpn.com/annualreport/margablom

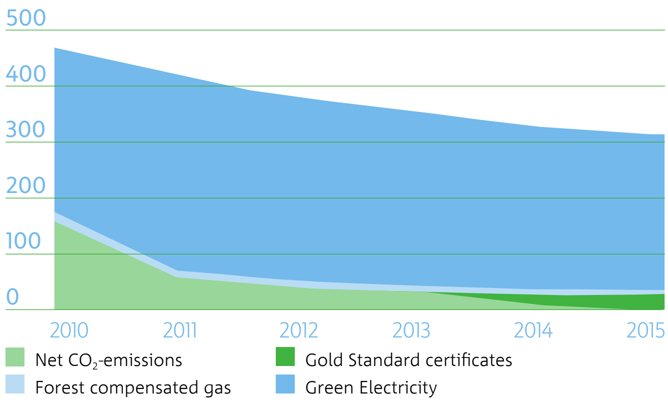
Reducing our own environmental impact

Climate-neutral operations

In 2015, we reduced net CO_2-emissions in our own operations (scope 1 and 2) to zero. We achieved this by switching to 100% green electricity generated in the Netherlands. The other CO_2-emissions were compensated for by Gold Standard projects and specific forest compensation projects. Green electricity has the most important impact on our emissions (88%). Other emissions such as fuel for our car fleet account for 9% of our emissions and gas for 3%.

Net CO_2-emissions KPN Group

kTon CO_2



Environmental impact of our operations

Although we are carbon neutral, we have a robust energy-efficiency program that aims to keep reducing the absolute energy consumption in our operations. We continued the trend of absolute energy reduction in our operations although the volume of our ICT services continues to grow. We introduced new innovations in our operations to improve the quality of our service and at the same time reduce our environmental impact. The effects of these improvements (more than) compensated for the impact of additional equipment in our datacenters and the expansion of our fixed and mobile networks, as is shown in the graph below. In the following paragraphs, we show examples and results of the energy-efficiency programs for our networks, datacenters, offices and cars.

Energy consumption and Net CO_2-emissions 2015	Petajoules (PJ)	Net CO_2 scope 1 (kTon)	Net CO_2 scope 2 (kTon)
KPN the Netherlands	3.462	0	0
KPN non-NL entities	0.019	0	0
KPN Group	3.481	0	0

Group performance

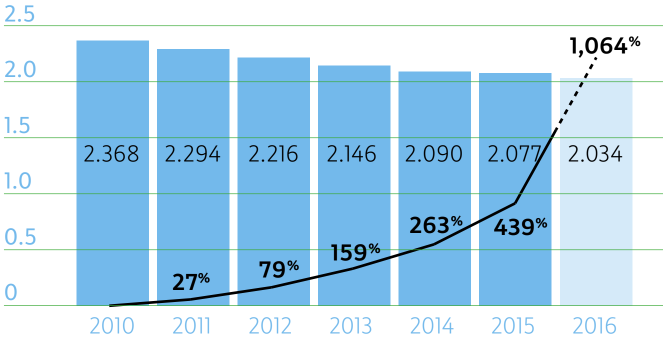
Environmental performance

Network

Given that our fixed and mobile networks account for 75% of our electricity consumption, we are focused on improving their energy efficiency, especially as we increase their capacity to meet the demand for fast and reliable telecommunications. Our structural energy reduction program is based on two pillars: 1) continuously improving and innovating to improve network capacity and quality without using more energy; and 2) switching off or replacing old equipment with more energy-efficient versions. In the past years, this second pillar has resulted in a year-on-year saving of 30–50 GWh. In 2015, we intensified this program and saved 77 GWh (the annual electricity consumption of about 25,000 households). These energy programs helped us to reduce the absolute electricity consumption in our networks, although Reggefiber was added to our network in 2015 and data communication is growing, as illustrated in the graph below.

Networks

In petajoules



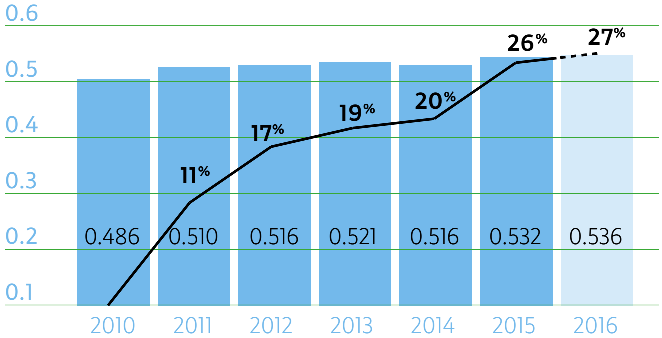
Electricity consumption in petajoules (PJ)
Growth datavolume (GB/s) compared with 2010

Datacenters

We have several innovative programs to improve the energy efficiency of the datacenters where we host equipment and services for our customers. In June 2015, KPN opened the first Tier IV-certified datacenter in the Netherlands. Tier IV is the most secure and reliable rating for a datacenter, indicating it is guaranteed to be available 99.995% of the time. The new datacenter in Eindhoven is constructed and certified according to cradle-to-cradle principles, using reusable and recycled materials. It can be easily transformed for other uses and at the end of its lifespan, the building materials can be reused again or recycled. The heat it generates is used to improve climate control on the entire high-tech campus of the TU Eindhoven. In this way, the data center not only uses less energy in its own cooling process, it contributes to the energy efficiency of the campus as a whole.

Datacenters

In petajoules



Electricity consumption in petajoules (PJ)
Growth electricity consumption ICT equipment customers compared with 2010

Cooling is a very important issue in datacenters and we are investigating more sustainable ways to keep the equipment cool without using more electricity or more water. We are also looking into ways to reuse heat that would otherwise be wasted. This includes a project in Rotterdam to reuse heat generated from waste disposal to cool our datacenter in the summer. Another project in Flevoland is exploring options for reusing heat from data centers in the local community, for example to heat a local swimming pool. These projects not only reduce our own energy consumption but also in the whole value chain.

Offices

The energy efficiency of several of our office buildings improved in 2015. The Borg building in Groningen was upgraded from an E to B label. Our office in Amersfoort will be upgraded from a C to A label.

In 2015, we renovated our building in Apeldoorn, reusing many of the construction materials and most of the old furniture. Applying these circular economy principles stems from our participation in the Dutch government's Green Deal for Circular Buildings, which we joined in 2014 to encourage sustainable construction.

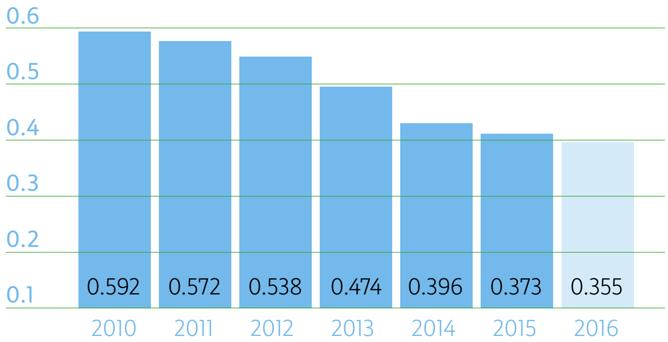
Vehicle fleet

We are well on track to realize our 2016 target to reduce carbon emissions by 40% compared with 2010. In 2015, we realized a 38% reduction in our fuel consumption compared with 2010 excluding Reggefiber. Which is above our 2015 target of 37%. Including Reggefiber, we realized a reduction of 35% compared with 2010. Therefore, we restated our 2016 target to 38% fuel reduction in 2016 including Reggefiber.

We also started migrating our fleet to electric vehicles and, from 2025, we aim to purchase and lease zero-emission cars only. However, electric cars still have a fairly small driving range and take time to recharge, which limits their use at present. We are also exploring the introduction of a 'mobility budget' to give our employees, especially younger people, more options to meet their evolving transport needs.

Car fuel consumption

In petajoules



CO_2-emissions in the chain (scope 3)

Although we can only partly influence the CO_2-emissions in our value chain, from production to the disposal of our equipment and devices, we are taking responsibility for identifying where we can potentially reduce the impact. The first step is to measure and assess our impact in the chain. Since 2014, we have therefore reported our Scope 3 CO_2-emissions for all 15 categories of greenhouse gases (GHG).

Managing waste and materials

Our environmental strategy also addresses other areas, such as the materials we use in our products. Here too, we take responsibility to reduce our own impact as well as the impact of customers who use our products, and to adopt a more circular approach.

To reduce our own and our customers' electronic waste, we recycle equipment and use fewer materials in our products. For instance, most of our TV modems no longer have hard disks because recorded programs are stored in the cloud. Similarly, the modular design of the new Fairphone makes it possible for customers to exchange or upgrade individual parts, such as the camera, rather than replacing the whole phone. In 2015, 95% of our new mobile phone models have an eco-rating that tells customers how sustainable they are. We introduced eco-rating in 2014 to better inform customers about the impact of their mobile equipment. The eco-rating is supported by many of our suppliers.

To recycle user equipment, we collected 28% of the mobile phones we sold and 62% of the fixed equipment that was exchanged.

External recognition

KPN has been identified as a world leader by CDP, scoring full marks (100 points). CDP benchmarks thousands of companies worldwide at the request of 822 investors representing USD 95 trillion in assets. Top scores indicate a high level of transparency in the disclosure of climate-change-related information, providing investors with a level of comfort to assess corporate accountability and preparedness for changing market demands and emissions regulation. Our policy to exclusively use power generated in the Netherlands has been recognized in the Dutch media and we see other large energy consumers starting to switch to locally generated renewable energy too. We are also recognized by developmental organization HIVOS as a front runner in the use of 100% Dutch renewable energy. In the run-up to the United Nations Climate Change Conference in Paris in December 2015, KPN discussed options for customers to reduce their emissions on the official 'train to Paris'.

At our annual meeting with stakeholders, we discussed the possible role of KPN in accelerating CO_2 reduction and moving to a circular economy in the Netherlands.

Dilemmas

We are struggling to find a way of making customers aware of the energy their electronic devices use, and how they can reduce their environmental impact. At present, there is no visible way of showing them how much energy it takes to store data in the cloud, or to stream a film from the internet, for example. Nor is there an energy label that rates how efficiently they use data or their devices. We are working with our business partners to find ways of measuring this. We would like our customers to become more aware of their influence and the opportunities to reduce their environmental impact.

Looking forward

As we have achieved our target to reduce our CO_2-emissions by 100%, we have redefined our targets and set 2010 as the baseline for all KPIs. Our long-term KPI for our own energy consumption is defined as a 25% absolute energy reduction in 2020 compared with 2010. This will be realized by reducing the absolute energy consumption in our networks by 25% compared with 2010, and improve energy efficiency of datacenters by 19% compared with 2010 and switching to 100% CO_2 neutral cars by 2025. In 2016, we intend to calculate the benefits to the Netherlands of the SMARTer2030 report and use that to set our own ambitions for 2030 for the enabling effects of our products and services. We have defined a new ambition to migrate to circular operations and services by 2025. In 2016, we will work with our partners and suppliers to define KPIs for our operations, products and services to realize this ambition.

Methodology: In this chapter, we describe the way we improve our environmental performance and further our ambitions. Detailed figures of our targets and results are shown in the highlights and laid down in Appendix 2. Our environmental figures for energy consumption, emissions (scope 1, 2 and 3), carbon intensity and other environmental figures can be found in Appendix 6. Calculation methods are explained in Appendix 3.

Note: Environmental performance is reported for continued operations. This excludes BASE Company in all figures. Additionally, all group KPIs and targets have been adjusted for BASE Company. Reggefiber figures are included for the full year 2015. This influences the KPI results. KPIs were not adjusted.

Segment performance

Consumer Mobile

Adjusted revenues
in millions of EUR

1,461

2014: 1,407

Adjusted EBITDA
in millions of EUR

282

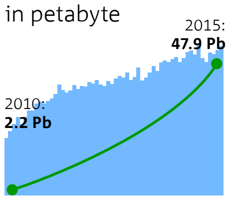
2014: 192

ARPU postpaid
in EUR

27

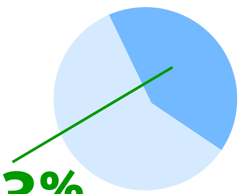
2014: 27

Data usage growth
in petabyte



47.9 PB
2014: 22.8 PB

Mobile market share



43%

2014: 42%

Postpaid retail base
in thousands

3,593

2014: 3,304

We remain well positioned in the mobile market with nationwide 4G, attractive data-centric propositions and unique fixed-mobile bundles. Continued strong customer intake drove the improving service revenue trend. We rebranded Hi to KPN and now have a simpler brand strategy with more focus in the high-value segment. Simyo and Telfort continue to focus on the no-frills segment.

Adjusted revenues increased by 3.8% compared with 2014, mainly driven by service revenue growth and higher hardware revenues. The continued high postpaid net adds were the main driver of the service revenue growth. KPN's total Dutch mobile market share rose to 43%. Adjusted EBITDA increased by 47% compared with 2014 due to increasing service revenues, partially supported by a tax benefit, lower subscriber retention and acquisition costs and lower employee expenses. We see positive results from the increase in fixed-mobile bundles, which successfully reduces churn.

Research shows that our customers appreciate the speed, stability and quality of our 4G network. Mobile data usage increased significantly since 4G was introduced. Consumers increasingly watch online videos and stream music. We have therefore introduced new larger data bundles in 2015, which positively impacted our results. The new mobile subscriptions for the KPN brand offer up to 10 GB. Existing customers also benefited: the data bundles of most existing customers were automatically increased up to 5 GB extra at no additional cost. Customer satisfaction (NPS) rose from +2 in 2014 to +9 in 2015.

52 Hi shops were closed down in 2015 and we started redesigning our remaining KPN stores so our customer can better experience our products and services. KPN's websites have an improved usability.

Bundled

KPN is a clear leader in convergence as the number of mobile customers in a fixed-mobile bundle continued to increase during 2015. This growth had a positive impact on customer experience and the number of SIMs per household while reducing churn.

We have simplified our customer loyalty program by merging the 'FamilieVoordeel' plan for mobile customers into 'KPN Compleet'. Previously, our customers had to register separately for both programs, which meant twice as many processes and procedures. In only two months, both programs were merged, without our customers noticing any other than positive impacts from additional benefits such as MB sharing.

In 2015, we further extended the range of possible combinations for fixed and mobile services. Our KPN Compleet customers can now choose from a selection of free TV packages and change them each month. Telfort customers can now also qualify for Telfort CombiVoordeel with a single-play fixed subscription, making the benefits available to more customers.

NPS for KPN Compleet rose from +14 in 2014 to +25 in 2015.

Consumer Residential

Adjusted revenues
in millions of EUR

1,938

2014: 1,916

Adjusted EBITDA
in millions of EUR

419

2014: 412

ARPU
in EUR

44

2014: 43

RGU
per customer

2.29

2014: 2.18

Triple play bundles
in thousands

1,621

2014: 1,378

TV market share

29%

2014: 26%

Broadband market share

41%

2014: 40%

We strengthened our market position as the leading converged operator in the Netherlands by generating strong growth in our fixed-mobile base. Differentiating through innovative services has driven an improved customer satisfaction, resulting in an NPS of +9 in 2015 (2014: +2), continued high customer intake and a growing market share.

Adjusted revenues increased by 1.1% in 2015, supported by continued customer base growth and the price increase implemented on July 1, 2015, partly offset by the ongoing decline of traditional services. Adjusted EBITDA increased by 1.7% as a result of higher revenues, only partly offset by higher operating expenses resulting from the large number of customer additions. At December 31, 2015, 56% of our broadband customers have a triple play package (broadband, IPTV, VoIP).

We are a challenger in the TV market. We have a leading IPTV product and, in 2015, we introduced TV Everywhere. We meet our customers' need to watch TV at home or on their mobile device, at a time that suits them. We have added new content on all devices by entering into partnerships with leading content providers, such as Eredivisie and Endemol Shine. Endemol Shine will produce a new Dutch TV series 'Brussels'. With 'Play. by KPN', we have taken the next step in the shift to on-demand TV consumption. This unique TV service offers our customers the freedom to watch content in a new personal way. As of October 2015, we also added the streaming service Netflix to our IPTV menu.

In Q3, we launched KPN SmartLife Veilig, the first in a range of connected home services protecting the home against break-ins with sensors throughout the home. It includes door and window contacts and remote control of the alarm with a 24/7 monitoring service.

We continue to focus on First Time Right, so that a single visit is sufficient to help the customer install equipment or solve technical problems. Engineers are of key importance for further improving the quality of our services. Moreover, we employed 197 new engineers last year.

Fixed-mobile bundles
in thousands

811

2014: 485

Of which quad play customers
in thousands

615

2014: 357

Households in fixed-mobile bundles

28%

2014: 17%

Mobile customers in fixed-mobile bundles

33%

2014: 21%

Segment performance

Business

Adjusted revenues in millions of EUR

2,669

2014: 2,910

Adjusted EBITDA in millions of EUR

489

2014: 606

Single-play Wireless ARPU in EUR

34

2014: 38

Traditional voice ARPU in EUR

52

2014: 52

Number of multi play seats in thousands

472

2014: 301

Multi play revenues in millions of EUR

111

2014: 58

Access lines in thousands

719

2014: 864

Customer satisfaction

-10

2014: -13

Simplification to mitigate revenue pressure

KPN operates in a business market environment where customer needs are changing from traditional services towards multi play and new services. KPN continues to focus on the ongoing transformation of the Business segment by rationalization and standardization of our product and service portfolio, as well as the implementation of the Simplification program. Combined with growth in multi play and new services, this is expected to deliver an improvement in customer satisfaction, opportunities to capture growth in new services and a structurally lower fixed cost base.

Adjusted revenues declined by 8.3% compared with 2014 driven by lower revenues from traditional services being gradually phased out and repricing of the mobile base, partly offset by growth in multi play and new services. Adjusted EBITDA declined by 19% compared with 2014 driven by the decrease in revenue, investments in new services and simplification of the organization, only partly offset by lower personnel costs.

Challenging environment in Business

The wireless customer base increased to 1,790 thousand in 2015 (2014: 1,726 thousand). The wireless single play ARPU decreased to EUR 34 in 2015 (2014: EUR 38).

Our best-in-class 4G network supported the increase of mobile data usage of our business customers including the use of cloud and hosting services. In response to increasing mobile data usage, we have introduced larger data bundles (up to 20 GB) for our business customers. Existing business customers also benefited: the data bundles of most were automatically increased at no extra cost. This has contributed to increased customer satisfaction. NPS increased from -13 in 2014 to -10 in 2015.

Traditional wireline voice services were impacted by the ongoing migration towards VoIP and multi play, and access lines fell to 719 thousand (2014: 864 thousand). Traditional voice ARPU was stable at EUR 52.

By listening to our customers, we decided to make customer processes simpler, and reduced the delivery time of both KPN ÉÉN and OPIB. This has contributed to increased customer satisfaction and is expected to reduce costs.

Strong focus on growing multi play (KPN ÉÉN)

In 2015, we introduced KPN ÉÉN for our corporate and large-enterprise customers. For those customers, we focus on the scalability of their ICT and telco services. KPN ÉÉN includes various modules that customers can easily add or remove to respond to developing IT needs in their organization. These modules include fixed and mobile services, broadband, IP Centrex, hosted Lync and FlexLan. KPN ÉÉN was already available to small and medium-size companies.

Business multi play seats increased by 171 thousand in 2015 to 472 thousand, equivalent to 21% of the wireless customer base (2014: 14%), a growth we intend and expect to continue in the coming years.

Leading Dutch cloud position

We further strengthened our position in the fast-growing Dutch cloud computing market. With the acquisition of Internedservices Group, we expanded our managed hosting capabilities and complemented existing propositions with cloud-based workspace solutions for small and medium-size business customers.

We terminated our Opslag Online service (data storage on Dutch servers) for small-business customers as of December 31, 2015. As an alternative, we now offer OneDrive. In this segment, the customers' need for Dutch storage is smaller than expected and an integration with popular programs such as Microsoft Office is considered more important. For large-business customers, we continue to offer data storage on Dutch servers as part of our cloud services.

IT increasingly leading in ICT solutions

In 2015, we further integrated our telecommunications and IT services. Our business customers expect solutions that allow their employees to work and collaborate at any time, from any place and on any device with high user experience. We see a need for simplicity in how our customers manage their ICT services, good online tools, professional service and advice from technical experts.

Of our customers, 88% recommend us as a partner for outsourcing ICT services.

Business continuity and secure services also remain important to our customers. In 2015, we introduced a new security product for our small and medium-size customers in response to a growing need for protection against cybercrime. This was already available for our corporate and large-enterprise customers. This product was launched as part of the 'Veilig Zakelijk Internetten' campaign from MKB Nederland and Ministerie van Veiligheid en Justitie to increase cybercrime awareness. KPN is a partner of this campaign.

COO KPN **Joost Farwerck:**

"Turning complicated technology into simple solutions is an art"

Watch Joost's story:
kpn.com/annualreport/joostfarwerck

Segment performance

Business

In our ICT services, we expect a return to growth. After a 8.3% decline this year, mainly driven by market conditions, we expect to return to growth in the medium term. An important element of future growth is further expansion of our security business; ;our cloud and IoT services, and housing, hosting and workspaces online. We will continue to expand and improve our security portfolio for small, medium-size and large-enterprise customers, and further integrate and simplify our delivery models.

Fairphone

We prolonged our cooperation with Fairphone. In February 2016, Fairphone 2 will be launched, which is even more sustainable than Fairphone 1, with modular building blocks and sustainably mined tin and tantalum. This device will be promoted in the business market too.

The New Way of Living & Working

Technology makes it possible to work from anywhere, at any time. KPN is facilitating this by providing tools for our business customers that enable their employees to work remotely and flexible. This way of working saves companies time and cost, helps them reduce energy consumption and increases their employees' job satisfaction and productivity.

We initiated two campaigns aimed to encourage people to travel less and meet virtually instead. The impact of these campaigns, however, was less effective than we had hoped. The use of our 'New Way of Living & Working' products and services dropped to 39%. Our aim was to achieve 40% growth. Some of these products faced stiff competition from KPN products that are not included in the 'New Way of Living & Working' range. We would like the use of products and services that facilitate the 'New Way of Living & Working' to stabilize at 25% in 2016. To lead by example in this area, we want to encourage more of our own employees to adopt the 'New Way of Living & Working'. We want to set up a structure for managing the productivity of remote-and flexible workers.

Thought leadership

We want to be a leading contributor to the development of smarter working. A survey of 74 (HR) managers and directors at large Dutch companies found KPN is not yet seen as a notable player in this market. We are defining a new proposition for our business customers that will better meet their flexible and remote working needs. To position ourselves as a thought leader, we shared our views in several publications, we organized courses for customers and we contributed to a new peer group on 'August Connect' that discusses the future of labor.

Cost and energy-saving benefits

We have commissioned a study into the 'New Way of Living & Working' and the impact on society. These insights will help us demonstrate to businesses how the 'New Way of Living & Working' can benefit them. We want to develop a tool for business customers that shows the impact on productivity, costs and carbon emissions. The tool will be an easier-to-use version of our 'Bespaarmeter', which customers found too complex.

Dilemma

If we are to make a difference in Dutch society, we have to find ways to translate the innovations inside our organization into products and services that will help our Dutch business customers reap the benefits of a collaborative, online, mobile workforce.

Program Manager New Way of Living and Working KPN
Marco van Gelder:

"Our Walk-In Workspaces support flexible workers"

Watch Marco's story:
kpn.com/annualreport/marcovangelder

KPN in the healthcare sector

ICT can help the healthcare sector become more efficient without compromising the quality of care. Healthcare providers can connect with each other and their patients, securely from anywhere and at any time, and ICT allows people to live at home for longer rather than in a care home.

Developments in 2015

We connected 4,387 healthcare locations to the ZorgCloud, our secure online platform for medical professionals. This is less than expected due to the fact that there was not much room for improvement in the first-line medical care providers and we did not have sufficient focus on second-line medical care. We expect this number to decline in the next years. The trend towards home care means fewer locations to connect as care organizations merge their services or close facilities. We cooperate closely with independent software vendors to bring our healthcare customers new tools to help them work smarter. We can update multiple networks and systems at once, saving users the time and expense of doing so themselves.

Care in the home

One of the biggest changes in Dutch healthcare is the move towards caring for people in their own homes. We provided 25,489 customers with healthcare products and services, which is below our target of 31,000.

To ease the transition to home-based care, we created a hybrid solution that combines our products for care homes (ZorgVrijWonen) with those for care at home (ZorgVrijThuis). We started a trial for home dialysis for kidney patients and we are testing a new cardiac-rhythm device that will allow patients to measure their heartbeat and send the results to their doctor. We see opportunities to integrate our healthcare applications with KPN's network for municipalities, as the municipalities provide community health services, in particular care in people's homes.

Data security in hospitals

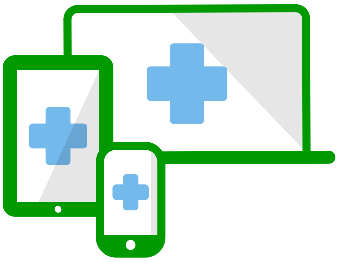
We conducted a survey among 19 hospitals to gain insight into data privacy protection in the Dutch healthcare sector. It showed the majority of respondents see information security within their organization as a priority at board level. However, there is a mismatch between the budget available for safeguarding information and the growing risk of a confidentiality breach. It showed that budgets do not necessarily increase where information security is a top priority. We are exploring ways to help hospitals better protect their data.

Dilemma

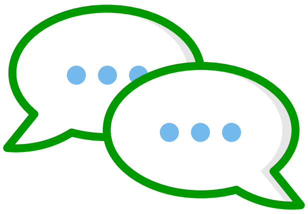
While our products enhance efficiency, leaving more time for patient care, hospital funding is determined by the number of procedures carried out. This is stifling investment in innovation. At the same time, there is more demand for healthcare as people live longer. This requires a more innovative way of working. To solve this dilemma, there needs to be a discussion about the funding model involving all stakeholders – hospitals, insurance companies, municipalities and IT companies.

The impact of ICT in healthcare

The growing demand for healthcare jeopardizes the accessibility and affordability of healthcare services. We believe that smart ICT solutions facilitate a sustainable future for this sector. Our solutions focus on improving the working environment for healthcare professionals and increasing the self-reliance of citizens in need of healthcare services.



More time for healthcare
- Access to information anywhere and anytime;
- Through our modern infrastructure patients can access information from any device.



Improved exchange of information
- Healthcare professionals can significantly improve the quality of healthcare by optimizing how they communicate and process information.

Self-reliance for more comfort
- Restoring someone's ability to live independently greatly improves quality of life;
- For example, tracking equipment let's Alzheimer's patients enjoy a walk on their own.

Segment performance

NetCo

Adjusted revenues
in millions of EUR

2,186

2014: 2,245

Adjusted EBITDA
in millions of EUR

1,291

2014: 1,228

% of Retail customers that agree KPN has the best fixed network

55%

2014: 47%

% of Retail customers that agree KPN has the best mobile network

50%

2014: 46%

% of Business customers that agree KPN has the best fixed network

79%

2014: 74%

% of Business customers that agree KPN has the best mobile network

71%

2014: 68%

Even more coverage, speed, capacity and reliability

Society's growing reliance on the internet and mobile devices such as tablets and smartphones means that our customers expect to have a fast and reliable connection anytime. This is why we continuously work to improve the quality, capacity, speed and reliability of our fixed and mobile networks. We continue to invest in our network infrastructure to assure our customers have the best possible connectivity.

Adjusted revenues decreased by 2.6% in 2015 driven by the ongoing decline of traditional services. The adjusted EBITDA increased by 5.1% compared with 2014, driven by the consolidation of Reggefiber and cost savings from the Simplification program, partly offset by the decline of revenues.

Having best-in-class networks

To improve customer experience, we focus on operational excellence. We strengthen our fixed and mobile networks and IT platforms, and improve our services based on customer feedback. When we measure our technical performance, we look at aspects such as the number of dropped calls, our mobile network coverage, average data download speed and the downtime of services. Our efforts to focus on customers with a 4% or higher dropped-call rate paid off. We have also started working with suppliers of mobile devices to improve our dropped call rate.

We measure customer quality perception by the percentage of Dutch consumers who rate our network as the best in the Netherlands. In 2015, an impressive 79% and 71% of business customers rated KPN as best fixed and as best mobile network respectively, both above our target of 60%. Among retail customers, we haven't met this target, however, 55% rated our fixed and 50% our mobile network as best. Moreover, the percentage of mobile consumers rating KPN as best network is considerably more than our mobile market share, indicating there are mobile consumers who rate KPN higher than their own service provider.

Investing in best-in-class networks also implies an energy-efficient network (see page 48) and investing in improving security and business continuity in order to minimize the risk of disruptions by building resilience into structures and processes (see page 34).

Area coverage 4G 2014: 99.2%	99.3%
Population coverage 4G 2014: 98.6%	99.3%
Speed households >100 Mbps 2014: 50%	68%
Mobile download speed in cities 2014: 20Mbps	20 Mbps
Reliability (dropped-call rate) 2014: 0.37%	0.25%

Accommodating explosive demand for data and access

Given the growth of data traffic and online services, the internet and its infrastructure can increasingly be considered as the backbone of society. People tend to blindly trust connectivity. As a result, both the functioning of society and wellbeing of people strongly depend on the quality of our ICT infrastructure, which puts a heavy responsibility on KPN.

We maintain best-in-class networks through constant innovation to further improve performance. We have strengthened both our fixed and mobile networks and focus on implementing the best, most energy-efficient and information-secure technologies. Customer behavior quickly changes and drives data traffic growth. In 2015, we invested in capacity and new features such as ‘Play. by KPN’ and ‘Begin Gemist’ to meet the customer needs. We further reduced complexity in IT and TI as part of our Simplification program, reducing the number of incidents and improving efficiency of our ICT network.

Strengthening our fixed network

We continued to roll out fiber to the street cabinets and to upgrade our copper network to increase the broadband internet bandwidth with ‘very high bit rate digital subscriber line’ (VDSL) technology, in combination with vectoring and pair-bonding. We have reached 68% of Dutch households, below our target of approximately 70%, with a connection above 100 Mbps as at year-end. We experienced some delays with the roll-out in Amsterdam, where we were required to obtain permits to install the copper lines and additional street cabinets. Our fiber network offers customers unlimited data transport with high bandwidth requirements.

Our network has suffered from a prolonged outage in November of KPN and Telfort fixed services. This caused connectivity problems for internet, TV and telephony customers. Our teams have reached out maximally to recover our network as soon possible and all possible measures have been and continue to be taken to prevent this from happening again.

99.3% 4G coverage in the Netherlands

We took several steps in 2015 to improve our technical performance and enhance the quality and reliability for our customers. Based on our customer research, we can conclude that access to the network is more important for customers than network speed. Without access, they feel they are missing a ‘lifeline’. We therefore made a real effort to not only increase the coverage of the Dutch population in towns and cities to 99.3% but also the area coverage of our 4G network, including remote places, to the same 99.3%. Moreover, we improved the accessibility of our network, which led to 26% fewer incidents compared with 2014, and these were resolved 62% faster. This will benefit our customers by being able to upload and view streamed video and audio content faster and without disruption.

Furthermore, we added an extra frequency layer to the 4G mobile network, increasing download speeds and tripling its capacity. This is especially relevant at peak times and in places where customers tend to use their mobile devices most, or where many customers want to use their devices at the same time. We also extended our 4G coverage to 1,450 – 1,500 sites by year-end. With the additional sites, we decreased the number of ‘white spots’ where there is no signal. This, along with fine-tuning the network parameters to create bigger margins before reception is lost, helped us to substantially reduce the dropped-call rate in our network to 0.25% - among the lowest in the world. We will use new techniques to increase coverage in hundreds of bottlenecks in the next three years and add new mobile sites.

Trend watcher **Vincent Everts:**

“I’m ready for the next fifty years”

Watch Vincent’s story:
kpn.com/annualreport/vincenteverts

Segment performance

NetCo

New technologies

VoLTE and LoRa

KPN has launched a nationwide test of Voice over 4G (VoLTE). Key customer benefits of VoLTE are fast 4G data connection during telephone conversations, reduction in call set-up time and improved sound quality. We expect to offer this service to our customers in 2016. We increased M2M connectivity over the mobile network by introducing LoRa (Long Range), which will be rolled out nationwide in the first half of 2016.

Small cells

KPN is the first in the world to implement the new generation of small cells. Small cells are small boxes that strengthen the 4G signal in crowded areas. The first small cell now in use on a bus shelter in Amsterdam is officially only available from March 2016. The new generation small cells enables higher quality and more capacity. In the coming year, KPN plans to implement this technology in regular processes and achieve both increased capacity and lower costs.

Wholesale services

We reached agreements with wholesale parties Vodafone, Tele2 and M7 regarding access to KPN's fixed network based on Virtual Unbundled Local Access (VULA) respectively Wholesale Broadband Access (WBA) for a period of seven years. These agreements and ACM's consent enable KPN to further upgrade its copper network using the latest technologies. This will result in access to higher speeds for KPN's retail and wholesale customers and improves KPN's position on broadband and IPTV.

Research and development

Our current portfolio of registered intellectual property rights contains our registered trademarks and 306 patent families. We continue to invest in the growth of our intellectual property portfolio, among others, through our targeted long-term R&D program. This R&D program runs in close cooperation with TNO-ICT and accounts for a substantial part of our research spending. About 50 patent families are declared essential for our commercial exploitation. In the past and in 2015, multiple suppliers have entered into patent license agreements with us related to these and some of our other patents.

Challenges

Collaborate closely for increased network quality

Despite all efforts to increase network quality, we still face a couple of challenges. Our customers want better coverage and fewer white spots, especially when they need to use the 112 emergency number. But local governments and residents also have concerns about whether mobile sites emit harmful electromagnetic fields. Similarly, people want high-speed internet at home. This may require new cabling to be installed underground or new street cabinets, which is a temporary nuisance for local residents and makes it harder for us to obtain the necessary permits.

This creates a dilemma for us: how to balance the demand for more sites and public opposition. It is essential that local governments, site owners, residents and KPN continue to work together to find and build new sites. This sometimes is a difficult process, for example with not-in-my-backyard discussions.

Product manager Ziut **Willem van Leusden:**

"LoRa is a network that focuses on the Internet of Things""

Watch Willem's story:
kpn.com/annualreport/willemvanleusden

iBasis

Adjusted revenues
in millions of EUR

920

2014: 948

Adjusted EBITDA
in millions of EUR

23

2014: 23

Average revenues per minute
in cents of EUR

4.3

2014: 4.1

Number of minutes
in billions

21.4bn

2014: 23.3

iBasis is one of the world's largest carriers of international phone calls and a provider of mobile value-added services to operators around the world. Our services include global voice termination, signaling, LTE roaming and Voice over LTE (VoLTE). iBasis customers include many of the world's largest fixed and mobile operators, voice-over broadband (OTT) service providers, as well as KPN and its mobile operators. Our mission is to 'Make What's Next Work Globally'. We help our customers succeed internationally by solving many challenges associated with connecting diverse networks and bridging different and emerging technologies, including traditional TDM telephony, IP eXchange and 4G/LTE.

Adjusted revenues at iBasis decreased by 3.0% compared with 2014. A favorable currency effect of 9.6% was offset by lower traffic volumes in 2015, as the size of the international voice market has declined. The adjusted EBITDA margin in 2015 of 2.5% was somewhat higher compared with 2014 (2.4%) due to cost reductions and a favorable currency effect.

iBasis continued to innovate in 2015, completing the world's first VoLTE roaming trial, which was between KPN Mobile and China Mobile. Leveraging the success of this trial, iBasis introduced its International VoLTE Service.

In 2015, we expanded our iBasis Global IPX network, adding more than 150 LTE destinations. By year-end, the iBasis global LTE footprint included more than 340 LTE network destinations in more than 130 countries. The iBasis global LTE roaming footprint is essential to enable MNOs to capture new revenue opportunities from LTE roaming offerings.

Also in 2015, iBasis introduced new value-added services that take advantage of advanced analytics to help customers maximize revenue and efficiency. InVision™, our new business intelligence tool, helps mobile operators deliver the best possible user experience and maximize the value of their LTE roaming service, while reducing the operational costs associated with trouble-resolution and customer dissatisfaction. Using real-time LTE roaming traffic data generated from the network, InVision™ helps operators resolve issues very quickly, often before the end-user experience is impacted, which contributes to better overall user satisfaction and enhanced competitive power for the operator.

In addition, iBasis launched FraudAlert in 2015, a new fraud-management service that detects and automatically discontinues fraud traffic. iBasis developed FraudAlert to enable carriers and service providers to better protect their revenue and customers from fraudulent calling activity.

iBasis' ambition is to continue to leverage its extensive expertise in real-time international communications over IP, its global IPX and its heritage in connecting disparate networks, technologies and services to 'make what's next work globally'.

Risk Management and Compliance

No surprises, please

Effective risk management is a key success factor for realizing the strategic objectives, as it provides reasonable – though not absolute- assurance against material misstatement or loss. For this reason, KPN has implemented an Internal Risk Management and Control System ('the control system'). This system is based on relevant criteria as set forth by the Committee Of Sponsoring Organizations of the Treadway Commission (COSO). Key components of the control system are discussed in more detail below.

1. Implement a strong risk culture (control environment)

A strong risk culture and control environment forms an important foundation of the control system. The stronger the risk culture and control environment, the better risk assessments, risk management and risk reporting will take place. KPN strives for a business culture in which compliance and integrity are self-evident for all employees. This is realized by:

- All KPN employees, managers and board members, as well as directors on boards of KPN subsidiaries, are subject to our Code of Conduct. We communicate the Code on our corporate website (www.kpn.com), our intranet, through classroom training and e-learning for new employees. We have a zero tolerance for bribery and corruption, fraud and all other forms of (illegal) misconduct, including facilitation payments. We actively detect and investigate any alleged misconduct and take appropriate disciplinary action if misconduct is substantiated.
- To strengthen the tone at the top of KPN's top management, managers participated in training sessions about our desired company culture and behavior, with specific focus on awareness for integrity and fraud risks.
- The Business Control Framework (BCF) contains all corporate policies and guidelines that are mandatory for all of KPN's segments and entities. In 2015, an e-learning module was launched to train senior management in the BCF policies.
- Whistleblower: KPN encourages all employees and external parties to (anonymously) report any misconduct of KPN employees.

2. Objective and strategy setting

KPN's objectives and strategy are described on page 14. During the objective and strategy setting process, top management takes into account the known risks and opportunities of the company, and the company's 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 those objectives in various ways. Each type of risk encountered is being dealt with in a manner and with the intensity that matches the nature and size of the risk in relation to the risk appetite of the Board of Management. The risk appetite is the total residual impact of risks that KPN is willing to accept in the pursuit of its (strategic) objectives. The risk appetite per strategic objective or risk area is determined annually by the Board of Management. These risk areas comprise themes such as financial, strategic, compliance and (information) security themes.

Effective risk management is a key success factor for realizing the strategic objectives. Risk areas with a low-risk appetite and thus a low acceptable residual risk require strong risk management 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 64 of this Annual Report.

4. Assess risks and countermeasures (the heart of the control system)

Strategic objectives

We annually assess the top risks on Group and Segment level and, where possible, we implement countermeasures to mitigate them within the defined risk appetite.

The 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.

Operational objectives

KPN has business continuity plans 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 Privacy & Security paragraph).

We implemented ISO standards to improve the operational processes. Additionally, we simplified services and processes. We implemented quality improvement plans such as 'First Time Right' and continued to focus on improving Net Promoter Scores (NPS).

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 also Note 28 of 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. Next to a potential tax exposure, reputational risk is always part of the consideration to apply a particular tax-planning idea.

Compliance objectives

Our 'Compliance Risk Assessment' (CRA) framework comprises an integrated framework that oversees risks mainly related to compliance with the Dutch Telecommunications Act, competition laws and privacy regulations. For these risks, relevant processes and controls have been implemented and are continuously monitored. For risks related to our regulated business (with significant market power), compliance controls are tested by dedicated staff year round.

Financial reporting objectives

Our internal controls for Reliable Financial Reporting (also known as RFR GRIP) ensure that material misstatements in KPN's financial statements are prevented or detected in a timely manner. Each quarter, the Risk & Compliance department (R&C) and KPN Audit assess the overall effectiveness of the controls before publication of the quarterly figures. The internal evaluation conclusions were in line with the observations discussed in the report of the external auditors as part of their audit of the 2015 Financial Statements.

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.

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, strategic risks and compliance with telecommunication laws and internal policies.

Twice a year, R&C reports top risks and countermeasures to the Board of Management, including main improvement actions, if any.

Internal Audit

KPN's internal audit function, KPN Audit, is – in line with Dutch Corporate Governance requirements – an integral part of the Internal Risk Management and Control System and provides assurance to both the Board of Management and the Audit Committee concerning the 'In Control status' of KPN Group segments/units/entities and processes. In 2015, KPN undertook a successful rationalization of its internal control framework for Reliable Financial Reporting ('RFR GRIP'). KPN's R&C and Audit departments are heavily involved in test and review work to continuously assess, and improve if necessary, the quality of this framework.

KPN Audit provides quality assurance on the RFR framework on a quarterly basis and conducts ad hoc financial, information technology, and operational audits and special investigations. KPN Audit conducts its activities in a risk-based 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.

Risk Management and Compliance

Summary of main risks and countermeasures

Risk	Main countermeasures	Impact
Increased competition from current competitors, new market entrants, OTT players, market consolidation or new (disruptive) technologies. **Trend:**	• Offer bundled services and competitive price/portfolio combinations • Improve NPS and invest in quality of service • Introduce new innovative products and services to meet changing customer needs • Strategic partnerships with OTT players, online channels and shops • Implement an agile organization, technology and processes to enable swift response to new market developments	High; the described risk could lead to lower profitability as well as lower market shares.
Damage, service interruptions, operational issues in KPN's technical infrastructure and IT. **Trend:**	• Monitor performance of technical infrastructure and IT • Strengthen and simplify the IT and continue implementation of the KPN Security Policy • Back-up and recovery plans in case of emergencies • Simplification programs to simplify and rationalize IT/TI	Medium-high; the incidents could negatively impact KPN's reputation, customer satisfaction and profitability.
Threats to the confidentiality, integrity, or availability of KPN's networks, systems or (customer) data caused by cyberattacks or lack of appropriate security controls and infrastructure measures. **Trend:**	• Continue and reinforce strategic security programs • Continue and strengthen Joint Security Operations Center implementation to improve security visibility and risk intelligence • Increase awareness of personnel for security and privacy	High; the incidents could lead to loss/theft of customer data, higher costs, penalties and reputational damage.
Non-compliance with regulation, including – but not limited to – privacy regulation. **New regulatory decisions in the EU and the Netherlands.** **Trend:**	• Strengthening the effectiveness of the compliance organization by: – Compliance training sessions for staff and management – Proactive internal compliance investigations – Surveys and culture improvement programs – Improving and maintaining robust internal controls • Proactive stakeholder and reputation management including dialog with regulators	Medium; the risk could affect KPN's future operations and profitability.
Frequency auctions in the Netherlands could entail high costs. **Trend:**	• Preparation of auctions by experienced KPN team and external experts; simulation of auctions • Use alternative combinations of spectrum and advanced techniques to meet required technology	High; KPN may have to pay a high price for the required spectrum.
Inadequate access to (debt) capital markets to finance our operations and refinance our outstanding debt. **Trend:**	• Commitment to investment-grade credit profile • Maintaining a strong liquidity position and prefunding debt redemptions • Monitoring and forecasting of metrics used by rating agencies • Maintaining discipline in allocating capital to investment opportunities and shareholder remuneration	High; due to this risk, KPN might not be able to maintain its current credit ratings, which could negatively affect pricing and availability of financing resources.
Dependence on suppliers and outsourcing/offshoring partners to obtain adequate telecommunications equipment, software and IT services. **Trend:**	• Establish a strong and centralized demand and contract management organization that defines, enforces and monitors suppliers' compliance with terms of contracts • Include a right-to-audit clause in supplier contracts and conduct regular audits • Prepare re-transition plans as fallback scenario	Medium; this could lead to an inability to deliver the required services to our customers at the right price and quality level.

For a more extensive list of our main risks and countermeasures, please refer to the appendix included in the digital version of this Annual Report available on our website (www.kpn.com/annualreport).

Key:

risk is increasing (worsening)

risk is stable

risk is decreasing (less bad)

Improvements in the control system and examples of risks that materialized in 2015
During 2015, KPN further improved the control system. For example, KPN strengthened the internal control frameworks for Information Security (such as protecting the systems against cyberattacks, for more information please refer to the Privacy & Security paragraph) and Reliable Financial Reporting (such as improving the controls regarding several revenue processes).

During 2015, KPN was subject to five penalty cases for breaches of the law relating to telecommunication. Two penalties amounting to EUR 8 million were imposed in 2015, which are preliminarily paid (in accordance with Dutch regulations) but still pending. The other three amounting to EUR 1.9 million were imposed before 2015 but are still pending (one penalty of EUR 640 thousand was preliminarily paid).

In November 2015, there was a disruption of our voice, internet and IPTV services. As a consequence, a large part of our customers could not use IPTV for more than a day.

In Control Statement and Responsibility Statement

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

- The strategic, operational, financial, financial reporting and regulatory and compliance risks, as discussed in paragraph 'Summary of main risks and countermeasures' on page 64; and
- The design and operating effectiveness of the Internal Risk Management and Control system, as discussed on pages 62 to 65 of this Annual Report.

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

With reference to best practice provision II.1.5 of the Dutch Corporate Governance Code, the Board of Management, to the best of its knowledge, believes that the Internal Risk Management and Control System, with regard to financial reporting, worked properly over 2015 and that the Internal Risk Management and Control System provides a reasonable assurance that the financial reporting does not contain any errors of material importance.

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

- The Annual Financial Statements of 2015 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 December 31, 2015, the development during 2015 of KPN and its Group companies included in the annual financial statements, together with a description of the top risks KPN faces.

The Hague, February 24, 2016

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

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

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

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

Regulatory developments

Regulation affects our business

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

European developments; the Digital Single Market strategy

The European Union's Roaming regulation is directly applicable in all member states. Regulation of operators with significant market power is applied nationally, after a national market analysis, but under coordination of the European Commission. This affects KPN in some fixed markets and on fixed and mobile call termination services. Licensing regimes for frequencies are also of a national nature. Increasingly, due to the development of the markets and our services, also other regulation (privacy law, content related law) will have an impact, but this regulation is less specifically addressed to our market position and our services and will therefore not be described here.

On November 29, 2015 the much debated Regulation (EU) 2015/2120 of the European Parliament and of the Council laying down measures concerning open internet access and amending the Roaming Regulation (EU) 531/2012 entered into force. This regulation is directly applicable in all EU member states as of April 30, 2016 and replaces national legislation. Thereby, the Dutch legislation on net neutrality will be replaced by the rules of the Regulation and the roaming rules (see next paragraph) will be amended.

The European Commission announced its Digital Single Market strategy on May 6, 2015. In order to achieve a Digital Single Market in the EU, in which the free movement of goods, persons, services and capital is ensured and where individuals and businesses can seamlessly access and exercise online activities, an action plan was presented. Under the three pillars of the action plan (better access for consumers and businesses to online goods and services across Europe, creating the right conditions for digital networks and services to flourish, and maximizing the growth potential of our European Digital Economy) 16 actions are defined, involving a review of the existing regulatory regimes for e.g. copyright, telecoms rules (including access regulation and universal services) and audio-visual media services. Furthermore, a comprehensive analysis of the role of platforms in the market has started. The European Commission started a three-month period of public consultations on these issues in September 2015. Proposals for reforming the rules and the start of a legislative process will follow and implementation in national legislation is not expected within the next few years.

International roaming on mobile networks

The Roaming Regulation 2012 of the European Parliament and Council extended the price regulation of the previous regulation and introduced 'structural measures' aimed at creating more competitive retail roaming markets as of July 2014. Since the first Roaming Regulation of 2007, the regulated price caps for wholesale as well as retail tariffs have been decreased annually, with a last reduction in July 2014. Since July 2012, MVNOs can also benefit from the regulated wholesale rates.

Based on the amendment of the Roaming Regulation of November 2015, by April 30, 2016, the current price cap regime will be replaced by a system in which national mobile tariffs are also applied when roaming, with a surcharge not exceeding the current regulated wholesale rates (EUR 5 ct/min voice, EUR 2 ct/sms and EUR 5 ct/Mb data). The earlier imposed obligation to offer retail roaming services separately from national services by July 2014 will be deleted for alternative roaming providers offering the bundle of roaming services and will be restricted to roaming data services offered in the visited countries ('local-break-out').

General Director World Life Fund The Netherlands
Johan van de Gronden:

"Sharing information on the internet helps animals"

Watch Johan's story:
kpn.com/annualreport/johanvandegronden

By June 15, 2017, a prohibition on surcharges for roaming compared to national tariffs ('roam-like-at-home') will be introduced. After that date, surcharges (not exceeding the regulated wholesale tariffs) may only be imposed for traffic exceeding certain 'fair use criteria', that will be defined by the European Commission prior to December 15, 2016. In order to prevent national mobile tariffs being unsustainable in this regime, a surcharge may also be imposed if, after approval of the national regulatory authority, the national tariffs are not sustainable according to criteria that will also be defined by the European Commission prior to December 15, 2016. The date of introduction is still dependent on the implementation of a legislative measure to define regulated wholesale roaming tariffs, for which the European Commission, after a review of the current wholesale regulation, has to present a proposal by June 15, 2016.

Market analysis decisions

KPN has been designated by ACM to have significant market power in some of the fixed telecommunications markets in the Netherlands. The last implemented decisions thereto came into force on January 1, 2016 (market for unbundled access to copper and FttH networks), May 1, 2012 (markets for wholesale telephony) and January 1, 2013 (markets for high-quality wholesale broadband access and wholesale leased lines). On these markets (virtual) access obligations, tariff regulation (partly by safety caps based on the 2011 tariff levels) and margin squeeze tests were imposed. Furthermore, KPN has been designated as having significant market power in the retail telephony markets for two and more simultaneous calls, for which markets a margin squeeze test is imposed.

All of these decisions are or have been have been under appeal. The Trade and Industry Appeals Court ('CBb') has annulled or amended some of the decisions. The decision by which KPN had been designated to have significant market power in the market of unbundled access to KPN FttO networks was annulled. After the annulment, this market is by now still unregulated. The Dutch television markets are not regulated.

ACM is now finalizing its fourth round of market analysis. In its decision of December 17, 2015, which entered into force on January 1, 2016, ACM concluded that, even after the Ziggo/UPC merger, (only) KPN is mandated to offer (virtual) unbundled access to its copper and fiber networks at wholesale level, until the next review (scheduled for in three years). A draft of this decision initially met serious doubt of the European Commission, but after several amendments, the European Commission no longer blocked the decision. ACM was instructed to review its analysis in the next round. Drafts for new decisions for the other fixed markets will be consulted nationally early in 2016 and thereafter also have to be notified to the European Commission before they can enter into force.

ACM regulated the fixed and mobile termination rates by September 2013 based on a 'pure BULRIC' cost methodology, in line with the European Commission's Recommendation on the regulatory treatment of fixed and mobile termination rates of May 7, 2009. In a pure BULRIC approach, joint and common costs are excluded from partial recovery by termination tariffs. ACM imposed maximum tariff levels of EUR 0.108 ct/min for fixed and of EUR 1.019 ct/min for mobile termination rates. However, in an injunctive procedure, the CBb judged on August 27, 2013 that ACM's decision materially seems no different from the earlier decision of 2010 (also applying the pure BULRIC methodology), which the CBb had annulled in August 2011. As an interim measure, the CBb decided that the tariffs should be set at the 'plus BULRIC' level of EUR 0.302 ct/min (fixed) and EUR 1.861 ct/min (mobile) during the appeal procedure. On January 13, 2015, the CBb sent prejudicial questions to the European Court of Justice on the legal status of the Recommendation. A final decision thereby is postponed until the answers of the European Court of Justice have been received and included in a national judgment. In the meantime, ACM has started the process of reviewing the 2013 decision, aimed at having a new decision by September 1, 2016.

Spectrum licenses

In the Netherlands, KPN holds licenses in the 800, 900, 1800, 2100 and 2600 MHz bands for mobile communications, a license for DVB-T (Broadcast) and a number of licenses of minor significance. The majority of the mobile licenses were granted after an auction in the period October to December 2012, and have a duration until 2030. The 2100 MHz licenses have a duration until January 1, 2017. However, in November 2015, the Minister of Economic Affairs published a decision allowing extension of the 2100 MHz licenses, upon request of the licensee for a period of four years. Thereby, the new assignment (auction) will be postponed until 2019, potentially allowing simultaneous assignment with the 700 MHz band plus potentially the L-Band (1452 – 1492 MHz), which is also likely to be allocated for mobile communication. For the extension of KPNs licenses, a fee is due of EUR 24 million. The extended licenses will be technology-neutral, allowing use for 3G, 4G or 5G mobile technology.

KPN's license for Digital Terrestrial Television (DVB-T) has a duration until January 31, 2017. In November 2015, the Minister of Economic Affairs announced a policy not to extend the license but to auction spectrum for digital ether television. The auction is planned to take place in 2016. Prior coordination with neighboring countries is still required.

Report by the Supervisory Board

Supervisory Board Report

For KPN, 2015 was seen as and has turned out to be a year of setting the company on a new path forward. The reported achievements clearly show that KPN has made excellent progress on the agenda of customer focus and operational improvements. Like any company, much remains to be done, and the Supervisory Board feels that the company and the Board of Management are ready for another year of important milestones.

Business results

KPN's investment focus has shown its positive effect. The state of the art mobile networks allow the company to differentiate the mobile customer experience. The actual increase in mobile customers is the result of these investments, price/value performance and improved customer services. In the fixed network, the Hybrid Access strategy in combination with the fast adoption of the latest technologies enables a fast roll-out of ever higher speeds to the vast majority of the Netherlands.

The ongoing focus to deliver a superior end-to-end broadband and digital TV service has allowed the company to improve its broadband market share and expand in a digital TV market as a front runner.

Transformation

KPN's overriding goal has been the improvement of customer satisfaction. As well compared to its own historic achievements as to key competitors, 2015 has shown strong improvements. The Supervisory Board is proud of the dedication of all KPN's employees to improve services and put customer experience at the forefront of KPN's daily work. The Supervisory Board believes that satisfied customers are the most important value drivers for other stakeholders such as shareholders, employees and business partners.

In 2015, significant progress has been made in the transformation of the Business Market especially in terms of new and planned products, simplification of the operations, organizational design and, last but not least the strengthening of management. However this transformation and thus performance of the Business Market has taken more time than anticipated. The Supervisory Board is fully aware that further improvement steps have to be made in 2016.

The Supervisory Board has been impressed by the tremendous work accomplished in developing a very positive company culture. This is reflected in a number of surveys where employees engagement scores very highly. The new culture focuses not only on the quality of the work environment but also puts the emphasis on end-to-end services to the customer. It also underscores the need to make careful use of KPN's resources and to increase productivity further.

Employment at KPN decreased in 2015 and will continue to decrease in the years to come, due to changes in business models and technological evolutions. The company pays much attention to personal development and outplacement programs for employees looking for employment outside of KPN. These programs yield good results.

Several members of the Supervisory Board have been in frequent contact with the Employee Council, in particular its day-to-day committee. A wide-ranging selection of topics has been discussed. Despite the presence of these dialogs, the Board of Management and Supervisory Board are of the opinion that the effectiveness of the social dialog can be optimized.

The progress in transforming KPN's organizational structure, the results in simplification, and the design and development of a customer-centric IT environment were frequently on the agenda of the Supervisory Board meetings. Visits by the full Board to the KPN Teleport offices in Amsterdam, as well as field visits by individual members provided us a first-hand view on the dynamic operational environment, which highlights the increasing agility of the company.

Strategy

The Board of Management has prepared a very thorough strategic plan, which has been discussed extensively with the Supervisory Board, notably during two special plenary meetings. These meetings took place in off-site settings in order to maximize our focus. We also involved outside experts in these meetings. The objective was to familiarize all Supervisory Board members with the trends in Telecommunication and Media and to understand, discuss and review concrete options going forward in many different areas of our business. During the year regular updates on the progress on the strategic choices were provided by the Board of Management. The Strategy Committee principally monitored this progress.

The strong capital expenditure nature of KPN's business means that many decisions imply substantial financial commitments over multiple years. In discussing the company's strategy, much attention is therefore devoted to how KPN can use its Capex to sustain a leading technology role. The achievements to date of the company in architecting its networks, its strong focus on the security of its networks and services, and its preparation for Software Defined Networks and Network Virtualization are all proof of the high competencies of our staff (which are also well recognized internationally).

The Supervisory Board discussed frequently new areas for the company such as TV programming contents and the role KPN should play in providing for them. New business such as Cloud services, Security & Internet of Things (IoT) also appeared frequently on the agenda. The company also launched a Venture Fund to increase its exposure to new technology and solutions as well as learn from innovative, talented entrepreneurs.

The Supervisory Board has been closely following the developments in the regulation domain. KPN is subject to a broad framework of rules. The company has acted at all times with the greatest sense of integrity with regard to legislation.

Mergers & Acquisitions

There is an increasing trend of consolidation, and the Supervisory Board has paid ample attention to this topic, monitoring the movements in the industry as a whole, as well as the potential impact for KPN. Since acquisitions often have strategic impact, and may consume both ample management attention and a meaningful part of our Free Cash flow, they have our on-going attention.

The disposal of BASE Company in Belgium, following the earlier disposal of E-Plus in Germany, fits the strategy KPN has formulated by focusing on its Dutch operations and strategy regarding convergence of mobile and fixed communication services. The Board closely monitored the sales process. The acquisition of Internedservices Group and the institution of KPN Ventures were other topics of review for the Board.

The proceeds from the sale of BASE Company and (part of) KPN's stake in Telefónica Deutschland could lead to excess cash. KPN expects to utilize excess cash for operational and financial flexibility, (small) in-country M&A and/or shareholder remuneration.

Corporate social responsibility (CSR)

KPN views CSR as an integral part of doing business, and continues to perform very well on this topic in national and international benchmarks. Through a focused energy program, the company has become climate neutral much faster than planned, and it now seeks to support its customers to reduce power consumption in their homes. Topics such as Privacy & Security, Healthcare of the Future and The New Way of Working and Living are close to the heart of its business, and key topics in society. The recent (continued) inclusion in the DJ Sustainability Index, the top score on the Climate Disclosure Project and the Privacy Waarborg certification all form evidence of KPN's achievements.

The Supervisory Board closely follows the developments in this field, and encourages management to continue pursuing CSR leadership in the years ahead.

Remuneration

Given the importance of balanced remuneration, the Supervisory Board has frequently exchanged views on this topic, based upon preparatory work provided by the Remuneration Committee. The Supervisory Board has been working with the Board of Management to ensure maximum alignment between the company's (long-term) performance and management remuneration.

In March, the CEO decided to give back the discretionary reward he had received as acknowledgment for closing the sale of E-Plus. The Supervisory Board highly respects the decision of the CEO, which evidenced true leadership, by explicitly putting the company's interest above personal interest.

Shareholders

For shareholders, 2015 showed increasing shareholder returns, including final 2014 dividend and interim 2015 dividend payments, as well as a pass-on of the dividend received on our shareholding in Telefónica Deutschland, in combination with a steady share price development outperforming the AEX and relevant European Telecoms indices. The Supervisory Board has had a number of contacts with shareholders in order to understand their concerns, listen to their inputs and benefit from their expertise as they often have a broad view on our industry.

Team

Over the last 3 years, the composition of the Supervisory Board has evolved importantly, with 75% of the members having changed (including the appointments of Ms. Sap and Mr. Hartman in 2015), and Mr. Sickinghe being appointed as its new Chairman in April 2015. Therefore, special attention was paid to building a strong team, and increasing its knowledge of and insights in the company, its industry, competitors and future trends. The members were introduced to different parts of the company. We also discussed how we would like to operate as a team and we discussed the specific areas of attention for the individual members. We worked on a careful balance between Supervisory Board and Board of Management in which the Supervisory Board is well involved in debating key policy topics and yet leaves the ownership and initiative with the Board of Management.

The Supervisory Board evaluated its own performance, with the support of an external expert, and concluded that its focus on building and growing as a team was paying off. The team was in good shape, closer on the business and better involved in the key topics for the company. It also felt that the quality of the information provided to it had improved, while noting that further enhancements were possible. Room for improvement was seen in upfront agenda-setting by the Board itself, interaction with senior management below the Board of Management and sufficient outside-in views being brought to the Board.

Report by the Supervisory Board

Supervisory Board Report

Considerable time was spent outside regular meetings to focus on the strategic goals for the company as well as reinforcing the team aspects of the Board.

Meetings

The Supervisory Board met the Board of Management on nine occasions in 2015, of which eight were regularly scheduled meetings. The attendance at the Supervisory Board meetings was 85%. No members were frequently absent and all members had adequate time available to prepare themselves and give the required attention to the matters at hand. In the event members could not join a meeting, the Chairman discussed the matters at hand before and after the meeting, in order to obtain the input and views of all Supervisory Board members. Most meetings commenced and/or ended with closed meetings where only Supervisory Board members (and at times the CEO) were present.

Committee attendance

Committees	% of attendance	Number of meetings
Audit Committee	85%	6
Strategy & Organization Committee	85%	4
Remuneration Committee	79%	6
Nominating & Corporate Governance Committee	80%	5

Independence

Throughout the year, six members of the Supervisory Board were independent from the company within the meaning of the Dutch Corporate Governance Code. Mr. García Moreno Elizondo and Mr. Von Hauske Solís, both appointed upon the nomination of America Móvil, were not considered independent within the meaning of the Dutch Corporate Governance Code. Mr. Von Hauske Solís resigned from the Supervisory Board in November 2015. At all times, the composition of the Supervisory Board was such, that the members were able to act critically and independently of one another and of the Board of Management.

See Note 31 of the Consolidated Financial Statements for information on related party transactions.

Committee Reporting

The Supervisory Board has established four Committees, as further explained in the Chapter 'Corporate Governance': The Audit Committee, the Remuneration Committee, the Nominating and Corporate Governance Committee and the Strategy and Organization Committee. The main considerations and conclusions of each Committee were shared with the full Supervisory Board. See the Corporate Governance section for information on the composition of the committees.

Committees of the Supervisory Board

Audit Committee

The Audit Committee had six regularly scheduled meetings, all of which were also attended by the CFO. The Committee also met separately with the external auditor (as did the Chairman of the Supervisory Board).

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 and (the financial and risk-related aspects of) the strategic plan. 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 Group Risk & Compliance Officer, and the Disclosure Committee.

Each quarter, the Audit Committee also discussed in detail the matters included in the Board Report of the external auditor. The Audit Committee reviewed the performance evaluation of EY (which was conducted by senior management) and was satisfied with the results.

The Audit Committee kept close oversight on KPN's financing policy and profile, and monitored the sale of part of the company's shareholding in Telefónica Deutschland. It furthermore discussed other topics that were within its scope of attention, most notably compliance, fraud management, tax matters, pension plan matters and application of IT in (financial) processes. Finally, the Audit Committee carried out its self-assessment by means of an extensive questionnaire, the results of which were discussed during the first meeting of the Audit Committee in 2016.

Strategy & Organization Committee

The Strategy and Organization Committee held four meetings in 2015, which were also attended by the CEO, the CFO and – where relevant – other members of the Board of Management and staff.

The Committee worked with the Board of Management and the company's strategy department to reflect on the company's current and potential strategy, for which ample substance was provided. Alternative courses of action were reviewed and documented. The Committee has been able to visit and sometimes revisit relevant topics that it believes will drive value for all the company's stakeholders. It ensured that the annual strategy plan was closely interlinked with the annual budget process in order to maintain maximum consistency at a very granular level. The Committee continues to focus on maximizing KPN's Unique Selling Propositions, anticipating disruptive trends in our industry and driving new sources of revenues.

Remuneration Committee

The Remuneration Committee met on 6 occasions during 2015. 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.

Further details on the activities of the Remuneration Committee are provided in the 'Remuneration Report' starting on page 72.

Nominating and Corporate Governance Committee
The Nominating and Corporate Governance Committee met on 5 occasions in 2015.

The Committee actively reviewed the management strength at the various levels of the company. It has promoted exposure to the Supervisory Board of senior leaders within the company. The strength of our leaders is one of the important indicators of our future performance.

The implementation of the new functional organization and the development of a new corporate culture was extensively reviewed and discussed. Upon recommendation of the Committee, the Supervisory Board appointed Mr. Van der Post as the company's CCO with effect from March 1, 2015, thereby completing the new organizational structure at the level of the Board of Management.

As to the composition of the Supervisory Board itself, the Committee reviewed the recommended nomination by the Central Works Council of Ms. Sap, and steered the selection process that led to the nomination and subsequent appointment of Mr. Hartman. Following the resignation of Mr. Von Hauske, the Supervisory Board decided to keep an open mind on replacing him with a new Board member. The Supervisory Board does not believe that an immediate replacement is in order. It is felt that the current size and composition meet our perceived needs in terms of expertise and diversity.

The Committee remains committed to ensure that the Supervisory Board and Board of Management will consist of at least 30% female and at least 30% male members, thereby incorporating the Dutch law requirement and serving the interest of a balanced composition of the Boards. When searching for candidates for available Board seats, special attention was therefore given to identify female candidates to achieve a more even distribution between male and female members. At the same time, KPN aims to select the best person for the job and – as suitable female candidates were not deemed available – the 30% female representatives has not yet been achieved in either Board. For upcoming vacancies, KPN aims to make further progress in striving for at least 30% female representation. For further information on KPN's diversity policy, see 'Our people' starting on page 42.

Former Olympic speed skater Barbara de Loor

"KPN helps raise interest in skating"

Watch Barbara's story: kpn.com/annualreport/barbaradeloor

Financial Statements

The Financial Statements for the year ended December 31, 2015, 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' starting on page 163.

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

Final remarks

Customers are the reason we exist and they give us in the end our 'license' to operate in our market. KPN will keep its eyes on the ball and work hard to look after our current and new customers alike.

The Supervisory Board would like to thank the Board of Management and all KPN's employees for their dedication to KPN. KPN's results are a reflection of the energy, persistence, creativity and customer focus of our employees. We thank our many business partners who play important roles in making the customer experience a better journey.

We would also like to thank the Works Council for the quality of our exchanges.

We are grateful to our shareholders and bondholders for providing their capital resources and trust to the company.

Duco W. Sickinghe, Chairman

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

Report by the Supervisory Board

Remuneration Report

Introduction

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

The Committee's tasks are laid down in the terms of reference of the Committee. The Committee assists the Supervisory Board with establishing and reviewing the company's pay policy to ensure that members of the Board of Management are compensated consistently with that policy.

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

Sustainability, agility and innovation will play an increasingly important role in the future strategic direction of the company and will contribute to a consistent customer experience and a customer rating that outperforms the sector. We continuously innovate and invest in our networks, products and services so our customers can benefit from emerging trends and technology that will enhance their user experience.

We therefore aim to foster an action- and innovation-oriented culture aimed at delivering results in line with this strategic direction, and our pay programs therefore emphasize variable pay and long-term value creation. The target pay aims at 30–40% of pay in base salary, and 60–70% in variable pay in order to maintain a strong alignment with the company's annual financial performance goals and long-term value creation strategy. In our judgment, this relationship and ratio between base salary and performance-related pay adequately reflects the balance between the company's objectives and its entrepreneurial spirit. This enables the company to attract, motivate and retain senior management of the necessary caliber and leadership background.

A. Executive pay at a glance

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

Objectives:	Principles:
Attracting, motivating and retaining the necessary leadership talent	Paying at market-median level
Driving performance that generates long-term sustainable and profitable growth	Paying for performance
Supporting a work environment where inspiring leadership is the norm	Differentiating by experience and responsibility
Encouraging customer satisfaction and loyalty, agility and innovation	
Linking rewards to shareholder value creation	
Complying with best practice in corporate governance	
General acceptance by stakeholders	

TV and radio presenter **Frits Barend:**

"Real sports fans watch our heroes on the KPN website"

Watch Frits' story: kpn.com/annualreport/fritsbarend

Overview

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

Duties and activities of the Committee B
Insight into the topics discussed by the Committee

Executive pay policy – detailed overview C
In-depth insight into KPN's pay policy for the Board of Management

Details of Board of Management remuneration in Financial Statements D
Disclosure of remuneration costs under IFRS principles

Details of Supervisory Board pay in Financial Statements E
Disclosure of remuneration costs under IFRS principles

How are executives rewarded?

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

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

What is the ratio between fixed and variable pay?

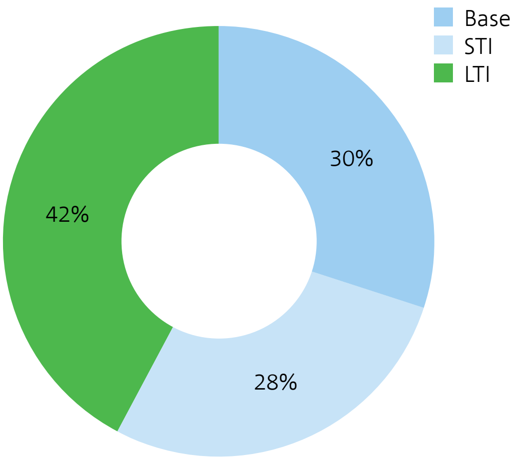
The ratio between fixed and variable pay is influenced by the extent to which targets are met. The pie charts below represent the pay mix for both the CEO and the other Board members in case of an on-target performance. The different pay mix for the CEO (when compared to the other Executives) reflects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

How is the level of remuneration established?

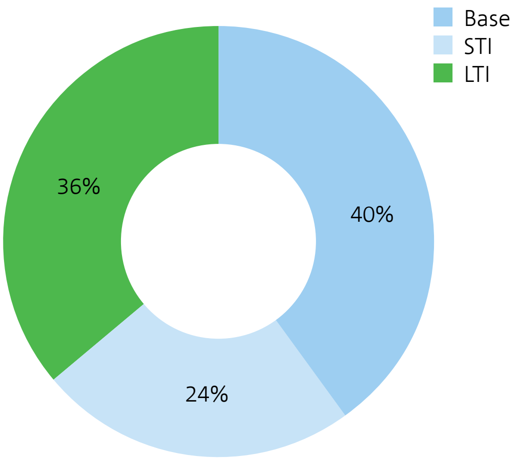
KPN's pay levels are benchmarked against other companies in order to ensure that KPN's total level of compensation based on the pay mix is in line with KPN's pay policy and objectives, as described above. In order to benchmark pay levels, KPN uses an employment peer group of companies against which KPN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

Compensation policy

CEO



Other Executives



Actual remuneration Board of Management

In thousands of EUR. Refer to the 'Employee Benefits' section in the Corporate Financial Statements for full disclosure of remuneration cost under IFRS principles.

Name	Year	Base	STI	Discretionary award	Actual vested LTI[3]	Pension cost and social security	Total
Eelco Blok	2015[1]	850	1,049	–	–	267	2,166
	2014	850	548	425	–	262	2,085
Jan Kees de Jager	2015	625	514	–	–	131	1,270
	2014[2]	165	55	–	–	35	255
Frank van der Post	2015[2]	583	480	–	149	154	1,366
Joost Farwerck	2015	575	473	–	70	142	1,260
	2014	575	167	–	–	127	869

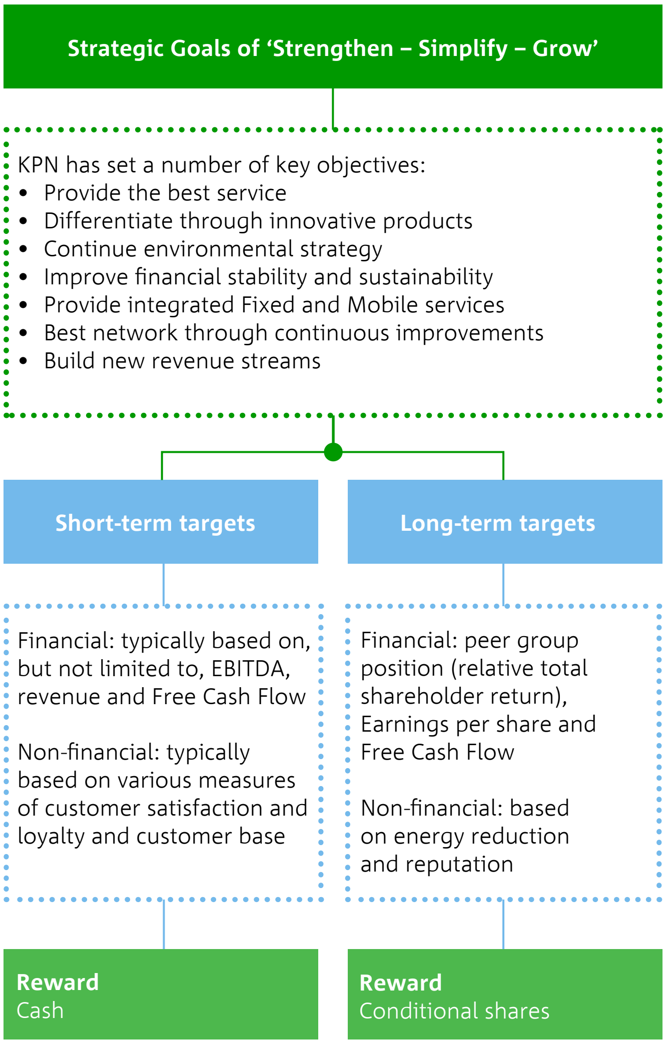
1) In 2015, Mr Blok decided to return his 2014 discretionary award. This refund is not included in the 2015 table
2) Remuneration of Mr. van der Post since appointment as Board member in March 2015 and remuneration of Mr. de Jager since appointment as Board member in September 2014
3) Final TSR measurement for the 2012 and 2013 share grant was conducted, which did not lead to vesting of shares in 2014 and 2015

Report by the Supervisory Board

Remuneration Report

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

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



B. Duties and activities of the Committee

Duties of the Committee
The Committee assists the Supervisory Board with:

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

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

In performing its duties, the Committee is assisted by an external remuneration consultancy firm (i.e. 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.

Activities during 2015
The Committee met six times in 2015, with an attendance rate of 79%. Consistent with its charter, the Committee has been involved in several aspects, such as:

- Defining the level of pay-out for individual members of the Board of Management as part of the STI plan 2014 and LTI grant 2012 and discussing the projected outcome of the STI plan 2015 and LTI grant 2013;
- Issuing the LTI grant 2015 to members of the Board of Management in line with the remuneration policy;
- Reviewing the financial/non-financial targets and performance criteria for the STI plan 2016 and LTI grant 2016;
- Recommending the terms and conditions agreed upon with regard to changes in the composition of the Board of Management;
- Reviewing the current remuneration policy of the Board of Management;
- Preparing the Remuneration Report 2015 to be included in KPN's Integrated Annual Report; and
- Discussing and reviewing the main principles of the remuneration policy with the Central Works Council.

C. Executive pay policy – detailed overview

Objectives of KPN's pay policy
KPN is dedicated to fostering a strongly action and innovation oriented culture aimed at delivering results. KPN's pay programs therefore emphasize variable pay and long-term value creation. KPN's plans are designed to achieve the following objectives:
- Attracting, motivating and retaining the necessary leadership talent in order to sustain and expand KPN's unique competencies and capabilities;
- Driving performance that generates long-term sustainable and profitable growth;
- Supporting a work environment where inspiring leadership is the norm;
- Encouraging customer satisfaction and loyalty, agility and innovation;
- Linking rewards to value creation for shareholders and other stakeholders;
- Complying with best practice in Corporate Governance; and
- General acceptance by stakeholders.

Principles of KPN's pay policy
KPN's pay policy is guided by three broad 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 pay aims at 30–40% of pay in base salary, and 60–70% in variable pay in order to maintain a strong alignment with the company's annual financial performance goals and long-term value creation strategy; and
3) Differentiating by experience and responsibility: this is achieved through alignment of the pay with the responsibilities, relevant experience, required competence and performance of individual jobholders. Consequently, there can be substantial differentials in pay levels, despite employees having similar job titles.

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

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

Employment peer group

AkzoNobel NV	BT Group Plc
DSM NV	Cap Gemini NV
Heineken NV	Portugal Telecom SA
Randstad Holding NV	Proximus SA
Reed Elsevier NV/Plc	Swisscom AG
Royal Ahold NV	Vodafone Group Plc
Royal Philips Electronics 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. In line with KPN's pay-for-performance principle, base salary is targeted at the lower end of the market-competitive range. Each year, the Supervisory Board considers whether circumstances justify an adjustment in base salary within the market-competitive target range for individual members of the Board of Management.

School pupil **Ferris Zurburg:**

"I want to be an architect and build like in Minecraft"

Watch Ferris' story:
kpn.com/annualreport/ferriszurburg

Report by the Supervisory Board

Remuneration Report

Short-Term Incentives (STI)

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

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

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

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

The Supervisory Board's ability to apply a discretionary factor ranges between 0.7 (i.e. cutting the cash incentive by 30%) and 1.3 (i.e. increasing the cash incentive by 30%). With this discretionary factor, the Supervisory Board is able to express the assessment of the overall individual performance of each member of the Board of Management. The ability to apply a discretionary factor does not increase average achievement levels. It does, however, allow the Supervisory Board some discretion in differentiating on the basis of individual contributions to company performance.

To date, the Supervisory Board has the discretionary authority to reward extraordinary management achievement that outperforms the regular business plan and has created substantial additional value for the company and its shareholders. The Supervisory Board has not used this authority in 2015. Other than that, discretion both upwards and downwards can be applied by the Supervisory Board if the outcome of the STI scheme would produce an unfair result or if the outcome would not be considered to reflect the basic objectives and principles of pay as outlined in this section.

Actual pay-out levels
For 2015, EBITDA, revenues and customer base performed close to maximum level. Net Promoter Score performed, on average, around target level and Free Cash Flow performed above maximum level. In 2015, the discretionary reward of 50% of his annual base salary was refunded to KPN by Mr. Blok.

Long-Term Incentives (LTI)

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

Entrepreneur **Annelijn Sinjorgo:**

"Social media is visual mouth-to-mouth advertising"

Watch Annelijn's story:
kpn.com/annualreport/annelijnsinjorgo

Short-Term Incentives (STI)

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

1) Maximum including the effect of the discretionary factor.

Long-Term Incentives (LTI)

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

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

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

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

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

The non-financial parameters set for 2015 are based on energy reduction and a reputation dashboard. Please refer to the 'Environmental Performance chapter' of this report for detailed information about the energy reduction parameters.

Vesting is, in principle, also subject to the condition that the member of the Board of Management has not resigned within three years of the date of the initial grant.

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

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

Performance-measuring and peer group performance

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

Report by the Supervisory Board

Remuneration Report

Companies included in the peer group

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

Position	Vesting schedule 2012 and 2013 grant	Vesting schedule as of 2014 grant	Ranking companies 2013 grant
Position 1	200%	200%	Orange SA
Position 2	200%	175%	Deutsche Telekom AG
Position 3	200%	150%	BT Group PLC
Position 4	175%	125%	Proximus SA
Position 5	150%	100%	Hellenic Telecom (OTE)
Position 6	125%	75%	Telecom Italia SpA
Position 7	100%	No vesting	Vodafone Group Plc
Position 8 and below	No vesting	No vesting	KPN NV (8th position)

The table above provides the vesting schedules of the TSR part in the LTI plans and an overview of the final ranking of the 2013 share plan that vests in 2016. Vesting schedule for financial and non-financial targets other than TSR: threshold performance 25%, on-target performance 100% and maximum performance 200%.

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

Performance incentive zone

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

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

To date, the Supervisory Board has the discretionary authority to reward extraordinary management achievement that outperforms the regular business plan(s) and has created substantial additional value for the company and its shareholders. The Supervisory Board has not used this authority in 2015. Other than that, discretion both upwards and downwards can be applied by the Supervisory Board if the outcome of the LTI incentive scheme would produce an unfair result or if the outcome would not be considered to reflect the basic objectives and principles of pay as outlined in this section.

The change of control clause contains immediate vesting at 100% (irrespective of the actual performance at that moment, whether higher or lower) and lifting of the blocked period normally applicable, to enable the member of the Board of Management to dispose of 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).

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

Actual pay-out levels

Final TSR measurement for the 2013 share grant was conducted as per February 16, 2016. KPN's performance resulted in the 8th position in the TSR performance peer group with respect to the 2013 share award. This position does not lead to vesting in April 2016 of the granted shares.

Claw-back clause

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

Benefits

Pensions

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

Additional arrangements

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

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

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

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

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

Change in composition and responsibilities of the Board of Management

After shareholder approval, the Supervisory Board appointed Mr. Van der Post as the company's Chief Commercial Officer (CCO) as from March 1, 2015. The main terms and conditions of Mr. Van der Post's agreement fit within KPN's remuneration policy, as approved by the General Meeting of Shareholders. Mr. Van der Post earns a base salary of EUR 700,000 per year. He is also eligible for the short-term variable cash incentive and the long-term variable incentive (based on conditional shares). In addition, as a partial compensation for rights that Mr. Van der Post has forfeited at his previous employer, he will be entitled to receive EUR 1.2 million compensation in cash and shares spread out over time. Because compensation of this type was not foreseen in KPN's remuneration policy, shareholder approval was granted thereto at the EGM on January 9, 2015.

Outlook for 2016

No adjustments in the company's remuneration policy that require AGM approval are foreseen in 2016.

A so-called circuit breaker will be introduced as a minimum requirement for pay out of the STI non financial parameters. Next to that the Supervisory Board has decided to make no longer use of its discretionary authority to reward extra-ordinary management achievement without prior approval from the AGM.

Please refer to the Employee Benefits chapter of the Consolidated Statement of Profit or Loss for details on actual remuneration of the Board of Management.

Supervisory Board pay

The Committee is responsible for reviewing and, if appropriate, recommending changes to the pay of the Supervisory Board. Any recommended changes to Supervisory Board pay must be submitted to the General Meeting of Shareholders for approval. The remuneration levels for the chairman and members of the Strategy & Organization Committee were approved by the General Meeting of Shareholders in April, 2015. Please refer to the table for further details. Members receive an additional fee if a meeting is held in a country other than the member's country of residence. Shareholdings in the company held by Supervisory Board members serve as a long-term investment in the company and help to align their interest with those of KPN's other shareholders. No Supervisory Board member is granted stock options or shares as a form of pay. As a policy, the company does not provide loans or guarantees to its Supervisory Board members.

Ms. Hooymans and Mr. Streppel were not available for reappointment and stepped down after the AGM in April 2015. The appointment of Ms. Sap and Mr. Hartman as members of the Supervisory Board came into effect as of KPN's AGM on April 2015. Mr. Von Hauske Solis stepped down as member of the Supervisory Board effective November 27, 2015.

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

Amounts in EUR	Fees 2015
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

Please refer to the Employee Benefits chapter of the Consolidated Statement of Profit or Loss for details on actual remuneration of the Supervisory Board.

The Hague, February 24, 2016

Peter F. Hartman (Chairman Remuneration Committee)

Duco W. Sickinghe

Claudia J.G. Zuiderwijk

Financial Statements

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CFO KPN **Jan Kees de Jager:**

"A financial advisor works like the co-pilot in a rally car"

Watch Jan Kees' story:
kpn.com/annualreport/jankeesdejager

▶ Consolidated Financial Statements

Consolidated Statement of Profit or Loss

For the year ended December 31

Amounts in millions of EUR	2015	2014 Restated*
Revenues [4]	7,006	7,328
Other income [4]	2	81
Total	**7,008**	**7,409**
Own work capitalized	-90	-81
Cost of materials	680	683
Work contracted out and other expenses	2,662	2,852
Employee benefits [5]	1,107	731
Depreciation, amortization and impairments [6]	1,616	1,654
Other operating expenses [7]	325	358
Total operating expenses	**6,300**	**6,197**
Operating profit	**708**	**1,212**
Finance income	150	34
Finance costs	-507	-869
Other financial results	252	-66
Financial income and expenses [8]	**-105**	**-901**
Share of the profit/loss (-) of associates and joint ventures [13]	2	-5
Profit/Loss (-) before income tax from continuing operations	**605**	**306**
Income taxes [9]	-81	-45
Profit/Loss (-) for the year from continuing operations	**524**	**261**
Profit/Loss (-) for the year from discontinued operations [19]	135	-845
Profit/Loss (-) for the year	**659**	**-584**
Profit/Loss (-) attributable to non-controlling interests [20]	21	14
Profit/Loss (-) attributable to equity holders of the company [20]	638	-598
Earnings per ordinary share after taxes attributable to equity holders of the company for the year in EUR [10]		
–Basic (continuing operations)	0.11	0.05
–Diluted (continuing operations)	0.11	0.05
–Basic (discontinued operations)	0.03	-0.20
–Diluted (discontinued operations)	0.03	-0.20
–Basic (total, including discontinued operations)	0.14	-0.15
–Diluted (total, including discontinued operations)	0.14	-0.15

* Comparative 2014 numbers have been restated due to the classification of BASE Company as disposal group held for sale (discontinued operations).

[..] Bracketed numbers refer to the related Notes to the Consolidated Financial Statements, which form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Other Comprehensive Income

For the year ended December 31

Amounts in millions of EUR	2015	2014 Restated*
Profit/Loss (-) for the year	**659**	**-584**
Other comprehensive income:		
Items of other comprehensive income that may not be reclassified subsequently to profit or loss:		
Remeasurement pensions and other post-employment plans:		
Gains or losses (-) arising during the period	45	-41
Income tax	2	-9
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**47**	**-50**
Items of other comprehensive income that will be reclassified subsequently to profit or loss when specific conditions are met:		
Cash flow hedges [20]:		
Gains or losses (-) arising during the period	166	-1
Income tax	-41	2
	125	**1**
Currency translation adjustments [20]:		
Gains or losses (-) arising during the period	-2	2
Realized loss through profit or loss	–	4
	-2	**6**
Fair value adjustment available-for-sale financial assets [20]:		
Unrealized gains arising during the period [14]	363	163
Income tax	-91	-41
Realized gains through profit or loss (net of tax)	-138	–
	134	**122**
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**257**	**129**
Other comprehensive income for the year, net of income tax	**304**	**79**
Total comprehensive income for the year, net of income tax	**963**	**-505**
Total comprehensive income attributable to:		
Equity holders of the company	942	-519
Non-controlling interests	21	14
Total comprehensive income for the year, net of income tax	**963**	**-505**
Total comprehensive income attributable to equity holders of the company arises from:		
Continuing operations	807	326
Discontinued operations	135	-845

* Comparative 2014 numbers have been restated due to the classification of BASE Company as disposal group held for sale (discontinued operations).

[..] Bracketed numbers refer to the related Notes to the Consolidated Financial Statements, which form an integral part of these Consolidated Financial Statements.

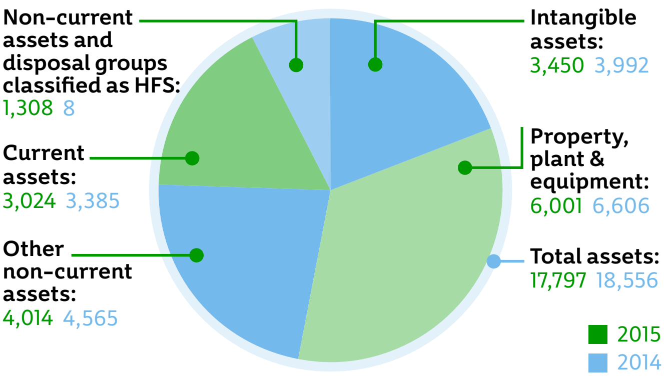
▶ Consolidated Financial Statements

Consolidated Statement of Financial Position

Assets

Amounts in millions of EUR	December 31, 2015	December 31, 2014
NON-CURRENT ASSETS		
Goodwill	1,428	1,454
Licenses	1,180	1,564
Software	556	675
Other intangibles	286	299
Total intangible assets [11]	**3,450**	**3,992**
Land and buildings	525	569
Plant and equipment	5,230	5,704
Other tangible non-current assets	38	58
Assets under construction	208	275
Total property, plant and equipment [12]	**6,001**	**6,606**
Investments in associates and joint ventures [13]	42	42
Loans to associates and joint ventures [13]	20	19
Available-for-sale financial assets [14]	2,272	2,713
Derivative financial instruments [26]	530	328
Deferred income tax assets [9]	1,069	1,323
Trade and other receivables [15]	81	140
Total other non-current assets	**4,014**	**4,565**
Total non-current assets	**13,465**	**15,163**
CURRENT ASSETS		
Inventories [16]	65	61
Trade and other receivables [15]	778	999
Income tax receivables [9]	58	49
Derivative financial instruments [26]	102	-
Other current financial assets [17]	575	300
Cash and cash equivalents [18]	1,446	1,976
Total current assets	**3,024**	**3,385**
Non-current assets and disposal groups classified as held for sale [19]	**1,308**	**8**
TOTAL ASSETS	**17,797**	**18,556**

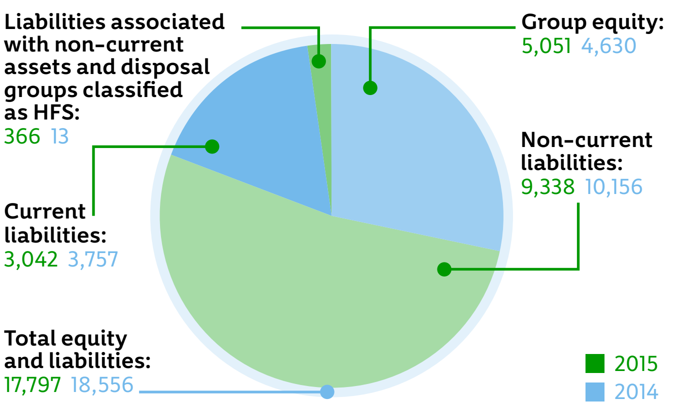
[..] Bracketed numbers refer to the related Notes to the Consolidated Financial Statements which form an integral part of these Consolidated Financial Statements.



Group Equity and Liabilities

Amounts in millions of EUR	December 31, 2015	December 31, 2014
GROUP EQUITY		
Share capital	171	171
Share premium	9,847	9,847
Other reserves	-125	-388
Retained earnings	-6,000	-6,146
Equity attributable to holders of perpetual capital securities	1,089	1,089
Equity attributable to equity holders of the company [20]	**4,982**	**4,573**
Non-controlling interests [20]	69	57
Total group equity [20]	**5,051**	**4,630**
NON-CURRENT LIABILITIES		
Borrowings [22]	8,853	9,397
Derivative financial instruments [26]	17	191
Deferred income tax liabilities [9]	47	52
Provisions for retirement benefit obligations [23]	259	316
Provisions for other liabilities and charges [24]	97	136
Other payables and deferred income [25]	65	64
Total non-current liabilities	**9,338**	**10,156**
CURRENT LIABILITIES		
Trade and other payables [25]	2,090	2,559
Borrowings [22]	847	1,044
Derivative financial instruments [26]	3	7
Income tax payables [9]	43	79
Provisions for other liabilities and charges [24]	59	68
Total current liabilities	**3,042**	**3,757**
Liabilities directly associated with non-current assets and disposal groups classified as held for sale [19]	**366**	**13**
TOTAL EQUITY AND LIABILITIES	**17,797**	**18,556**

[..] Bracketed numbers refer to the related Notes to the Consolidated Financial Statements which form an integral part of these Consolidated Financial Statements.



▶ Consolidated Financial Statements

Consolidated Statement of Cash Flows

For the year ended December 31

Amounts in millions of EUR	2015	2014 Restated*
Profit before income tax from continuing operations	605	306
Adjustments for:		
– Net financial expense [8]	105	901
– Share-based compensation [5]	8	6
– Share of the loss of associates and joint ventures [13]	-2	5
– Depreciation, amortization and impairments [6]	1,616	1,654
– Other income	-2	-2
– Changes in provisions (excluding deferred taxes)	-44	-894
Changes in working capital relating to:		
– Inventories	-12	-2
– Trade receivables	63	216
– Prepayments and accrued income	53	-107
– Other current assets	18	18
– Trade payables	63	-312
– Accruals and deferred income	-145	-64
– Current liabilities (excluding short-term financing)	-10	27
Dividends received [13, 14]	147	1
Income taxes paid/received	18	38
Interest paid	-485	-704
Net cash flow provided by operating activities from continuing operations	**1,996**	**1,087**
Net cash flow provided by operating activities from discontinued operations [19]	222	467
Net cash flow provided by operating activities	**2,218**	**1,554**
Disposal of available-for-sale financial assets [14]	805	–
Acquisition of subsidiaries, associates and joint ventures (net of acquired cash)	-73	-745
Disposal of subsidiaries, associates and joint ventures (net of cash)	-1	-1
Disposal of intangibles	–	2
Investments in intangible assets (excluding software)	-4	-14
Investments in software	-288	-343
Investments in property, plant and equipment	-1,012	-896
Loans to associates and joint ventures	–	-177
Disposals of property, plant and equipment	3	3
Other current financial assets [17]	-275	-300
Other	-1	–
Net cash flow used in investing activities from continuing operations	**-846**	**-2,471**
Net cash flow used in/provided by investing activities from discontinued operations [19]	-247	3,944
Net cash flow used in/provided by investing activities [27]	**-1,093**	**1,473**

For the year ended December 31

Amounts in millions of EUR	2015	2014 Restated*
Redemption preference shares B [20]	–	-255
Dividends paid	-495	-94
Paid coupon perpetual hybrid bonds	-67	-67
Issuance perpetual hybrid bonds	–	-1
Repayments of borrowings and settlement of derivatives [22]	-929	-4,002
Other	-5	-34
Net cash flow used in financing activities from continuing operations	**-1,496**	**-4,453**
Net cash flow used in financing activities from discontinued operations [19]	–	-251
Net cash flow used in financing activities [27]	**-1,496**	**-4,704**
Total net cash flow from continuing operations	**-346**	**-5,837**
Total net cash flow from discontinued operations [19]	**-25**	**4,160**
Changes in cash and cash equivalents	**-371**	**-1,677**
Net cash and cash equivalents at the beginning of the year [18]	1,945	3,620
Exchange rate differences	1	2
Changes in cash and cash equivalents	-371	-1,677
Net cash and cash equivalents at the end of the year [18]	**1,575**	**1,945**
Bank overdrafts	4	31
Cash classified as held for sale	-133	–
Cash and cash equivalents [18]	**1,446**	**1,976**

*Comparative 2014 numbers have been restated due to the classification of BASE Company as disposal group held for sale (discontinued operations).

[..] Bracketed numbers refer to the related Notes to the Consolidated Financial Statements which form an integral part of these Consolidated Financial Statements.

Director Festival The Brave **Luc Upson:**

"People discover music, and musicians find audiences, thanks to Spotify"

Watch Luc's story:
kpn.com/annualreport/lucupson

Consolidated Financial Statements

Consolidated Statement of Changes in Group Equity

Amounts in millions of EUR, except number of shares	Number of subscribed shares[1]	Share capital	Share premium	Other reserves	Retained earnings	Equity attributable to holders of perpetual capital securities	Equity attributable to equity holders of the company	Non-controlling interests	Total Group equity
Balance as of December 31, 2013	**4,270,254,664**	**1,025**	**8,993**	**-517**	**-5,340**	**1,089**	**5,250**	**53**	**5,303**
Profit for the year	–	–	–	–	-598	–	-598	14	-584
Other comprehensive income for the year	–	–	–	129	-50	–	79	–	79
Total comprehensive income for the year	**–**	**–**	**–**	**129**	**-648**	**–**	**-519**	**14**	**-505**
Share-based compensation [5]	–	–	–	–	3	–	3	–	3
Reduction nominal value	–	-854	854	–	–	–	–	–	–
Paid coupon perpetual hybrid bond (net of tax)	–	–	–	–	-76	–	-76	–	-76
Dividends paid	–	–	–	–	-85	–	-85	-9	-94
Acquisition	–	–	–	–	–	–	–	-1	-1
Total transactions with owners, recognized directly in equity	**–**	**-854**	**854**	**–**	**-158**	**–**	**-158**	**-10**	**-168**
Balance as of December 31, 2014	**4,270,254,664**	**171**	**9,847**	**-388**	**-6,146**	**1,089**	**4,573**	**57**	**4,630**
Profit for the year	–	–	–	–	638	–	638	21	659
Other comprehensive income for the year	–	–	–	257	47	–	304	–	304
Total comprehensive income for the year	**–**	**–**	**–**	**257**	**685**	**–**	**942**	**21**	**963**
Share-based compensation [5]	–	–	–	–	-3	–	-3	–	-3
Sold treasury shares	–	–	–	6	–	–	6	–	6
Paid coupon perpetual hybrid bond (net of tax)	–	–	–	–	-51	–	-51	–	-51
Dividends paid	–	–	–	–	-485	–	-485	-9	-494
Total transactions with owners, recognized directly in equity	**–**	**–**	**–**	**6**	**-539**	**–**	**-533**	**-9**	**-542**
Balance as of December 31, 2015	**4,270,254,664**	**171**	**9,847**	**-125**	**-6,000**	**1,089**	**4,982**	**69**	**5,051**

1) Subscribed ordinary shares (including treasury shares). Preference shares B were not included and classified as current liabilities (refer to Note 20).

[..] Bracketed numbers refer to the related Notes to the Consolidated Financial Statements which form an integral part of these Consolidated Financial Statements.

The aggregate amount of deferred tax recorded directly in equity in 2015 was EUR 16 million positive (2014: EUR 9 million negative).

General Notes to the Consolidated Financial Statements

[1] General information

KPN is the leading telecommunications and information and communications technology (ICT) provider in the Netherlands, offering fixed and mobile telephony, fixed and mobile broadband internet and TV to retail consumers. KPN is also market leader in the Netherlands in infrastructure and network related ICT solutions to business customers, including other telecommunications operators. In Belgium (discontinued operations), KPN pursues a challenger strategy and offers mobile telephony products and services through BASE Company. KPN also provides wholesale network services to third parties and operates an IP-based infrastructure for international wholesale customers through KPN's US-based subsidiary iBasis.

Koninklijke KPN N.V. (KPN or the Company) was incorporated in 1989 and is domiciled in the Netherlands. The address of its registered office is Maanplein 55, 2516 CK, The Hague. KPN's shares are listed on Euronext Amsterdam. Following the delisting of KPN's shares on the New York Stock Exchange (NYSE) in 2008, KPN's shares can be traded in the United States, only as American Depository Receipts on the over-the-counter market.

The Financial Statements as of and for the year ended December 31, 2015 of Koninklijke KPN N.V. were approved for issuance by both the Supervisory Board and the Board of Management on February 24, 2016 and are subject to adoption by the Annual General Meeting of Shareholders on April 13, 2016.

[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. KPN's Corporate Statement of Profit or Loss is presented in abbreviated format in accordance with Article 402, Part 9, Book 2 of the Dutch Civil Code.

The Consolidated Financial Statements have been prepared under the historical cost convention, except for available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The Consolidated and Corporate Financial Statements are prepared on a going concern basis.

Consolidated financial information, including subsidiaries, associates and joint ventures, has been prepared using uniform accounting policies for similar transactions and other events in similar circumstances.

Summary of significant accounting policies

The general accounting policies as applied in these Consolidated Financial Statements as a whole are described below. Significant accounting policies that relate to specific line items or accounts are described in the relevant Notes. The accounting policies described in the Notes form an integral part of the description of the accounting policies in this section. Accounting policies have been applied consistently to all years presented, unless stated otherwise.

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 opted for early adoption for any of these standards.

Implications of new and amended standards and interpretations

The following standards have been applied as of January 1, 2015:

- IFRIC 21 'Levies' provides guidance in addition to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on how to account for levies posed by governments other than income taxes, specifically on when to account for the liability. For KPN, this guidance impacted the phasing of specific levies throughout the financial year but did not have an impact on the full year financial results.
- IAS 19 'Employee Benefits' has been amended regarding treatment of employee contributions in defined benefit plans. The amendment aims to simplify the calculation of employee contributions and did not affect KPN.
- The Annual Improvements 2010–2012 and the Annual Improvements 2011–2013 cover amendments to several standards, none of which have a material impact on KPN.

Future implications of new and amended standards and interpretations

The IASB has issued several new standards and amendments with an effective date of January 1, 2016 or later. Those with an expected material impact on KPN upon application are discussed below:

- IFRS 9 'Financial Instruments' as issued in July 2014 will replace IAS 39 'Financial Instruments: Recognition and Measurement' and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting of financial instruments. IFRS 9 is effective as of January 1, 2018 and must be applied retrospectively. However, the hedge accounting requirements are generally applied prospectively. Apart from some aspects of hedge accounting, restatement of comparative information is not mandatory and is only permitted if information is available without the use of hindsight. As the standard has not yet been endorsed, it is uncertain when it needs to be applied by KPN. IFRS 9 is expected to have an impact on the classification and measurement of KPN's financial assets and liabilities. KPN is currently reviewing the extent of the impact of this new standard.

Consolidated Financial Statements

General Notes to the Consolidated Financial Statements

- IFRS 15 'Revenue from Contracts with Customers' was issued in May 2014. In April 2015, the effective date of this standard has been postponed to January 1, 2018. Endorsement is expected in 2016. IFRS 15 introduces new guidance on the recognition and measurement requirements of revenues. The standard applies to revenue from contracts with customers and also provides a model for the sale of some non-financial assets that are not an output of a company's ordinary business activities. IFRS 15 provides more detailed requirements than the current standards. KPN is currently reviewing the extent of the impact of this new standard in anticipation of endorsement. KPN expects an impact on the timing of revenue recognition due to the removal of the cash restriction rule currently applied in revenue arrangements with multiple deliverables and on the accounting treatment of dealer commissions. Due to potential differences between timing of revenue recognition required by the new standard and receipt of corresponding cash flows, KPN's Statement of Financial Position may also be impacted (recognition of contract assets and contract liabilities). Upon implementation of IFRS 15, the disclosures in KPN's IFRS Financial Statements will be expanded to include required information such as movement schedules for recognized contract assets and contract liabilities, information about performance obligations and information on key judgments and estimates applied in recognition and measurement of revenues. KPN does not intend to early adopt this standard.
- IFRS 16 'Leases' was issued in January 2016. The standard has an effective date of January 1, 2019. Endorsement has not been scheduled yet. IFRS 16 will replace IAS 17 and introduces on balance sheet accounting for (almost) all leases. Therefore, assets in use under an operating lease contract, reported as off balance sheet obligation under IAS 17, will be recognized on the balance sheet. Paid lease fees will no longer be part of operating expenses but will become part of depreciation and interest expenses. The standard will have an impact on KPN's Consolidated Statement of Financial Position due to the recognition of the leased assets and corresponding financial liabilities. Also, an impact is expected on KPN's Consolidated Statement of Profit or Loss. EBITDA and Operating profit are expected to increase, but the impact on Profit before tax is not expected to be material. KPN is currently reviewing the extent of the impact of this new standard.

Changes to Standards following Amendments by the IASB and the Annual Improvement Cycles as issued per date of these financial statements are not expected to have a material impact on KPN's financial statements.

Basis of consolidation

KPN's Financial Statements include the financial results of its subsidiaries and incorporate KPN's share of the results from associates and joint ventures. Refer to Note 13 for the accounting policy on Associates and Joint ventures.

Subsidiaries

Subsidiaries are all entities for which KPN is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity ('control'). Subsidiaries are fully consolidated from the date on which control is obtained by KPN and are deconsolidated from the date on which KPN's control ceases. All intercompany transactions, balances and unrealized results on transactions with subsidiaries are eliminated.

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposal of subsidiaries

When control ceases, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in the Statement of Profit or Loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in Other Comprehensive Income (OCI) in respect of that entity are accounted for as if KPN had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in OCI are reclassified to profit or loss.

Foreign currency translation

Functional and presentation currency

These Financial Statements are presented in Euro (EUR), which is KPN's presentation currency and functional currency. Each entity within the KPN Group has its own functional currency which is determined based on the primary economic environment in which the entity operates. All amounts are rounded to millions unless stated otherwise.

Transactions and balances

Transactions in foreign currencies are translated into the functional currency of the recording entity using the exchange rates applicable at transaction date. At reporting date, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the rates at reporting date. Exchange rate differences are recognized in the Statement of 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 the Statement of 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
The results and financial position of subsidiaries that have a functional currency other than KPN's presentation currency (EUR) are translated for consolidation purposes 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 (in the currency translation reserve, a separate component within equity).

Significant accounting estimates, judgments and assumptions

The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the information disclosed and the contingent liabilities. Actual results may therefore deviate from the estimates applied. Estimates and judgments are evaluated continuously and are based on historic experience and other factors, including expectations of future events thought to be reasonable under the circumstances. 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:

The determination of deferred tax assets for losses carry forward and provisions for tax contingencies	Note 9
The determination of fair value less costs of disposal and value in use of cash-generating units for goodwill impairment testing	Note 11
The depreciation rates for the copper and fiber network included within property, plant and equipment	Note 12
The assumptions used to determine the fair value less costs of disposal of assets and liabilities held for sale, including disposal groups	Note 19
The assumptions used to determine the provision for retirement benefit obligations and periodic pension costs, such as discount rate, mortality rates and benefit increases	Note 23
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 24/30
The assessments of exposure to credit risk and financial market risks	Note 28
The determination of fair values of net assets acquired in business combinations	Note 29

Financial assets and liabilities

KPN's financial assets consist of these main categories:		KPN's financial liabilities consist of these main categories:	
• Financial assets at fair value through profit or loss	Notes 17/26	• Financial liabilities at fair value through profit or loss	Not applicable
• Loans and receivables	Notes 13/15/28	• Loans and borrowings	Note 22
• Held-to-maturity investments	Note 17		
• Available-for-sale financial assets	Note 14		
• Derivative financial instruments	Note 26		

At initial recognition, KPN's management determines the appropriate classification of financial assets and financial liabilities in one of these categories. For financial assets, the classification depends on the purpose for which the financial assets were acquired. The designation is assessed at every reporting date.

All financial assets are initially recognized at fair value plus transaction costs attributable to the acquisition of the asset if a financial asset is not recorded at fair value through profit or loss. Subsequent measurement depends on the classification of the financial asset.

All financial liabilities are initially recognized at fair value net of directly attributable transaction costs (in case of loans and borrowings). Subsequent measurement depends on the classification of the financial liability. Management determines the classification of the financial liabilities at initial recognition and assesses the designation at every reporting date.

Pensioner **Jean Jacques van Belle:**

"I met someone I knew 50 years ago thanks to internet"

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Consolidated Financial Statements

General Notes to the Consolidated Financial Statements

[3] Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer (CEO), who is the Chief Operating Decision Maker according to IFRS 8 'Operating Segments'. KPN's operating segments are summarized below.

In 2015, KPN made the following organizational changes:

- As of January 1, 2015, Mobile International Other Segment has been merged with Other Activities and the Belgium Segment is presented separately. Comparative segment information has been restated; and
- BASE Company has been classified as 'disposal group held for sale' as of April 15, 2015.

The Netherlands
The Netherlands consists of the following:

- Consumer Mobile Segment – providing mobile telephony and mobile data. KPN offers retail customers a broad package of services in the areas of communication, information, entertainment and commercial services;
- Consumer Residential Segment – providing internet and TV and fixed telephony. KPN offers retail customers a broad range of services in the areas of communication, information, entertainment and commercial services;
- Business Segment – KPN offers its business customers (small, medium-sized, large and corporate) a complete portfolio of service from fixed and mobile telephony and internet to a range of end-to-end solutions in infrastructure, workspace management, data network and datacenter services;
- NetCo Segment – responsible for KPN's operational activities for the Dutch networks (both fixed and mobile), IT services and for KPN's wholesale fixed customers; and
- The Netherlands' Other Segment.

Belgium
Belgium Segment consists of BASE Company, a challenger network operator with own brands and partners in Belgium.

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

Other activities
Other activities comprise the results of KPN's Corporate Center (support) and the call center activities of SNT Germany (sold March 2015).

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.

The basis for inter-segment pricing for wireless services is as follows:

1. KPN's mobile terminating services are regulated in some aspects. The price level of the mobile terminating services to external wholesale operators has been set in consultation with and approved by the Dutch competition and telecommunications regulators. The mobile terminating tariffs are applied on a non-discriminatory basis within the segment Consumer Mobile, Business and NetCo and to other (external) operators;
2. Roaming tariffs between KPN's Mobile operators are based on bilateral agreements and contain generally similar terms as bilateral agreements with third parties; and
3. The basis for inter-segment pricing within the Netherlands, other than mentioned in categories 1) and 2) above can be described as follows:
   - For identical products which are also sold to external parties, KPN uses wholesale prices;
   - For non-regulated retail products, KPN uses cost-based prices; and
   - For regulated retail products KPN uses external purchase costs and an additional charge which is equal to a predetermined percentage of the difference between the gross external retail revenues and external purchase costs; this method is also referred to as 'retail-minus'.

Segment performance
For an explanation of incidental transactions included in Revenues, Other income and EBITDA, refer to Appendix 1 of these Financial Statements. Appendix 1 also includes the bridge between the reported and adjusted results per Segment.

For more information on Revenues and Other income, refer to Note 4. For more information on Operating expenses, refer to Notes 5 and 7.

The decrease of External revenues in Other activities is the result of the sale of SNT Germany and the winding down of Ortel France.

The Netherlands

Amounts in millions of EUR, unless otherwise stated	Consumer Mobile		Consumer Residential		Business		NetCo		Other (including eliminations)		Total The Netherlands	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Statement of Profit or Loss												
External revenues[1]	1,397	1,346	1,816	1,800	2,432	2,695	480	494	4	2	6,129	6,337
Other income	1	2	–	–	–	5	–	–	1	76	2	83
Inter-division revenues	63	59	122	116	227	220	1,706	1,768	-2,073	-2,128	45	35
Total revenues	**1,461**	**1,407**	**1,938**	**1,916**	**2,659**	**2,920**	**2,186**	**2,262**	**-2,068**	**-2,050**	**6,176**	**6,455**
Operating expenses	-1,189	-1,216	-1,523	-1,512	-2,220	-2,330	-903	-1,021	2,026	2,074	-3,809	-4,005
EBITDA[2]	**272**	**191**	**415**	**404**	**439**	**590**	**1,283**	**1,241**	**-42**	**24**	**2,367**	**2,450**
DA&I	-94	-166	-279	-299	-175	-206	-1,003	-938	-45	-21	-1,596	-1,630
Operating profit	**178**	**25**	**136**	**105**	**264**	**384**	**280**	**303**	**-87**	**3**	**771**	**820**
Total assets[3]	1,263	1,261	2,102	1,941	3,161	3,478	10,920	11,505	-714	-460	16,732	17,725
Total liabilities[3]	1,311	1,387	2,104	1,841	2,752	3,127	10,922	11,494	-713	-447	16,376	17,402
Other												
Investments in:												
- Intangible assets	1	1	9	6	88	37	81	340	179	249	358	633
- PPE	8	17	203	179	67	53	706	623	15	19	999	891
- Associates and JVs	–	–	–	–	–	–	17	17	–	–	17	17
Results associates and JVs	–	–	–	–	–	–	–	-4	–	–	–	-4
Employees end of period (FTEs)[3]	961	1,173	3,188	2,976	6,010	6,456	1,978	2,142	893	893	13,030	13,640
Employees average (FTEs)[3]	1,067	1,216	3,082	3,028	6,233	6,794	2,060	2,108	893	670	13,335	13,816

1) External revenues mainly consist of rendering of services.
2) Earnings before interest, tax and depreciation, amortization and impairments.
3) 2014 restated for internal transfer across segments.

EVP Service Platforms KPN **Jacob Groote:**

"Technology can fail, but you can always improve it too"

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Consolidated Financial Statements

General Notes to the Consolidated Financial Statements

Other Segments

Amounts in millions of EUR, unless otherwise stated	iBasis 2015	iBasis 2014	Belgium 2015	Belgium 2014	Other activities 2015	Other activities 2014 (restated)	Total Segments 2015	Total Segments 2014 (restated)
Statement of Profit or Loss								
External revenues[1]	813	773	677	701	37	188	7,656	7,999
Other income	–	–	66	2	–	-1	68	84
Inter-division revenues	107	175	5	8	–	-1	157	217
Total revenues	**920**	**948**	**748**	**711**	**37**	**186**	**7,881**	**8,300**
Operating expenses	-897	-925	-486	-562	-101	207	-5,293	-5,285
EBITDA[2]	**23**	**23**	**262**	**149**	**-64**	**393**	**2,588**	**3,015**
DA&I	-11	-9	-163	-166	-9	-15	-1,779	-1,820
Operating profit	**12**	**14**	**99**	**-17**	**-73**	**378**	**809**	**1,195**
Total assets[3]	390	386	1,195	1,406	-635	-961	17,682	18,556
Total liabilities[3]	218	232	332	370	-4,219	-4,078	12,707	13,926
Other								
Investments in:								
- Intangible assets	–	–	24	36	-1	2	381	671
- PPE	11	8	83	141	6	4	1,099	1,044
- Associates and JVs	–	–	–	2	25	23	42	42
Results associates and JVs	–	–	–	–	2	-1	2	-5
Employees end of period (FTEs)[3]	328	311	778	808	720	3,712	14,856	18,471
Employees average (FTEs)[3]	319	321	793	849	2,215	3,724	16,662	18,710

1) External revenues mainly consist of rendering of services.
2) Earnings before interest, tax and depreciation, amortization and impairments.
3) 2014 restated for internal transfer across segments.

KPN Total

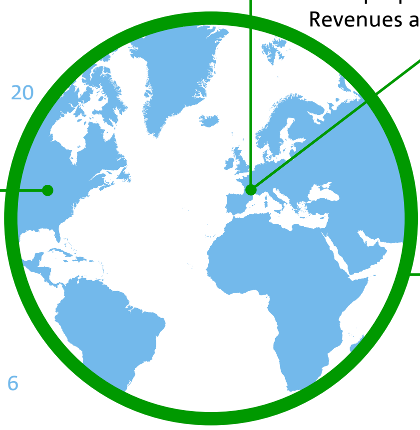
Amounts in millions of EUR, unless otherwise stated	Total Segments 2015	Total Segments 2014 (restated)	Eliminations 2015	Eliminations 2014 (restated)	KPN Group Consolidated 2015	KPN Group Consolidated 2014 (restated)	Discontinued operations 2015	Discontinued operations 2014 (restated)	KPN Continuing operations 2015	KPN Continuing operations 2014 (restated)
Statement of Profit or Loss										
External revenues[1]	7,656	7,999	–	–	7,656	7,999	-650	-671	7,006	7,328
Other income	68	84	–	–	68	84	-66	-3	2	81
Inter-division revenues	157	217	-157	-217	–	–	–	–	–	–
Total revenues	**7,881**	**8,300**	**-157**	**-217**	**7,724**	**8,083**	**-716**	**-674**	**7,008**	**7,409**
Operating expenses	-5,293	-5,285	-157	-217	-5,136	-5,068	452	525	-4,684	-4,543
EBITDA[2]	**2,588**	**3,015**	**–**	**–**	**2,588**	**3,015**	**-264**	**-149**	**2,324**	**2,866**
DA&I	-1,779	-1,820	–	–	1,779	1,820	-163	-166	-1,616	-1,654
Operating profit	**809**	**1,195**	**–**	**–**	**809**	**1,195**	**-101**	**17**	**708**	**1,212**
Total assets[3]	17,682	18,556	–	–	17,682	18,556	115	–	17,797	18,556
Total liabilities[3]	12,707	13,926	–	–	12,707	13,926	39	–	12,746	13,926
Other										
Investments in:										
- Intangible assets	381	671	–	–	381	671	-19	–	362	671
- PPE	1,099	1,044	–	–	1,099	1,044	-65	–	1,034	1,044
- Associates and JVs	42	42	–	–	42	42	–	–	42	42
Results associates and JVs	2	-5	–	–	2	-5	–	–	2	-5
Employees end of period (FTEs)[3]	14,856	18,471	–	–	14,856	18,471	-778	-808	14,078	17,663
Employees average (FTEs)[3]	16,662	18,710	–	–	16,662	18,710	-793	-849	15,869	17,861

1) External revenues mainly consist of rendering of services.
2) Earnings before interest, tax and depreciation, amortization and impairments.
3) 2014 restated for internal transfer across segments.

Geographical information (continuing operations)

Amounts in millions of EUR

2015
2014



The Netherlands
Total non-current assets: 12,600 13,171
Total intangible assets: 3,268 3,392
Total property, plant and equipment: 5,974 6,072
Revenues and other income: 6,136 6,417

The Americas
Total non-current assets: 73 66
Total intangible assets: 101 98
Total property, plant and equipment: 24 20
Revenues and other income: 813 773

Belgium
Total non-current assets: -39 887
Total intangible assets: 1 417
Total property, plant and equipment: – 508
Revenues and other income: 28 32

Other
Total non-current assets: -768 -612
Total intangible assets: 80 85
Total property, plant and equipment: 3 6
Revenues and other income: 31 187

Total
Total non-current assets*: 11,866 13,512
Total intangible assets: 3,450 3,992
Total property, plant and equipment: 6,001 6,606
Revenues and other income: 7,008 7,409

* Excluding deferred tax assets, pensions and financial instruments

▶ Consolidated Financial Statements

Notes to the Consolidated Statement of Profit or Loss

[4] Revenues and Other Income

Amounts in millions of EUR	2015	2014 Restated
Rendering of services	6,711	7,125
Sale of goods	272	180
Other revenues	23	23
Total revenues	**7,006**	**7,328**
Gains on the sale of property, plant and equipment	–	6
Other gains	2	75
Total other income	**2**	**81**

2014 numbers have been restated due to the classification of BASE Company as disposal group held for sale. Furthermore, sale of goods and rendering of services in 2014 were misstated and consequently have been corrected, resulting in a reclassification of EUR 716 million from sale of goods to rendering of services.

Other gains in 2014 included a tax settlement benefit of EUR 74 million.

Accounting policy: Revenue recognition

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

Rendering of services

Rendering of services includes:

- Traffic fees, charged at an agreed tariff for a fixed duration of time or capacity and recognized as revenue based upon usage of KPN's network and facilities;
- Subscription fees for the usage of KPN's networks, recognized as revenues over the associated subscription period;
- Fees received for handset leases, recognized as revenue over the associated subscription period; and
- Revenues from designing, building, deploying and managing ICT solutions which are provided on a time and material basis or as a fixed-price contract with contract terms generally ranging from less than one year to three years. Revenue from time and material contracts is recognized at the contractual rates as labor hours are delivered and direct expenses are incurred. Revenue from fixed-price contracts is recognized under the percentage-of-completion (POC) method unless the outcome of the contract cannot be estimated reliably. Under the POC method, revenue is recognized based on the costs incurred to date as a percentage of the total estimated costs to fulfill the contract. Revenue from fixed-price contracts involving managed services is recognized in the period the services are provided using a straight-line basis over the term of the contract. When the outcome of the contract cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred.

One-off connection fees and other initial fees are not a separate unit of accounting and their accounting treatment is therefore dependent on the other deliverables in the sales arrangements (see revenue arrangements with multiple deliverables).

Recognition of deferred revenue related to airtime is based on the expected usage of airtime per proposition.

Sale of goods

The sale of goods includes peripheral and other equipment. Revenue is recognized when all significant risks and rewards of ownership of the goods are transferred to the buyer, which is normally at the date the equipment is delivered to and accepted by the customer.

Revenue arrangements with multiple deliverables

Arrangements with multiple deliverables (for example a postpaid subscription combined with a handset) are divided into separate units of accounting if the deliverables in the arrangement meet recognition criteria of IFRS. Revenues are allocated to the identified separate units of accounting based on their relative fair values. If the fair value of the delivered item exceeds the cash received at the time of delivery, revenue is recognized up to the non-contingent cash received.

Any connection fee proceeds not allocated to the delivered equipment are deferred upon connection and recognized as service revenue over the customer contract period unless KPN has the obligation to continue providing services beyond that period, in which case the expected customer service period is used.

For wireless services, any consideration allocated to the sale of peripheral and other equipment, up to the amount of non-contingent cash received, is recognized as revenue when all significant risks and rewards of ownership of the equipment are transferred to the buyer.

For multiple deliverable arrangements that comprise only one unit of accounting and include an upfront connection fee, amounts representing connection fees are deferred and recognized pro rata. Deferred connection fees are amortized over the customer contract period. Costs associated with these arrangements are expensed as incurred.

Accounting policy: Other income

Other income includes gains on the sale of property, plant and equipment and gains on the disposal of subsidiaries, associates and joint ventures as well as other gains not related to KPN's operating activities.

[5] Employee benefits

Amounts in millions of EUR	2015	2014 Restated
Salaries and wages	903	972
Pension charges [23]	91	-371[1]
Social security contributions	113	130
Total employee benefits	**1,107**	**731**

1) Includes release of provision of EUR 477 million; for details, please refer to Note 23.
[..] Bracketed number refers to the related Note.

Reference is made to Note 3 'Segment Reporting' for information on the number of employees and to Note 24 'Provisions for other liabilities and charges' for information on employee redundancy costs. In the Other operating expenses, an amount of EUR 89 million is recorded as restructuring costs related to personnel reductions (2014: EUR 72 million).

Share plans

Since 2006, KPN has granted shares (equity-settled) and share-based awards (cash-settled) on its shares to members of the Board of Management and senior management: the Performance Share Plan (PSP). The conditionally granted PSP award will vest after three years if the employee is still employed with KPN. The number of share-based awards which vest partly depends on KPN's Total Shareholder Return (TSR) position ranking relative to its peer group of European telecommunications companies. Since 2011, vesting is based for 75% on relative TSR and for 25% on non-financial performance measures i.e. energy reduction targets and a reputation dashboard.

Since 2014, vesting is based on individual vesting for 25% on relative TSR versus peer group, for 25% on Free Cash Flow, for 25% on Earnings Per Share, for 12.5% on sustainability/environmental targets and for 12.5% on stakeholder/customer targets. Vesting of non-financial targets will be subject to achieving a cumulative net profit during the vesting period of three years (i.e. a qualifier for vesting).

The list of companies included in the peer group and the vesting schedule can be found under 'Long-Term Incentives' in the 'Remuneration Report' section.

In May 2012 and May 2013, an additional equity settled plan was granted to senior management: the KPN Restricted Share Plan. Shares under this plan vested on January 1, 2015 (2012 grant) and will vest on January 1, 2016 (2013 grant) if the employee is still employed with KPN. For this plan, no other performance measures are applicable.

In April 2015, KPN's Chief Commercial Officer, Mr. van der Post was granted 194,763 shares. Shares under this plan partially vest in 2016, 2017 and 2019 if he is still employed with KPN. For this plan, no other performance measures are applicable.

The share plan rules provide the possibility to adjust granted rights under the incentive plans to maintain its economic value if e.g., subsequent to the date of grant, shares are split or merged, repayment on shares occurs, shares are stamped or an issue of shares occurs. This approach is e.g. aimed at reflecting the increased number of shares following the rights issue and is in line with market practice.

Social media designer **Natasha Berting:**

"Social media can start movements, connecting one idea to another

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Consolidated Financial Statements

Notes to the Consolidated Statement of Profit or Loss

The main features of the awards granted under the PSP and Restricted Share Plan to KPN management are summarized below:

		Maximum term	Settlement type[1]	Vesting period	Holding period after vesting of/until
2012	Board of Management and Senior Management	5 years	Equity[2]	3 years	2 years
	Senior Management	3 years	Cash	3 years	–
	Senior Management Restricted Share Plan	2.7 years	Equity	2.7 years	–
2013	Board of Management and Senior Management	5 years	Equity[2]	3 years	2 years
	Senior Management	3 years	Cash	3 years	–
	Senior Management Restricted Share Plan	2.7 years	Equity	2.7 years	–
2014	Board of Management and Senior Management	5 years	Equity[2]	3 years	2 years
	Senior Management	3 years	Cash	3 years	–
2015	Board of Management	5 years	Equity[2]	3 years	2 years
	Senior Management	3 years	Cash	3 years	–
	Board of Management CCO	4 years	Equity[2]	4 years	–

1) The cash-settled share awards will be settled in cash and no holding restrictions apply. An exception to the holding period for equity-settled plans is made with respect to shares that were sold upon vesting to cover the tax obligation on the vested shares. After vesting, the holder is able to sell a number of unconditional granted shares only up to the amount necessary to settle the wage taxes liability relating to the profit made on the stock compensation plan.
2) Including deferred dividend.

The total compensation expense associated with the share plans was EUR 9 million in 2015 (2014: EUR 6 million) and the related liability (for cash-settled shares) at December 31, 2015 was EUR 9 million (2014: EUR 3 million). This liability is included under Other payables and deferred income. During 2015, KPN granted 3,150,568 shares and share-based awards (2014: 4,932,318) to members of the Board of Management and senior management. For the Restricted Share Plan 2012, the service conditions were met in the year 2015. The intrinsic value at vesting was EUR 2 million. Since no vesting conditions were met in the years 2015 and 2014 for the PSP, the intrinsic value at vesting for the PSP was zero.

The following table presents the number[1] of shares and share-based awards in thousands under the share plans.

	Total at Dec 31, 2013[3]	Granted/ additional vesting[2]	Exercised/ Vested	Forfeited	Total at Dec 31, 2014[3]	Granted/ additional vesting[2]	Exercised/ Vested	Forfeited[4]	**Total at Dec 31, 2015[3]**	–of which: Non-vested
2012 Share-based awards Sr. Man.	1,689	–	–	-136	1,553	–	–	-1,553	–	–
2012 Shares BoM/Sr. Man.	602	–	–	-96	506	–	–	-506	–	–
2012 Restricted Shares Sr. Man.	940	–	–	-371	569	–	-557	-12	–	–
2013 Share-based awards Sr. Man.	1,776	–	–	-154	1,622	–	–	-100	1,522	1,522
2013 Shares BoM/ Sr. Man.	634	–	–	-101	533	–	–	–	533	533
2013 Restricted Shares Sr. Man.	1,914	–	–	-494	1,420	–	–	-101	1,319	1,319
2014 Share-based awards Sr. Man.	–	3,274	–	-22	3,252	–	–	-304	2,948	2,948
2014 Shares BoM/Sr. Man.	–	1,658	–	-56	1,602	–	–	-99	1,503	1,503
2015 Share-based awards Sr. Man.	–	–	–	–	–	2,091	–	–	2,091	2,091
2015 Shares BoM	–	–	–	–	–	865	–	–	865	865
2015 Shares CCO	–	–	–	–	–	195	–	–	195	195

1) On the basis of a 100% grant. The equity-settled share numbers do not include any deferred dividend during the vesting period. The deferred dividend during the vesting period will be granted in additional shares.
2) At grant date, the fair value is calculated using a Monte Carlo Simulation model except for the restricted shares. At April 16, 2015, the fair value was EUR 3.18 (2014 grant: EUR 2.37) for the 2015 share-based award (cash-settled) and EUR 3.18 (2014 grant: EUR 2.37) for the 2015 equity-settled share grant for members of the Board of Management and Senior Management (excluding deferred dividend). At March 1, 2015, the fair value was EUR 2.91 for the 2015 share award (equity-settled) of KPN's CCO.
3) At December 31, 2015, the fair value of each cash-settled share-based award was measured, using recent strategic plans, forecasts and a Monte Carlo Simulation model, based on the most recent available share price of KPN and its performance compared with peer companies at the moment of valuation (i.e. closing share prices as at December 31, 2015). At December 31, 2015 EUR 1.58 (2014: EUR 0.85) for the 2013 share-based award, EUR 2.74 (2014: EUR 2.42) for the 2014 share-based award and EUR 4.24 for the 2015 share-based award.
4) At the end of 2015, KPN held the 8th position with respect to the 2013 share grant and at the end of 2014 KPN held the 13th position with respect to the 2012 share grant. This position did not lead to vesting in April 2015 of the 2012 share grant. Final TSR measurement for the 2013 share grant was conducted as of February 16, 2016.

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

	2015 PSP	2015 CCO	2014 PSP
Risk-free interest rate based on euro government bonds for remaining time to maturity of 2.7 years	0.1%	0.1%	0.6%
Expected dividend for KPN (based on one year's historical daily data preceding the date of award)	2.3%	2.0%	2.0%
Expected volatility (PSP grant based on 2.7 years historical daily data) used for TSR	36.7%	–	38.4%
Share price at date of award (closing at grant date)	EUR 3.27	EUR 3.06	EUR 2.49

The following chapters provide detail on 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 current members of the Board of Management is set out below. This table represents the costs incurred by the Company measured under IFRS principles.

Name	Year	Salary (EUR)	STI[3] (EUR)	Discretionary award[5] (EUR)	LTI: Share awards[1] (EUR)	Pension costs[2] & Social Security (EUR)	Total (EUR)
E. Blok	2015	850,000	1,048,968	–	707,531	267,495	2,873,994
	2014	850,000	547,995	425,000	503,860	261,606	2,588,461
J.C. de Jager[4]	2015	625,000	514,200	–	338,402	130,895	1,608,497
	2014	164,930	54,526	–	55,341	35,338	310,135
F.H.M. van der Post[4]	2015	583,333	479,920	–	751,260	154,146	1,968,659
J.F.E. Farwerck	2015	575,000	473,053	–	329,510	141,795	1,519,358
	2014	575,000	167,038	–	217,210	126,206	1,085,454
Total current members	2015	2,633,333	2,516,141	–	2,126,703	694,331	7,970,508
	2014	1,589,930	769,559	425,000	776,411	423,150	3,984,050

1) The amounts in the table represent the cost recognized for shares in 2015 and 2014 based on their fair values. The fair value per share of the 2015 grant was EUR 3.18. Please refer to the 'Long-term incentives' section of this report for a further explanation. Under IFRS, the fair value of the share-based award is recorded as cost over the vesting period. The amount for Mr. Van der Post includes his Long-term compensation in cash.
2) 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 in 2015 was EUR 171,000 for Mr. Blok, EUR 76,000 for Mr. De Jager, EUR 99,800 for Mr. Van der Post, and EUR 82,700 for Mr. Farwerck.
3) 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 of this report for the actual pay-out levels per target in 2015.
4) Remuneration of Mr. De Jager since appointment as a Board member in September 2014 and remuneration of Mr. Van der Post since appointment as a Board member in March 2015.
5) In 2014, a discretionary reward of 50% of his annual base salary was granted to Mr. Blok to acknowledge his extraordinary management achievement in the very complex and time-consuming process of closing the sale of E-Plus to Telefónica Deutschland. In 2015, Mr. Blok decided to return this reward.

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

Name	Year	Salary & Social Security (EUR)	STI (EUR)	Discretionary award/Notice period (EUR)	LTI: Share Awards[1] (EUR)	Pension costs (EUR)	Total (EUR)
T. Dirks[2]	2014	487,500	253,744	325,000	247,517	45,950	1,359,711

1) The amounts in the table represent the cost recognized for shares in 2014 based on their fair values.
2) Remuneration of Mr. Dirks until October 2014. A discretionary reward of 50% of his annual base salary was granted to Mr. Dirks.

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Notes to the Consolidated Statement of Profit or Loss

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

	Grant date	Current status[7]	Number of shares granted as of January 1, 2015	Number of shares/ share-based awards vested in 2015[1]	Number of shares/ share-based awards granted or forfeited in 2015[1-2]	Number of shares/ share-based awards as of December 31, 2015	Total pre-tax fair value of shares on grant date (EUR)[3]	Pre-tax market value of shares on vesting date or end of lock-up in 2015 (EUR)	End of lock-up period
E. Blok									
	4/16/2015	Conditional	–	–	347,454	347,454	1,104,904	–	4/16/2020
	4/10/2014	Conditional	459,975	–	–	459,975	1,090,141	–	4/10/2019
	4/12/2013	Conditional	156,693	–	–	156,693	166,095	–	4/12/2018
	4/23/2012[5]	Conditional	156,693	–	-156,693	–	269,800	–	4/23/2017
J.C. de Jager									
	4/16/2015	Conditional	–	–	170,320	170,320	541,618	–	4/16/2020
	9/26/2014[4]	Conditional	225,478	–	–	225,478	534,383	–	4/10/2019
F.H.M. van der Post									
	4/16/2015	Conditional	–	–	190,759	190,759	606,614	–	4/16/2020
	3/1/2015	Conditional	–	–	194,763	194,763	566,177	–	N.a.
J.F.E. Farwerck									
	4/16/2015	Conditional	–	–	156,695	156.695	498,290	–	4/16/2020
	4/10/2014	Conditional	207,440	–	–	207,440	491,633	–	4/10/2019
	4/12/2013	Conditional	108,860	–	–	108,860	115,392	–	4/12/2018
	4/23/2012[4-5]	Conditional	53,606	–	-53,606	–	92,300	–	4/23/2017
	5/1/2012[4]	Unconditional	24,741	-24,741	–	–	76,800	70,309	N.a.

1) The shares granted to the members of the Board of Management represent 34% of the total number of shares and share-based awards granted in 2015 to all employees. On the grant date (April 16, 2015) the KPN share price quoted EUR 3.27 (closing price) while the fair value of each granted share was EUR 3.18 for members of the Board of Management.
2) The 2015 grant numbers do not include any deferred dividend during the vesting period. The deferred dividend during the vesting period will be additional granted in shares.
3) Value is calculated by multiplying the number of share awards by the fair value at grant date.
4) Not granted in capacity as member of the Board of Management.
5) Final TSR measurement for the 2012 share grant was conducted as of February 2015. This did not lead to vesting of shares in 2015.
7) Shares in the vesting period or lock-up period are disclosed as conditional.

Stock ownership Board of Management

The table below shows the shares held by current members of the Board of Management (including vested shares in lock-up period).

Number of shares	December 31, 2015	December 31, 2014
E. Blok	634,717	600,109
J.C. de Jager	206,410	62,000
F.H.M. van der Post	51,000	–
J.F.E. Farwerck	91,071	27,195

Share ownership relates to ordinary shares.

In 2011 a share ownership recommendation was introduced whereby the members of the Board of Management are encouraged to acquire Company shares equal to one times the annual fixed compensation for members of the Board of Management (excluding CEO) and two times the annual fixed compensation for the CEO. Retained vested shares as part of the LTI will be included in the share ownership recommendation.

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

Amounts in EUR	Membership fees 2015	Committee fees 2015	2015 Total	2014 Total
D.W. Sickinghe	88,333	24,583	112,916	54,584
D.J. Haank	70,000	30,417	100,417	98,195
P.A.M. van Bommel	60,000	10,000	70,000	70,000
C.J. García Moreno Elizondo	60,000	10,000	70,000	70,000
C.J.G. Zuiderwijk	60,000	15,313	75,313	50,945
P.F. Hartman	42,500	10,625	53,125	–
J.C.M. Sap	42,500	7,083	49,583	–
J.B.M. Streppel[1]	29,167	6,563	35,730	118,639
C.M. Hooymans[1]	17,500	2,917	20,417	70,000
O. Von Hauske Solis[1]	54,333	15,848	70,181	73,639
R.J. Routs[1]	–	–	–	23,139
M.E. van Lier-Lels[1]	–	–	–	19,231
Total	524,333	133,349	657,682	648,372

1) Former member of the Supervisory Board.

Stock ownership of the Supervisory Board

The table below shows the shares held by members of the Supervisory Board.

Number of shares	December 31, 2015	December 31, 2014
D.W. Sickinghe	380,000	130,000
D.J. Haank	24,351	24,351
P.A.M. van Bommel	114,000	114,000
C.J. García Moreno Elizondo[2]	198,520	198,520
C.J.G. Zuiderwijk	–	–
P.F. Hartman	–	–
J.C.M. Sap	–	–
J.B.M. Streppel[1]	–	–
C.M. Hooymans[1]	–	–
O. Von Hauske Solis[1]	–	–
Total	716,871	466,871

1) Former member of the Supervisory Board. Number of shares at the date of step down from the Supervisory Board.

2) In 2015, Mr. García Moreno Elizondo purchased 40,810 options on KPN shares through the acquisition of two AMX bonds with a nominal value of 100,000 each, convertible into 20,405 KPN shares each.

Accounting policy: Share-based compensation

KPN operates a number of share-based compensation plans, both equity- and cash-settled. For equity-settled plans, the fair value of shares granted to employees is measured at grant date. For cash-settled plans, the fair value of the liability for the awards granted is remeasured at each reporting date and at settlement. The costs of share-based compensation plans are determined based on the fair value of the shares and the number of shares expected to vest. On each Statement of Financial Position date, KPN determines whether it is necessary to revise the expectation of the number of shares that will vest. The fair value is recognized as Employee benefits in the Statement of 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.

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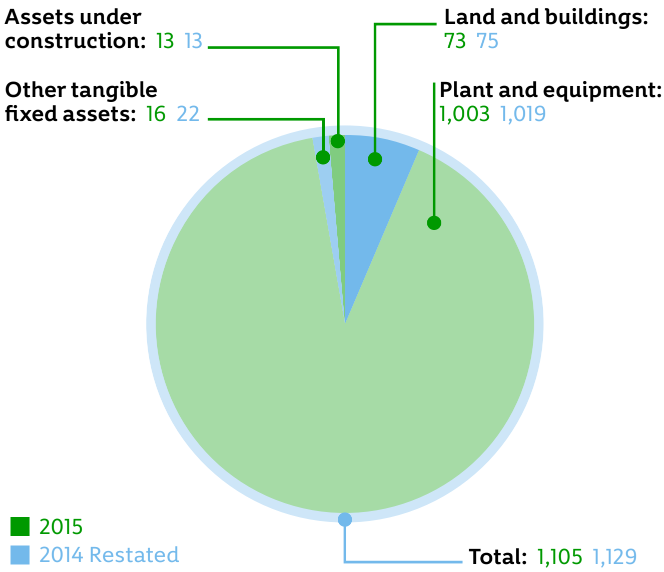
Notes to the Consolidated Statement of Profit or Loss

[6] Depreciation, amortization and impairments

Amounts in millions of EUR	2015	2014 Restated
Amortization of Intangible assets	500	518
Impairments of Intangible assets	11	7
Total amortization and impairments of Intangible assets	**511**	**525**
Depreciation of property, plant and equipment	1,059	1,102
Impairments and retirements of property, plant and equipment	46	27
Total depreciation and impairments of Property, plant and equipment	**1,105**	**1,129**
Total	**1,616**	**1,654**

Depreciation and impairments on property, plant and equipment

Amounts in millions of EUR



[7] Other operating expenses

In 2015, Other operating expenses comprised, among others, an addition to the restructuring provision of EUR 100 million (2014: EUR 81 million). For more details reference is made to Note 24. Other operating expenses also comprised of marketing and promotion expenses for an amount of EUR 111 million (2014: EUR 123 million).

Accounting policy: Operating expenses

Operating expenses are measured and recognized based on the accounting principles that are applied to related assets or liabilities and are allocated to the year in which they are incurred.

Subscriber acquisition and retention costs are expensed as incurred. The most common subscriber acquisition costs are cost for handsets and dealer fees. The cost of a handset is expensed when the handset is sold. The sale can be an individual sale or a component of a multiple deliverable arrangement containing for example the sale of a handset combined with a subscription. In both cases, the handset is expensed when the costs are incurred. When a handset is leased out, it depends on the type of lease (operating or finance) whether the costs are expensed when incurred or capitalized and depreciated over the expected lifetime (see Note 30 for the accounting policy on leases).

Auditor's fees

The fees listed below relate to the services provided to KPN and its consolidated group entities by Ernst & Young Accountants LLP, KPN's external auditor in 2015, and PwC Accountants NV, the Netherlands, KPN's external auditor in 2014, as referred to in Section 1(1) of the Dutch Accounting Firms Oversight Act ('Wet toezicht accountantsorganisaties' or 'Wta'), as well as by other Dutch and foreign-based EY (2015) and PwC (2014) individual partnerships and legal entities, including their tax services and advisory groups:

Amounts in millions of EUR	2015	2014
Financial statements audit fees	4.4	8.6
Other assurance fees	0.8	1.1
Tax fees	0.2	4.4
All other fees	0.1	0.2
Total	**5.5**	**14.3**

The total fees of Ernst & Young Accountants LLP, charged to KPN and its consolidated group entities amounted to EUR 5.2 million in 2015 (2014: PwC Accountants N.V., the Netherlands, EUR 6.7 million).

The financial statements audit fees include the aggregate fees billed/incurred in each of 2015 and 2014 for professional services rendered for the audit of KPN's annual financial statements and annual statutory financial statements of subsidiaries or services that are normally provided by the auditor in connection with the audits. EY became KPN's new auditor as of January 1, 2015, and was able to rely for the 2015 audit on the improved internal control framework, leading to a reduction of audit fees when compared to 2014. In 2014 additional audit fees were incurred in Germany in relation to the sale of E-Plus.

The other assurance fees include the aggregate fees billed/incurred for assurance and related services that are reasonably related to the performance of the audit or review of KPN's financial statements and are not reported under audit services. This includes revenue and IT-related assurance services and regulatory-related assurance services.

The tax fees and other fees billed/incurred in 2015 and 2014 are regarded as permitted services under Audit firms supervision act ('Wet toezicht accountantsorganisaties'). Tax fees incurred in 2015 related exclusively to the sale of E-Plus. All tax fees billed/incurred in 2015 and 2014 related to services based on contracts that were in existence prior to January 1, 2013, or were billed by foreign EY or PwC firms.

[8] Financial income and expenses

Amounts in millions of EUR	2015	2014 restated
Finance income	**150**	**34**
Interest on borrowings	-483	-589
Interest on provisions for retirement benefit obligations [23]	-9	-23
Interest on other provisions	-1	-1
Tender Eurobonds	–	-243
Other	-14	-13
Finance costs	**-507**	**-869**
Bookgain sale Telefónica Deutschland shares	184	–
Amortizable part of hedge reserve [20]	-11	-13
Amortization discontinued fair value hedges	41	19
Derivative financial instruments not qualified for hedge accounting	-8	1
Exchange rate differences	-1	-4
Reggefiber call/put arrangements [13, 29]	–	-159
Other	47	90
Other financial results	**252**	**-66**
Total	**-105**	**-901**

[..] Bracketed numbers refer to the related Notes.

Finance income in 2015 included a dividend received from Telefónica Deutschland of EUR 146 million. Finance income in 2014 included interest on loans to Reggefiber.

In 2015, interest on borrowings decreased by EUR 106 million, which was mainly related to a lower gross debt position. Interest on borrowings included a non-cash amount of EUR 14 million in 2015 (2014: EUR 22 million) 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 2014, Finance costs included premiums and fees of EUR 236 million and additional amortization costs of EUR 7 million related to the tender on outstanding Eurobonds executed in November 2014.

In 2015, line item Other in Other financial results included a gain due to revaluation of the option to acquire the remaining stake of 87.5% in GroupIT BV, refer to Note 28. In 2014, this line item included a gain for the remeasurement of KPN's 51% stake in Reggefiber and a settlement gain because KPN reached an agreement with Reggeborgh on the option to acquire the remaining 40% stake in Reggefiber. Refer to Note 29 for further information on Reggefiber.

[9] Taxation

The Netherlands

In line with enhanced supervision, KPN and the Dutch tax authorities reached several agreements. Where relevant, these agreements will be highlighted below.

KPN qualifies as an innovative company and concluded an agreement in 2011 with the Dutch tax authorities with respect to the application of the Dutch innovation box tax regime. The innovation box tax regime is a facility under Dutch corporate income tax law whereby profits attributable to innovation are taxed at an effective rate of 5%. The application of the innovation box resulted in a benefit of EUR 9 million over 2015 (2014: EUR 17 million).

In 2015, an agreement was reached with the Dutch Tax Authorities on a tax deductible loss with regard to the proposed liquidation of part of the UK structure. Based on this, a deferred tax asset (DTA) was recorded of EUR 35 million relating to the liquidation. Also, a DTA was recorded of EUR 17 million for the proposed liquidation of an entity in France.

Internedservices Group (hereafter IG) has been consolidated in the financial statements of KPN as of July 6, 2015. A deferred tax liability of EUR 6 million was recorded of which mainly relates to the revaluation of the customer base. The IG is part of KPN's Dutch fiscal unity (please refer to Note 29).

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Notes to the Consolidated Statement of Profit or Loss

In December 2013 an agreement was reached with the Dutch Tax Authorities with regard to the Dutch tax consequences of the tax book loss which is recognized as a result of the sale of E-Plus to Telefónica Deutschland. With the closing of the sale in 2014 this tax book loss amounted to approximately EUR 5 billion. To the extent this loss could not be offset against income of 2014, or could not be carried back to earlier years (EUR 60 million in 2013), it is expected to offset KPN's taxable income in the Netherlands in the current and coming years. Dividends received and/or capital gains (up to the amount of the loss deducted) realized on KPN's shareholding in Telefónica Deutschland are subject to Dutch corporate income tax.

In 2015, KPN decreased the net DTA of the Dutch fiscal unity with regard to the book loss on the sale of E-Plus to EUR 911 million (EUR 1,113 million in 2014) with:

- Realized usage of EUR 177 million (EUR 75 million in 2014) due to KPN's taxable income in the Netherlands. This includes EUR 37 million (nil in 2014) related to the received dividends (EUR 146 million) from Telefónica Deutschland (May 2015); offset in DTA realized EUR 184 million and in DTL recapture EUR 7 million;
- Unrealized usage of EUR 91 million (EUR 78 million in 2014) due to the revaluation of the stake in Telefónica Deutschland following changes in the share price during 2015. This amount is recorded through OCI; offset in DTL recapture;
- Realized charges of EUR 46 million (nil in 2014) due to the taxable capital gain resulting from the sale of part of the stake in Telefónica Deutschland; offset in DTL recapture; and
- Net charges of EUR 19 million (EUR nil in 2014) due to the adjustment of the sale price of E-Plus; offset EUR 10 million in DTA realized and EUR 9 million in DTL recapture.

The net DTA with regard to the book loss on the sale of E-Plus of EUR 911 million consists of a DTA of EUR 1,018 million (partly realized EUR 518 million and partly unrealized EUR 500 million) and a DTL recapture of EUR 107 million.

Reggefiber has been consolidated (in full) in the financial statements of KPN as of November 1, 2014. The Reggefiber Group consists of seven fiscal unities of which several unities have tax losses carry forward. At December 31, 2015, a DTA of EUR 81 million (2014: EUR 85 million) was recorded of which EUR 45 million (2014: EUR 47 million) relates to recognized tax losses carry forward.

Belgium discontinued operations and Germany

At December 31, 2015 for BASE Company, the deferred tax positions are part of the disposal group held for sale of which EUR 39 million relates to available tax loss carry forward.

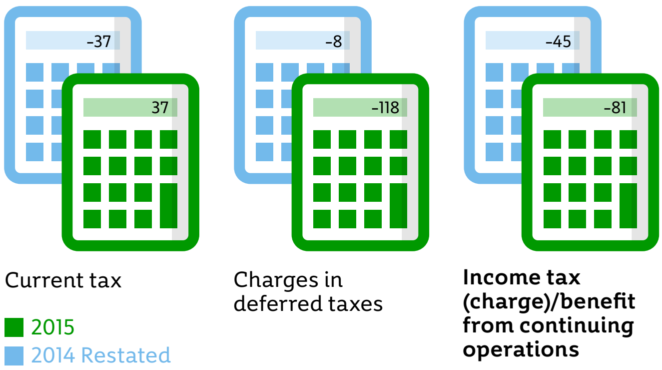
After the sale of E-Plus to Telefónica Deutschland, KPN remains liable for current tax positions of E-Plus until December 31, 2013. The total outstanding amount was EUR 39 million (2014: EUR 60 million) at December 31, 2015.

Other entities

There are several other relatively small entities in the Netherlands which are separately liable for income taxes for which no loss carry forward is available. In most other countries in which KPN is present, tax loss carry forward is available and therefore no income tax is payable except when minimum taxation rules are applicable.

Income tax expense

Amounts in millions of EUR

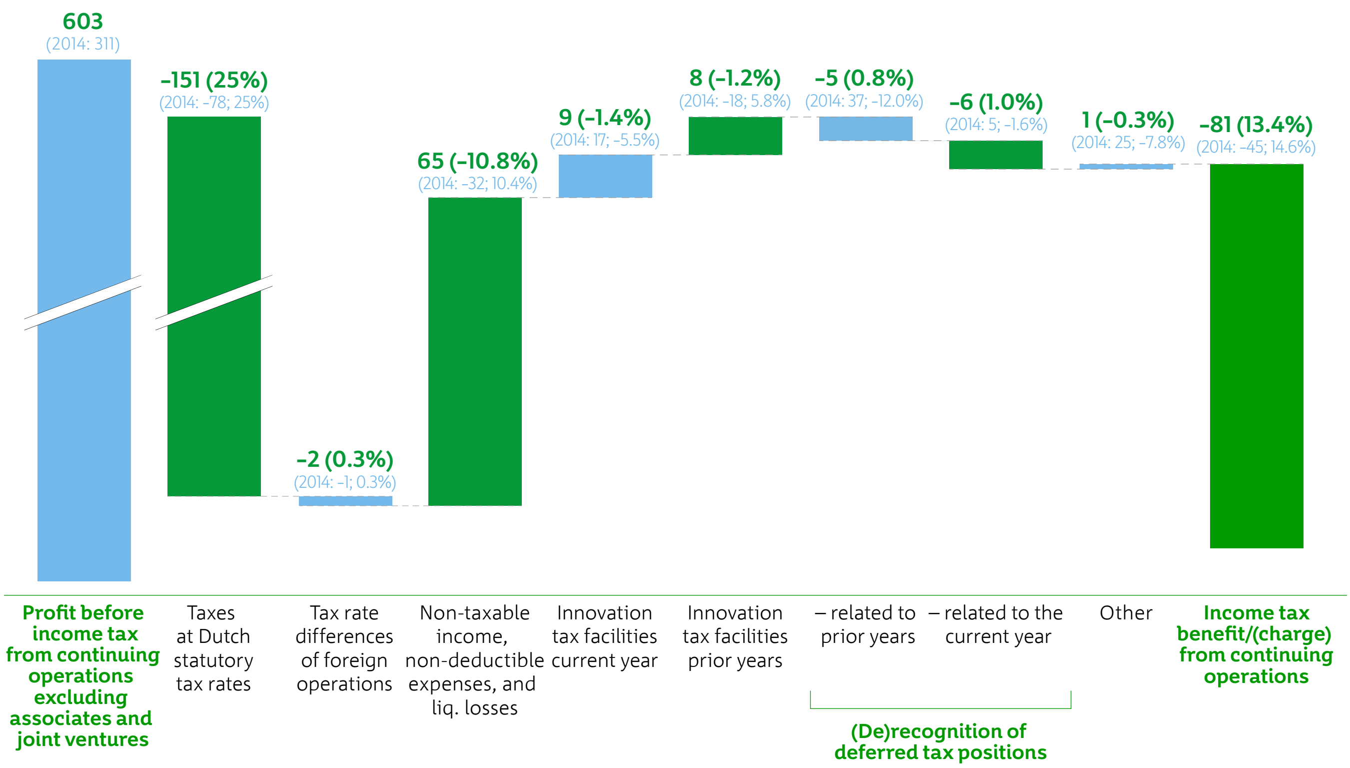


Managing Director Amsterdam Animation Festival
Marian Spier:

"The power of ideas to improve the world connects people"

Watch Marian's story:
kpn.com/annualreport/marianspier

The reconciliation from the Dutch statutory tax of 25% (2014: 25%) to the effective tax rate of 13.4% (2014: 14.6%) is explained in the table below.



The effective tax rate of 2015 was lower than the Dutch statutory tax rate mainly due to the recognition of liquidation losses on our investments in the UK and France increasing the deferred tax asset with EUR 52 million which is included in the liquidation losses in the figure above.

In 2014, the decrease was mainly the result of a non-deductible loss regarding the Reggefiber revaluation of EUR 99 million, the innovation tax facilities in the Netherlands and (de) recognition of deferred tax positions in the Netherlands (with regard to blended tax rate adjustments), the US and the UK (due to non-recognized losses).

Deferred tax assets and liabilities

Amounts in millions of EUR	December 31, 2015	December 31, 2014
Deferred tax assets	**1,069**	**1,323**
– of which: to be recovered after 12 months	939	1,182
– of which: to be recovered within 12 months	130	141
Deferred tax liabilities	**47**	**52**
– of which: to be realized after 12 months	44	49
– of which: to be realized within 12 months	3	3
Deferred tax assets and liabilities	**1,022**	**1,271**

Depending on future taxable results, a part of deferred tax assets relating to tax loss carry forward now considered to be recoverable after 12 months may be recoverable in the short-term, whereas tax loss carry forward now considered to be recoverable within 12 months may be recoverable in the long term.

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Notes to the Consolidated Statement of Financial Position

Deferred tax assets

Amounts in millions of EUR	Tax loss & other carry forwards	Fiscal goodwill	Pension provisions[4]	Unrealized liquidation losses	Restriction on deprecation	Other[1]	Offset against deferred tax liabilities	Total
Balance as of December 31, 2013	**98**	**86**	**178**	**–**	**193**	**1,170**	**-558**	**1,167**
Exchange differences	3	–	4	–	–	-4	–	3
Income statement benefit/(charge)	22	-30	-155	–	22	356	–	215
Changes in consolidation	44	–	–	–	–	42	–	86
Transfer to current tax	-76	–	-50	–	–	5	–	-121
Tax charged to OCI[2]	–	–	-9	–	–	–	–	-9
Reclassification[3]	747	–	43	500	–	-1,308	–	-18
Balance as of December 31, 2014	**838**	**56**	**11**	**500**	**215**	**261**	**-558**	**1,323**
Exchange differences	3	–	–	–	–	–	–	3
Income statement benefit/(charge)	–	2	-4	52	-27	-28	56	51
Changes in consolidation	–	–	–	–	–	–	–	–
Transfer to current tax	-184	–	–	–	–	–	–	-184
Tax charged to OCI[2]	–	–	2	–	–	-41	–	-39
Reclassification	–	–	–	–	–	–	–	–
Transferred to held for sale	-61	–	–	–	–	-24	–	-85
Balance as of December 31, 2015	**596**	**58**	**9**	**552**	**188**	**168**	**-502**	**1,069**

1) Other deductible temporary differences at December 31, 2015 include cash flow hedge reserves of EUR 90 million (charged to equity, 2014: EUR 131 million) and revenue recognition of EUR 16 million (2014: EUR 16 million).
2) Deferred tax charged to OCI relates mainly to hedge reserve movements.
3) Due to the actual sale of E-Plus in 2014, the deferred tax asset in the Netherlands in relationship with this sale is partially reclassified from other temporary differences to tax loss carry forward. Furthermore we reclassified the recapture Germany from DTA to DTL. As a result this schedule has been restated.
4) The 2014 decrease in the DTA for pension provisions relates to implementation of the Collective Defined Contribution pension plans and the related releases in the pension provisions.

In 2015, the decrease in tax loss carry forward is mainly the result of the offset of taxable income (including taxable dividends received from Telefónica Deutschland and the capital gain on the sale of part of the stake in Telefónica Deutschland) against available fiscal losses and the transfer of the deferred tax assets of BASE Company (mainly relating to recognized assets on tax loss carry forwards).

Furthermore, we reclassified the remaining part of the deferred tax asset relating to the unrealized tax book loss on the sale of E-Plus to ‘Unrealized liquidation losses’. The movement during the year relates to our investments in the UK and France for which a liquidation is decided and a liquidation loss is likely to be claimed.

Deferred tax liabilities

Amounts in millions of EUR	Taxable temporary differences Software development	Accelerated depreciation[1]	DTL recapture Germany[3]	Other[2]	Offset against deferred tax assets	Total
Balance as of December 31, 2013	**183**	**244**	**–**	**140**	**-558**	**9**
Income statement (benefit)/charge	20	-72	37	-105	–	-120
Changes in consolidation	–	–	–	51	–	51
Reclassification	–	–	–	-1	–	-1
Transfer to current tax	–	–	–	89	–	89
Tax charged to OCI	–	–	41	-17	–	24
Balance as of December 31, 2014	**203**	**172**	**78**	**157**	**-558**	**52**
Income statement (benefit)/charge	-20	-51	-9	-3	56	-27
Changes in consolidation	–	–	–	8	–	8
Tax charged to Equity	–	–	–	-16	–	-16
Transfer to current tax	–	–	-7	–	–	-7
Tax charged to OCI	–	–	45	–	–	45
Transferred to held for sale	–	–	–	-8	–	-8
Balance as of December 31, 2015	**183**	**121**	**107**	**138**	**-502**	**47**

1) Relates to property, plant and equipment in the Netherlands.
2) Other taxable temporary differences at December 31, 2015 include intangible fixed assets of EUR 98 million (2014: EUR 77 million), property, plant and equipment of EUR 15 million (2014: EUR 32 million) and provisions for early retirement of EUR nil (2014: EUR 13 million).
3) This relates to the unrealized capital gains on the stake in Telefónica Deutschland which are considered taxable in the Netherlands (recapture rule). Furthermore we reclassified the recapture Germany from DTA to DTL. As a result this schedule has been restated.

Tax loss carry forward

	December 31, 2015			December 31, 2014		
	Tax loss carry forward	**Maximum deferred tax asset**	**Recognized deferred tax assets[2]**	Tax loss carry forward	Maximum deferred tax asset	Recognized deferred tax assets[2]
Koninklijke KPN – corporate tax[1]	2,114	528	528	2,842	711	702
Other	306	85	68	446	126	73
Total continuing operations	**2,420**	**613**	**596**	**3,288**	**837**	**775**
BASE Company – corporate tax	115	39	39	175	63	63
Total KPN Group	**2,535**	**652**	**635**	**3,463**	**900**	**838**

1) Part of the tax loss carry forward are pre-consolidation losses ('voorvoegingsverliezen') limited in their use, as such losses may only be compensated by taxable income generated by the specific company itself. Part of the tax book loss which is recognized as a result of the sale of E-Plus to Telefónica Deutschland is included in this amount. This total tax book loss amounts to EUR 5 billion, of which EUR 2 billion is recorded in the DTA for unrealized liquidation losses, and, to the extent this loss cannot be carried back to earlier years, it is expected to offset KPN's taxable income in the Netherlands in the current and coming years.
2) The tax loss carry forward for Germany has been removed due to the intended liquidation of the legal structure. Furthermore we reclassified the recapture Germany from DTA to DTL. As a result this schedule has been restated.

Recognized deferred tax assets reflect management's estimate of realizable amounts. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the tax loss carry forward can be utilized. The amounts of tax loss carry forward are subject to assessment by local tax authorities.

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The expiration of the available tax loss carry forward and recognized tax assets at December 31, is as follows:

	December 31, 2015			December 31, 2014		
	Tax loss carry forward	Maximum deferred tax asset	Recognized deferred tax asset[1]	Tax loss carry forward	Maximum deferred tax asset	Recognized deferred tax asset[1]
2015	n.a.	n.a.	n.a.	7	2	1
2016	2	–	–	10	2	2
2017	13	3	3	26	6	6
2018	1	–	–	7	2	1
2019	27	7	7	28	7	5
2020	50	13	12	n.a.	n.a.	n.a.
Later	2,311	586	574	3,032	768	758
Unlimited	16	4	–	178	50	2
Total Group	**2,420**	**613**	**596**	**3,288**	**837**	**775**
Discontinued operations unlimited[2]	115	39	39	175	63	63
Total Group	**2,535**	**652**	**635**	**3,463**	**900**	**838**

1) Deferred tax assets are recognized to the extent that it is probable that future taxable profits based on KPN's Strategic Plan are available.

2) The tax loss carry forward for Germany has been removed due to the intended liquidation of the legal structure. Furthermore we reclassified the recapture Germany from DTA to DTL. As a result this schedule has been restated.

Accounting policy: Taxation

Current income tax

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

Deferred income taxes

Deferred income tax positions are recognized for temporary differences between the tax basis of assets and liabilities and their carrying values in KPN's Statement of Financial Position.

Deferred tax assets are recognized for deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Both the recognized and unrecognized deferred tax assets are reassessed at each reporting date. No deferred tax assets are recognized for deductible temporary differences that arise from initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit or loss reported in the Statement of Profit or Loss nor the taxable profit or loss. Deferred tax assets are recorded for deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures and are recorded only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences except when they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit or loss reported in the Statement of Profit or Loss nor the taxable profit or loss. Also, no deferred tax liabilities are recorded for taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax positions are stated at nominal value and are measured at the corporate income tax rates KPN expects to be applicable in the year when the asset is realized or liability is settled based on enacted or substantially enacted tax laws.

Deferred income tax assets and liabilities are netted if there is a legally enforceable right to set off deferred income tax assets against deferred income tax liabilities and relate to income taxes levied by the same taxation authority on the same taxable entity and there is an intention to settle on a net basis.

[10] Earnings per share

The following table shows the calculation of the basic and diluted earnings per share attributable to equity holders based on the profit attributable to equity holders, the average number of subscribed ordinary shares and the calculated weighted average number of subscribed ordinary shares divided by weighted average number of subscribed ordinary shares taking into account the dilution effects:

	2015	2014 Restated
Profit for the year from continuing operations in millions of EUR	**524**	**261**
Profit (loss) for the year from discontinued operations in millions of EUR	**135**	**-845**
Profit (loss) for the year in millions of EUR	**659**	**-584**
Profit attributable to non-controlling interests [20]	-21	-14
Deduction for perpetual capital securities	-51	-76
Adjusted profit (loss) attributable to ordinary shareholders of the company	**587**	**-674**
Weighted average number of subscribed ordinary shares outstanding	**4,258,608,802**	**4,258,098,273**
Dilution effects:		
– options and non-vested shares	4,135,263	4,123,850
Weighted average number of subscribed ordinary shares outstanding including dilution effects	**4,262,744,065**	**4,262,222,123**

[..] Bracketed numbers refer to the related Notes.

Basic continuing operations
€ 0.11
2014 Restated: 0.05

Diluted continuing operations
€ 0.11
2014 Restated: 0.05

Basic discontinued operations
€ 0.03
2014 Restated: -0.20

Diluted discontinued operations
€ 0.03
2014 Restated: -0.20

Basic total, including discontinued
€ 0.14
2014 Restated: -0.15

Diluted total, including discontinued
€ 0.14
2014 Restated: -0.15

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Share options and non-vested shares are regarded to have potential dilutive effects on the ordinary shares. For the share options and share plans, a calculation is made in order to determine the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to outstanding share options.

The profit attributable to equity holders used for calculations on a diluted basis is equal to the profit attributable to equity holders used for calculations on a non-diluted basis.

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

[11] Intangible fixed assets

Amounts in millions of EUR	December 31, 2015	December 31, 2014
Goodwill	1,428	1,454
Licenses	1,180	1,564
Software	556	675
Other intangibles	286	299
Total intangible assets	**3,450**	**3,992**

Other intangibles mainly relate to customer relationships and trade names.

Statement of changes in goodwill

Amounts in millions of EUR	2015	2014
Cost	2,217	1,921
Accumulated impairments	-763	-752
Balance as of January 1	**1,454**	**1,169**
Investments[1]	65	281
Exchange rate differences	4	4
Transferred to held for sale[2]	-95	–
Closing net book value	**1,428**	**1,454**
Cost	2,191	2,217
Accumulated impairments	-763	-763
Balance as of December 31	**1,428**	**1,454**

1) 2015 Investments mainly relate to the purchase price allocation of Internedservices Group, for EUR 63 million (2014: EUR 269 million relates to Reggefiber).
2) Relates to BASE Company classified as disposal group held for sale.

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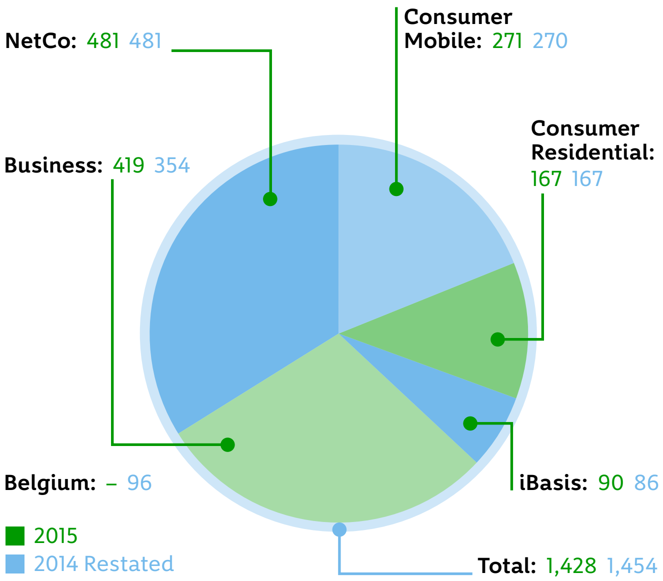
For goodwill impairment testing, KPN's cash-generating units are deemed equal to KPN's operating segments. Allocation of goodwill is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The allocation of goodwill to cash-generating units is made in accordance with KPN's internal structure, and is shown below (refer also to Note 3):



On July 6, 2015, KPN acquired 100% of the shares of IG. The purchase price and the allocated fair value have been determined on a provisional basis. For the purpose of impairment testing, the acquired goodwill (EUR 63 million) has provisionally been allocated to KPN's cash-generating unit Business (refer also to Note 29).

Goodwill impairment test
KPN performed its annual impairment test as per December 31, 2015 and 2014. KPN considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment. As at December 31, 2015, the market capitalization of KPN was significantly positive and far above the book value of its equity, indicating no potential impairment of goodwill or assets.

Goodwill is impaired if the recoverable amount of the cash-generating unit to which it is allocated is lower than the book value of the cash-generating unit concerned including goodwill. A detailed review has been performed of the recoverable amount of each cash-generating unit. For all cash-generating units, the recoverable amount is based on their value-in-use, which was determined by using the discounted cash flow method. Key assumptions used in the cash flow projections are estimated EBITDA, estimated capital expenditures, the estimated change in working capital and the pre-tax weighted average cost of capital (WACC) used for discounting the cash flow projections. The cash flow projections for the first five years are management's best estimate based on the most recent business plans, historical growth rates and EBITDA margins. KPN believes the period used in the projections to be a suitable timescale for reviewing and considering the annual performance before applying a fixed terminal value multiple to the final year cash flows of the detailed projection.

The WACC is calculated with a Capital Asset Pricing Model, with input factors based on peer group information and other observable market data.

For all cash-generating units, the impairment test in 2015 resulted in positive headroom as per December 31, 2015.

Director of Public and Regulatory Affairs KPN
Jos Huigen:

"The internet is now an essential part of life"

Watch Jos story:
kpn.com/annualreport/joshuigen

Cash-generating units

The key long-term assumptions used in the impairment test are summarized in the table below:

	Terminal sales growth	Capex intensity	EBITDA margin	Discount rate
Consumer Mobile 2015	0%	0% – 2%	18% – 26%	6.5% – 7.5%
Consumer Mobile 2014	0%	0% – 1%	16% – 21%	8.0% – 8.5%
Consumer Residential 2015	0%	7% – 9%	23% – 33%	6.5% – 7.5%
Consumer Residential 2014	0%	8% – 10%	21% – 31%	8.0% – 8.5%
NetCo 2015	0%	21% – 34%	60% – 67%	6.5% – 7.5%
NetCo 2014	0%	30% – 36%	58% – 68%	8.0% – 8.5%
Business 2015	0%	2% – 4%	16% – 19%	6.5% – 7.5%
Business 2014	0%	2% – 4%	15% – 20%	8.0% – 8.5%
iBasis 2015	0%	0% – 1%	1% – 3%	8% – 10%
iBasis 2014	0%	0% – 1%	1% – 3%	14% – 16%

Sensitivity to changes in key assumptions

The expected future cash flows used in the impairment analysis are based on management's estimates. Events amongst others in technology and telecommunications markets as well as the financial markets and the overall economy may have an impact on the estimated future cash flows of KPN's businesses.

Since the headroom of the Dutch cash-generating units is more than sufficient, no sensitivity analysis is disclosed for these cash-generating units. A reasonable possible change in the assumptions would not result in an impairment.

The following table gives an indication of value change of iBasis as per year-end 2015:

Amounts in millions of EUR	Sales growth		Capex intensity		EBITDA margin		Discount rate	
Increase/(decrease)	-0.5pps	+0.5pps	-0.5pps	+0.5pps	-0.5pps	+0.5pps	-0.5pps	+0.5pps
Value change iBasis	(4) – (6)	4 – 6	23 – 25	(23) – (25)	(23) – (25)	23 – 25	7 – 9	(7) – (9)

Considering the margin between the recoverable and carrying amount of iBasis (approximately EUR 30 million), negative sensitivities as included in this table will decrease the available headroom, however this will not result in an impairment.

Accounting policy: Goodwill

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose, irrespective of whether other assets or liabilities of the acquiree are assigned to those cash-generating units.

Goodwill is carried at cost less accumulated impairment losses and tested for impairment annually or whenever KPN has an indication that the goodwill may be impaired. Goodwill is impaired if the recoverable amount of the cash-generating unit or groups of cash-generating units to which it is allocated is lower than the book value of the cash-generating unit or groups of cash-generating units concerned. The recoverable amount is defined as the higher of the fair value less costs of disposal and the value in use of the cash-generating units concerned. Following the restrictions of IFRS, impairment losses on goodwill are not reversed.

In case of disposal of a business which was part of a cash-generating unit, goodwill is allocated to that business on a relative value basis and included in the carrying amount of the business when determining the result on the sale.

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Statement of changes in intangible fixed assets with finite lives

Amounts in millions of EUR	Licenses	Computer software	Software in development	Customer relationships	Trade names	Other	Total
Balance as of January 1, 2014	**1,729**	**534**	**76**	**98**	**26**	**11**	**2,474**
Investments	–	364	15	–	–	10	389
Change in consolidation[1]	–	10	–	204	–	–	214
Reclassification	–	27	9	–	–	–	36
Amortization	-165	-353	–	-42	-3	-6	-569
Impairments	–	-3	-4	–	–	–	-7
Exchange rate differences	–	–	–	–	1	–	1
Closing net book value	**1,564**	**579**	**96**	**260**	**24**	**15**	**2,538**
Cost	2,588	1,429	96	407	62	81	4,663
Accumulated amortization/impairments	-1,024	-850	–	-147	-38	-66	-2,125
Balance as of December 31, 2014	**1,564**	**579**	**96**	**260**	**24**	**15**	**2,538**
Investments	–	268	25	–	–	–	293
Change in consolidation[1]	–	1	–	30	–	–	31
Reclassification	–	-2	-2	–	–	–	-4
Amortization	-154	-328	–	-30	-4	-4	-520
Impairments	–	-8	-1	–	-1	-1	-11
Exchange rate differences	–	–	–	–	1	–	1
Transferred to held for sale (net)[2]	-230	-47	-25	–	-2	-2	-306
Closing net book value	**1,180**	**463**	**93**	**260**	**18**	**8**	**2,022**
Cost	2,083	1,049	93	359	60	53	3,697
Accumulated amortization/impairments	-903	-586	–	-99	-42	-45	-1,675
Balance as of December 31, 2015	**1,180**	**463**	**93**	**260**	**18**	**8**	**2,022**

1) The change in consolidation in 2015 of EUR 30 million included the customer base of IG for an amount of EUR 26 million (2014: EUR 195 million related to the customer base of Reggefiber).

2) Transferred to held for sale relates to BASE Company classified as disposal group held for sale.

At the end of 2015, the book value of Computer software and Software in development included internally generated software in the Netherlands for EUR 183 million (2014: EUR 203 million).

Accounting policy: Intangible fixed assets

Licenses

Licenses are valued at cost less amortization and impairment. The cost value of a qualifying asset may include capitalized borrowing costs related to qualifying assets incurred during the construction phase of the related asset. Amortization is calculated using the straight-line method over the economic useful live and is commenced at the date that services can be offered (available for use). The amortization period for licenses equals the useful life, but is limited to the expiration date of the licenses. Licenses are reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset concerned may not be recoverable. An impairment loss is recognized for the amount by which the book value of the licenses exceeds its recoverable amount. The recoverable amount is defined as the higher of an asset's fair value less costs of disposal and its value in use. Impairments are reversed if and to the extent that the impairment no longer exists.

Software

Internally developed and acquired software, not being an integral part of property, plant and equipment, is capitalized on the basis of the costs incurred, which include direct costs and directly attributable overhead costs incurred. During the development phase, interest expenses incurred are capitalized as part of qualifying assets if material. Software is amortized over the estimated useful life. Amortization commences when software is available for use.

Software is reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset concerned may no longer be recoverable. An impairment loss is recognized for the amount by which the book value of the software exceeds its recoverable amount. The recoverable amount is defined as the higher of an asset's fair value less costs of disposal and its value in use. Impairments are reversed if and to the extent that the impairment no longer exists.

Other intangibles

Other intangible fixed assets such as customer relationships and trade names acquired in business combinations are capitalized at their fair values at acquisition date and are amortized using the straight-line method over the economic useful life. Other intangible fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the book value may no longer be recoverable. An impairment loss is recognized for the amount by which the book value of the other intangible fixed assets exceeds its recoverable amount. The recoverable amount is defined as the higher of an asset's fair value less costs of disposal and its value in use. Impairments are reversed if and to the extent that the impairment no longer exists.

Intangible fixed 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 cash-generating unit as licenses do not generate independent cash flows.

The amortization period of the intangible assets are as follows:

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[12] Property, plant and equipment

Statement of changes in property, plant and equipment

Amounts in millions of EUR	Land and buildings	Plant and equipment	Other tangible non-current assets	Assets under construction	Total
Balance as of January 1, 2014	**596**	**4,274**	**80**	**390**	**5,340**
Investments	46	1,055	11	-69	1,043
Disposals	-1	–	–	–	-1
Depreciation	-73	-1,093	-32	–	-1,198
Impairments and retirements	-2	-23	-3	-16	-44
Exchange rate differences	–	2	–	–	2
Reclassifications	–	-26	-1	-30	-57
Change in consolidation[1]	3	1,515	3	–	1,521
Closing net book value	**569**	**5,704**	**58**	**275**	**6,606**
Cost	1,910	11,289	239	285	13,723
Accumulated depreciation/impairments	-1,341	-5,585	-181	-10	-7,117
Balance as of December 31, 2014	**569**	**5,704**	**58**	**275**	**6,606**
Investments	35	997	21	-19	1,034
Disposals	-2	-16	–	–	-18
Depreciation	-69	-997	-19	–	-1,085
Impairments and retirements	-4	-28	-1	-14	-47
Exchange rate differences	–	2	–	–	2
Reclassifications	–	8	-2	-2	4
Change in consolidation[1]	–	2	2	–	4
Transferred to held for sale (net)[2]	-4	-442	-21	-32	-499
Closing net book value	**525**	**5,230**	**38**	**208**	**6,001**
Cost	1,919	9,884	136	208	12,147
Accumulated depreciation/impairments	-1,394	-4,654	-98	–	-6,146
Balance as of December 31, 2015	**525**	**5,230**	**38**	**208**	**6,001**

1) Relates to Internedservices Group BV (2014: Reggefiber).
2) Relates to BASE Company classified as held for sale as of April 15, 2015.

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Bernadet Angenent:

"With Skype, he's in front of us in no time"

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kpn.com/annualreport/bernadetangenent

Property, plant and equipment primarily concerns assets located in the Netherlands (2014: approximately 92%).

Assets under construction mainly relate to the construction of mobile networks.

The book value of property, plant and equipment of which KPN as the lessee is the beneficial owner under financial lease programs amounted to EUR 75 million (2014: EUR 90 million).

The book value of property, plant and equipment of which KPN is the lessor under operating lease programs amounted to EUR 2 million (2014: EUR 26 million). The future minimum lease payments receivable related to these operating leases are EUR 2 million (2014: EUR 26 million) in total, which matures within one year.

Sensitivity analysis

At the end of 2015, the book value for copper and fiber cables is EUR 1,884 million, which is included in plant and equipment. The current depreciation rates for these investments are based on estimates and judgment about the useful lives of these assets.

For copper cables, KPN estimates that the current useful life is 10 years. If the useful life was set at 20 years, e.g. due to technological developments, the depreciation charge for 2015 would be EUR 82 million lower.

For fiber cables, KPN estimates that the current useful life is 30 years. If the useful life was set at 40 years, e.g. due to technological developments, the depreciation charge for 2015 would be EUR 17 million lower.

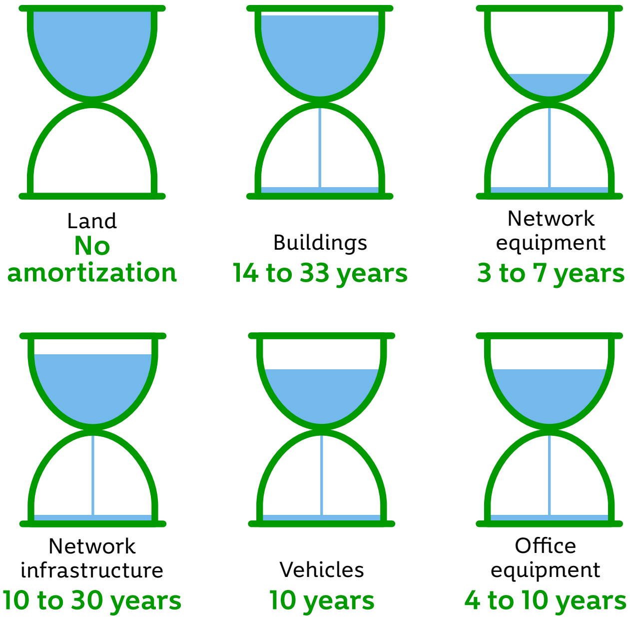
Accounting policy: Property, plant and equipment

Property, plant and equipment are valued at cost less depreciation and impairment. The cost includes direct costs (materials, direct labor and work contracted out), directly attributable overhead costs and may include borrowing costs capitalized as part of qualifying asset, recorded during the construction phase of property, plant and equipment components. Asset retirement obligations are capitalized as part of the cost of tangible fixed assets and expensed as either depreciation over the asset's estimated useful life or as impairment charges.

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

Subsequent costs such as costs for replacement of network components are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that KPN will receive future economic benefits associated with the item and the cost can be measured reliably. The carrying amounts of replaced assets are derecognized. All other repairs and maintenance costs are recognized in profit or loss when incurred.

The estimated useful lives of the principal property, plant and equipment categories are as follows:



The assets' residual values and useful lives are reviewed at least annually and adjusted if appropriate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. KPN's qualifying assets mainly are its network (included in property, plant and equipment) as well as operating licenses (included under intangible fixed assets) which are dependent on a related network. Borrowing costs related to licenses are capitalized during the construction phase of the related network up to the time that services can be first rendered on a commercial basis.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

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[13] Investments in and loans to associates and joint ventures

Amounts in millions of EUR	2015	2014
Balance as of January 1	**42**	**320**
Addition through business combination [31]	–	17
Disposal through business combination [31]	–	-288
Income from associates and joint ventures	2	-6
Dividend received	-1	-1
Transferred to held for sale	-1	–
Total changes	**–**	**-278**
Balance as of December 31	**42**	**42**

KPN holds interests in several legal entities. At December 31, 2015, investments in associates and joint ventures include NTT Data Getronics (30%) for an amount of EUR 18 million (2014: EUR 17 million) and Glasvezel Netwerk Amsterdam BV (70%) (GNA) for an amount of EUR 17 million (2014: EUR 17 million). GNA has not been consolidated because certain decisions can only be made in consultation with the other shareholder.

At January 1, 2014, investments in associates and joint ventures included KPN's 51% interest in Reggefiber for EUR 293 million. During 2014, KPN obtained all remaining shares in Reggefiber through a step acquisition. Following the requirements of IFRS, the existing investment was treated as if it had been sold. Therefore, the difference between the carrying value (based on equity value) of the 51% interest (EUR 288 million) and its fair value (EUR 330 million) has been recorded as a gain in Other financial results (EUR 42 million) in 2014. Refer to Note 8 and Note 29 for more information.

Loans to associates and joint ventures as of December 31, 2015 were loans for an amount of EUR 20 million provided to Glasvezel Netwerk Amsterdam BV (2014: EUR 18 million).

The following table illustrates summarized financial data of the joint ventures and associates, based on KPN's relative share.

Amounts in millions of EUR	2015	2014[1]
Current assets	27	11
Non-current assets	48	25
Current liabilities	18	7
Non-current liabilities	26	4
Total revenues	73	38
Total operating expenses	-60	-38
Profit or loss after taxes	2	–

1) Amounts exclude Reggefiber.

The difference in value between the assets and liabilities of the table above and the investment value is the goodwill paid by KPN which is included in the book value of the associates and joint ventures.

Accounting policy: Investments in associates and joint ventures

Associates

Associates are investments in entities in which KPN can exert significant influence but which KPN does not control, generally by KPN having between 20% and 50% of the voting rights. These entities are accounted for using the equity method and are initially recognized at cost. Their carrying value includes goodwill identified upon acquisition, net of any accumulated impairment.

KPN's share of post-acquisition profits or losses is recognized in the Statement of Profit or Loss, and its share of post-acquisition movements in OCI is recognized in the Statement of OCI with a corresponding adjustment to the carrying amount of the investment. When KPN's share of losses in an associate equals or exceeds its interest in the associate, including any other receivables for which settlement is neither planned nor likely to occur in the foreseeable future, KPN does not recognize further losses, unless KPN has obligations to or made payments on behalf of the associate. Unrealized results on transactions with associates are eliminated to the extent of KPN's share in associates.

At each reporting date, KPN determines if there is any objective evidence that the associate is impaired. An impairment, being the difference between the recoverable amount of the associate and its carrying value, is recognized adjacent to 'Share of the profit (loss) of associates and joint ventures' in the Statement of Profit or Loss.

Profits and losses resulting from upstream and downstream transactions between KPN and its associates are recognized in the KPN's Financial Statements only to the extent of unrelated investors' interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with KPN's policies.

Joint arrangements and joint ventures

Joint arrangements are classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor. KPN has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method and are initially recognized at cost. The carrying value is subsequently adjusted to recognized KPN's share of the post-acquisition profits or losses and movements in OCI.

The carrying value of joint ventures includes goodwill identified upon acquisition, net of any accumulated impairment.

When KPN's share of losses in a joint venture equals or exceeds its interest in the joint venture, KPN does not recognize further losses, unless KPN has obligations to or made payments on behalf of the joint venture. Unrealized results on transactions with joint ventures are eliminated to the extent of KPN's share in joint ventures. Accounting policies have been changed where necessary to ensure consistency with KPN's policies.

Loans to associates and joint ventures classify as 'loans and receivables', a category of financial assets. For the accounting policy on 'loans and receivables', refer to Note 15.

[14] Available-for-sale financial assets

Amounts in millions of EUR	2015	2014
Balance as of January 1	**2,713**	**20**
Increase due to purchase	3	2,530
Decrease due to sale	-805	–
Fair value adjustment recorded in OCI	363	163
Other	-2	–
Balance as of December 31	**2,272**	**2,713**

Following the sale of E-Plus at October 1, 2014, KPN obtained a stake of 20.5% in Telefónica Deutschland Holding AG ('Telefónica Deutschland') initially valued at EUR 2,528 million.

The stake is accounted for as an 'available-for-sale financial asset' because KPN has no significant influence in Telefónica Deutschland. If an investor holds, directly or indirectly, 20% or more of the voting power of an investee, it is presumed that the investor has significant influence, unless it can be demonstrated that this is not the case. According to IAS 28.7, the existence of significant influence is usually evidenced in one or more of the following ways:

- representation on the board of directors or equivalent governing body of the investee;
- participation in policy-making processes, including decisions about dividends or other distributions;
- material transactions between the entity and its investee;
- interchange of managerial personnel; or
- reliance on technology sourced from an investor.

Neither the members of the Management Board nor the members of the Supervisory Board of Telefónica Deutschland hold any management position at KPN nor do they have any other relationship with KPN which might be relevant for the assessment whether or not KPN has the ability to exercise influence over Telefónica Deutschland.

Mr. Dirks became the Chief Executive Officer of Telefónica Deutschland on October 1, 2014 and had been a member of the Board of Management of KPN from November 2011 until October 2014. Since his resignation at October 1, 2014 Mr. Dirks did not hold any management position at KPN nor did he have any other relationship with KPN which might be relevant for the assessment whether or not KPN has the ability to exercise influence over Telefónica Deutschland.

There is no agreement or other means on the basis of which KPN can participate in the financial and operating policy decisions, other than through the voting rights attached to its stake in Telefónica Deutschland. Each share carries one vote at Telefónica Deutschland's general shareholders' meetings, there are no voting right restrictions. After the sale of E-Plus, Telefónica S.A. has remained the majority shareholder of Telefónica Deutschland. With such a large concentration of shares held by Telefónica S.A, KPN assessed that with its stake it does not have any power to participate in the financial and operating policy decisions of Telefónica Deutschland. Material transactions between KPN and Telefónica Deutschland or E-Plus were not expected and did not occur. Interchange of key managerial personnel was not expected and also did not occur. Furthermore, there is no high degree of reliance on technology sourced between KPN and E-Plus.

Based on the facts and circumstances mentioned above, KPN is of the opinion that it does not have significant influence in Telefónica Deutschland. Also, KPN never had the intention to be able to exercise influence over Telefónica Deutschland after the sale of E-Plus on October 1, 2014. Accordingly, KPN classifies its stake in Telefónica Deutschland as an 'available-for-sale financial asset'.

In May 2015, KPN received a dividend from Telefónica Deutschland (EUR 146 million) which has been recorded as Finance income (see Note 8). In November 2015, KPN successfully completed the accelerated bookbuild offering to institutional investors of 150 million shares in Telefónica Deutschland (EUR 5.37 per share), realizing EUR 805 million of proceeds. This transaction reduced KPN's stake in Telefónica Deutschland's outstanding share capital from 20.5% to 15.5%. A gain of EUR 184 million was recognized in Other financial results. At December 31, 2015, the fair value of the stake amounted to EUR 2,249 million.

KPN holds a 3% equity share in Jasper Technologies (formerly called Jasper Wireless) amounting to EUR 9 million (2014: EUR 8 million), a privately held company that provides a global machine-to-machine platform. See Note 32 for subsequent events relating to Jasper Technologies.

KPN holds an equity stake of approximately 11% in Tecnocom, a listed Spanish ICT services company, amounting to EUR 10 million (2014: EUR 11 million).

In 2015, KPN acquired a stake in Actility SA, a provider of network solutions and managed information systems for the Internet of Things market for EUR 3 million.

Accounting policy: AFS financial assets

AFS financial assets 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 profit or loss. When the investment is impaired, the cumulative loss is recognized in profit or loss.

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Notes to the Consolidated Statement of Financial Position

[15] Trade and other receivables

Trade and other receivables (non-current)

Amounts in millions of EUR	2015	2014
Balance as of January 1	**140**	**122**
Current portion of non-current receivables	31	88
Gross	**171**	**210**
Additions	15	139
Redemptions	-79	-16
Change in consolidation	–	-162
Transferred to held for sale	–	-1
Other changes	4	1
Total gross at December 31	**111**	**171**
Current portion of non-current receivables	30	31
Balance as of December 31	**81**	**140**

Decrease in 2015 mainly relates to the refund of cash collateral related to derivatives of EUR 100 million, which was part of additions in 2014. For more information, refer to Note 28. Change in consolidation in 2014 relates to prepayments to Reggefiber.

The non-current balance as of December 31 included the following:

Amounts in millions of EUR	2015	2014
Accrued income and prepayments	21	37
Receivables from financial leases	2	2
Cash collateral on derivatives	56	100
Other loans	2	1
Total	**81**	**140**

Accrued income and prepayments mainly consist of prepaid rent recognized at nominal value. The gross amount with respect to receivables from financial leases amounts to EUR 2 million (2014: EUR 3 million), which fully matures within five years. The short-term portion of the financial leases amounting less than EUR 1 million (2014: EUR 1 million) is classified as current trade and other receivables.

Trade and other receivables (current)

Amounts in millions of EUR	December 31, 2015	December 31, 2014
Trade receivables – gross	*475*	*610*
Provision for doubtful trade receivables	*-97*	*-95*
Trade receivables – net	378	515
Social security and other taxes	–	6
Other receivables	30	36
Accrued income	268	295
Prepayments	102	147
Total	**778**	**999**

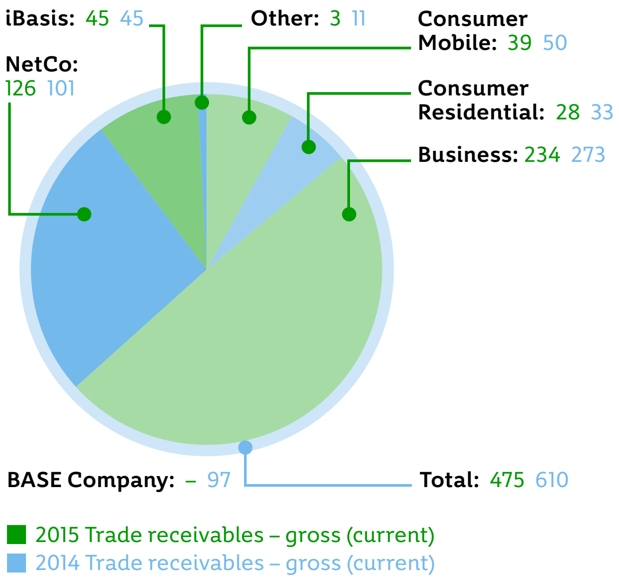
The carrying amounts of trade and other receivables approximate to their fair value. Trade and other receivables are non-interest bearing.

The movements in the provision for doubtful trade receivables are as follows:

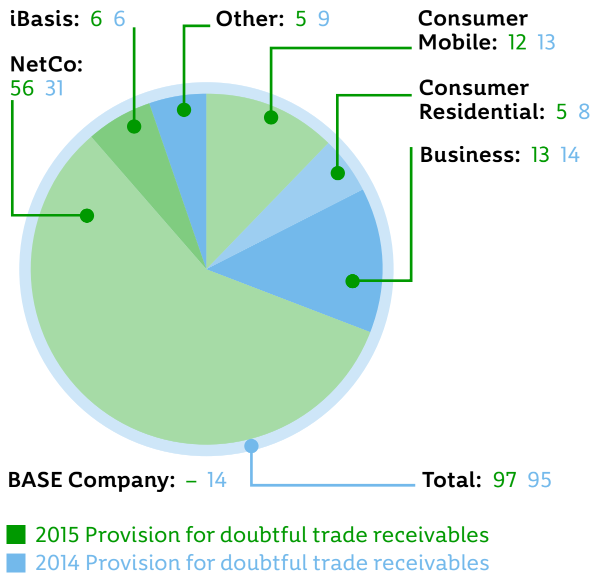
Amounts in millions of EUR	2015	2014
Balance as of January 1	**95**	**112**
Addition through Statement of Profit or Loss	32	9
Usage	-16	-26
Transferred to held for sale	-14	–
Balance as of December 31	**97**	**95**

The maximum exposure to credit risk on trade receivables is limited to their gross amount. The concentration of KPN's trade receivables over the different segments as at December 31 can be summarized as follows:

Amounts in millions of EUR



Amounts in millions of EUR



For a discussion of KPN's policies to reduce credit risk on trade receivables as well as concentration of the credit risk, reference is made to Note 28. Postpaid mobile services are considered to have the highest credit risks within the business of KPN (Business and Consumer Mobile Segments). Overall, concentrations of credit risk with respect to trade receivables are limited due to the Group's large and unrelated customer base. The provision for doubtful trade receivables is predominantly collectively determined based on ageing and is reviewed periodically.

The ageing of the gross trade receivables at the reporting date was as follows:

	December 31, 2015		December 31, 2014	
Amounts in millions of EUR	Gross	Provision	Gross	Provision
Amounts undue	252	3	308	2
Past due 0–90 days	106	11	160	8
Past due 91–180 days	55	35	48	15
Past due 181–270 days	10	4	13	6
Past due 271–360 days	9	5	13	6
More than one year	43	39	68	58
Total	**475**	**97**	**610**	**95**

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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 in the Statement of Profit or Loss 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 (uncollectibility). The provision is the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. The provision is set up through the Statement of Profit or Loss (as Other operating expenses).

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against Other operating expenses.

Loans and receivables are included in current assets, except for maturities greater than 12 months after the Statement of Financial Position date.

[16] Inventories

Amounts in millions of EUR	December 31, 2015	December 31, 2014
Resources, parts, tools and measuring instruments	67	53
Finished goods	8	18
Total inventories, gross	**75**	**71**
Provision for obsolescence	-10	-10
Total inventories, net	**65**	**61**

During 2015, a net amount of EUR 4 million (2014: EUR 7 million) was recorded as an expense for inventories carried at net realizable value. The expense is included in the line 'cost of materials' in the Statement of Profit or Loss.

Accounting policy: Inventories
Inventories of resources, parts, tools and measuring instruments, and finished goods are valued at the lower of cost or net realizable value. The cost of inventories is determined using the weighted average cost. Net realizable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

Losses on the sale of handsets which are sold for less than cost is only recorded when the sale occurs if the normal resale value is higher than the cost of the handset. If the normal resale value is lower than costs, the difference is recognized as impairment immediately.

Transition costs relating to fixed-price contracts involving managed ICT services are capitalized and subsequently recognized in the Statement of Profit or Loss on a straight-line basis during the period the services are provided, taking into account the number of office seats included in the service contract during the term of the contract. Transition costs consist primarily of the labor and other cost of personnel directly engaged in performing the transition, third party services, products and other costs which will be charged to the customer. Transition costs are capitalized if it is probable that they will be recovered and are classified under inventories.

[17] Other current financial assets

At December 31, 2015, other current financial assets consisted of held-to-maturity investments with initial maturities longer than three months and investments in short-duration fixed income funds. Both categories are classified as short-term investments in KPN's Net Debt definition. Refer to Note 28 for further information on KPN's net debt definition.

Held-to-maturity investments include bank deposits and repurchase agreements which are fully collateralized (2014: EUR 100 million, classified as cash and cash equivalents). Per December 31, 2015, the fair value of the collateral amounted to 105% of the principal amount. The collateral consists of sovereign, supranational and agency debt with a minimum credit rating of A and corporate debt with a minimum rating of B, denominated in major currencies such as EUR, GBP and USD. In case of counterparty default, the collateral ownership would transfer to KPN and can be converted to cash.

Investments in short-duration fixed income funds are held at fair value through profit or loss. These funds have low volatility, with an investment objective of preservation of principal.

Amounts in millions of EUR	December 31, 2015	December 31, 2014
Held-to-maturity investments with initial maturities longer than 3 months	350	300
Short-duration fixed income funds held at fair value through profit or loss	225	–
Total Other current financial assets	**575**	**300**

Accounting policy: Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when KPN has the intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortized cost using the effective interest rate, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included as finance income in the Statement of Profit or Loss. Losses arising from impairment are recognized in the Statement of Profit or Loss as finance costs.

Accounting policy: Current financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are recognized in the Statement of Financial Position at their fair value with net changes in the fair value presented as finance costs (in case of negative net changes to the fair value) or finance income (in case of positive net changes to the fair value) in the Statement of Profit or Loss.

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[18] Cash and cash equivalents

At December 31, 2015, cash and cash equivalents amounted to EUR 1,446 million (EUR 1,976 million at December 31, 2014). The decrease in KPN's cash and cash equivalents is mainly caused by the dividend payments in 2015 (EUR 485 million) and a scheduled bond redemption in June 2015 (EUR 1.0 billion), partly offset by the EUR 146 million dividend received on the 20.5% stake in Telefónica Deutschland and the proceeds from the sale of a 5% stake in Telefónica Deutschland in November 2015 (EUR 805 million).

KPN's cash and cash equivalents as of December 31, 2015, consisted of highly liquid instruments, mainly deposits, interest-bearing bank accounts and AAA-rated money market funds. KPN's cash balances have been invested with a wide range of strong counterparties. Part of KPN's cash balances have been invested in instruments which are classified as Other current financial assets rather than cash and cash equivalents. Please refer to Note 17 for further information.

Cash and cash equivalents as at December 31, 2015, were for more than 99% (2014: 99%) denominated in the functional currency of the related entities. The effective interest rate on cash and cash equivalents as at December 31, 2015, was approximately 0.06% negative.

Amounts in millions of EUR	December 31, 2015	December 31, 2014
Cash	396	426
Short-term bank deposits, repurchase agreements and money market funds	1,050	1,550
Total cash and cash equivalents	**1,446**	**1,976**

Net cash and cash equivalents

As of December 31, 2015 KPN's net cash and cash equivalents position amounted to EUR 1,442 million as presented in the Consolidated Statement of Cash Flows:

Amounts in millions of EUR	December 31, 2015	December 31, 2014
Cash and cash equivalents	1,446	1,976
Bank overdraft	-4	-31
Net cash and cash equivalents	**1,442**	**1,945**

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 on the Statement of Financial Position and are not deducted from cash and cash equivalents.

[19] Non-current assets, liabilities and disposal groups held for sale

Amounts in millions of EUR	December 31, 2015	December 31, 2014
Intangible assets (including goodwill)	419	–
Property, plant and equipment	564	–
Other non-current assets	78	1
Current assets	247	7
Total assets of disposal groups held for sale	**1,308**	**8**
Non-current liabilities	105	2
Current liabilities	261	11
Total liabilities directly associated with the non-current assets and disposal groups classified as held for sale	**366**	**13**

At December 31, 2015, disposal groups held for sale consists of BASE Company and at December 31, 2014, of SNT Deutschland. The sale of SNT Deutschland was completed on February 3, 2015, with no additional impact on KPN's financial result.

On April 20, 2015, KPN announced it had reached an agreement to sell BASE Company (BASE) for a consideration of EUR 1,325 million to Telenet. As of April 15, 2015, BASE has been presented as disposal group held for sale and measured at the bookvalue because this is lower than the fair value less costs of disposal. Given the significance of BASE to KPN, BASE is considered a 'discontinued operation'.

All assets and liabilities of BASE are presented separately on KPN's Statement of Financial Position as of April 15, 2015, as 'non-current assets and disposal groups classified as held for sale' and 'liabilities directly associated with non-current assets and disposal groups held for sale' until completion of the sale. The assets and liabilities of BASE continued to be accounted for in accordance with the relevant IFRS standards as before April 15, 2015, except that non-current assets held by BASE are no longer amortized or depreciated as of April 15, 2015. Results from BASE are reported as 'profit/loss (-) for the period from discontinued operations' and cash flows from BASE are reported as 'cash flows from discontinued operations' separate from results and cash flows from KPN's continuing operations as if BASE was classified as a discontinued operation as of January 1, 2014.

On October 21, 2015, KPN announced that KPN, BASE, Mobistar and Proximus agreed to settle all outstanding litigation between BASE, Mobistar and Proximus related to the practice of applying tariffs from the past for mobile telecommunication services that are differentiated between on-net and off-net voice communications. The settlement proceeds amount to EUR 120 million of which EUR 66 million was paid to BASE and the remainder to Mobistar. BASE has recognized the received amount as Other income in 2015.

Operating expenses of BASE in 2015 include a gain related to a release of tax accruals of EUR 29 million.

The sale of E-Plus was completed on October 1, 2014. At December 31, 2014, KPN made a best estimate of the expected Net Debt/Working Capital settlement that was finalized in 2015.

The following table summarizes the results of BASE and E-Plus included in the Statement of Profit or Loss as 'profit for the period from discontinued operations':

	BASE		E-Plus		Total	
Amounts in millions of EUR	2015	2014	2015	2014	2015	2014
Revenues and other income	716	674	–	2,352	716	3,026
Operating expenses	-500	-692	–	-1,621	-500	-2,313
Finance income and expenses	-3	-2	–	-23	-3	-25
Share of the loss of associates and joint ventures	–	–	–	-4	–	-4
Income taxes	-65	-2	–	-515	-65	-517
Result for the period from discontinued operations before impairment and tax effects resulting from the transaction	**148**	**-22**	**–**	**189**	**148**	**167**
Impairment disposal group	–	–	–	-1,265	–	-1,265
Transaction costs	–	–	-6	-46	-6	-46
Call option	–	–	–	2	–	2
Tax adjustments	–	–	-7	297	-7	297
Total profit (loss) for the period from discontinued operations	**148**	**-22**	**-13**	**-823**	**135**	**-845**

The following table summarizes the net cash flows of BASE and E-Plus:

	BASE		E-Plus		Total	
Amounts in millions of EUR	2015	2014	2015	2014	2015	2014
Cash flow from operating activities	230	155	-8	312	222	467
Cash flow from investing activities	-101	-219	-146	4,163	-247	3,944
Cash flow from financing activities	–	–	–	-251	–	-251
Total net cash (outflow)/inflow from discontinued operations	**129**	**-64**	**-154**	**4,224**	**-25**	**4,160**

High Performance Director at NOC*NSF
Maurits Hendriks:

"Our Team Awareness app helps athletes and fans in Rio"

Watch Maurits' story:
kpn.nl/annualreport/mauritshendriks

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Accounting policy: 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 (bookvalue) 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.

[20] Group Equity

For a breakdown of equity attributable to equity holders, reference is made to the Statement of Changes in Group Equity. The total distributable reserves at December 31, 2015 amounted to EUR 4,305 million (2014: EUR 4,004 million). For further details of the non-distributable reserves, reference is made to the Corporate Financial Statements.

Share capital

After an amendment to the Articles of Association on March 21, 2014, KPN's authorized capital stock totals EUR 720 million divided into 9 billion ordinary shares of EUR 0.04 each and 9 billion preference shares B of EUR 0.04 each. As of December 31, 2015 and 2014, a total of 4,270,254,664 ordinary shares were outstanding and fully paid-in. Dutch laws prohibit KPN from casting a vote on shares KPN holds (treasury shares). The ordinary shares and preference shares B carry the right to cast one vote each. For a description of the preference shares B, please see 'Foundation Preference Shares B KPN' hereafter. The ordinary shares are registered or payable to bearer. Shareholders may request the Company to convert their registered shares to bearer shares but not vice versa.

Share premium

The additional paid-in capital is exempt from Dutch tax up to an amount of EUR 10,568 million at December 31, 2015 (2014: EUR 10,598 million).

Other reserves

Below is a detailed overview of the movements in the number of treasury shares and other reserves:

Amounts in millions of EUR, unless indicated otherwise	Number of treasury shares	Treasury shares reserve	Hedge reserve	Fair value reserve available-for-sale financial assets	Currency translation reserve	Total other reserves
Balance as of January 1, 2014	**12,156,391**	**-138**	**-394**	**3**	**12**	**-517**
Movements recorded in OCI (net)	–	–	1	122	6	129
Balance as of December 31, 2014	**12,156,391**	**-138**	**-393**	**125**	**18**	**-388**
Movements recorded in OCI (net)	–	–	125	134	-2	257
Disposals	-556,941	6	–	–	–	6
Balance as of December 31, 2015	**11,599,450**	**-132**	**-268**	**259**	**16**	**-125**

Hedge reserve

Amounts in millions of EUR	**December 31, 2015**	December 31, 2014
Effective portion cash flow hedges[1]	-202	-438
Amortizable part[2] [8]	-155	-86
Hedge reserve	**-357**	**-524**
Tax effect	89	131
Hedge reserve, net of tax	**-268**	**-393**

1) The effective portion of cash flow hedges will be recognized in the Statement of Profit or Loss in line with the maturities of the related derivatives. Refer to Note 26 for further information on derivatives.

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 Statement of Profit or Loss will be EUR 11 million in 2016.

[..] Bracketed number refers to the related Note.

Treasury shares and treasury shares reserve
Until 2011, KPN purchased shares in its own capital for delivery upon exercise of share options by management and personnel under the share option and performance share plans (see Note 5). Votes on purchased shares may not be cast and they do not count towards determining the number of votes required at a General Meeting of Shareholders. In 2015 and 2014, no shares were purchased. In 2015, 556,941 shares were sold in connection with vesting of the 2012 grant 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. In the event that more options are exercised than available as treasury shares for option plans, KPN anticipates providing shares for equity-settled plans through the purchase of shares in the market. All rights with respect to repurchased treasury shares are suspended until those shares are delivered.

Equity attributable to holders of perpetual capital securities
In March 2013, KPN issued a EUR 1.1 billion hybrid bond with a 6.125% coupon. The bond 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 in the Consolidated Statement of Financial Position (classified as Perpetual Capital Securities). Please see Note 22 for further information on interest payments and credit ratings.

Foundation Preference Shares B KPN
Reference is made to the Foundation Preference Shares B KPN, as described in the chapter 'Corporate Governance'. On August 29, 2013, the Foundation exercised its call option and obtained 4,258,098,272 newly issued preference shares B in KPN, in order to safeguard the interests of KPN and its stakeholders as América Móvil announced its intention to make a public offer for all KPN shares on August 9, 2013, without prior consultation of KPN. Following a subsequent request by the Foundation, KPN's Extraordinary General Meeting of Shareholders granted the requested approvals to cancel all outstanding preference shares B on January 10, 2014, which cancellation became effective on March 21, 2014. The cancellation resulted in a repayment to the Foundation of the payment made, amounting to 25% of the nominal value of the preference shares B, increased by an amount similar to a dividend in proportion to the time the shares were outstanding. The right granted to the Foundation to acquire preference shares is unconditional and continuous, and the Foundation is therefore entitled to acquire preference shares B in the future.

Under IFRS, the preference shares B do not meet the definition of equity and therefore the paid-up amount was presented as a current liability (EUR 255 million) at December 31, 2013. Dividends due are recorded as financial expenses. KPN is of the opinion that neither the put option nor the call option represent a significant fair value as mentioned in IAS 1.31 due to the fact that the put option can no longer be exercised by KPN and the fact that the preference shares B, issued after exercise of the call option, bear interest linked to EURIBOR. The options are therefore not accounted for in the annual accounts nor is any additional information disclosed as meant in IFRS 7.

Non-controlling interests
In 2012, KPN acquired a stake in GroupIT B.V. of 12.5% at fair value with a right to acquire the remaining stake and thus obtained the control over GroupIT B.V. The amount of non-controlling interest includes the 87.5% stake of a group of third party shareholders in GroupIT B.V.

Accounting policy: Group equity
KPN's Group equity is divided into two categories: equity attributable to equity holders and to non-controlling interests.

Equity attributable to equity holders
This category refers to KPN's owners. KPN's authorized share capital consists of ordinary shares which are classified as equity and preference shares B which are classified as short-term liabilities. The surplus paid by shareholders above the nominal value of shares is recognized as share premium. Incremental costs directly attributable to the issue of new shares or options are shown in the Statement of OCI as a deduction, net of tax, from the proceeds.

Equity instruments and other financial instruments with a long-term nature are classified based on their specific nature, terms and characteristics. Refer to Note 22 for disclosures on KPN's accounting of the perpetual hybrid bonds issued. The consideration paid by KPN for the acquisition of its own equity instruments (treasury shares) is deducted from other reserves at trade date until those shares are canceled, reissued or disposed of. Upon subsequent sale or reissue of such shares, any consideration received is included in other reserves.

Non-controlling interests
Non-controlling interests represent shares issued by a subsidiary of KPN to shareholders outside the KPN Group. Transactions with non-controlling interests are treated as transactions with equity holders of KPN. For purchases of equity instruments from non-controlling interests, the difference between any consideration paid and the carrying amount of the non-controlling interest of the subsidiary acquired is recorded in equity. Since KPN already controls the acquired entity, no additional purchase price allocation is performed. Gains or losses on disposal of a non-controlling interest in a subsidiary are also recorded in equity.

Dividends
Dividends to be distributed to the equity holders are recognized as a liability in the period in which the dividends are approved by the shareholders.

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[21] Dividend per share

At the Annual General Meeting of Shareholders, to be held on April 13, 2016, a dividend of EUR 0.08 per share will be proposed in respect of 2015. In 2015, KPN paid an interim dividend in respect of 2015 of EUR 0.03 per share, in total EUR 128 million. These financial statements do not reflect the proposal for the remaining dividend payable, which will be accounted for in the Statement of Changes in Group Equity as an appropriation of retained earnings in the year ending December 31, 2015.

In August 2015, the dividend received from KPN's stake in Telefónica Deutschland was distributed to KPN shareholders as an additional cash dividend of EUR 0.034 per ordinary share (EUR 145 million). The total dividend in respect of 2015, including the additional interim cash dividend, will then amount to EUR 0.114 per ordinary share.

In April 2015, KPN paid a final dividend of EUR 0.05 per share in respect of 2014, in total EUR 213 million. The total dividend in respect of 2014 was EUR 0.07.

[22] Borrowings

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

	December 31, 2015		December 31, 2014	
Amounts in millions of EUR	Carrying amount	Fair value	Carrying amount	Fair value
Eurobonds EUR	5,139	5,636	6,175	6,856
Eurobonds GBP	1,999	2,251	1,883	2,199
Global Bonds USD	1,191	1,198	1,117	1,170
Hybrid Bonds (GBP and USD)	1,088	1,148	1,000	1,052
Financial lease obligations	81	76	95	88
Bank overdraft	4	4	31	31
Other loans	198	212	140	160
Total borrowings	**9,700**	**10,525**	**10,441**	**11,556**
– of which: current	*847*	*859*	*1,044*	*1,061*
– of which: non-current	*8,853*	*9,666*	*9,397*	*10,495*

The fair value for Eurobonds, Global Bonds and Hybrid Bonds is based on the listed price of the bonds.

All Eurobonds, Global Bonds and Hybrid Bonds pay interest based on fixed coupons. KPN's weighted average interest rate on the borrowings outstanding before swaps at December 31, 2015 was 6.0% (2014: 5.8%). The EUR perpetual hybrid bonds, classified as equity, have been included in this calculation. The weighted average interest rate after swaps was 5.4% (2014: 5.3%). Excluding all hybrid bonds, the average interest rate on the senior bond portfolio after swaps at December 31, 2015 was 5.1% (2014: 5.0%).

For further details on borrowings, including a redemption schedule, reference is made to Note 28 'Financing Risk Management – Liquidity Risk'.

Communications Advisor Municipality Bronckhorst
Ellen Somsen:

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Bonds

On June 22, 2015, KPN redeemed the EUR 1.0 billion Eurobond 2005–2015 in accordance with the regular redemption schedule.

On November 7, 2014, KPN completed a tender offer, in which KPN repurchased an aggregate principal amount of EUR 1.8 billion of eight of its Eurobonds with maturities between 2016 and 2024. The total cash-out for the tender amounted to EUR 2.0 billion, which was financed with available cash.

Refer to Note 8 and Note 26 for information on the related finance costs and derivatives.

On May 30, 2014, KPN redeemed EUR 650 million of the Eurobond 2007–2014, in accordance with the regular redemption schedule.

On February 4, 2014, KPN redeemed EUR 750 million of the Eurobond 2009–2014, in accordance with the regular redemption schedule.

Hybrid bonds

In March 2013, KPN issued a EUR 1.1 billion hybrid bond with a 6.125% coupon, a GBP 400 million hybrid bond with a 6.875% coupon (swapped to EUR 460 million and a 6.78% coupon for a period of seven years) and a USD 600 million hybrid bond with a 7% coupon (swapped to EUR 465 million and a 6.34% coupon for a period of 10 years).

The GBP and USD hybrid bonds are subordinated bonds with 60-year maturities. The GBP and USD hybrid bonds can, at KPN's discretion, first be redeemed in March 2020 and March 2023 respectively. The GBP and USD hybrid bonds are classified as liabilities in the Statement of Financial Position (classified as Borrowings). The EUR hybrid bond is classified as equity in the Consolidated Statement of Financial Position, refer to Note 20. 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 in case dividends are paid on ordinary shares, in case of early redemption, and for the GBP/USD hybrid bonds at final maturity. Unless previously redeemed at the first call dates, the interest paid on the hybrid bonds will be reset at pre-agreed dates in the future, based on the prevailing swap rate plus a predetermined spread. KPN does not recognize accruals for coupon payments on the EUR hybrid bond (EUR 67 million per year). If an accrual would have been recognized, the amount would have been EUR 20 million per December 31, 2015.

The ratings for all three hybrid bonds are BB by Standard & Poor's, Ba2 by Moody's and BB by Fitch Ratings. The rating agencies recognize 50% of the three hybrid bonds as equity. The three hybrid bonds are for 50% treated as equity and 50% as debt in KPN's gross and net debt definitions.

Financial lease obligations

On December 31, 2015, the financial lease obligations amounted to EUR 81 million. Refer to Note 28 for more information.

Credit rating

KPN maintains credit ratings from Standard & Poor's, Moody's and Fitch. On December 31, 2015, KPN had a credit rating of Baa3 with a stable outlook by Moody's, BBB- with a stable outlook by Standard & Poor's and BBB- with a positive outlook by Fitch. The table below shows the adjustments to the credit ratings during 2015 and 2014.

Credit rating agency	Rating as at December 31, 2015	Current outlook	Adjustments 2015	Adjustments 2014
Standard & Poor's	BBB-	Stable	• None	• None
Moody's	Baa3	Stable	• None	• March 28: rating changed to Baa3 with stable outlook from Baa2 with negative outlook
Fitch	BBB-	Positive	• May 1: outlook changed to positive from stable	• None

Senior Equity Analyst Theodoor Gilissen **Jos Versteeg:**

"Internet has broadened our field of view"

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kpn.com/annualreport/josversteeg

Consolidated Financial Statements

Notes to the Consolidated Statement of Financial Position

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

Borrowings are classified as current liabilities unless KPN has an unconditional right to defer settlement of the liability for at least 12 months after the Statement of Financial Position date.

When bonds are repurchased with the issue of new bonds, the expenses related to the old bonds, including tender premiums, are expensed as incurred unless the new bonds are placed with the same holders and the change in the net present value of the cash flows is less than 10%. In the latter case, these expenses are capitalized and amortized over the term of the new bonds.

This accounting policy also applies to Deferred income and trade and other payables (Note 25).

[23] Provisions for retirement benefit obligations

The provisions for retirement benefit obligations consist of the net defined benefit liability regarding pension plans and early retirement plans which are accounted for as defined benefit plans. These plans are described below.

KPN main pension plan

KPN's main pension plan covers most employees in the Netherlands and is externally funded through 'Stichting Pensioenfonds KPN' ('the fund'). This plan is a Collective Defined Contribution pension plan ('CDC plan'). The CDC plan became effective on January 1, 2015 and is financed as follows:

- KPN's only obligation is to pay to the fund a contribution that is an annual fixed percentage of the pensionable base;
- The contribution level is fixed for a period of five years, commencing on January 1, 2015;
- After this five-year period, the annual contribution will be reassessed based on a fixed and agreed method in which no reflection to past service or the funded status of the fund is included; and
- KPN is released from its obligation to make recovery payments which was applicable under the previous pension plans, and for which a one-off lump-sum cash payment of in total EUR 230 million was paid to the fund in 2014.

The benefits provided under the fund's arrangement are based on the employee's years of service and compensation level. The fund strives to finance an average benefit pay plan. Employees can opt to participate in an individual pension saving scheme. For accruals as of January 1, 2014, the retirement age has been increased from 65 to 67. Indexation of the pension benefits is conditional and cuts in benefits could be applicable depending on the development of the fund's financial position.

The CDC plan 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 and which is for the cost of benefit accrual in the current year. Under the CDC plan, KPN has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods nor is KPN entitled to refunds if the fund has a surplus. All benefits are conditional and cuts in benefits could be applicable in case of an unfavorable development of the financial position of the fund.

Until July 1, 2015, the pension plan of employees who are subject to KPN's collective labor agreement in the Netherlands were externally funded through the fund and the pension plan for senior management with an individual labor agreement through 'Stichting Ondernemingspensioenfonds KPN' ('KPN OPF'). On July 1, 2015, KPN OPF merged into the fund. The pension plans had been fully harmonized after the introduction of the CDC plan, also for senior management, as of January 1, 2015.

Until December 31, 2014, the pension plan for employees who are subject to KPN's collective labor agreement and the pension plan for senior management were both accounted for as defined benefit plans because the premiums KPN had to pay were based on the cost of accrual of pension benefits and a long-term horizon regarding the desired coverage ratio of the pension funds. Furthermore, KPN was required to make recovery payments when the coverage ratio was below approximately 105%. At December 31, 2014, after the lump-sum cash payments of in total EUR 230 million, the pension provision relating to these plans were fully released (plan settlement) because due to the CDC plan becoming effective as of January 1, 2015, all further legal or constructive obligations for all the past benefits accrued were eliminated. In 2014, at the date of approval of the introduction of the CDC plan amendments were recorded of the then existing pension plans which reduced the net defined benefit liability in KPN's Statement of Financial Position, with EUR 467 million. This release was recorded as a reduction of the pension expenses in 2014. Gains or losses at settlement were recorded as remeasurements directly in OCI.

SVG

'Stichting Voorzieningsfonds Getronics' ('SVG') is the administrator of a number of pension plans of (former) employees of KPN Corporate Market BV (formerly Getronics) and related companies in the Netherlands. Retirement benefits are accrued by means of an individual savings account. For accruals as of January 1, 2013, the retirement age has been increased from 65 to 67. The annual accrual of the individual savings accounts is based on a defined contribution plan. At retirement age the accrued capital is converted into defined pension benefits. Indexation of the pension benefits is conditional and cuts in benefits could be applicable depending on SVG's financial position. KPN accounted for these plans as defined benefit because KPN was exposed to certain (limited) risks such as a guaranteed return on investments of the individual savings accounts.

In 2014, the board of the SVG and KPN reached an agreement to abolish the guaranteed return on investments and to transfer the active members to the KPN pension funds as of January 1, 2015. The active members accrue benefits under KPN's CDC plan. As part of the agreement, KPN made a lump-sum payment of EUR 5 million in 2014. These amendments removed KPN's exposure to risks and benefits of the SVG plans, except for the obligation to pay administration expenses to the SVG for participants who are employed by KPN or certain of its previously divested entities. The amount of administration expenses is linked to the value of the individual savings accounts and therefore the SVG plans continue to be accounted for as a defined benefit plan. The release of the pension provision due to these amendments was EUR 10 million which was recorded as a reduction of the pension expenses in 2014. The pension provision remaining for the SVG plans at December 31, 2015, of EUR 16 million is only for KPN's obligation to reimburse the administration expenses. KPN has no other obligation or risks related to these plans.

Getronics UK and US

The Getronics UK operations were divested in 2012. The closed and frozen pension plan of the UK operations remained with KPN and is accounted for as a defined benefit plan. The assets of the plan are held separately from KPN in an independently administered fund. The plan operates under the regulations of the UK Pensions Regulator. The deficit in the plan's funding must be recovered by the investment returns in the plans assets and the monthly contributions by KPN, agreed upon between the pension fund and KPN based on a triennial valuation performed by an independent qualified actuary.

The Getronics US operations were divested in 2008. The closed and frozen pension plan of the US operations remained with KPN and is accounted for as a defined benefit plan. The assets of the plan are held separately from KPN in an independently administered fund. The plan operates under the provisions of Employee Retirement Income Security Act (ERISA). Indexation of accrued benefits is not applicable to this plan. Until the plan is fully funded to 100% of liabilities, US funding rules require minimum quarterly contributions by KPN to recover to a fully funded position. KPN uses the funding relief provided by US law which temporarily reduces the magnitude and volatility of minimum required contributions by valuing the plan's liabilities, for funding purposes, with a discount rate that is based on a corridor around a 25-year average corporate bond yield. The contributions are determined by an independent qualified actuary on the basis of an annual valuation.

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 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 plans in the Netherlands, which are closed to new entrants, and in Belgium. The risks related to these plans are limited because the obligations are insured at external parties. The pension plans of E-Plus have been transferred to Telefónica Deutschland with the sale of E-Plus on October 1, 2014. The expense related to the pension plan in Belgium has been presented as 'result from discontinued operations' and the net defined benefit liability has been presented as part of disposal groups classified as held for sale see Note 19.

KPN also has a number of early retirement plans, all in the Netherlands, which are unfunded. The risks related to these plans are also limited because of their short duration.

Furthermore, with regard to closed and frozen plans which are insured, 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. The risk related to these value transfers is limited and therefore no provision has been recognized for these plans.

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Net defined benefit liability (asset)

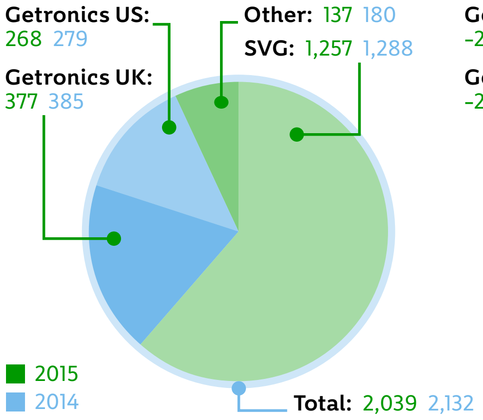
The balance sheet position can be broken down as follows:

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability (asset)	
Amounts in millions of EUR	**2015**	2014	**2015**	2014	**2015**	2014
Balance as of January 1	**2,132**	**9,453**	**-1,816**	**-8,435**	**316**	**1,018**
Included in profit or loss:						
– Operating expense:						
current service costs	2	97	–	–	2	97
past service cost (gain)[1]	–	-477	–	–	–	-477
settlements	–	-8,524	–	8,524	–	–
administration cost	–	–	1	10	1	10
– Interest costs (income)	43	269	-34	-246	9	23
Total	**45**	**-8,635**	**-33**	**8,288**	**12**	**-347**
Included in OCI						
Remeasurements loss (gain):						
– Actuarial loss (gain) arising from:						
demographic assumptions	-9	-3	–	–	-9	-3
financial assumptions	-89	1,609	–	–	-89	1,609
experience adjustment	7	-107	–	–	7	-107
– Return on plan assets excluding interest income	–	–	46	-1,458	46	-1,458
– Effect of movements in exchange rates	55	55	-37	-40	18	15
Total	**-36**	**1,554**	**9**	**-1,498**	**-27**	**56**
Other						
Employer's contribution	–	–	-40	-411	-40	-411
Employees' contribution	–	29	–	-29	–	–
Benefits paid	-86	-269	86	269	–	–
Transferred to held for sale[2]	-15	–	14	–	-1	–
Other	-1	–	–	–	-1	–
Balance as of December 31	**2,039**	**2,132**	**-1,780**	**-1,816**	**259**	**316**

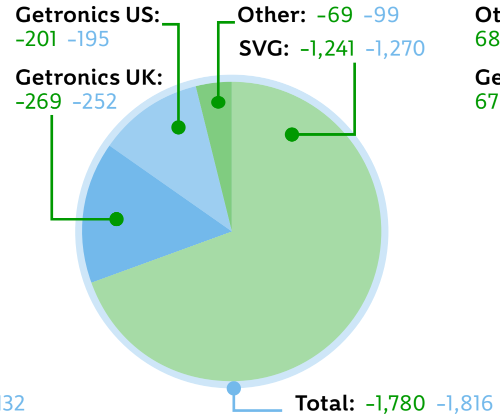
1) In 2014, amendment gains of in total EUR 477 million were recorded. For an explanation, see the description of the pension plans.

2) Includes BASE Company which was classified as 'held for sale' as of April 15, 2015.

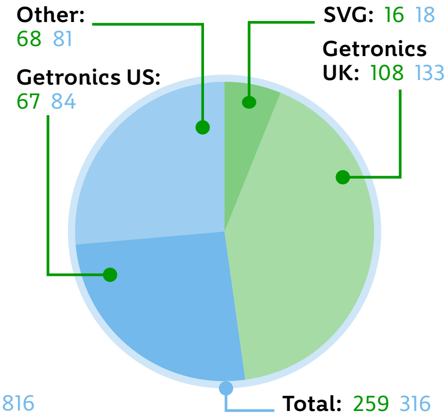
Defined benefit obligation



Fair value of plan assets



Net defined benefit liability (asset)



The measurement date for all defined benefit plans is December 31.

Defined benefit obligations

Actuarial assumptions

The key actuarial assumptions used in the calculation of the defined benefit obligations are as follows:

	December 31, 2015				December 31, 2014			
	SVG	Getronics UK	Getronics US	Other	SVG	Getronics UK	Getronics US	Other
Discount rate (%)	2.5	3.7	4.4	2.6	1.4	3.3	3.2	1.4
Expected salary increases (%)	N.a.	N.a.	N.a.	2.0	N.a.	N.a.	N.a.	2.0
Expected benefit increases/indexation (%)	0.8	2.0–3.0	n/a	0.8	0.5	2.0–3.0	n/a	0.2
Life expectancy for pensioners at the age of 65 (years):								
– Male	22.1	23.0	21.7	22.1	22.0	23.0	21.2	22.2
– Female	23.3	25.0	24.2	23.4	23.2	25.0	23.3	23.4

For the amendment calculation of KPN PF in 2014, a discount rate of 2.2% and expected benefit increases/indexation of 1.0% were used (all other assumptions unchanged compared to December 31, 2013). The discount rate is based on yield curves of AA corporate bonds with maturities equal to the duration of the benefit obligations and in the applicable currency. At December 31, 2015, the (weighted) average duration of the defined benefit obligation was 16 years. Assumptions regarding life expectancy are based on published statistics and mortality tables that include allowances for future improvement in mortality. The mortality table used in the Netherlands is the projected table AG 2014 which includes projected improvement rates varying by year of birth, corrected for fund specific circumstances. For example, the life expectancy at the age of 65 is expected to increase in the next 20 years with approximately 2 years. The mortality table used in the UK is the 93% of SAPS S2P tables CMI 2014 projection with a 1.5% long-term improvement and in the US the RP-2006 with Scale MP-2015.

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 1 year.

	December 31, 2015		December 31, 2014	
Amounts in millions of EUR	Increase	Decrease	Increase	Decrease
Discount rate	-100	108	-62	70
Expected salary increases	–	–	2	-2
Expected benefit increases	60	-59	38	-35
Life expectancy	54	-57	20	-20

The sensitivities in the table above were estimated by actuaries based on the defined benefit obligations per December 31, 2015 and exclude plans in SVG because there is no (net) impact on the net defined benefit liability in KPN's Statement of Financial Position and no associated risk for KPN. If more than one of the assumptions change, the impact would not necessarily be equal to the total impact of changes in those assumptions in isolation.

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Plan assets

The assets of all defined benefit pension plans at December 31, 2015 and 2014 consisted of the following (in millions of EUR):

	December 31, 2015				December 31, 2014			
	Quoted	Unquoted	Total		Quoted	Unquoted	Total	
Equity securities								
– Europe	211	–	211		217	–	217	
– North America	366	–	366		385	–	385	
– Asia	13	–	13		18	–	18	
– South America	119	–	119		101	–	101	
– Other	38	–	38		67	–	67	
– Total	**747**	**–**	**747**	**42%**	**788**	**–**	**788**	**44%**
Fixed Income securities including inflation linked bonds (per Standard & Poor's rating)								
– AAA	206	–	206		124	–	124	
– AA	271	–	271		195	–	195	
– A	124	–	124		156	–	156	
– BBB	118	–	118		89	–	89	
– < BBB	91	–	91		127	–	127	
– no rating	13	–	13		97	–	97	
– Total	**823**	**–**	**823**	**46%**	**788**	**–**	**788**	**44%**
Real estate[1]	**–**	**18**	**18**	**1%**	**–**	**25**	**25**	**1%**
Commodities[2]	**5**	**–**	**5**	**–**	**7**	**–**	**7**	**–**
Derivatives[3]	**–**	**25**	**25**	**2%**	**–**	**43**	**43**	**2%**
Other (including insurance contracts)	**91**	**71**	**162**	**9%**	**54**	**111**	**165**	**9%**
Total	**1,666**	**114**	**1,780**	**100%**	**1,637**	**179**	**1,816**	**100%**

1) At December 31, 2015, and 2014, all investments in real estate were located in Europe.
2) Includes investment funds which invest in financial instruments related to commodities such as energy, agricultural products and precious metals.
3) Includes interest rate swaps, interest rate swaptions and put options on equity securities. Reference is made to the description of the strategic investment policies for an explanation of the use of these financial derivatives.

Strategic investment policies

The strategic investment portfolios at the end of 2015 of the defined benefit plans (before hedging) were as follows:

	SVG	Getronics UK	Getronics US	Other plans (weighted average)
Equity securities	36%	100%	60%	–
Fixed income securities (including inflation linked bonds)	60%	–	40%	–
Real estate	4%	–	–	–
Other	–	–	–	100%
Total	**100%**	**100%**	**100%**	**100%**

The SVG's investment strategy is determined based on an asset-liability management (ALM) study in consultation with investment advisors and within the boundaries given by the regulatory body for pension funds (in the Netherlands, the regulatory body is 'De Nederlandsche Bank'). The SVG uses interest rate swaps to mitigate the interest rate risk on the obligations (on local funding basis). Around 60% of the interest rate risk is effectively hedged. Currency risks on the main foreign currencies are fully hedged for the total portfolio. The risks of a decline in equity prices are not hedged. A decline in the value of the SVG's assets has no risk for KPN as KPN has no other obligation than to reimburse administration expenses related to the SVG plans.

In the UK, a roadmap is in place to shift from investments in equity securities to fixed income securities, when the coverage ratio reaches certain thresholds. In the US, KPN seeks to grow the funded status of the main pension plan to a level of 95% to 100% of the economic value of the plan's liability value in the foreseeable future. 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 2015, the total employer's contributions and benefit payments for all defined benefit and defined contribution plans amounted to EUR 128 million (excluding discontinued operations), consisting of EUR 88 million for defined contribution plans, EUR 16 million for employer's defined benefit premiums and EUR 24 million benefit payments for unfunded plans.

The amount of employer's contributions in 2016 for the remaining defined benefit pension plans is estimated to be EUR 35 million for both funded and unfunded plans. The total amount of employer's premiums to be paid in 2016 for the defined contribution plans is estimated to be EUR 82 million.

Accounting policy: Provisions for retirement benefit obligations

Pension obligations

The liability recognized in the Statement of Financial Position in respect of all pension and early retirement plans that qualify as defined benefit obligation is the present value of the defined benefit obligation at the Statement of Financial Position date less the fair value of plan assets. KPN uses actuarial calculations (projected unit credit method) to measure the obligations and the costs. For the calculation, actuarial assumptions are made about demographic variables (such as employee turnover and mortality) and financial variables (such as future indexation and the discount rate). The discount rate is determined by reference to market rates. These are interest rates of high-quality corporate bonds that are denominated in the currency in which the benefit will be paid and that have terms to maturity, approximating the terms of the related liability.

A net defined benefit asset may arise where a defined benefit plan has been overfunded. KPN recognizes a net defined benefit asset in such a case only when future economic benefits are available to KPN in the form of a reduction in future contributions or a cash refund.

Actuarial gains and losses are recognized immediately in the Statement of OCI.

Past service costs, curtailments and settlements are recognized immediately in the Statement of Profit or Loss.

The amount of pension costs included in operating expenses with respect to defined benefit plans consist of service cost, past service costs, curtailments and settlements and administration costs. Net interest on the net defined benefit liability is presented as part of finance costs.

For pension plans that qualify as a defined contribution plan, KPN recognizes contributions as an expense when an employee has rendered service in exchange for those contributions.

Meteorologist **Melody Sturm:**

"I love chasing a really dangerous storm as it passes over"

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Consolidated Financial Statements

Notes to the Consolidated Statement of Financial Position

[24] Provisions for other liabilities and charges

Amounts in millions of EUR	December 31, 2015	December 31, 2014
Restructuring provision	79	76
Asset retirement obligations	36	67
Other provisions	41	61
Balance	**156**	**204**
– *of which: non-current*	*97*	*136*
– *of which: current*	*59*	*68*

Restructuring provision

The restructuring provision consists of the following components:

Amounts in millions of EUR	2015	2014
Personnel (redundancy obligations)	38	35
Contractual obligations	41	41
Restructuring provision	**79**	**76**

Of the restructuring provision, an amount of EUR 47 million has a term of less than one year (2014: EUR 45 million), EUR 16 million of provisions has a term of between one and five years (2014: EUR 18 million) and EUR 16 million has a term of more than five years (2014: EUR 13 million).

The movements in the restructuring provision are as follows:

	Personnel	Contractual	Total
Balance as of January 1, 2014	**50**	**45**	**95**
– *of which: current portion*	*50*	*10*	*60*
Additions	84	15	99
Releases	-12	-3	-15
Usage	-83	-15	-98
Transferred to held for sale	-4	-1	-5
Balance as of December 31, 2014	**35**	**41**	**76**
– of which: current portion	*35*	*10*	*45*
Additions	89	11	100
Releases	–	-3	-3
Usage	-87	-8	-95
Transferred to held for sale	1	–	1
Balance as of December 31, 2015	**38**	**41**	**79**
– *of which: current portion*	*38*	*9*	*47*

Personnel (redundancy obligations)

During 2015 and 2014, KPN continued to substantially reduce its staff. The restructuring provision relating to FTE reduction amounted to EUR 38 million as at December 31, 2015 (2014: EUR 35 million). A total amount of EUR 89 million (2014: EUR 84 million) is added to the restructuring provision.

Asset retirement obligations

Amounts in millions of EUR	2015	2014
Balance as of January 1	**67**	**66**
Additions	–	1
Usage	-1	-1
Changes in assumptions	4	5
Release	-9	-4
Unwinding of discount and changes in discount rate through profit or loss	–	1
Transferred to held for sale	-25	-1
Balance as of December 31	**36**	**67**
– *of which: current*	*3*	*1*

The asset retirement obligations at December 31, 2015 amounted to EUR 36 million (2014: EUR 67 million), of which EUR 18 million (2014: EUR 17 million) has a term of less than five years. The main assumptions of calculation for the asset retirement obligations relate to the estimated costs of removal, discount rate and estimated period of removal, which vary per type of asset. The discount rate for 2015 is 1.4% (2014: 1.5%).

As defined in the Telecommunications Act, the obligation for landlords to tolerate cables which are part of a public electronic communications network, terminates as soon as those cables have been idle for a continuous period of 10 years. In that situation, a public electronic communications network supplier is required to remove cables on request by a landlord. Due to the fact that the date when the cables will become idle is uncertain and KPN is not able to predict whether and when a landlord will place a request for removal, KPN is not able to make a reliable estimate of the impact and therefore no provision was recognized at December 31, 2015 nor at December 31, 2014.

Other provisions

The movements in other provisions are as follows:

Amounts in millions of EUR	2015	2014
Balance as of January 1	**61**	**122**
Additions	16	32
Usage	-27	-97
Transferred to held for sale	-6	–
Other movements	-3	4
Balance as of December 31	**41**	**61**
– of which: current	*9*	*22*

Other provisions relate to various risks and commitments, claims and litigations (refer to Note 30) and onerous contracts. Of the Other provisions, approximately EUR 9 million had a term of less than one year (2014: EUR 22 million), EUR 8 million had a term of between one and five years (2014: EUR 3 million) and EUR 24 million had a term of more than five years (2014: EUR 36 million).

Accounting policy: Provisions for other liabilities and charges

Provisions for items such as asset retirement obligations, restructuring costs and legal claims are recognized when KPN has a present legal or constructive obligation as a result of past events, and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the Statement of Financial Position date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. KPN recognizes termination benefits when KPN is demonstrably committed either to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after December 31 are discounted to present value.

Other long-term employee obligations

These employee benefits include jubilee or other long-service benefits, long-term disability benefits and, if they are not fully payable within 12 months after the end of the period, bonuses and deferred compensation. The expected costs of these benefits are accrued over the period of employment using an accounting method similar to that for defined benefit pension plans, except that actuarial gains and losses and past-service costs are recognized immediately in the Statement of Profit or Loss.

[25] Deferred income, trade and other payables

Other payables and deferred income (non-current)

Amounts in millions of EUR	December 31, 2015	December 31, 2014
Non-interest-bearing accruals	15	21
Deferred income	32	27
Cash-settled share plans	6	3
Other payables	12	13
Total	**65**	**64**

Deferred income concerns amounts received in advance for deferred connections fees and other revenues that will be recognized in the future.

Trade and other payables (current)

Amounts in millions of EUR	December 31, 2015	December 31, 2014
Trade payables	774	819
Deferred income	247	346
Accrued interest	278	268
Accrued expenses	540	879
Social security and other taxes payable	228	223
Other payables	23	24
Total	**2,090**	**2,559**

Deferred income (current) mainly concerns amounts billed in advance for fixed fees and subscriptions that will be recognized within 12 months.

Accounting policy: Deferred Income, trade and other payables

Other payables and deferred income (non-current) and trade and other payables (current) classify as 'loans and borrowings' within KPN's financial liabilities. For the accounting policy, refer to Note 22.

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[26] Derivative financial instruments

Derivative financial instruments (valued at fair value) can be broken down as follows:

Amounts in millions of EUR	December 31, 2015	December 31, 2014
Assets	**632**	**328**
Non-current	530	328
Current	102	–
Liabilities	**-20**	**-198**
Non-current	-17	-191
Current	-3	-7
Total derivative financial instruments	**612**	**130**
– *of which: designated in a hedge relationship*	*349*	*131*
– *of which: call option Telefónica Deutschland*	*–*	*-3*
– *of which: forward exchange contracts*	*1*	*1*
– *of which: other derivative financial instruments not designated in a hedge relationship*	*262*	*1*

The ineffective portion of the fair value hedges and cash flow hedges during 2015 recognized in the Statement of Profit or Loss resulted in a loss of EUR 9 million (2014: EUR 7 million loss).

KPN reports its derivatives positions on the balance sheet on a gross basis. Part of the derivatives portfolio is subject to master netting agreements that allow netting under certain circumstances. If netting had been applied, the total derivatives asset position would be EUR 612 million and the total derivatives liability position would be zero at December 31, 2015 (asset position of EUR 161 million and liability position of EUR 31 million at December 31, 2014).

Bonds denominated in foreign currency

All bonds denominated in foreign currencies are hedged with cross-currency swaps. The swaps are used to mitigate the exposure on currency risk and interest rate risk. KPN hedged the currency exposure by effectively fixing the counter value in foreign currency to Euro and by hedging the interest rate exposure by swapping the fixed interest rates in foreign currency to fixed rates in Euro. The hedges are until maturity of the underlying senior bonds, or until the first call date in case of the hybrid bonds.

For these hedges, KPN meets the criteria of, and also applies, cash flow hedge accounting. KPN determines the effectiveness of the hedges at inception and on a quarterly basis. KPN uses the cumulative dollar offset method for its cash flow hedges related to cross-currency swaps.

An overview of the cross-currency swaps at December 31, 2015 and December 31, 2014 is presented below (in millions):

Nominal (receive)	Coupon (receive)	Nominal (pay)	Coupon (pay)	Maturity date	Fair value in EUR 2015	Fair value in EUR 2014[1]
GBP 135	5.75%, annual	EUR 158	4.89%, annual	March 18, 2016	26	16
GBP 96	6.0%, annual	EUR 123	4.58%, annual	May 29, 2019	8	1
GBP 400	6.875%, annual	EUR 460	6.78%, annual	March 14, 2020	71	35
USD 600	7.0%, semi-annual	EUR 465	6.34%, semi-annual	March 28, 2023	66	-15
GBP 400	5.0%, annual	EUR 467	5.02%, annual	November 11, 2026	30	-5
GBP 850	5.75%, annual	EUR 971	5.73%, annual	September 17, 2029	103	14
USD 1,000	8.375%, semi-annual	EUR 756	8.56%, semi-annual	October 1, 2030	45	-154
				Total	**349**	**-108**

1) Negative amounts are liabilities.

In November 2014, following the bond tender, KPN settled a cross-currency swap with a notional of GBP 140 million related to the GBP 2016 bond and a cross-currency swap with a notional of GBP 250 million related to the GBP 2019 bond. KPN discontinued cash flow hedge accounting for these two swaps. The remaining outstanding notional of the GBP 2019 bond of GBP 96 million has been fixed with a new swap to a counter value of EUR 123 million with a fixed EUR coupon of approximately 4.58% per annum. KPN applies hedge accounting for this new swap.

Part of KPN's derivatives portfolio contains reset clauses or collateral postings at pre-agreed dates (reference is made to Note 28).

Bonds denominated in EUR

Since 2011, the Eurobonds with maturities on September 21, 2020, October 4, 2021, and September 30, 2024, have been swapped to a floating rate based on three-month Euribor using fixed-to-floating interest swaps. At inception, the first two years have been fixed with a floating-to-fixed interest rate swap. In subsequent quarters, KPN entered into additional forward starting swaps to maintain a horizon of fixed interest rates of at least one year.

In May 2015, KPN changed the interest profile for the bonds that had been swapped to a floating rate. For the bonds in scope, KPN swapped the floating rate exposure to a fixed rate for the remaining maturity of the relevant bond. For the fixed-to-floating interest rate swaps, KPN discontinued fair value hedge accounting in May 2015, with the cumulative gain of EUR 224 million amortized to earnings until maturity of the bonds. KPN decided to discontinue hedge accounting to minimize any volatility in the Statement of Profit or Loss. Until May 2015, KPN determined the effectiveness of these fair value hedges at inception and on a quarterly basis, based on a regression method.

KPN did not apply hedge accounting for its floating-to-fixed swaps, which are held at fair value through profit or loss. Since May 2015, KPN also holds the fixed-to-floating swaps at fair value through profit or loss. During 2015, KPN booked a loss in the Statement of Profit or Loss of EUR 8 million, excluding amortization of discontinued fair value hedges (2014: EUR 1 million loss).

An overview of the interest rate swaps at December 31, 2015 and December 31, 2014 is presented below (in millions).

Nominal	Currency	Maturity date	Pay	Receive	Hedge accounting	Fair value in EUR
2015						
710	EUR	September 21, 2020	Floating	Fixed	None	66
500	EUR	October 4, 2021	Floating	Fixed	None	58
595	EUR	September 30, 2024	Floating	Fixed	None	84
710	EUR	September 21, 2020	Fixed	Floating	None	-9
500	EUR	October 4, 2021	Fixed	Floating	None	-7
595	EUR	September 30, 2024	Fixed	Floating	None	-5
					Total	**187**

Nominal	Currency	Maturity date	Pay	Receive	Hedge accounting	Fair value in EUR
2014						
710	EUR	September 21, 2020	Floating	Fixed	Fair value	75
500	EUR	October 4, 2021	Floating	Fixed	Fair value	66
595	EUR	September 30, 2024	Floating	Fixed	Fair value	97
710	EUR	September 21, 2016	Fixed	Floating	None	-4
500	EUR	October 4, 2016	Fixed	Floating	None	-3
600	EUR	September 30, 2015	Fixed	Floating	None	-3
					Total	**228**

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Reggefiber

As of December 31, 2014, Reggefiber had floating-to-fixed interest rate swaps with a notional of EUR 25 million. These swaps were related to an amortizing floating-rate loan and were held at fair value through profit or loss in KPN's Financial Statements. The swaps were terminated in January 2015 due to the redemption of the loan.

Foreign exchange contracts

The fair value of foreign exchange exposure hedge contracts is determined using market forward exchange rates at the balance sheet date. As of December 31, 2015, the contract volume amounted to EUR 69 million (2014: EUR 114 million), with a fair value of EUR 1 million (2014: EUR 1 million). All foreign exchange contracts had maturities shorter than one year.

For further details on derivative financial instruments, reference is made to Note 28.

Accounting policy: Financial assets at fair value through profit or loss

This category of 'financial assets' has two subcategories: financial assets held for trading and those designated at fair value through profit or loss at inception.

Financial assets held for trading are classified in this category when acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives, including separated embedded derivatives, are classified as held for trading except when they are designated as effective hedge instruments under IAS 39 'Financial Instruments: Recognition and Measurement'.

Financial assets at fair value through profit or loss are recognized in the Statement of Financial Position at their fair value with net changes in the fair value presented as finance costs (in case of negative net changes to the fair value) or finance income (in case of positive net changes to the fair value) in the Statement of Profit or Loss.

Accounting policy: Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value. Subsequently, KPN measures all derivative financial instruments based on fair values derived from market prices of the instruments or valuation techniques such as discounted cash flows. Gains and losses arising from changes in the fair value of the instruments are recognized in the Statement of Profit or Loss as finance cost (in case of negative net changes to the fair value) or finance income (in case of positive net changes to the fair value) during the period in which they arise to the extent that the derivatives have no hedging designation or they are ineffective.

In general, KPN designates derivatives related to loans as either cash flow hedges or fair value hedges. KPN applies hedge accounting as this recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item (borrowings) and/or forecasted transactions.

At the inception of transactions, KPN documents the relationship between the derivative and hedged item (such as the underlying loan), as well as the objective of the risk management and the strategy for undertaking transactions. In the documentation, it is also stated whether the hedge relationship is expected to be effective – at inception and on an ongoing basis – and how the effectiveness is tested.

Changes in the fair value of an effective derivative, which is designated as a fair value hedge and qualifies as such, along with the gain or loss on the hedged item that is attributable to the hedged risk, are recorded in the Statement of Profit or Loss as finance cost (in case of negative changes to the fair value) or finance income (in case of positive net changes to the fair value).

Changes in the fair value of an effective derivative, which is designated as a cash flow hedge and qualifies as such, are recorded in the Statement of OCI for the effective part, until the profit or loss are affected by the variability in cash flows of the designated hedged item. The ineffective part of the cash flow hedge is recognized in the Statement of Profit or Loss as finance cost (in case of negative changes to the fair value) or finance income (in case of positive net changes to the fair value).

If an underlying transaction has ceased to be an effective hedge or in case of early redemption of the hedged item, KPN discontinues hedge accounting prospectively which means that subsequent changes in the fair value are recognized in the Statement of Profit or Loss, under 'finance income' or 'finance costs'. The cumulative amount recorded in the Statement of OCI is released in profit or loss.

The full fair value of the derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the remaining maturity is less than 12 months.

Other Notes to the Consolidated Financial Statements

[27] Net cash flow used in investing and financing activities

Investing activities

Disposal of available-for-sale financial assets in 2015 consists of the proceeds of the successful completion of the accelerated bookbuild offering to institutional investors of 150 million shares in Telefónica Deutschland at a price of EUR 5.37 per share, realizing EUR 805 million of proceeds (see Note 14).

The amount of acquisitions of subsidiaries, associates and joint ventures in the Statement of Cash Flows in 2015 mainly consists of the acquisition of Internedservices Group and in 2014 the acquisition of the remaining 49% of the shares in Reggefiber for a total amount of EUR 771 million less cash acquired of EUR 40 million (refer also to Note 29).

The proceeds from the sale of E-Plus in 2014 of EUR 4,516 million (net of cash transferred) are included in net cash flow from investing activities from discontinued operations (see Note 19).

Loans to associates and joint ventures in 2014, mainly concerned shareholder loans provided to Reggefiber until consolidation as of November 1, 2014.

Other current financial assets investments in 2015 includes short-duration fixed income funds for EUR 225 million and bank deposits with initial maturities of longer than three months for EUR 50 million (2014: EUR 300 million, see Note 17).

Financing activities

On December 1, 2014, KPN redeemed EUR 499 million of loans outstanding at Reggefiber ahead of their stated maturity.

On November 7, 2014, KPN completed a tender offer, in which KPN repurchased an aggregate principal amount of EUR 1,799 million of eight of its Eurobonds with maturities between 2016 and 2024. Including tender premiums and fees, the bonds were repurchased for a total amount of EUR 2,034 million (excluding accrued interest of EUR 52 million). KPN also settled certain interest rate swaps and cross-currency swaps related to the Eurobonds maturing in 2016, 2019, 2020 and 2024, which resulted in a cash inflow of EUR 76 million (including accrued interest of EUR 4 million). The tender was financed with available cash.

Scheduled bond redemptions resulted in net financing cash flows during 2014 and 2015. Reference is made to Note 22 for further details.

School pupil **Madelon van Beek:**

“Games, apps, FaceTime, just a lot”

Watch Madelon’s story:
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Accounting policy: 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 on perpetual hybrid bonds are included in the cash flow from operating activities.

The consideration paid in cash for newly acquired KPN Group companies and associated companies is included in the cash flow from investing activities net of cash acquired. Cash flows resulting from the acquisition or disposal of KPN Group companies are disclosed separately. Investments in property, plant and equipment, which are financed by financial leases, are not included in the cash flow used in investing activities.

[28] Capital and Financial Risk Management

Capital management

Financing policy

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

The table on the next page shows the calculation of KPN’s Net Debt/EBITDA ratio, which is based on numbers including BASE Company. A number of corrections were made to the borrowings in Note 22 in order to arrive at the Net Debt for the Net Debt/EBITDA calculation.

The difference between carrying value and nominal value includes (1) carrying value adjustments resulting from current and discontinued 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.

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Other Notes to the Consolidated Financial Statements

Amounts in millions of EUR	2015	2014
Total borrowings (carrying values, excluding derivatives) [22]	9,700	10,441
Bank overdraft (included in net cash and cash equivalents) [18]	-4	-31
Perpetual hybrid bonds	1,100	1,100
50% equity credit for hybrid bonds	-1,013	-1,013
Cash collateral on derivatives	-56	-100
Difference between carrying value and nominal value	-1,061	-821
Adjusted gross debt	**8,666**	**9,576**
Cash and cash equivalents (including held for sale)	1,579	1,976
Bank overdraft	-4	-31
Net cash and cash equivalents	**1,575**	**1,945**
Short-term investments	575	300
Net Debt	**6,516**	**7,331**
Normalized EBITDA[1]	2,591	2,662
Net Debt/EBITDA	**2.5x**	**2.8x**

1) For 2014, normalized EBITDA differs from adjusted EBITDA for an amount of EUR 89 million relating to Reggefiber.

[..] Bracketed numbers refer to the related Notes.

KPN defines EBITDA as operating result before depreciation and impairments of property, plant and equipment and amortization and impairments of intangible assets. Note that KPN's definition of EBITDA deviates from the literal definition of earnings before interest, taxes, depreciation and amortization and should not be considered in isolation or as a substitute for analyses of the results as reported under IFRS. In the Net Debt/EBITDA ratio, KPN defines Net Debt as the nominal value of interest-bearing financial liabilities excluding derivatives and related collateral, representing the net repayment obligations in EUR, taking into account 50% of the nominal value of the hybrid capital instruments, less net cash and short-term investments, and defines normalized EBITDA as a 12-month rolling total excluding restructuring costs, incidentals and major changes in the composition of the Group (acquisitions and disposals).

Shareholder remuneration

In 2014, KPN recommenced dividend payments and paid a total dividend per share of EUR 0.07 in respect of 2014. KPN intends to pay a dividend per share of EUR 0.08 in respect of 2015 (not including dividends related to the Telefónica Deutschland shareholding). In September 2015, KPN already paid an interim dividend per share of EUR 0.03 in respect of 2015.

In May 2015, KPN received a dividend of EUR 146 million over 2014 from its 20.5% stake in Telefónica Deutschland. KPN distributed this dividend to KPN shareholders in August 2015, as an additional interim cash dividend per share of EUR 0.034. In November 2015, KPN sold 150 million shares in Telefónica Deutschland, realizing EUR 805 million in proceeds. KPN intends to distribute approximately 70% of the proceeds of the transaction to its shareholders in 2016 in the form of a capital repayment.

KPN's shareholder remuneration policy may change and is based on a number of assumptions concerning future events and is subject to uncertainties and risks that are outside KPN's control.

Financial risk management

KPN is exposed to a variety of financial risks. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on KPN's financial position and performance. KPN uses derivative financial instruments to hedge certain risk exposures (see Note 26).

The financial risks are managed by KPN's Treasury department under policies approved by the Board of Management. These policies are established to identify and analyze financial risks faced by KPN, to set appropriate risk limits and controls, and to monitor adherence to those limits. Treasury manages these risks in close cooperation with the Group companies, business operations and other corporate departments. During 2014 and 2015, several Treasury policies were reviewed and approved by the Board of Management. KPN's key Treasury risks are the following:

- Credit and counterparty risk;
- Liquidity risk; and
- Market risk.

In addition, KPN's Treasury department provides cash management and funding services to the Group companies and business operations.

This Note presents information about the Group's exposure to each of the above-mentioned risks, the Group's objectives, policies and processes for measuring and managing risks. Further quantitative disclosures are included throughout these Financial Statements.

The table below summarizes the Group's financial assets and liabilities:

	December 31, 2015		December 31, 2014	
Amounts in millions of EUR	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Fair value through profit or loss:				
Derivatives – non-current [26]	530	530	328	328
Derivatives – current [26]	102	102	–	–
Loans and receivables:				
Non-current receivables from financial leases [15]	2	2	2	2
Loans to associates and joint ventures [13]	20	20	19	19
Trade receivable [15]	378	378	514	514
Other receivables [15]	30	30	36	36
Other current financial assets [17]	575	575	300	300
Cash and cash equivalents [18]	1,446	1,446	1,976	1,976
Subtotal	**3,083**	**3,083**	**3,175**	**3,175**
Available-for-sale financial assets [14]	2,272	2,272	2,713	2,713
Total	**5,355**	**5,355**	**5,888**	**5,888**
Financial liabilities				
Fair value through profit or loss:				
Derivatives – non-current [26]	17	17	191	191
Derivatives – current [26]	3	3	7	7
Subtotal	**20**	**20**	**198**	**198**
Loans and borrowings:				
Borrowings [22]	9,700	10,525	10,441	11,556
Trade payables [25]	774	774	819	819
Other payables and accrued expenses and interest [25]	841	841	1,171	1,171
Subtotal	**11,315**	**12,140**	**12,431**	**13,546**
Total	**11,335**	**12,160**	**12,629**	**13,744**

[..] Bracketed numbers refer to the related Notes.

Privacy Officer **Rence Damming:**

"KPN gives people choice and control in sharing confidential data"

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Other Notes to the Consolidated Financial Statements

The following table presents the Group's financial assets and liabilities that were measured at fair value at December 31, 2015.

Amounts in millions of EUR	Level 1	Level 2	Level 3	Total Balance
Assets				
Financial assets at fair value through profit or loss:				
Derivatives (cross-currency interest rate swap)	–	349	–	349
Derivatives (interest rate swap)	–	207	–	207
Other derivatives	–	1	75	76
Short-duration fixed income funds	225	–	–	225
Available-for-sale financial assets:				
Listed securities	2,259	–	–	2,259
Unlisted securities	–	–	13	13
Total assets	**2,484**	**557**	**88**	**3,129**
Liabilities				
Financial liabilities at fair value through profit or loss:				
Derivatives (interest rate swap)	–	20	–	20
Total liabilities	**–**	**20**	**–**	**20**

The following table presents the Group's financial assets and liabilities that were measured at fair value at December 31, 2014.

Amounts in millions of EUR	Level 1	Level 2	Level 3	Total Balance
Assets				
Financial assets at fair value through profit or loss:				
Derivatives (cross-currency interest rate swap)	–	74	–	74
Derivatives (interest rate swap)	–	238	–	238
Other derivatives	–	1	15	16
Available-for-sale financial assets:				
Listed securities	2,703	–	–	2,703
Unlisted securities	–	–	10	10
Total assets	**2,703**	**313**	**25**	**3,041**
Liabilities				
Financial liabilities at fair value through profit or loss:				
Derivatives (cross-currency interest rate swap)	–	182	–	182
Derivatives (interest rate swap)	–	13	–	13
Other derivatives	–	3	–	3
Total liabilities	**–**	**198**	**–**	**198**

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices. If applicable, these instruments are included in Level 1.

An instrument is included in Level 2 if the financial instrument is not traded in an active market and if the fair value is determined by using valuation techniques based on maximum use of observable market data for all significant inputs. For the derivatives used for hedging purposes, KPN uses the estimated fair value of financial instruments determined by using available market information and appropriate valuation methods, including relevant credit risks. The estimated fair value approximates to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3 and the fair value is estimated using models and other valuation methods. To the extent possible, the assumptions and inputs used take into account market pricing information and expectations. However, such information is by its nature subject to uncertainty. Changes arising as new information becomes available could impact income or other comprehensive income.

For other financial assets and liabilities, the following methods and assumptions were used to determine fair value:

- Eurobonds, Global Bonds and Hybrid Bonds classified as Borrowings: based on the listed price of the bonds;
- Cash, cash equivalents, other current financial assets, accounts receivable and payable, bank overdrafts: as the maturity of these financial instruments is short, the carrying value approximates to fair value.

Listed securities include KPN's shareholding in Telefónica Deutschland (refer to Note 14).

Other derivatives in Level 3 include the option to acquire the remaining stake of 87.5% in GroupIT B.V. (see Note 20 under 'Non-controlling interests'). The value of this option has been estimated based on a Binomial Tree Approach. The main input parameters are the risk-free rate, dividend yield, asset volatility and more importantly the expected volatility and starting value of the asset. The expected volatility was estimated based on observed historical volatility of comparable assets. The starting value of the asset was determined by using the discounted cash flow method. Key assumptions used in the cash flow projections are estimated EBITDA, estimated capital expenditures and the estimated change in working capital, on a stand-alone basis so without synergies. For the valuation at December 31, 2014, the cash flow projections for the first five years were management's best estimate based on the low end of a range of business plan scenarios. At December 31, 2015, the cash flow projections for the first five years were based on the business plan as more data regarding historical growth rates and EBITDA margins was available, thereby reducing uncertainty about the cash flows. A fixed multiple has been applied to the final year cash flows to determine the terminal value. The cash flows were discounted using the internal rate of return specific for that type of asset.

The valuation of available-for-sale unlisted securities is based upon a discounted cash flow model.

Credit and counterparty risk

KPN's financial assets are subject to credit risk and counterparty risk. Credit risk arises from the possibility of asset impairment occurring when counterparties are unable to meet their obligations in transactions involving financial instruments.

KPN has policies with limits for the maximum exposure per counterparty and investment periods, which are primarily based on minimum credit ratings. These policies have been reviewed and updated in 2014 and 2015. It is KPN's policy to invest cash balances with counterparties with a minimum credit rating equivalent to A3 at Moody's. Cash balances used for working capital purposes can also reside at (local) banks with lower credit ratings. Following a policy update in 2014, KPN is allowed to invest excess cash with tenors up to 12 months, subject to certain conditions. Capital preservation is the main priority when investing excess cash.

KPN spreads its cash and cash equivalents balances and derivatives over several counterparties. Separate limits are set for counterparties with limited credit risk such as the Dutch State. At December 31, 2015, KPN only invested in deposits with maturities up to six months, AAA-rated money market funds, repurchase agreements with maturities up to six months and short-duration fixed income funds. The majority of the cash balances at year-end 2015 was invested in institutions with a credit rating equivalent to Baa1 at Moody's or stronger.

It is KPN's policy only to enter into new derivative transactions with counterparties with a minimum credit rating equivalent to A2 at Moody's. KPN has its derivative instruments outstanding with financial institutions that had a credit rating equivalent to Baa1 or higher with Moody's at December 31, 2015.

KPN takes into account credit risk for the valuations of its derivatives portfolio, based on IFRS 13. As at December 31, 2015, KPN recorded a loss of EUR 2 million in the Statement of Profit and Loss, related to interest rate swaps recorded as fair value hedges (2014: loss of EUR 7 million). As at December 31, 2015, and December 31, 2014, KPN recorded no gain or loss in Other Comprehensive Income, related to cross-currency swaps recorded as cash flow hedges.

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During 2015 and 2014, KPN monitored counterparty risk on cash and derivatives on a regular basis, based on counterparty credit ratings and other metrics, including Credit Default Swap (CDS) levels of the counterparties. In addition, KPN monitors concentration risk on investments in money market funds through the percentage of the total fund size owned.

Credit risk on trade receivables is controlled using restrictive policies for customer acceptance. Credit management is focused on mobile services as the credit risk is considered to be the highest within this part of KPN's business. Before accepting certain new customers in this segment, KPN requests credit watchers to provide credit management reports. In addition, KPN keeps track of the payment performance of customers. In case customers fail to meet set criteria, payment issues have to be solved before a new transaction with these customers will be entered into.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large and unrelated customer base. The Board of Management believes there is no additional credit risk provision required in excess of the allowance for doubtful receivables. Receivables relating to integrated, outsourced and managed ICT solutions are monitored on an individual basis. Reference is made to Note 15 for 'Accounting Policies – trade and other receivables'.

Guarantees

The Group's policy is to provide financial guarantees only to wholly owned subsidiaries. As at December 31, 2015, KPN has parent guarantees (based on Article 403, Part 9, Book 2 of the Dutch Civil Code) and bank guarantees outstanding to third parties for various Dutch wholly owned subsidiaries.

On December 31, 2015, KPN's total outstanding bank guarantees amounted to EUR 15 million (2014: EUR 20 million), which were issued in the ordinary course of business.

Maximum exposure to credit risk

As KPN does not provide financial guarantees other than to wholly owned subsidiaries, the carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at reporting date amounts to the total of the financial assets including cash (EUR 5,355million at December 31, 2015 and EUR 5,888 million at December 31, 2014).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations associated with financial instruments as they become due.

The Group's approach to managing liquidity is to ensure sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group. This means that KPN secures its bond redemptions well ahead of their stated maturities. KPN has a EUR 2.0 billion revolving credit facility maturing in 2018 which was undrawn on December 31, 2015, and December 31, 2014.

The table below provides a maturity analysis of the financial liabilities based on the remaining contractual maturities as of December 31, 2015.

	Borrowings				Derivatives		Trade and other payables and accrued expenses	
Amounts in millions of EUR	Bonds and loans[1]	Interest on bonds and loans[2]	Financial lease obligations	Other debt	Derivatives inflow (including interest)	Derivatives outflow (including interest)		Total
2016	829	447	11	98	-492	388	1,337	2,618
2017	750	394	10	–	-296	221	–	1,079
2018	–	358	8	–	-296	221	–	291
2019	881	358	8	–	-428	344	–	1,163
2020	723	294	7	–	-834	675	–	865
2021–2030	4,705	1,775	37	–	-4,871	4,045	–	5,691
2031 and subsequent years	1,146	4	–	–	–	–	–	1,150
Contractual cash flows	**9,034**	**3,630**	**81**	**98**	**-7,217**	**5,894**	**1,337**	**12,857**

1) The GBP and USD hybrid bonds are included with final maturities in 2073 (redemption of EUR 1,096 million). The EUR perpetual hybrid bond is not included as it has no stated maturity date. Please see Note 22 for more information on the hybrid bonds.

2) Interest payments on the GBP and USD hybrid bonds (EUR 76 million per year until the first call date in 2020) 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. For similar reasons, interest payments on the EUR hybrid bond have been excluded as well. Please see Note 22 for more information on the hybrid bonds.

The table below provides a maturity analysis of the financial liabilities based on the remaining contractual maturities as of December 31, 2014.

	Borrowings				Derivatives		Trade and other payables and accrued expenses	
Amounts in millions of EUR	Bonds and loans[1]	Interest on bonds and loans[2]	Financial lease obligations	Other debt	Derivatives inflow (including interest)	Derivatives outflow (including interest)		Total
2015	1,004	476	12	32	-288	231	1,759	3,226
2016	823	435	10	5	-461	382	–	1,194
2017	755	383	8	–	-276	212	–	1,082
2018	5	348	7	–	-276	212	–	296
2019	879	347	7	–	-400	335	–	1,168
2020–2029	4,470	1,869	51	–	-4,377	3,871	–	5,884
2030 and subsequent years	1,882	75	–	–	-893	821	–	1,885
Contractual cash flows	**9,818**	**3,933**	**95**	**37**	**-6,971**	**6,064**	**1,759**	**14,735**

1) The GBP and USD hybrid bonds are included with final maturities in 2073 (redemption of EUR 1,008 million). The EUR perpetual hybrid bond is not included as it has no stated maturity date. Please see Note 22 for more information on the hybrid bonds.

2) Interest payments on the GBP and USD hybrid bonds (EUR 70 million per year until the first call date in 2020) 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. For similar reasons, interest payments on the EUR hybrid bond have been excluded as well.

The undiscounted value of the financial lease obligations amounts to EUR 81 million at December 31, 2015 (2014: EUR 95 million). The financial lease obligations primarily include lease obligations for buildings leased by KPN (see also Note 12) and handsets. Some of these lease arrangements for buildings include an option to extend the lease term.

Part of KPN's derivatives portfolio contains reset clauses or collateral postings at pre-agreed dates, in order to mitigate counterparty exposure during the life of the swap. These reset clauses will result in early Euro settlement obligations in cash with the swap counterparty, which could lead to additional cash inflows or outflows before maturity. During 2015, KPN received collateral of EUR 191 million (2014: paid EUR 94 million), according to pre-agreed settlement schedules. In order to reduce liquidity risks, the reset clauses or collateral postings of these derivatives are spread over different points in time and are not more frequent than annually per swap, except for one counterparty.

With regard to other purchase and capital commitments, reference is made to Note 30.

Available financing sources 2015
As of December 31, 2015, KPN held a net cash and cash equivalents position amounting to EUR 1,575 million, including cash of BASE Company which is classified as held for sale, and short-term investments of EUR 575 million. In principle, net cash and cash equivalents and short-term investments are at disposal to KPN on a group level, except for limited amounts of cash held at local subsidiaries.

In addition to the available cash and cash equivalents and short-term investments, cash flows from operations and cash flows from any further sales of non-core assets, KPN has the following financing resources available:

Multi-currency revolving credit facility
KPN has a EUR 2.0 billion syndicated Revolving Credit Facility with 14 relationship banks and a final maturity in July 2018. The credit facility does not contain any financial covenants.

As of December 31, 2015 and December 31, 2014, KPN had no drawings on its credit facility.

Overdraft facilities
During 2015, KPN had four uncommitted overdraft facilities with four banks amounting to EUR 175 million in total (2014: EUR 200 million). The overdraft facilities may be canceled at any time and do not have a specified maturity date. As of December 31, 2015 and 2014, there were no amounts drawn under any of the overdraft facilities, except for bank overdrafts under cash pool agreements.

Global Medium Term Note Program
KPN updated its Global Medium Term Note ('GMTN') program in March 2015. The program does not contain any commitment from investors to provide funding to KPN. Funding will be available subject to market conditions and other factors at the relevant time.

Capital Resources Covenants
KPN's existing capital resources contain the following covenants as at December 31, 2015, which could trigger additional financial obligations or early redemption of the outstanding indebtedness.

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All of KPN's senior bonds issued after January 1, 2006 (EUR 6.7 billion at December 31, 2015) and the EUR 50 million private placement issued in 2012 contain a change of control clause by means of which KPN may be required to redeem such outstanding bonds early, in the event that (i) certain changes of control occur and (ii) within the change of control period a rating downgrade to sub-investment grade occurs in respect of that change of control. The change of control period ends 90 days after the change of control event occurs.

KPN's hybrid bonds contain a change of control clause by means of which KPN has the option to repurchase the hybrid bonds at par. A 5% interest step-up applies if a rating downgrade occurs during the change of control period in 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.

As of December 31, 2014, one of the subsidiaries of Reggefiber had notes outstanding issued in 2013 with final maturity in 2023, which were subject to financial covenants customary in project financing. These notes were redeemed in 2015. There have been no covenant breaches between issuance and redemption of the notes.

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;
- Interest rate risk; and
- Other market price risk.

KPN has established policies that deal with the use of derivative financial instruments in order to reduce foreign currency exposure and to manage the interest rate profile. KPN's centralized Treasury department matches and manages intercompany and external foreign currency exposures reported by the various business operations and Group companies. Hedges are applied on a full coverage basis, if economically feasible.

In line with these policies, derivative financial instruments are used solely for the purpose of hedging underlying exposures to foreign currency exchange rate risk and interest rate risk. Contracts related to derivative financial instruments are entered into for periods consistent with the underlying exposures (if economically feasible) and do not constitute positions independent of these exposures.

KPN's policy is to apply hedge accounting for derivative financial instruments related to interest rate risk and foreign exchange risk for bonds that are not denominated in Euro. KPN applies hedge accounting for derivative financial instruments related to bonds denominated in Euro if it minimizes expected volatility in the Statement of Profit or Loss provided the criteria are met regarding formal designation and documentation of the hedge relationship, the risk management objective, the strategy for undertaking the hedge and the effectiveness of the hedge. KPN tests effectiveness of the hedge relationship at inception and every quarter. Reference is made to Note 26.

Foreign currency exchange rate risk

The Group's primary activities are denominated in Euro. Accordingly, the Euro is the Company's functional currency, which is also the Group's presentation currency. Items included in the financial information of individual entities in the Group are measured using the individual entity's functional currency, which is the currency of the primary economic environment in which the entity operates.

Currency exchange risk is the risk that the future cash flows will fluctuate because of changes in foreign exchange rates. The risk mainly results from settlement of international telecommunications traffic and purchase of goods and equipment and primarily consists of GBP and USD exposure. Foreign currency exchange rate risks related to bonds that are not denominated in Euro are hedged into EUR in line with KPN's hedging policies.

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

Group companies and business operations are obliged to hedge their firm commitments and highly predictable anticipated transactions in non-functional currencies by forward contracts transacted with KPN's Treasury department. Accordingly, Treasury matches and manages the intercompany and external exposures using forward exchange contracts. KPN does not apply hedge accounting for these hedge instruments.

Reference is made to Note 2 for the accounting policies on foreign currency transactions and Note 8 for the recognized exchange rate differences in the Statement of Profit or Loss.

As of December 31, 2015 approximately 99% of cash and cash equivalents was denominated in the functional currency of the related entities. At December 31, 2015 more than 96% of the net amount of trade receivables and more than 89% of the amount of trade payables was outstanding in the functional currency of the related entities.

As of December 31, 2015, KPN carried out a sensitivity analysis with regard to changes in foreign exchange rates for entities with a functional currency different from Euro. All changes in foreign exchange rates and resulting sensitivities do not have a material impact on the Consolidated Statement of Profit or Loss, or Equity, and do not have any impact on the cash flow statement.

Interest rate risk and interest rate profile

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. Borrowings, derivatives, cash and cash equivalents are subject to interest rate risk. As KPN has a mix of financial instruments bearing a floating or a fixed interest rate, KPN is subject to risk from movements in interest rates. An unfavorable interest rate movement would result in additional financial expenses.

Since 2011, the Eurobonds with maturities on September 21, 2020, October 4, 2021 and September 30, 2024 have been swapped to a floating rate based on three-month Euribor using fixed-to-floating interest swaps. KPN swapped part of the floating rate exposure back to fixed rates, by entering into forward starting swaps to maintain a horizon of fixed interest rates of at least one year. Following the bond tender in November 2014, some of these swaps have been settled. Please refer to Note 26 for further information.

With regard to interest rate risk exposure, KPN periodically evaluates the desired mix of fixed and floating interest rate liabilities. In May 2015, KPN changed the interest profile for the bonds that had been swapped to a floating rate. For the bonds in scope, KPN swapped the floating rate exposure to a fixed rate for the remaining maturity of the relevant bonds.

As of December 31, 2015, all of KPN's interest-bearing gross debt excluding bank overdraft was at fixed interest rates (2014: 100%). Any interest exposure longer than one year is considered to be fixed. With a view to the existing and forecasted debt structure, KPN's Treasury department could enter into additional future derivative instruments to adjust the mix of fixed and floating interest rate liabilities.

Other market price risk

KPN does not enter into commodity contracts other than for its own use to meet the Group's expected usage. KPN has entered into energy contracts for own use with a nominal amount of approximately EUR 26 million at December 31, 2015 (2014: EUR 30 million). Reference is made to Note 30.

Sensitivity analysis

As of December 31, 2015, KPN carried out a sensitivity analysis with regard to interest rate risk on interest-bearing liabilities. With all other variables held constant, each adverse change of 100 basis points in six-month Euribor would hypothetically on balance not result in higher interest costs per annum (2014: none) because all interest-bearing liabilities carried a fixed interest rate.

Cash flow hedges

As of December 31, 2015, KPN carried out a sensitivity analysis with regard to interest rate risk and currency on the cash flow hedges. KPN applies cash flow hedges on all bonds not denominated in Euro. With all other variables held constant, KPN calculated the hypothetical impact of changes in interest rates based on various scenarios. This would hypothetically result in a higher or lower value on the balance of the hedge reserve, which is included in equity attributable to equity holders. In a similar way, KPN calculated the hypothetical impact of changes in the EUR/USD rate and the EUR/GBP rate, holding all other variables constant. The results of the analyses are shown in the table below, indicating the hypothetical impact on the balance of the hedge reserve as at December 31, 2015 and December 31, 2014:

Amounts in millions of EUR[1] (before tax)		GBP		USD		Total	
	Change	2015	2014	2015	2014	2015	2014
Change in interest rate	+2%-point	38	11	14	-38	52	-27
	+1%-point	20	6	8	-19	28	-13
	-1%-point	-22	-7	-11	21	-33	14
	-2%-point	-46	-14	-25	43	-71	29
Change in FX rate	+20%-point	136	144	145	135	281	279
	+10%-point	75	79	79	74	154	153
	-10%-point	-91	-97	-97	-90	-188	-187
	-20%-point	-205	-217	-218	-202	-423	-419

1) Amounts do not correspond to the 2014 Financial Statements and reflect updated methodology.

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Prospective effectiveness testing indicates that all cash flow hedges are expected to be highly effective. As a consequence, the expected impact on the Statement of Profit or Loss is immaterial.

Fair value hedges

KPN carried out a sensitivity analysis with regard to interest rate risk on the fair value hedges. As of December 31, 2014, KPN applied fair value hedge accounting on Euro-denominated bonds that were swapped from a fixed rate to a floating rate. With all other variables held constant, KPN calculated the hypothetical impact of changes in interest rates based on various scenarios. The impact on the Cash Flow Statement and the Statement of Profit or Loss was immaterial, since the hedges were highly effective.

As of December 31, 2015, KPN did not apply fair value hedge accounting anymore. As a result, the hypothetical impact of changes in interest rate would be zero.

Derivatives held at fair value

As of December 31, 2015, KPN carried out a sensitivity analysis with regard to the interest rate swaps for which no hedge accounting is applied. All changes in interest rates and resulting sensitivities have only profit or loss impact and no cash flow impact. The sensitivities are different between 2014 and 2015, because a larger part of the interest rate swap portfolio are treated as financial assets and liabilities at fair through profit or loss value since May 2015.

Impact profit or loss amounts in millions of EUR	Change	**2015**	2014
Changes in EUR interest rates	+2%-point	-13	28
	+1%-point	-7	14
	-1%-point	8	-14
	-2%-point	15	-29

For a sensitivity analysis on interest rate risk with regard to pensions, reference is made to Note 23.

Offsetting financial assets and financial liabilities

(a) Financial assets

The following financial assets of the continuing operations are subject to offsetting, enforceable master netting arrangements and similar agreements:

				Related amounts not set off in the balance sheet		
As at December 31, 2015 Amounts in millions of EUR	Gross amount of recognized financial assets	Gross amounts of recognized financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Financial instruments	Cash collateral received	Net amount
Cash and cash equivalents	1,446	–	1,446	-4	–	1,442
Derivative financial instruments	632	–	632	-20	-147	465
Trade receivables	109	-70	39	–	–	39
Accrued income	61	–	61	–	–	61
Total	**2,248**	**-70**	**2,178**	**-24**	**-147**	**2,007**

As at December 31, 2014 Restated Amounts in millions of EUR	Gross amount of recognized financial assets	Gross amounts of recognized financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amounts not set off in the balance sheet Financial instruments	Cash collateral received	Net amount
Cash and cash equivalents	1,976	–	1,976	-31	–	1,945
Derivative financial instruments	328	–	328	-167	–	161
Trade receivables	118	-79	39	–	–	39
Accrued income	70	–	70	–	–	70
Total	**2,492**	**-79**	**2,413**	**-198**	**–**	**2,215**

(b) Financial liabilities

The following financial liabilities of the continuing operations are subject to offsetting, enforceable master netting arrangements and similar agreements:

As at December 31, 2015 Amounts in millions of EUR	Gross amount of recognized financial liabilities	Gross amounts of recognized financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related amounts not set off in the balance sheet Financial instruments	Cash collateral paid	Net amount
Derivative financial instruments	20	–	20	-20	-56	-56
Trade payables	128	-56	72	–	–	72
Accrued expenses	97	-14	83	–	–	83
Total	**245**	**-70**	**175**	**-20**	**-56**	**99**

As at December 31, 2014 Restated Amounts in millions of EUR	Gross amount of recognized financial liabilities	Gross amounts of recognized financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related amounts not set off in the balance sheet Financial instruments	Cash collateral paid	Net amount
Derivative financial instruments	198	–	198	-168	-100	-70
Trade payables	114	-45	69	–	–	69
Accrued expenses	130	-34	96	–	–	96
Total	**442**	**-79**	**363**	**-168**	**-100**	**95**

For the financial assets and liabilities summarized above, each agreement between KPN and the counterparty allows for net settlement of the relevant financial assets and liabilities when both parties elect to settle on a net basis. If parties choose not to settle on a net basis, the financial assets and liabilities will be settled on a gross basis.

Accounting policy: Offsetting financial assets and liabilities

Financial assets and liabilities are offset and reported on a net basis on KPN's Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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[29] Business combinations and other changes in consolidation

Changes in consolidation in 2015

Internedservices Group

On July 6, 2015, KPN acquired all issued shares of Internedservices Group (IG). IG is one of the largest managed hosting and cloud services providers in the Netherlands. The acquisition fits within KPN's strategy to further strengthen its position in the Dutch cloud computing market. The acquisition of IG enables KPN to expand its managed hosting capabilities and to complement its existing proposition with cloud-based workspace solutions for small- and medium-sized enterprises.

The following table summarizes the fair value of assets acquired and liabilities assumed, the total consideration and the goodwill at the date control over IG was obtained (July 6, 2015):

All amounts in millions of EUR

Recognized amounts of identifiable assets acquired and liabilities assumed	
Intangible assets [11][1]	26
Property, plant and equipment [12]	3
Deferred tax assets	1
Net cash and cash equivalents acquired	–
Trade and other receivables	5
Deferred tax liabilities [9]	-7
Non-current borrowings (including loans from Group companies)	-4
Current borrowings	-5
Trade and other payables and deferred income	-7
Total identifiable net assets	**12**

Consideration	
Purchase consideration paid	65
Fair value of earn-out obligation recognized	10
Total consideration	**75**

Goodwill	**63**

[..] Bracketed numbers refer to the related Notes.
1) Includes a customer base of EUR 25 million.

As part of the purchase agreement, the former shareholders of IG are entitled to an additional cash payment in 2017. This earn-out obligation depends on IG's performance in 2016 and will be settled in cash in 2017. The maximum amount of this earn-out obligation is EUR 50 million. KPN recognized an earn-out obligation of EUR 10 million representing management's best estimate of the earn-out obligation at discounted value. Changes in the earn-out obligation after purchase date (July 6, 2015) are recorded through the Statement of Profit or Loss.

IG has been integrated within KPN's Business Segment. The goodwill arising from this business combination is non-deductible for tax purposes. IG contributes to the net increase of KPN's cloud services customer base and has been allocated to KPN's cash-generating unit Business. The purchase price allocation remains provisional until July 6, 2016 and may be subject to alterations based on additional information about facts and circumstances that existed at July 6, 2015.

Following its consolidation as of July 6, 2015, IG has contributed EUR 13 million to KPN's consolidated revenues and other income and a profit of less than EUR 1 million to KPN's (net) profit attributable to equity holders. Had KPN obtained 100% ownership of IG before January 1, 2015, the KPN's Statement of Profit or Loss in 2015 would have shown pro-forma total revenues and other income of EUR 7,021 million and a pro-forma profit attributable to equity holders of EUR 639 million.

Reggefiber

On January 2, 2014, the option to acquire an additional 9% of the shares in Reggefiber Group BV (Reggefiber) from joint venture partner Reggeborgh was exercised. On October 31, 2014, KPN acquired the additional 9% stake for EUR 161 million, bringing its total ownership to 60%, and obtained control. Therefore, Reggefiber has been consolidated (in full) in the financial statements of KPN as of November 1, 2014.

This acquisition of Reggefiber has been accounted for as a step acquisition. In measuring the goodwill, KPN's 51% stake in Reggefiber was remeasured to fair value as of November 1, 2014 and the corresponding gain of EUR 42 million was recognized in the Statement of Profit or Loss as Other financial results (refer to Note 8) which was partly offset by the release of the related hedge reserve from equity (via OCI) of EUR 7 million. Immediately before the acquisition, the options 2 and 3 were valued at their fair value based on a 100% probability. The step-up for options 2 and 3 compared with their value at January 1, 2014 was EUR 159 million and has been recognized in the Statement of Profit or Loss as Other financial results (refer to Note 8).

On November 18, 2014, KPN reached an agreement with Reggeborgh to acquire the remaining 40% stake in Reggefiber and obtain 100% ownership for EUR 610 million. This resulted in a book gain of EUR 25 million recorded under Other financial results (refer to Note 8). On December 1, 2014, KPN became the 100% shareholder of Reggefiber. No non-controlling interest in Reggefiber's equity or profit or loss was recognized for the period between November 1, 2014 (date of obtaining control) and December 1, 2014 (date of obtaining full ownership).

The following table summarizes the fair value of assets acquired and liabilities assumed, the total consideration and the goodwill at the date control over Reggefiber was obtained (November 1, 2014):

All amounts in millions or EUR

Recognized amounts of identifiable assets acquired and liabilities assumed	
Intangible assets [11][1]	203
Property, plant and equipment [12][2]	1,523
Deferred tax assets	86
Other non-current assets	35
Net cash and cash equivalents acquired	40
Trade and other receivables	37
Non-controlling interest	1
Deferred tax liabilities [9]	-49
Non-current borrowings (including loans from Group companies)	-857
Current borrowings	-522
Derivative financial instruments	-17
Trade and other payables and deferred income	-116
Total identifiable net assets	**364**

Consideration	
Fair value of KPN's 51% stake	330
Price paid for the acquisition of the 9% share (option 2)	161
Discounted value of the exercise price of Reggeborgh's option to sell the remaining 40% share (option 3)	635
Fair value of option 2 and 3 [28]	-493
Total consideration	**633**

Goodwill	**269**

[..] Bracketed numbers refer to the related Notes.
1) Includes customer base for EUR 195 million.
2) Includes fiber network for EUR 1,518 million.

The consolidation of Reggefiber fits perfectly in KPN's hybrid upgraded copper/Fiber-to-the-Home (FttH) strategy and marks another important step to strengthen KPN's commitment to FttH in the Netherlands. This, together with the operational synergies, will provide further support for the execution of KPN's strategy in the Netherlands. Reggefiber will be integrated into KPN's cash-generating unit NetCo. The goodwill arising from this business combination is non-deductible for tax purposes. It is expected to contribute to the net increase of KPN's customer base and has provisionally been allocated to KPN's cash-generating unit NetCo.

The purchase price allocation was finalized without alterations to the initial allocation at November 1, 2015.

Following its consolidation as of November 1, 2014, Reggefiber has contributed EUR 1 million to KPN's consolidated revenues and other income and a profit of EUR 1 million to KPN's (net) loss attributable to equity holders. Had KPN obtained 100% ownership of Reggefiber before January 1, 2014, the KPN Statement of Profit or Loss in 2014 would have shown pro-forma total revenues and other income of EUR 7,414 million and a pro-forma loss attributable to equity holders of EUR 521 million.

Other changes in consolidation

As of April 15, 2015, BASE Company had been presented as disposal group held for sale and discontinued operation (see Note 19). The sale of BASE Company has been completed on February 11, 2016 (see Note 32).

On November 27, 2015, KPN acquired a 100% share in Net Ground BV, a provider of managed servers and services, domain registrations, cloud and webhosting to business customers. This acquisition was not considered material for KPN, therefore disclosures are limited.

On December 19, 2014, KPN acquired a 100% share in mobile virtual network operator MSBN BV and Telenetix BV, which delivers IT services to MSBN BV Furthermore, on August 13, 2014, KPN acquired a 100% stake in hosting provider Argeweb BV These acquisitions are on an aggregate level considered not material for KPN, therefore disclosures are limited.

Consolidated Financial Statements

Other Notes to the Consolidated Financial Statements

Accounting policy: Business combinations
KPN uses the acquisition method of accounting to account for business combinations. The consideration paid is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration paid includes the fair value of any contingent assets or liabilities resulting from the arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their fair values at the acquisition date. When a business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the Statement of Profit or Loss and the equity interest is then considered in the determination of goodwill.

Contingent considerations are recognized at fair value at acquisition date. Subsequent changes to the fair value of contingent considerations deemed to be an asset or liability are recognized in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' in the Statement of Profit or Loss. 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 Statement of Profit or Loss.

[30] Commitments, contingencies and legal proceedings

Commitments

Amounts in millions of EUR	Amounts due by period: Less than 1 year	1–5 years	More than 5 years	Total December 31, 2015	Total December 31, 2014
Capital and purchase commitments	1,086	104	9	1,199	1,895
Rental and operational lease contracts	137	363	230	730	831
Guarantees	20	19	132	171	194
Other	1	–	–	1	1
Total commitments	**1,244**	**486**	**371**	**2,101**	**2,921**

The amounts as at December 31, 2015 are excluding BASE Company. Total commitments of BASE Company as at December 31, 2015 are EUR 177 million. The total commitments of BASE Company as at December 31, 2014 (EUR 226 million) are included in the total amount of EUR 2,921 million.

Capital and purchase commitments
The capital and purchase commitments mainly relate to contractual obligations with regard to network operations and mobile handsets.

Rental and operational lease contracts
For buildings, the majority of contracts included rental fees that are subject to a yearly indexation. Some contracts give KPN an option to buy the property when the landlord wants to sell that property.

For site rentals and mobile towers, the majority of agreements included an option for renewal of the contract and rental fees that are subject to a yearly indexation percentage. In addition, the majority of contracts can be canceled by KPN only, with a notice period of 12 months.

The minimum non-cancelable sublease amounts expected to be received as at December 31, 2015 amount to EUR 11 million and as at December 31, 2014 EUR 4 million (BASE Company: nil for both year ends). These amounts mainly relate to subleases of buildings, site sharing arrangements and lease handsets.

Director Business Operations KPN
Alexander van der Hooft:

"We make sure datacenters always run smoothly"

Watch Alexanders' story:
kpn.com/annualreport/alexandervanderhooft

The total net costs of operating leases and rental contracts amounted to EUR 209 million in 2015 (2014: EUR 235 million) and is included in 'cost of work contracted out and other expenses' and 'other operating expenses' in the Statement of Profit or Loss. The amount related to BASE Company in 2015 is EUR 33 million (2014: EUR 36 million). The operating lease and rental commitments mainly relate to property, plant and equipment.

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 Statement of Financial Position and are depreciated over the asset's useful life. The lease payments received from the lessee are recognized as revenue on a straight-line basis over the lease period.

Payments made by KPN as lessee under operating leases are charged to the Statement of Profit or Loss on a straight-line basis over the period of the lease (net of any incentives received from the lessor). If a sale-and-leaseback transaction results in an operating lease, the profit or loss is calculated using the fair value of the assets sold and recognized in the Statement of Profit or Loss immediately.

Leases where KPN as lessee has assumed substantially all risks and rewards of ownership are classified as finance leases. KPN then recognizes the leased assets on the Statement of Financial Position at the lower of the fair value and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables in the Statement of Financial Position. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term. If a sale-and-leaseback transaction results in a finance lease, any excess of sale proceeds over the carrying amount is deferred and recognized in the Statement of Profit or Loss over the lease term.

In case KPN acts as lessor in a finance lease, the transaction is accounted for as a normal sale and the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is deferred and recognized as interest over the lease term.

Guarantees

These commitments consist of financial obligations of Group companies under certain contracts guaranteed by KPN. A total amount of EUR 157 million relates to parent guarantees (2014: EUR 179 million).

Contingent liabilities

Legal proceedings

KPN is involved in a number of legal 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 proceedings may lead to a legal obligation that may lead to a cash outflow, and recognizes provisions in such cases/matters if and when required. However, the outcome of legal proceedings can however 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 of a strategic than a financial nature, and such impact cannot properly be quantified. Below is a description of legal proceedings or contingent liabilities of such nature that could have a material impact for KPN.

Reggefiber

On October 31, 2014, the ACM approved the acquisition of sole control by KPN. Vodafone appealed the ACM decision at the administrative District Court of Rotterdam. This could result in the confirmation, amendment or annulment of the license from the ACM for the acquisition of sole control by KPN over Reggefiber. There are no precedents where a license has been annulled, but this could eventually result in an obligation on KPN to release control over Reggefiber. KPN is no party in these legal procedures.

E-Plus

On June 5, 2015, 1&1 Telecom GmbH and Airdata AG lodged an appeal against the European Commission as regards its merger control decision on the E-Plus transaction between KPN and Telefónica (dated July 2, 2014) and requested the EU Court of Justice to annul the decision. In both appeals as summarized in the Official Journal of the European Union of August 17, 2015, the applicants argue that the decision contains a wrong assessment of the commitments. As KPN is no party in these legal procedures KPN relies on the available public information.

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 her capacity as officer or director. The indemnification does not apply to claims and expenses reimbursed by insurers, nor to an officer or a director adjudged to be liable for willful misconduct ('opzet') or intentional recklessness ('bewuste roekeloosheid').

Please see Note 24 for a contingent liability related to idle cables and the accounting policy of provisions.

Consolidated Financial Statements

Other Notes to the Consolidated Financial Statements

[31] Related-party transactions

KPN enters into agreements and transactions with shareholders, joint ventures and associated undertakings for various business purposes, including providing services or financing of operating activities. KPN also enters into such transactions in the ordinary course of business with certain companies or organizations over which KPN, members of the Supervisory Board or Board of Management may have a significant influence. These related-party transactions are described below. KPN considers none of these transactions to be material on an individual basis, except for the transactions with shareholders. Transactions between Group companies are not included in the description as these are eliminated in the Consolidated Financial Statements.

Transactions with shareholders

On August 29, 2013, the Foundation Preference Shares B KPN exercised its call option and obtained 4,258,098,272 newly issued preference shares B. These shares reflected an interest in KPN's outstanding shares of 50% minus one share. In compliance with the statutory arrangement, 25% of the nominal value of these shares (EUR 255 million) was paid to KPN in cash. On March 21, 2014, the preference shares B were canceled against repayment of the paid-up amount. For more information about the issue of the preference shares B, see Note 20.

América Móvil, S.A.B. de C.V. ('AMX') published on February 9, 2016, in its fourth quarter 2015 report, that it owned 21.1% of KPN's ordinary share capital at December 31, 2015.

The total value of sales transactions by the continuing operations of KPN in 2015 with AMX, its subsidiaries, joint ventures and associated companies amounted to approximately EUR 4 million (2014: EUR 12 million) and the total value of purchase transactions amounted to approximately EUR 21 million (2014: EUR 35 million). The total trade receivables and payables as of December 31, 2015 amounted to approximately EUR 12 million and EUR 11 million respectively (December 31, 2014: EUR 3 million and EUR 6 million respectively).

Pursuant to the Dutch Financial Supervision Act ('Wet op het financieel toezicht' or 'Wft'), legal entities as well as natural persons must immediately notify the Dutch Authority for the Financial Markets (AFM) when a shareholding equals or exceeds 3% of the issued capital.

On March 21, 2014, Discovery Capital Management, LLC notified that it held 3.77% of the voting rights related to KPN's ordinary share capital. On October 1, 2014, Franklin Mutual Series Fund, Inc. notified that it held 3.63% of the shares and voting rights related to KPN's ordinary share capital. On April 30, 2015, BlackRock, Inc. notified that it held 5.01% of the shares and 5.87% 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 December 31, 2015.

KPN did not enter into agreements with AMX or other shareholders which could have a material impact on KPN's Financial Statements.

Transactions with joint ventures and associated companies

Associated, non-consolidated companies and joint ventures of KPN sell goods and provide services to consolidated KPN companies. In addition, consolidated KPN companies sell goods or provide services to these associated companies and joint ventures (see Notes 13 and 14).

The total value of sales transactions by the continuing operations of KPN with joint ventures and associated companies in 2015 amounted to approximately EUR 24 million (2014: EUR 30 million) and the total value of purchase transactions amounted to approximately EUR 2 million (2014: EUR 147 million). The 2014 numbers include Reggefiber until November 1, 2014. The total trade receivables and payables as of December 31, 2015 amounted to approximately EUR 8 million and EUR 1 million respectively (December 31, 2014: EUR 7 million and nil respectively).

During 2014 KPN acquired the remaining shares in Reggefiber Group BV and obtained 100% ownership (refer to Note 29).

Transactions with directors and related parties

For details of the relation between directors and the Company, reference is made to the 'Remuneration Report' on pages 72 to 79 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 has not been, and is not now, a party to any material transactions, or proposed transactions, in 2015 or 2014 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 2015 with parties in which members of the Supervisory Board or Board of Management or close members of their families had a direct or indirect material interest amounted to approximately EUR 5 million (2014: EUR 14 million) and the total value of purchase transactions amounted to approximately EUR 5 million (2014: EUR 17 million), all in the ordinary course of business. The total trade receivables and payables as of December 31, 2015 amounted to approximately EUR 3 million and EUR 2 million respectively (December 31, 2014: EUR 3 million and less than EUR 1 million respectively).

[32] Subsequent events

Purchase remaining shares GroupIT BV

On January 1, 2016, KPN has decided to exercise its option to buy all remaining shares in GroupIT BV (87.5%). As GroupIT BV was already consolidated in full, the impact on KPN's Consolidated Financial Statements is considered not material.

Sale of BASE Company

Following regulatory approval by the European Commission on February 4, 2016, the sale of BASE Company to Telenet has been completed on February 11, 2016. KPN sold and transferred 100% of its interest in BASE Company to Telenet for a consideration of EUR 1,325 million. The book gain from the disposal of BASE Company that will be recognized in Q1 2016 will be approximately EUR 350 million.

Intention Cisco to acquire Jasper Technologies

On February 3, 2016, Cisco announced its intent to acquire Jasper Technologies Inc. KPN currently holds ~3% of Jasper's share capital (see Note 14) and intends to participate in the transaction, which is expected to close in Q1 or Q2 2016. KPN shall receive pro rata proceeds of the announced USD 1.4 billion transaction consideration, subject to certain closing adjustments.

Ruling Dutch Supreme Court on 'consumer credit'

On February 12, 2016, the Dutch Supreme Court ruled on the consequences of its earlier decision that providing mobile handsets with a postpaid subscription 'for free' or at a reduced price may under circumstances be qualified as providing 'consumer credit'. The Supreme Court concluded that a consumer can in principle annul his agreement with his mobile provider for the part of the agreement that qualifies as consumer credit, if the conditions for providing such credit have not been met. The impact of the ruling on individual contracts is yet to be determined and will depend on various factors, including e.g. the characteristics of the contract, the information provided to the individual customer, the date and duration of contracts and the burden of proof. At this moment no reliable estimate can be made to what extent this may have a financial impact for KPN.

Owner event agency Lemsteraken Sensatie
Frits Strating:

"KPN connects us at home, in a café, on board"

Watch Frits' story:
kpn.com/annualreport/fritsstrating

▶ Corporate Financial Statements

Corporate Statement of Profit or Loss

For the year ended December 31

Amounts in millions of EUR	2015	2014
Income from subsidiaries after taxes	1,264	-14,402
Other income and expense after taxes	-626	13,804
Profit (loss) attributable to equity holders	**638**	**-598**

In 2014, Income from subsidiaries after taxes includes a loss of EUR 14.3 billion, and Other income and expense after taxes a gain of this same amount, due to debt restructurings within KPN Group mainly relating to the sale of E-Plus.

School pupil **Daan Somsen:**

"I added 400 tunes in a month on Spotify. That's a lot"

Watch Daan's story:
kpn.com/annualreport/daansomsen

Corporate Statement of Financial Position

Before appropriation of results

Assets

Amounts in millions of EUR	December 31, 2015	December 31, 2014
NON-CURRENT ASSETS		
Financial fixed assets		
Investments in subsidiaries	31,566	30,170
Other financial fixed assets	3,842	4,355
Total non-current assets [A]	**35,408**	**34,525**
CURRENT ASSETS		
Accounts receivable from subsidiaries	1,325	462
Other receivables and accrued income [B]	250	54
Other current financial assets	602	300
Cash and cash equivalents	1,249	1,693
Total current assets	**3,426**	**2,509**
TOTAL	**38,834**	**37,034**

Corporate Financial Statements

Corporate Statement of Financial Position

Equity and Liabilities

Amounts in millions of EUR	December 31, 2015	December 31, 2014
Subscribed capital stock	171	171
Additional paid-in capital	9,847	9,847
Treasury shares reserve	-132	-138
Hedge reserve	-268	-393
Legal reserves [C]	506	398
Retained earnings [C]	-6,869	-5,803
Equity attributable to holders of perpetual capital securities	1,089	1,089
Profit (loss) current year	638	-598
Total equity attributable to equity holders	**4,982**	**4,573**
PROVISIONS		
Provisions for retirement benefit obligations	67	66
Other provisions	22	35
Total provisions [D]	**89**	**101**
NON-CURRENT LIABILITIES		
Loans [E]	17,048	17,171
Derivative financial instruments	17	186
Other long-term liabilities	201	52
Total non-current liabilities	**17,266**	**17,409**
CURRENT LIABILITIES		
Accounts payable to subsidiaries	15,269	13,421
Derivative financial instruments	3	10
Other current liabilities [F]	942	1,124
Accruals and deferred income	283	396
Total current liabilities	**16,497**	**14,951**
TOTAL	**38,834**	**37,034**

[..] Bracketed letters refer to the Notes to the Corporate Statement of Financial Position.

Exchange student **Mafalda Remoaldo:**

"I solved the problem in less than two weeks on the internet"

Watch Mafalda's story:
kpn.com/annualreport/mafaldaremoaldo

General Notes to the Corporate Financial Statements

With reference to the Corporate Statement of Profit or Loss of Koninklijke KPN N.V., use has been made of the exemption pursuant to Article 402, Part 9, Book 2 of the Dutch Civil Code.

For the principles for the recognition and measurement of assets and liabilities and determination of the result for its Corporate Financial Statements, Koninklijke KPN N.V. applies the option provided in Article 362 sub 8, Part 9, Book 2 of the Dutch Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as 'Accounting policies') of the Corporate Financial Statements of Koninklijke KPN N.V. are the same as those applied for the Consolidated Financial Statements under IFRS. The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS). Reference is made to the Notes to the Consolidated Financial Statements.

Investments in consolidated subsidiaries are measured at net asset value. Net asset value is based on the measurement of assets, provisions and liabilities and determination of profit based on the principles applied in the Consolidated Financial Statements.

Investments in which the Company has significant influence on the financial and operational policies, but not control (associates), are accounted for using the equity method. Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company's share of profit or loss of the investment after the date of acquisition. The Company's investments in associates include goodwill identified on acquisition.

Personal trainer **Bas Markies:**

"People can check our website, or just come over and try it"

Watch Bas' story:
kpn.com/annualreport/basmarkies

▶ Corporate Financial Statements

Notes to the Corporate Statement of Financial Position

[A] Financial fixed assets

Amounts in millions of EUR	Group companies	Loans to Group companies	Other financial fixed assets	Total
Balance as of January 1, 2014	**25,968**	**5,748**	**426**	**32,142**
Exchange rate differences	6	–	–	6
Income from Group companies after taxes	-14,402	–	–	-14,402
Capital contributions	17,430	–	–	17,430
Received/paid dividends	-4	–	–	-4
New loans	–	–	95	95
Acquisition[1]	–	–	2,528	2,528
Fair value adjustment[1]	–	–	163	163
Withdrawals/redemptions	–	-5,748	-1	-5,749
Change in derivative financial instruments	–	–	207	207
Other	1,172	–	937	2,109
Total changes	**4,202**	**-5,748**	**3,929**	**2,383**
Balance as of December 31, 2014	**30,170**	**–**	**4,355**	**34,525**
Exchange rate differences	-2	–	–	-2
Income from Group companies after taxes	1,264	–	–	1,264
Capital contributions	152	–	–	152
Fair value adjustment[1]	–	–	362	362
Decrease due to sale	–	–	-805	-805
Withdrawals/redemptions	–	–	-46	-46
Change in derivative financial instruments	–	–	218	218
Other[2]	-18	–	-242	-260
Total changes	**1,396**	**–**	**-513**	**883**
Balance as of December 31, 2015	**31,566**	**–**	**3,842**	**35,408**

1) The fair value adjustment relates to the stake in Telefónica Deutschland.

2) The amount in line item Other of Financial fixed assets mainly relates to usage in deferred tax assets.

[B] Other receivables

Amounts in millions of EUR	December 31, 2015	December 31, 2014
Accrued income	31	11
Current income tax receivables	216	39
Other receivables	3	4
Total	**250**	**54**

[C] Equity attributable to equity holders

For a breakdown of equity attributable to equity holders, reference is made to the Consolidated Statement of Changes in Group Equity and the Notes thereto.

Legal reserves

Legal reserves (net of tax) are presented below:

Amounts in millions of EUR	Revaluation reserve property, plant and equipment	Cumulative translation adjustments	Capitalized software development costs	Fair value reserve available-for-sale financial assets	Other non-distributable reserves	Total
Balance as of January 1, 2014	**53**	**12**	**134**	**3**	**53**	**255**
Exchange rate differences	–	6	–	–	–	6
Addition/(release) retained earnings	-13	–	28	–	–	15
Other	–	–	–	122	–	122
Balance as of December 31, 2014	**40**	**18**	**162**	**125**	**53**	**398**
Exchange rate differences	–	-2	–	–	–	-2
Addition/(release) retained earnings	-9	–	-16	–	1	-24
Other	–	–	–	134	–	134
Balance as of December 31, 2015	**31**	**16**	**146**	**259**	**54**	**506**

Pursuant to Dutch law, limitations exist relating to the distribution of equity attributable to equity holders. Such limitations relate to the subscribed capital stock of EUR 171 million (2014: EUR 171 million) as well as to legal reserves required by Dutch law as presented above. The total distributable reserves at December 31, 2015 amounted to EUR 4,305 million (2014: EUR 4,004 million). Dutch law also requires that in determining the amount of distribution, the Company's ability to continue to pay its debt must be taken into account, including the EUR perpetual hybrid bonds which are classified as equity under IFRS.

Retained earnings

Movements in retained earnings were as follows:

Amounts in millions of EUR	
Balance as of January 1, 2014	**-5,358**
Loss for the year 2013	-222
Coupon perpetual hybrid bond (net of tax)	-76
Dividend ordinary shares	-85
Actuarial gain/loss pensions and other post-employment plans (net of tax)	-50
Release/addition legal reserves	-15
Other	3
Balance as of December 31, 2014	**-5,803**
Loss for the year 2014	-598
Coupon perpetual hybrid bond (net of tax)	-51
Dividend ordinary shares	-485
Actuarial gain/loss pensions and other post-employment plans (net of tax)	47
Release/addition legal reserves	24
Other	-3
Balance as of December 31, 2015	**-6,869**

Corporate Financial Statements

Notes to the Corporate Statement of Financial Position

Retained earnings can be reconciled with the Consolidated Statement of Financial Position as follows:

Amounts in millions of EUR	December 31, 2015	December 31, 2014
Retained earnings as per Consolidated Statement of Financial Position	**-6,000**	**-6,146**
Revaluation reserve	-31	-40
Capitalized software development costs	-146	-162
Other non-distributable reserves	-54	-53
Profit/(Loss) for the year	-638	598
Retained earnings as per Corporate Statement of Financial Position	**-6,869**	**-5,803**

[D] Provisions

Movements in provisions were as follows:

	Retirement benefit obligations	Other provisions	Total
Balance as of January 1, 2014	**847**	**109**	**956**
Additions/releases to income	-362	7	-355
Additions/releases directly in OCI	-67	–	-67
Usage	-352	-81	-433
Balance as of December 31, 2014	**66**	**35**	**101**
Additions/releases to income	2	2	4
Additions/releases directly in OCI	23	–	23
Usage	-24	-15	-39
Balance as of December 31, 2015	**67**	**22**	**89**

The provisions for retirement benefit obligations at December 31, 2015 relate to early retirement plans. The pension plans for employees who are subject to KPN's collective labor agreement and the pension plans for senior management were transferred into collective defined contribution plans as of January 1, 2015. The provision for these plans were released in 2014. For details, reference is made to Note 23 to the Consolidated Financial Statements. The decrease in 2014 of other provisions mainly relates to usage regarding the KPNQwest legal proceedings and the OT2010 penalty.

[E] Loans

Loans include bonds outstanding for EUR 7,501 million (2014: EUR 8,175 million), hybrid bonds outstanding for EUR 1,088 million (2014: EUR 1,000 million), and loans from subsidiaries for EUR 8,459 million (2014: EUR 7,996 million). EUR 483 million of the loans from subsidiaries have maturity dates in 2016 and bear fixed interest rates (2014: EUR 0 million).

For more information on the bonds outstanding, refer to Note 22 to the Consolidated Financial Statements.

[F] Other current liabilities

Amounts in millions of EUR	December 31, 2015	December 31, 2014
Current portion of loans	829	999
Social security and other taxes payable	109	111
Bank overdrafts	4	14
Total	**942**	**1,124**

[G] Commitments and contingencies

Amounts in millions of EUR	December 31, 2015	December 31, 2014
Commitments by virtue of guarantees	157	179

KPN has issued several declarations of joint and several liabilities for various Group companies in compliance with Section 403, Book 2 of the Dutch Civil Code. These declarations of joint and several liabilities for Group companies are included in a complete list of subsidiaries and participating interests, which is available at the offices of the Chamber of Commerce in The Hague.

Directors' remuneration

Reference is made to Note 5 to the Consolidated Financial Statements on employee benefits.

The Hague, February 24, 2016

Supervisory Board	Board of Management
Duco Sickinghe	Eelco Blok
Peter van Bommel	Jan Kees de Jager
Carlos García Moreno Elizondo	Frank van der Post
Derk Haank	Joost Farwerck
Peter Hartman	
Jolande Sap	
Claudia Zuiderwijk	

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 2015 (consolidated and corporate)	True and fair view
Reports by the Board of Management and the Supervisory Board	No material misstatements to report
Sustainability information 2015:	
– Energy consumption and net CO_2-emissions data	Reliably and appropriately presented (reasonable assurance)
– Sustainability information in selected chapters and appendices	Reliably and appropriately presented (limited assurance)

Main Features Of Our Audit & Review

What we have done	Scope of our work	Materiality	Key audit & assurance matters
Audit of Financial statements 2015 (consolidated and corporate)	The Netherlands Belgium United States of America	EUR 34 million, which represents 1.5% of EBITDA	• Valuation (in)tangible assets, incl. goodwill • Valuation deferred tax assets • Revised internal control framework • Sale of BASE Company N.V./S.A.
Procedures for Reports by the Board of Management and Supervisory Board	Full Reports	Similar materiality as our audit or review scopes	• No areas of specific focus
Audit of energy consumption and net CO_2-emissions 2015 of own operations (scope 1 and 2)	The Netherlands	5%	• No areas of specific focus
Review of sustainability information for 2015 in selected chapters and appendices	Scope varies per country	Specific materiality levels for each element of the sustainability information in scope	• Estimations in scope 3 emissions and energy reductions by customers

Other Information

Combined Independent Auditor's Report

Combined Independent Auditor's Report on the Financial Statements 2015 and sustainability information in KPN's Integrated Annual Report 2015

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 December 31, 2015 and of its result and its cash flows for 2015 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 December 31, 2015 and of its result for 2015 in accordance with Part 9 of Book 2 of the Dutch Civil Code;
  - the energy consumption and net CO_2-emissions data 2015 of own operations in the Netherlands (scope 1 and 2) as presented in the table 'Energy consumption and net CO_2-emissions 2015' on page 49 are, in all material respects, presented reliably and appropriately, in accordance with the Sustainability Reporting Guidelines version G4 of the Global Reporting Initiative (GRI) and the KPN reporting criteria as disclosed on pages 178-184 (Appendix 3 'Scope, reporting process and materiality determination').
- With respect to review procedures performed on the sustainability information in scope[1]; in our opinion,
  - nothing has come to our attention that causes us to believe that the sustainability information for the year ended December 31, 2015, does not provide a reliable and appropriate presentation of KPN's policy for sustainable development, or of KPN's activities, events and performance relating to sustainable development during 2015 in accordance with the Sustainability Reporting Guidelines version G4 of the Global Reporting Initiative (GRI) and the KPN reporting criteria as disclosed on pages 178-184 (Appendix 3 'Scope, reporting process and materiality determination').
- With respect to the Reports by the Board of Management and Supervisory Board; we have no material misstatements to report.
- With respect to the Report by the Board of Management and Other Information; pursuant to legal requirements of Part 9 of Book 2 of the Dutch Civil Code,
  - we have no deficiencies to report as a result of our examination whether the Report by the Board of Management, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, and whether the required Other Information has been annexed;
  - we report that the Report by the Board of Management, to the extent we can assess, is consistent with the Financial Statements.

1) Refer to Appendix 3 'Scope, reporting process and materiality determination' on pages 178-184 for a description of the sustainability information in scope for our assurance engagement.

Basis for our conclusions

We conducted our assurance engagements in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section: 'Our responsibilities' in this report.

We are independent of KPN in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO)' and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants (VGBA)'.

We were engaged by the shareholders of KPN as auditor of Koninklijke KPN N.V. on April 9, 2014, for the year ended December 31, 2015.

We believe the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Our scope

Our engagements scope

The Integrated Annual Report 2015 (hereafter: the Report) of KPN consists of the Reports by the Board of Management and Supervisory Board, the Financial Statements, and Other Information 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 2015. 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 December 31, 2015;
  - The Consolidated Statements of Profit or Loss, Other Comprehensive Income, Cash Flows and Changes in Group Equity for 2015;
  - 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 December 31, 2015;
  - The Corporate Statement of Profit or Loss for 2015;
  - The Notes comprising a summary of the significant accounting policies and other explanatory information.
- The Report by the Board of Management and the Other Information annexed to the Financial Statements pursuant to the legal requirements of Part 9 of Book 2 of the Dutch Civil Code concerning our obligation to report about the Report by the Management Board and Other Information.

- The other information contained in the Report by the Board of Management and the Report by the Supervisory Board as for our review in our capacity as auditor of KPN and with the knowledge that we have as auditor to conclude whether the information would not be appropriate or obviously incorrect.
- The sustainability information that consists of:
  - The energy consumption and the net CO_2-emissions of own operations in the Netherlands (scope 1 and 2) as presented in the table 'Energy consumption and net CO_2-emissions 2015' on page 49 (reasonable assurance);
  - The sustainability information in the chapters and appendices in scope for our review as described in Appendix 3 'Scope, reporting process and materiality determination' (limited assurance).

Limitations in our engagements scope

The Reports by the Board of Management and Supervisory Board as well as the sustainability information in the Report contain prospective information, such as ambitions, strategy, targets, expectations and projections. Inherent to this information is that actual future results may be different from the prospective information and therefore it may be uncertain. We do not provide any assurance on the assumptions and feasibility of this prospective information.

Further, the references in the Reports by the Board of Management and Supervisory Board and the sustainability information in the Report (www.kpn.nl, external websites, interviews and movies on KPN's website and other documents) are outside the scope of our assurance engagements.

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 Belgium and 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 Mobile', 'Consumer Residential', 'Business' and 'Netco' as well as the segments 'Belgium' (Belgium) and '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 segments in Belgium and the United States of America we thereby 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 at those locations to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole. The group engagement team has visited all component teams.

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 purchase price allocation, taxation, fixed assets and goodwill impairment testing, 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, Reports by the Board of Management and Supervisory Board and Other Information annexed to the Financial Statements:	Part 9 of Book 2 of the Dutch Civil Code.
Sustainability information including the energy consumption and net CO_2-emissions data:	Sustainability Reporting Guidelines version G4 ('comprehensive' option) of the Global Reporting Initiative (GRI) and the reporting criteria developed by KPN as disclosed on pages 178-184 Appendix 3 'Scope, reporting process and materiality determination'.

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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 the selected chapters including the scope 1 and 2 energy consumption and net CO_2-emissions data of own operations in the Netherlands 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 34,000,000
Benchmark used	1.5% 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 whereas EBITDA was more stable. 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 benchmark for KPN to base our materiality upon. The materiality is thereby set at EUR 34,000,000, using a percentage of 1.5%, which is at the lower end of a generally accepted range.

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 1.7 million, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

At December 31, 2015, there were no remaining audit differences to be booked.

Sustainability information

For the assurance procedures concerning the sustainability information in scope as a whole and for each KPI and disclosure we have considered the factors that influence their relevance and accuracy for the intended users of the Report. Based on our professional judgment, we determined the materiality for the identified key performance indicators at 5%. For the energy consumption and net CO_2-emissions of own operations in the Netherlands (scope 1 and 2) we have determined the materiality also at 5%. We compared the qualitative disclosures at overall level with the quality principles of the Sustainability Reporting Guidelines G4 ('comprehensive' option) of the Global Reporting Initiative (GRI), which concern aspects such as balanced representation, timeliness and consistency of the Report.

Reports by the Board of Management and Supervisory Board

With respect to the materiality applied to our review procedures of the Reports by the Board of Management and Supervisory Board in our capacity as auditor of KPN and with the knowledge that we have as auditor to conclude whether the information would not be appropriate or obviously incorrect;

- where the aforementioned reports contain 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;
- for the other information in the aforementioned Reports our assessment for materiality was based on findings that could influence the decisions of the intended 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.

For the audit of the Financial Statements we identified the following key audit matters:

Key audit matter	How our audit addressed the matter
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. On assets with finite lives an impairment test has to be performed if indications of impairment exist. There were a couple of triggering events identified, for example in the area of trade names and software that required impairment testing and for which minor impairments were recorded. KPN involved an external valuation expert to assist them in the valuation process.	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 conditions. Our audit procedures included, among others, using EY valuation experts to assist us in verifying the assumptions and methodologies used by KPN and the external valuation expert. 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 referred to in Note 11 of the Consolidated Financial Statements.
Valuation of deferred tax assets	
At December 31, 2015, the deferred tax assets are valued at EUR 1.1 billion, related disclosures and accounting policies are included in Note 9 of the Consolidated Financial Statements. 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. The main element in the deferred tax assets is related to the discontinuance of the German activities. Based on an agreement with the Dutch tax authorities, the loss on the sale of E-Plus ('stakingsverlies' and future liquidation loss) can be off-set against future taxable profits in the Netherlands.	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 KPN. This entailed reviewing KPN's latest approved strategic business plan. We discussed the business plan with management to determine the reasonableness of the assumptions used regarding the recoverability of the deferred tax assets and assessed the plan's assumptions and sensitivities. See Note 9.

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Key audit matter	How our audit addressed the matter
A systems based audit, making use of the revised internal control framework, including IT, amongst other to audit revenues and tangible fixed assets	
In 2014, KPN undertook a rationalization of its internal control framework and has substantially completed this in 2015. This rationalization included a change to a more top-down and risk based approach resulting in more focus on detective review controls (i.e. analytical monitoring controls). IT has been an important element to the identified key processes, as most processes are highly automated. Where appropriate, key controls have been automated. KPN's Risk & Compliance and Audit departments are heavily involved in test and review to assess the design and effectiveness of the framework. This framework supports the in-control statement provided by the Board of Management. Controls that did not (yet) function as designed throughout 2015, for example in some parts of the Business segment, have been replaced by compensating control procedures.	For our purpose of expressing an opinion on the true and fair view of the financial statements, including auditing the completeness of revenues, it is important that KPN has an effective internal control framework that is properly documented, reviewed and tested. KPN Audit provided quality assurance on this framework. As part of our external audit procedures, we have reviewed and tested KPN's revised internal control framework, including (compensating) controls and/or substantive procedures. We also reviewed and partly retested the work of KPN's Risk & Compliance and Audit departments in accordance with applicable (international) auditing standards. The revision of the internal control framework and the internal testing activities conducted by KPN have proven instrumental to facilitate our audit, in particular that of the revenue streams and tangible fixed assets, which are both supported by IT. It has also allowed us to apply a system based audit in an effective and efficient manner.
Sale of BASE Company N.V./S.A.	
On April 20, 2015, KPN announced it had reached an agreement to sell BASE Company to Telenet. EU approval was obtained on February 4, 2016 and the transaction was completed on February 11, 2016. BASE Company has been presented as 'held for sale' and has been presented as discontinued operations as of April 15, 2015 as management has always been of the opinion that it was highly probable the transaction would materialize. This is further explained in Note 19 to the Consolidated Financial Statements.	Our audit included assessing the transaction and its documentation and determining if the classification as discontinued operations is appropriate and in line with applicable accounting standards. In our audit procedures, we also reviewed that the result for the year 2015 and the expected proceeds at completion date have been accounted for in accordance with the share and purchase agreement.

For the assurance procedures concerning the sustainability information in scope, we identified the following key assurance matter:

Key assurance matter	How our assurance procedures addressed the matter
Estimations in Scope 3 emissions and energy reduction by customers	
Inherent to the nature of scope 3 emissions, KPN uses estimates and underlying assumptions to determine the indirect emissions in its value chain. As of 2014, KPN started reporting on the estimated reduced energy consumption by KPN's customers through the use of its products and services. KPN implemented a model to estimate the positive impact of its products and services, while taking potential negative impacts into account.	Our review procedures focused on understanding the model used and assessing the mathematical accuracy of the calculations applied and validated the assumptions with underlying sources.

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 Report by the Board of Management in accordance with 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 Sustainability Reporting Guidelines (version G4) of the Global Reporting Initiative and the reporting criteria of KPN, including the identification of stakeholders and the selection of material topics. The choices made by management in respect of the scope of the Report and the reporting criteria are set out in Appendix 3 'Scope, reporting process and materiality determination'.

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 errors and fraud. The assurance procedures performed in obtaining limited assurance are aimed on the plausibility of information which does not require exhaustive gathering of evidence as in engagements focused on reasonable assurance. The performed procedures consisted primarily of making inquiries of management and others within the entity, as appropriate, applying analytical procedures and evaluating the evidence obtained. Consequently a review engagement provides less assurance than an audit.

The Hague, February 24, 2016

Ernst & Young Accountants LLP

Signed by G.A.M. Aarnink

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 engagement, 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 an 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 main procedures to obtain limited assurance about the sustainability information as described in Appendix 3 'Scope, reporting process and materiality determination' included the following:

- Performing an external environment analysis and obtaining an understanding of the sector, relevant social issues, relevant laws and regulations and the characteristics of the organization.
- Evaluating the acceptability of the reporting policies and their consistent application, such as assessment of the outcomes of the stakeholder dialogue and the process for determining material topics, the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the sustainability information.
- Evaluating the design and implementation of the systems and processes for data gathering and processing of information as presented in the Report.
- Interviews with management and relevant staff at corporate and local levels responsible for the sustainability strategy and policies.
- Interviews with relevant staff responsible for providing the information in the Report, carrying out internal control procedures on the data and the consolidation of the data in the Report.
- Review of source data and the design and implementation of controls and validation procedures at local level.
- Evaluating internal and external documentation, in addition to interviews, to determine whether the information in the Report is adequately substantiated.
- Performing analytical review of the data and trend explanations submitted for consolidation at group level.
- Assessing the consistency of the sustainability information and the information in the Report not in scope for our assurance engagements.
- Assessing whether the sustainability information has been prepared 'in accordance' with the Sustainability Reporting Guidelines version G4 of GRI ('comprehensive' option).

In addition to the procedures mentioned above, for the energy consumption and net CO_2-emissions data of own operations in the Netherlands (scope 1 and 2) we performed the following to obtain reasonable assurance:

- Assessing the systems and processes for data gathering, including testing the design, existence and the operating effectiveness of the relevant internal controls during the reporting year.
- Conducting analytical procedures and substantive testing procedures on the relevant data.
- Assessing the processing of other information, such as the aggregation process of data into the information as presented in the sustainability information.
- Investigating internal and external documentation to determine whether the sustainability information in the Report is reliable.

We have read the Reports by the Board of Management and Supervisory Board in connection with our audit of the Financial Statements. Our responsibility is to read these reports and, in doing so, consider whether these reports are materially consistent with the Financial Statements and our knowledge obtained in the audit or otherwise do not appear to be materially misstated.

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.

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 audit of the energy consumption and net CO_2-emissions of own operations in the Netherlands (scope 1 and 2) of the current period and are therefore the key assurance matters. We describe these matters in our combined Independent Auditor’s Report and assurance report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Other Information

Legal structure

The following table sets out the name and jurisdiction of incorporation of, and our direct ownership and voting interest (if different) in, our principal operating subsidiaries and other principal interests as of December 31, 2015.

Name of subsidiaries and other principal interests	Country of incorporation	Percentage ownership/voting interest
KPN BV:	The Netherlands	100.0
– KPN EuroRings BV	The Netherlands	100.0
– XS4ALL Internet BV	The Netherlands	100.0
– iBasis Inc.	US	100.0
– Telfort Zakelijk BV	The Netherlands	100.0
– Reggefiber Group BV	The Netherlands	100.0
KPN Mobile NV:	The Netherlands	100.0
– KPN Mobile International BV	The Netherlands	100.0
– BASE Company NV	Belgium	100.0
Getronics NV:	The Netherlands	100.0
– KPN Corporate Market BV	The Netherlands	100.0
– Getronics Finance Holdings BV	The Netherlands	100.0
Telefónica Deutschland Holding AG	Germany	15.5

Proposed appropriation of result

On outstanding Class B preferred shares, a dividend is paid out equal to the average of the 12-month Euribor increased by 1%. If the 12-month Euribor is no longer determined, the dividend on preference shares will be calculated based on the yield on State loans (article 35 sub 1, Articles of Association). Subsequently, subject to the approval of the Supervisory Board, the Board of Management will determine what proportion of net income remaining after payment of the dividend on any Class B preferred shares will be appropriated to the reserves (article 35 sub 2, Articles of Association). The part of the profit remaining after the appropriation to the reserves shall be at the disposal of the General Meeting (article 35 sub 3, Articles of Association). The Board of Management, with the approval of the Supervisory Board, may also appropriate the complete profit to the reserves.

On February 24, 2016, the Board of Management, with approval of the Supervisory Board, has allocated the profit of EUR 638 million to the Other reserves. In September 2015, an interim dividend of EUR 0.03 was paid to all holders of ordinary shares, amounting to a total of EUR 128 million (including dividend tax). The Board of Management, with the approval of the Supervisory Board, will propose to the AGM to pay a final dividend of EUR 0.05 in respect of 2015.

In addition, the received dividend over 2014 of EUR 146 million on KPN's shareholding in Telefónica Deutschland Holding AG, was distributed in August 2015, as an additional interim cash dividend of EUR 0.034 per share.

The total dividend in respect of 2015, including the additional interim cash dividend, will then amount to EUR 0.114 per ordinary share.

In 2014, an interim dividend of EUR 0.02 was paid to holders of ordinary shares and in 2015 a final dividend in respect of 2014 of EUR 0.05 was paid.

Subsequent events

Reference is made to Note 32.

▶ Appendices

Appendix 1. Analysis of adjusted results YTD 2015

The following table shows the key items between reported and adjusted revenues. BASE Company continues to be included in KPN's segment reporting until the sale is completed.

Revenues and other income

Amounts in millions of EUR	FY 2015 reported	Incidentals	FY 2015 adjusted	FY 2014 reported	Incidentals	FY 2014 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Consumer Mobile	1,461	–	1,461	1,407	–	1,407	3.8%	3.8%
Consumer Residential	1,938	–	1,938	1,916	–	1,916	1.1%	1.1%
Business	2,659	-10	2,669	2,920	10	2,910	-8.9%	-8.3%
NetCo	2,186	–	2,186	2,262	17	2,245	-3.4%	-2.6%
Other	-2,068	–	-2,068	-2,050	30	-2,080	0.9%	-0.6%
The Netherlands	**6,176**	**-10**	**6,186**	**6,455**	**57**	**6,398**	**-4.3%**	**-3.3%**
iBasis	920	–	920	948	–	948	-3.0%	-3.0%
Belgium (discontinued operations)	748	66	682	711	2	709	5.2%	-3.8%
Other activities	37	–	37	186	–	186	-80%	-80%
Intercompany revenues	-157	–	-157	-217	–	-217	-28%	-28%
KPN Group	**7,724**	**56**	**7,668**	**8,083**	**59**	**8,024**	**-4.4%**	**-4.4%**
Of which discontinued operations	*716*	*66*	*650*	*674*	*2*	*672*	*6.1%*	*-3.3%*
KPN Group continuing operations	**7,008**	**-10**	**7,018**	**7,409**	**57**	**7,352**	**-5.4%**	**-4.5%**

The following table specifies the revenue incidentals in more detail.

Revenue incidentals

Amounts in millions of EUR	Segment	FY 2015	FY 2014
Change in revenue related provision	Business	-4	–
Adjustment deferred revenues	Business	-6	5
Sale of fixed assets (hardware)	Business	–	5
Change in provision	NetCo	–	17
Tax settlement related to 2013	Other (the Netherlands)	–	30
Settlement claim	Belgium	66	–
Phase out SNOW	Belgium	–	2
KPN Group		**56**	**59**
Of which discontinued operations		*66*	*2*
KPN Group continuing operations		**-10**	**57**

The following table shows the key items between reported and adjusted EBITDA.

EBITDA

Amounts in millions of EUR	FY 2015 reported	Incidentals	Restructuring	FY 2015 adjusted	FY 2014 reported	Incidentals	Restructuring	FY 2014 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Consumer Mobile	272	–	-10	282	191	–	-1	192	42%	47%
Consumer Residential	415	–	-4	419	404	–	-8	412	2.7%	1.7%
Business	439	-11	-39	489	590	10	-26	606	-26%	-19%
NetCo	1,283	6	-14	1,291	1,241	17	-4	1,228	3.4%	5.1%
Other	-42	–	-8	-34	24	30	-15	9	n.m.	n.m.
The Netherlands	**2,367**	**-5**	**-75**	**2,447**	**2,450**	**57**	**-54**	**2,447**	**-3.4%**	**0.0%**
iBasis	23	–	–	23	23	–	–	23	0.0%	0.0%
Belgium (discontinued operations)	262	93	-1	170	149	-3	-4	156	76%	9.0%
Other activities	-64	10	-25	-49	393	472	-26	-53	n.m.	-7.5%
KPN Group	**2,588**	**98**	**-101**	**2,591**	**3,015**	**526**	**-84**	**2,573**	**-14%**	**0.7%**
Of which discontinued operations	*264*	*93*	*-1*	*172*	*149*	*-3*	*-4*	*156*	*77%*	*10%*
KPN Group continuing operations	**2,324**	**5**	**-100**	**2,419**	**2,866**	**529**	**-80**	**2,417**	**-19%**	**0.1%**

The following table specifies the EBITDA incidentals in more detail.

EBITDA incidentals

Amounts in millions of EUR	Segment	FY 2015	FY 2014
Change in revenue related provision	Business	-4	–
Adjustment deferred revenues	Business	-7	5
Sale of fixed assets (hardware)	Business	–	5
Release of asset retirement obligation	NetCo	6	–
Change in provisions	NetCo	–	17
Tax settlement related to 2013	Other (The Netherlands)	–	30
Settlement claim	Belgium	66	–
Release tax accruals	Belgium	27	–
Phase out SNOW	Belgium	–	-3
Change in provision	Other activities	10	–
Release of pension provision	Other activities	–	477
Book loss related to asset held for sale classification SNT Deutschland	Other activities	–	-5
KPN Group		**98**	**526**
Of which discontinued operations		*93*	*-3*
KPN Group continuing operations		**5**	**529**

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Appendix 2. Overview of CSR targets and achievements

Theme/KPI	Target 2015	Result 2015
Transparent and reliable service provider		
NPS the Netherlands	3	3
NPS Consumer Mobile	7	9
NPS Consumer Residential	7	9
NPS Business Market	-6	-10
Weighted downtime reduction	-30%	-61%
Best in class networks		
% of the Netherlands that agree that KPN has the best ICT Infra	60%	Retail customers: 55% best fixed network, 50% best mobile network Business: 79% best fixed network and 71% best mobile network
#/% of households with possibility for more than 100Mb connection[1]	> 5.6 million	5.2 million / 68%
Healthcare of the Future		
# of elderly facilitated to live independently	n/a	n/a
# of ill people facilitated with self-measurement	n/a	n/a
#/% of chronically ill children provided with a KPN Klasgenoot[1]	1,250	837
The New Way of Living & Working		
% of KPN employees in the Netherlands who feel they can work in line with The New Way of Living & Working	90%	80%
Growth in the Netherlands of the use of services that make The New Way of Living & Working possible	40% compared with 2014	39% compared with 2014
Energy efficient		
Energy savings by customers as % of KPN Group's own use (energy reduction effect of KPN products/services for customers)	More products calculated to realize 10% more savings compared with 2014	73%
Circular operations and services	n/a	First steps towards circular operations (cradle to cradle)
% reduction of energy consumption KPN Group compared with 2010	17%	18%
Privacy & Security		
% of Dutch people that believe their data is safe with KPN	70%	73%
#/% customers opted-in for using their traffic data for commercial, operational and customer service goals [1)]	300,000	330,851
Our people		
Overall % of women at KPN in the Netherlands	30%	25%
Employee survey score on Engagement and Sustainable employability (Fit for the Future)	1) Overall engagement: 70% 2) Working environment: 61% 3) Strategy & Leadership: 41%	1) Overall engagement: 77% 2) Working environment: 59% 3) Strategy & Leadership: 51%
Sustainable employability: % of employees with a new job < 1 year after leaving KPN	80%	83%
Suppliers		
% realized improvements on corrective action plans	30%	58%

1) From 2016, KPI will change to % instead of #

Result 2014	Result 2013	Target 2016	Target 2017 and beyond
-3	-10	8	
2	-6	12	
2	-5	12	
-13	-18	0	
n/a	n/a	-30%	
Retail customers: 55% best fixed network, 50% best mobile network Business: 74% best fixed network and 68% best mobile network	Retail customers: 55% best fixed network, 50% best mobile network Business: 64% best fixed network, 58% best mobile network	60%	
4 million	n/a	85%	
n/a	n/a	14,000	
n/a	n/a	14,000	
540	192	100%	
78%	74%	90%	
43% compared with 2013	5% compared with 2012	25% compared with 2015	
65%	CO_2 saving calculated for 8 services in NL	80%	100% in 2020
n/a	n/a	Formulate 0-situation and define smart targets	100% circular operations and services in 2025
17%	13%	19%	25% in 2020
69%	69%	71%	
156,677	n/a	18% of installed base	
24%	24%	30%	
Engagement: 70% Sustainable employability: 56%	Engagement: 63% Vitality: 56%	Engagement > 75% Sustainable employability/ Fit for the future: > 65%	
~80%	n/a	82%	
n/a	n/a	50%	

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Appendix 3. Scope, reporting process and materiality determination

Scope sustainability information

The purpose of the sustainability information in our Integrated Report (including the GRI index and social and environmental figures appendices as published on our website), covering the calendar year 2015, is to inform our stakeholders about our role in society, in connection with our main strategic objectives and targets. We regard as stakeholders all people and organizations affected by our operations or with whom we maintain a relationship, such as customers, employees, shareholders, banks, suppliers, journalists, partners and social organizations.

The scope of the sustainability information in this report, GRI index and social and environmental figures (appendices) covers the KPN Group including subsidiaries in which KPN has a majority shareholding. The scope has not changed compared with last years report. Unless stated otherwise, references to KPN should be read as referring to the KPN Group. In this report (including the GRI index and social and environmental appendices published on our website), KPN the Netherlands refers to all the activities of the KPN Group in the Netherlands. Outside the Netherlands, our 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 (page 82 to 155).

This report specifically reviews developments and performance in 2015 and is based on topics identified as highly material for KPN. Aspects of a more static nature (such as our management approaches to our CSR themes and our stakeholders) or with less reporting priority (such as our impact on biodiversity and the list of external memberships) are included in the GRI index (www.kpn. com/annualreport) or reported on http://corporate.kpn.com/ dutch-society.htm.

Reporting process sustainability information

The Integrated Report is published on February 25, 2016. For this report, we have applied the guidelines from the Global Reporting Initiative (GRI). Furthermore, we use the International Integrated Reporting Council (IIRC) Integrated Reporting (IR) framework as a guideline for our Integrated Report. The sustainability information in this report is presented in accordance with the comprehensive option of GRI G4. This means that KPN reports on all general standard disclosures and all specific standard disclosures related to identified material topics. The process for defining the material topics and report content, as well as the list of material topics, is described in the materiality determination (see 'materiality determination' in this appendix). The results of this assessment (list of material topics for KPN, including their reporting priority) determine which GRI indicators are set out in the Integrated Report and which indicators are featured only on our website or in our GRI index. The overview can be found in the GRI index in appendix 8. In addition to these GRI G4 guidelines, KPN has taken as its point of orientation the pilot version of the Telecommunications Sector Supplement, as published by GRI in 2003, in determining material topics.

The GRI Index specifies the aspect boundaries and omitted indicators where relevant (including clarifications). In the Integrated Report, there are no departures of any significance from the GRI standard disclosures. This report shows the performance indicators applicable to the KPN Group. Where relevant, the appendices contain specified data per KPN business unit: KPN the Netherlands and other subsidiaries of the KPN Group. Where available and relevant, the report includes data for previous years. Quantitative data concerning the workforce and financial results set out in this report has been collected using our financial data management system. The remaining data set out in this report has been collected using a standardized questionnaire that was completed by the responsible KPN business units. The Internal Audit and Corporate Control departments used consistency and availability of supporting evidence as the basis for their assessment of the data reported at group level. Validation criteria set out in advance were also used to assess the data.

In order to provide our stakeholders comfort over the reliability of our reporting, we engaged Ernst & Young (EY) to provide reasonable assurance on KPN's Dutch net CO_2-emissions (excluding scope 3 emissions) and the underlying energy consumption (see our environmental chapter on page 48 and appendix 6). Limited assurance is provided on all other metrics in the scope of EY (chapters "KPN at a Glance"(except Governance), "Report by the Board of Management" (except Risk Management and Compliance, Regulatory Developments) and appendices 2, 3 and 4), including the information in the appendix Environmental figures to the Integrated Annual Report on www.kpn.com/annualreport (see also pages 163 to 169). Reasonable assurance is obtained through audit work, while other elements of the report have been reviewed. Review work provides only limited assurance because exhaustive gathering of evidence is not required. The assurance work is performed in accordance with the Assurance Standard 3810N 'Assurance Engagements Relating to Sustainability Reports' as drawn up by the professional body of Dutch Accountants (NBA).

The key social and environmental figures, which are available in the appendices (appendix 5 and 6) on www.kpn.com/ annualreport, are also part of this report. Partly, they provide more detailed numbers on key figures that reflect on highly material topics within the report (such as CO_2-emissions and electricity consumption). Partly, they provide quantitative information (multiple years) on medium material topics which are represented qualitatively within the report or information requested by some external benchmarks. All information in the sustainability appendices is covered by the external assurance. These are appendix 3, Scope, reporting process and materiality determination; appendix 4, Overview of CSR targets and achievements,; appendix 5, Social figures; appendix 6, Environmental figures; appendix 7, Stakeholder overview and appendix 8, GRI index.

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.

Calculation methodology avoided energy consumption by ICT services

We calculated the estimated avoided energy consumption and avoided carbon emissions of our customers from using our ICT solutions. The results are presented on page 51 and in Table 8 of Appendix 6 Environmental Figures. In scope in the calculations are: Teleworking (enabled by KPN Connectivity), KPN Audio Conferencing , KPN Colocation (Housing), KPN Hosting , KPN iTV cloud solution, KPN workstations (KPN Werkplek), KPN Video Conferencing and Dematerialization of DVDs, CDs and newspapers (enabled by KPN connectivity). For teleworking, audio conferencing, KPN Werkplek and video conferencing, the avoided energy consumption and carbon emissions are primarily caused by avoided travel (by car or by public transport). For colocation and hosting, the reduction is caused by better cooling energy efficiency (PUE) of KPN data centers compared with the average cooling energy efficiency of ICT rooms at customers' premises. In all calculations, the rebound effects are also taken into account. For instance, when working at home in the case of teleworking, extra electricity and gas for heating are used. The calculations of the estimates of the avoided energy consumption and avoided emissions are validated by Ecofys , who supports KPN in developing and improving the calculations. For each service, the input variables are defined (the so-called reference values) and with this data the estimated avoided energy consumption and avoided carbon emissions are calculated.

These 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[1], ITU, ICarbonTrust[2])
- External expertise from consultancy firms Scenario analyses based on KPN's savings calculation tool
- Expert judgments (KPN product management and other sources)

1) http://smarter2030.gesi.org/downloads/Full_report.pdf
2) GeSI – CarbonTrust report Carbon Mobile Impact dec. 2015 https://www.carbontrust.com/resources/reports/advice/mobile-carbon-impact
3) http://www.ukconversionfactorscarbonsmart.co.uk/ www.carbontrust.com/resources/reports/advice/mobile-carbon-impact

Some reference values are best guesses. They are challenged with used values, which are published and reported by other telco's and need further measurement and research. For example, we want to ask our Conferencing customers to respond to some questions after a meeting: with how many persons they were attending the meeting, how many travel kilometers were avoided and by which travel mode. We will continue to improve the quality of the critical reference values to make the calculation results more robust. This savings calculation model can also be used by our sales employees to calculate the expected energy, cost and carbon savings of our products and services, together with our customers.

Calculation and determination of reported emissions

In the Integrated Report, KPN reports the CO_2-emissions in accordance with the method of the Greenhouse Gas Protocol and the ISO 14064-1 standard. KPN uses the operational control approach when reporting 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 scope 2 emissions are based on the TTW (Tank to Wheel) CO_2-emissions factors for renewable electricity. For renewables (wind, biomass, solar) the TTW-values are all zero. The CO_2-emissions of the WTT (Well to Tank) phase are accounted for in our scope 3 emissions (category 3 – Fuel and energy related activities). This is only applicable for biomass. CO_2-emission factors for coolants are based on DEFRA 2014[3].

The KPN emissions report is subdivided as follows:

Scope 1 – Direct emissions due to:
- Fuel consumption of the lease vehicle fleet (employees' passenger vehicles and commercial vehicles)
- Heating of buildings (gas)
- Consumption of coolants for air conditioning and/or cooling
- Fuel consumption of emergency power generators

Scope 2 – Indirect emissions due to:
- Electricity consumption of the fixed and mobile networks, datacenters, offices and shops
- District heating
- District cooling

Scope 3 – Other indirect emissions due to:
- Emissions in our upstream value chain (during the production phase of our products, services and equipment at our suppliers)
- Emissions in our downstream value chain (during the use phase including recycling and disposal of the products, services and equipment).

Appendices

Appendix 3. Scope, reporting process and materiality determination

Methodology Calculation scope 1 and 2 emissions

1. Activities
Emissions (CO_2 and HFCs) are calculated based on all the activities of the KPN Group. Most of the emissions relate to activities that use energy, such as the electricity consumption of the networks, transport, and heating and/or cooling buildings. As virtually all the emissions are of CO_2, details of this are given below. KPN reports on a number of ratios, which are included in the figures in the chapter Environment and in appendix 6 on Environmental figures. The footnotes show the denominator used.

2. Emission factors
The CO_2-emissions are calculated by multiplying the consumption data for each activity by the CO_2-emission factors for each unit of consumption. These emission factors are updated annually. KPN uses a monitoring protocol for reporting its carbon footprint. In this protocol, all sources for used emission factors are specified. The emissions factors are checked and updated annually when necessary. The most important sources for our emissions factors are the IEA (International Energy Agency) and DEFRA.

3. Accuracy
The accuracy of the 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, such as summaries from energy and other suppliers and direct invoices, are the most accurate. Data may also be estimated or calculated, using assumptions and expert opinions. The materiality of all KPN units and subsidiaries is determined every year on the basis of sales and number of FTEs (>=1% of the total).

As electricity providers estimate our electricity consumption for a part of our network operations, and do not in all cases perform a meter reading annually, some uncertainty exists about the accuracy and completeness of our energy consumption. As this uncertainty cancels out over the years once actual meter readings are processed by our energy suppliers, we use energy consumption data from invoices as a basis to report our energy consumption and greenhouse gas emissions.

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

Scope 3 emissions

On all 15 scope 3 categories five categories are not applicable; for the remaining 10 categories, the emissions have been calculated. The calculations are based on the Greenhouse Gas Protocol scope 3 standard . See for more information page 48 in the chapter Environmental performance and table 7 in appendix 6, Environmental Figures.

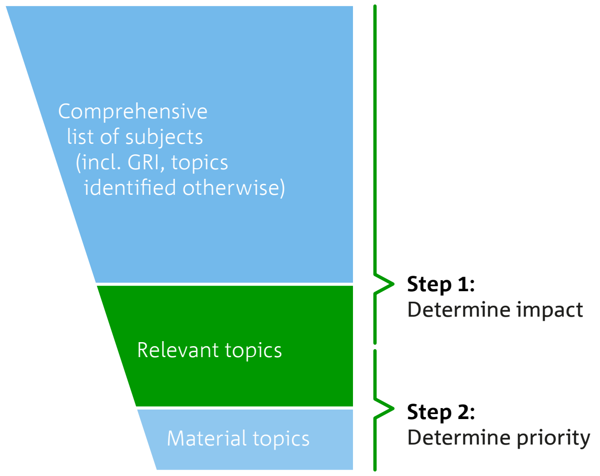
83% of our scope 3 emissions are upstream emissions. The two highest impact categories are Purchased goods and services (44%) and Capital goods (22%). The majority of the upstream emissions are calculated based on procurement data (supplier spend) combined with emission factors obtained from the Environmentally Extended Input Output data (EEIO) approach. We use the emission factors (g CO_2 per GBP spend) published by DEFRA. We convert the GBP values to Euros and take inflation into account. We used the ISIC guidance (International Standard Industrial Classification of All Economic Activities) for the correct mapping of specific suppliers or supplier categories to a category in the supply chain emission factors list of DEFRA, when applicable.

The downstream emissions account for 17% of the total scope 3 emissions. The downstream category with the largest impact is Downstream Leased assets (15% of scope 3 emissions). This calculation is based on the total annual electricity consumption of our installed equipment at the customer premises (such as modems for internet access and set-top boxes). This equipment remains the property of KPN and KPN is also responsible for recollecting the equipment in the event of swaps, defects or ending of the subscription. Emissions of transportation of this equipment (forward to customer and backward to KPN) are accounted in the category Downstream transportation and distribution. In this category, all our activities of our Logistic Service Partners (LSPs) are accounted for. The emission calculation is based on EEIO and accounts for 2% of scope 3 emissions.

In total, 68% of the scope 3 emissions are based on spend data (EEIO). 32% of the emissions are based on activity data and installed data. Some reference values in the calculations are based on publicly available or own measured data and expert judgment. We will try to further improve the quality of these assumptions and estimations to improve the robustness of the calculations.

For details of the individual scopes, we refer to the environmental indicators (EN3 to EN7, E16 and E17) in the 2015 GRI index on www.kpn.com/annualreport.

Materiality determination



The annual materiality assessment is the basis for determining the report content and is performed before the Integrated Report is compiled. The assessment is approved by the Board of Management. The process consists of three steps:

Step 1: Identification of relevant aspects and other topics

The goal of the first step is to create a gross overview of relevant CSR topics. In this process, KPN annually updates a comprehensive list of topics based on GRI guidelines and the pilot version of the Telecommunication Sector Supplement, as published by GRI in 2003. Where relevant, missing topics are added, including topics identified during media scans and stakeholder dialogues. Following the update of the list, KPN assesses the relevance of each of the topics. Relevant topics are those on which KPN has or can have an impact (inside the organization and in the value chain or society). This is determined based on stakeholder input and KPN's own experience. The outcome is an overview of all relevant topics. In 2015, we updated the relevant topics. This resulted in less topics and a change in naming topics. We went from 52 to 30 topics. The change resulted in topics that are most relevant to KPN and its business. This is done in line with stakeholder expectations and the GRI as a basis.

Step 2: Determining reporting priority

The second step aims to assess the reporting priority of all relevant topics, which is presented graphically and used not only to determine the contents of the Integrated Report but also as input to determine our (CSR) strategy, policies and approach.

KPN determines the reporting priority by reviewing all relevant topics on: (1) significance of the topic for KPN and (2) significance of the topic for key stakeholders. This review is performed using nine criteria, which are relevant to KPN and based on GRI G4. The priority determination is performed twice a year: a preliminary review and a final review including all inputs from stakeholder dialogues and stakeholder surveys performed throughout the year in order to validate the outcomes. The result of this second step is an overview of all material topics for KPN, which is supported by current stakeholder expectations. The materiality chart combines the two aspects schematically. The combination of the horizontal axis (significance to KPN) and the vertical axis (significance to stakeholders) determines the degree of influence that the topic has on our reputation and therefore the reporting priority. KPN divides the results into three categories:

- Highly material topics: we aim to fulfill a leading role on these topics and translate them into our six CSR themes and two additional themes. We report on these topics in our Integrated Report.
- Medium material topics: we want to demonstrate our social responsibility regarding these topics. We report on them in our GRI index, additional policy document and/or on our website.
- Low material topics: these are topics we monitor, but do not report on.

Our materiality determination is based on the complete list of general and sector-specific aspects provided by GRI G4. The highly material and medium material aspects were translated into topics relevant for KPN. In order to see where the aspect can be found and which GRI aspects are translated into KPN topics, please see the cross-reference on the next page. For our high material topics, we made a cross-reference with our strategic choices. The topics that do not correspond with a strategic choice, are highly material for our reporting process.

Step 3: Implementation

Based on the priority outcomes of the materiality determination (approved by the BoM), we determine the topics to be addressed in the report, including the scope and aspect boundaries of all material topics. Business units are informed on new and altered topics to be acted and reported on, to prepare reporting systems, enhance internal mechanisms, develop reporting definitions and, where relevant, targets. Timelines are developed and new/altered topics are included in the relevant reporting process mechanisms (financial/HR data management systems or CSR questionnaires).

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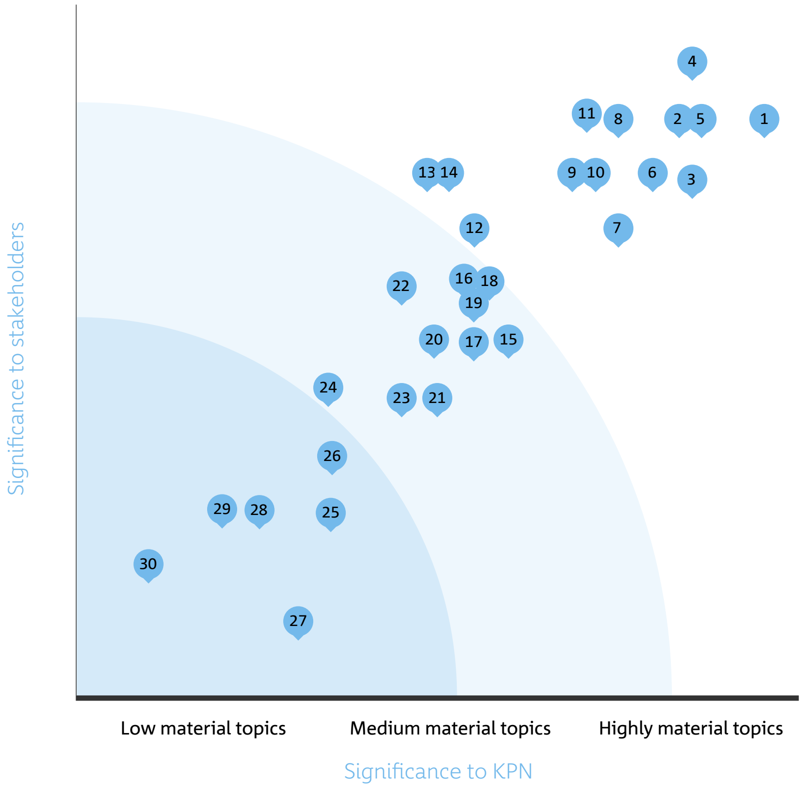
Appendix 3. Scope, reporting process and materiality determination

Materiality assessment



Highly material topics
1. Direct economic value
2. Privacy & Security
3. Customer loyalty
4. Energy use operations
5. Emissions operations
6. Quality and reliability of network
7. Innovation and investments
8. Sustainable Employment
9. Indirect economic impact of products and services
10. Impact of products and services on social and environmental issues
11. Remuneration
12. Compliance
13. Diversity and Equal Opportunity
14. Sustainable suppliers

Medium material topics
15. Training and Education
16. Digital inclusion
17. Health and safety of employees
18. Anti-corruption
19. Anti-competitive behavior
20. Non-Discrimination
21. Community investment
22. Tax policy
23. e-waste
24. Electromagnetic fields /radiation

Low material topics
25. Internal human rights issues
26. Fair marketing communications
27. Participation in public policy development
28. Material use operations
29. Biodiversity
30. Water use operations

Highly material topics KPN	Corresponding strategic choices	Where to find in our IR 2015	Corresponding GRI G4 aspects
Direct economic value	Build new revenues streams, Reduce costs	Financial performance, p. 28 Financial statements, p. 82	Economic performance
Privacy & Security	Differentiate through innovative products	Privacy & Security, p. 34	Security ICT infrastructure, Customer privacy
Customer loyalty	Provide the best service, Provide integrated fixed and mobile services	Quality and reputation, p. 38	Product and service labeling
Energy use operations	Continue environmental strategy	Environmental performance, p. 48	Energy
Emission operations	Continue environmental strategy	Environmental performance, p. 48	Emissions
Quality and reliability of network	Best network through continuous improvements, Provide the best service	NetCo, p. 58	
Innovation and investments	Differentiate through innovative products	Innovation, p. 32	ICT infrastructure investments, Investment
Sustainable employment	Provide the best service	Our people, p. 42	Employment
Indirect economic impact of products and services	Differentiate through innovative products	Financial performance, p. 28 Environmental performance, p. 48 Business, p. 54	Indirect economic impacts
Impact of products and services on social and environmental issues	Continue environmental strategy, Differentiate through innovative products	Environmental performance, p. 48 Privacy & Security, p. 34 Business, p. 54	Impact of ICT applications, Products and services
Remuneration		Remuneration report, p. 72	Equal remuneration for women and men
Compliance		Risk management and compliance, p. 62	Compliance, products and services compliance
Diversity and equal opportunity		Our people, p. 42	Diversity and equal opportunity
Sustainable suppliers		Our suppliers, p. 46	Supplier environmental assessment, Supplier human rights assessment, Supplier assessment for labor practices, Supplier assessment for impacts on society

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Medium material topics	Where to find in our IR 2015	Corresponding GRI G4 aspects
Training and education	Our people, p. 42	Training and education
Digital inclusion	Quality and reputation, p. 38	Digital divide
Health and safety of employees	Our people, p. 42	Occupational health & safety
Anti-corruption	Risk management and compliance, p. 62	Anti-corruption
Anti-competitive behavior	Risk management and compliance, p. 62	Anti-competitive behavior
Non-discrimination	Risk management and compliance, p. 62	Non-discrimination
Community investment	Quality and reputation, p. 38	Direct economic value generated and distributed/ Economic performance
Tax policy	Financial performance, p. 28 www.kpn.com/taxstrategy	
e-waste	Environmental performance, p. 48	Energy, Emissions, Effluents and Waste
Electromagnetic fields/radiation	http://corporate.kpn.com/company-kpn/csr/telephones-masts-and-health.htm	Electromagnetic fields and radiation

Appendix 4. Glossary of terms

2G
Second Generation Mobile System, which is based on the GSM universal standard.

3G
Third Generation Mobile System, which is based on the UMTS universal standard.

4G
Fourth Generation Mobile System, a standard for wireless communication delivering high-speed data for mobile phones and data terminals.

4G+
4G+ provides additional wireless capacity and speed than traditional 4G, by aggregating 4G's 800 MHz frequencies with other 1800 MHz frequencies.

4G coverage
Coverage of the 4G mobile network. The coverage depends on the subscribers situation. KPN measures its 4G coverage by checking four different situations (urban, sub-urban, in-car and outdoor) in any given location.

100 Mbps access
Applies to households with the possibility to get access to internet speeds of minimal 100 Mbit per second. Actual internet speed is calculated by dividing the 100 Mb/s line by the number of households connected.

A

Access lines
Access lines are the total number of traditional voice and VoIP connections provided to customers of KPN's Business segment as of the end of the specified period.

ACM
The Dutch Competition Authority (Autoriteit Consument en Markt or 'ACM') acts as a regulator in the Netherlands and is responsible for monitoring compliance with anti-trust rules.

ADR
American Depository Receipt.

Adjusted revenues and adjusted EBITDA
Adjusted revenues and adjusted EBITDA are derived from revenues (including other income) and EBITDA, respectively, and are adjusted for the impact of restructuring costs and incidentals. Incidentals are non-recurring transactions which are not directly related to day-to-day operational activities over 5 million unless significant for the specific reportable segment.

ARPU (Average Revenue Per User)
ARPU is the sum of connection fees, monthly fixed subscription revenues, traffic revenues and gross service provider revenues less related discounts during a one-month period, divided by the average number of customers during that month. Gross service provider revenues represent revenues generated by third-party providers. KPN accounts for the net part as gross service provider revenues.

B

BCF (Business Control Framework)
The Business Control Framework contains all corporate policies and guidelines that are mandatory for KPN segments and entities. It forms the cornerstone of the governance of the KPN Group.

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.

Byte
The byte (derived from 'by eight') is a unit of digital information that consists of eight bits. Data sizes in this report are expressed in petabytes.

C

Cradle-to-cradle (C2C)
Production techniques, management or operations that are essentially waste free. All material inputs and outputs are technical or biological nutrients. Technical nutrients can be recycled or reused with no loss of quality and biological nutrients composted or consumed.

CBb (College van Beroep voor het bedrijfsleven)
The Trade and Industry Appeals Tribunal in the Netherlands.

CDP
The CDP (formerly Carbon Disclosure Project) is a joint initiative of investors worldwide that questions and benchmarks listed companies on their approach to climate change.

Churn (calculated on an annual basis)
The number of mobile customers no longer connected to a mobile 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.

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.

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Appendix 4. Glossary of terms

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)
Corporate Social Responsibility, to KPN, is the integrated vision of entrepreneurship, in which the company takes responsibility and creates value in economic (Profit), ecological (Planet) and social (People) terms. We incorporate CSR into our business and by doing so, take our social responsibility and contribute to societal challenges.

Customer base
Customer base is the total number of subscribers.

D

DEFRA
UK Department for Environment Food & Rural Affairs. DEFRA published conversion factors to calculate greenhouse gas emissions.

DJSI (Dow Jones Sustainability Index)
The Dow Jones Sustainability Index is a collection of indices that track the performance of companies that are frontrunners in terms of CSR. The DJSI is based on an analysis of corporate economic, environmental and social performance. There are several sub-indices based on geographical parameters.

Dropped call rate
The dropped call rate is the fraction of telephone calls which are cut off unexpectedly as a result of technical issues, measured as a percentage of all calls.

DSL (Digital Subscriber Line)
DSL is a technology for bringing high bandwidth information to homes and small businesses over ordinary copper PSTN lines. The widely used term xDSL refers to different variations of DSL, such as ADSL, HDSL, VDSL and SDSL.

E

EBITDA
Operating result before depreciation and impairments of PP&E and amortization and impairments of intangible assets.

EEIO (Environmentally-extended input output data)
EEIO models estimate energy use and/or GHG emissions resulting from the production and upstream supply chain activities of different sectors and products. The resulting EEIO emissions factors can be used to estimate cradle-to-gate GHG emissions for a given industry or product category. EEIO models are derived by allocating national GHG emissions to groups of finished products based on economic flows between industry sectors.

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 customers' offices.

G

GHG (Greenhouse Gas) Protocol
The Greenhouse Gas Protocol Initiative is a multi-stakeholder partnership of business, non-governmental organizations (NGOs), governments, and others that develop internationally accepted GHG accounting and reporting standards for organizations.

Green electricity
Green electricity is electricity from renewable sources. KPN only uses wind energy and electricity from biomass that does not compete with food production.

GRI (Global Reporting Initiative)
The Global Reporting Initiative is an organization that publishes international guidelines for CSR reporting.

GPRS
GPRS is an application that enables data packet switching via GSM networks as well as via existing voice communication. GPRS is based on and complements GSM.

I

ichange
The interactive coaching program for companies and their employees, that supports people in changing their behavior in health-related areas.

ICT
Information and Communication Technology.

IDH (Sustainable Trade Initiative)
Organization aimed at working towards ensuring more sustainable tin mining practices in Indonesia.

IPTV
IPTV is a system through which television services are delivered using the internet protocol suite over a packet-switched network such as the internet. iTV ('Interactieve TV') is KPN's IPTV offering in the Netherlands.

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).

J

JAC (Joint Audit Cooperation)
The JAC is a cooperation of nine European Telecommunication Operators (including KPN) focusing on the social, ethical, and environmental conditions across their supply chains.

K

KPN Classmate
Through the KlasseContact project of the KPN Mooiste Contact Fonds, chronically-ill children can use an ICT-set (a KPN Classmate) to take a 'virtual seat' in the classroom.

KPN Mooiste Contact Fonds
This KPN foundation supports societal initiatives aimed at stimulating social contact, by combining people and technological resources to the best advantage.

L

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

Machine-to-Machine (M2M)
M2M refers to technologies that allow both wireless and wired systems to communicate between devices of the same ability.

Market share
Market share is the percentage or proportion of the total available market that is being serviced by KPN. These figures are based on externally available market data, which may not be completely accurate, and may partially be based on estimates.

Mbps (Megabits per second)
Mbps is a unit of data transfer rate equal to 1 million bits per second. The bandwidths of broadband networks are often indicated in Mbps.

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.

MVNO (Mobile Virtual Network Operator)
A mobile operator that does not have its own spectrum or its own network infrastructure. Instead, MVNOs have business arrangements with 'traditional' mobile operators to buy minutes of use to sell to their own customers.

N

Net adds
Net adds is defined as the difference between the total number of contracts for a specific type of service from one period compare to the previous period.

NPS (Net Promoter Score)
NPS is a tool for measuring customer loyalty. The key question asked is whether customers would recommend KPN to friends or family. Depending on the score they give customer will be promoters or critics. The NPS is calculated by subtracting the percentage of critics from the percentage of promoters. The result is displayed as an absolute number and not as a percentage. In this report all NPS results refer to Q4 of the respective year.

New Way of Living & Working (NWLW)
The New Way of Living & Working means being able to work without the constraints of time and place with the use of modern technology.

O

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, 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.

Petabyte
One petabyte (PB) is one quadrillion (10^{15}) of the unit byte for digital information.

R

RepTrak
RepTrak, developed by the Reputation Institute, is a method to calculate a reputation score of companies. The KPN 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 cable, broadband internet or telephony services over KPN's network at a given date. Thus, one subscriber who receives a bundle of KPN's services (telephony, internet and TV) would be counted as three RGUs.

Roaming
Transfer of mobile traffic from one network to another, referring to the exchange of international mobile traffic.

Appendices

Appendix 4. Glossary of terms

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.

SOC (Security Operations Center)
The SOC monitors the high-risk systems of KPN in order to quickly act in case of security risks or incidents.

SoHo/SME
SoHo refers to Small Office/Home Office companies. SME refers to Small and Medium Enterprises.

Stakeholder
Stakeholders are the people or organizations with an interest in the company, such as employees, shareholders, suppliers, customers, governments and media.

Subscriber
A subscriber is defined as an end-user with a connection to the mobile or fixed networks and/or service platforms of KPN. The subscriber is included in the subscriber base if there is a direct or indirect (business, wholesale) billing relation, either prepaid or postpaid, with the following exceptions:

- if the connection is owned through wholesale by full MVNOs or fixed line access parties or
- if the connection has been inactive for a specific time period (prepaid or postpaid without contract).

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.

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. The 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.

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.

VDSL (Very-high-bitrate Digital Subscriber Line)
A new DSL technology providing faster data transmission over a single flat untwisted or twisted pair of copper wires. These fast speeds mean that VDSL is capable of supporting high bandwidth applications such as HDTV, as well as telephony services (Voice over IP) and general internet access, over a single connection. VDSL-CO refers to VDSL from the Central Office.

VoIP (Voice over IP)
Voice traffic is transported over an IP-based data network. It enables new ways of communicating, such as combinations of telephony, messaging and videoconferencing.

VoLTE (Voice over LTE)
VoLTE allows the voice service to be delivered as data flows within the LTE data bearer.

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.

Wholesale broadband access
Wholesale broadband access is the rental by broadband internet service providers of access to KPN's networks to supply broadband internet access to their end customers. The broadband internet service provider charges its end customer for the combined wholesale broadband access it purchases from KPN along with its service fees.

Colophon

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Forward-looking statements and management estimates

Certain of the statements we have made in this Integrated Annual Report are 'forward-looking statements'. These statements are based on our beliefs and assumptions and on information currently available to us. They include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance or expense improvements and the effects of future legislation or regulation.

Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words 'believe', 'expect', 'plan', 'intend', 'anticipate', 'estimate', 'predict', 'potential', 'continue', 'may', 'will', 'should', 'could', 'shall', or the negative of these terms or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. No undue reliance should be put on any forward-looking statements. Unless required by applicable law or applicable rules of the stock exchange on which our securities are listed, we have neither the intention nor an obligation to update forward-looking statements after distribution of this Annual Report.

All market share information in this financial report is based on management estimates based on externally available information, unless indicated otherwise.

The terms 'we', 'our' and 'us' are used to describe the company; where they are used in the chapter 'Segment performance', they refer to the business concerned.

We always aim to further improve our CSR activities and reporting. Therefore, we highly appreciate your feedback, questions and comments on our Integrated Report and CSR activities. Please contact mvo@kpn.com.

100 people

We would like to thank everyone who participated in the videos, that can be viewed on our Annual Report website:
www.kpn.com/annualreport

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