

03

SUSTAINABILITY REPORT



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# FOREWORD

Do the right things and do what you do better and better. We endeavour to fulfil this intention every day. Indeed, increasingly better performance is an absolute necessity for us. The telecommunications market is fiercely competitive and to survive we must continually surpass ourselves and others. Our reputation as a reliable company is indispensable in this setting. To uphold our reputation, we engage in an open dialogue with all stakeholders. Reporting on all our activities concerning sustainability is an integral part of this dialogue.

Our company code summarises our vision of our responsibilities to society. In 2001 and 2002, we published a report on our activities aimed at protecting the environment. In the past year, we refocused our identity and core values, paving the way for formulation of an integral policy in the first half of 2004 for corporate social responsibility. By means of this report, we have made a start on integral publication of our sustainability efforts and social commitment. We are striving to achieve the optimum balance between economic, social, community and environmental objectives and we benchmark ourselves against similar telecom companies. In this context, KPN signed the 'ETNO Sustainability Charter' again in 2003.

## KPN AND THE ECONOMY

KPN recorded its highest ever net income in 2003: a profit of EUR 2.7 billion. Besides incidental proceeds (including an agreement with the tax authorities in the Netherlands), we achieved this result mainly through further cost reductions. An important economic objective is to generate profitable growth by making further investments in mobile activities and broadband services.

## KPN AND THE ENVIRONMENT

The objective of our environmental policy is to reduce the effect that our operations have on the environment. In our policy for 2004-2007, we state that we want to rank among the better-performing companies in the telecommunications industry when it comes to the environment as well. The reports we have published on the previous two years have provided more and more insight into the effects of our environmental policy. We have now shifted our attention from developing policy to carrying it out. In some cases, this requires substantial intervention in our operational processes. We have set our sights mainly on waste reduction, energy efficiency, carbon dioxide emissions and reporting on our compliance with environmental laws. Over the past year, we have also gathered data at our international subsidiaries E-Plus (Germany) and BASE (Belgium). In the Netherlands, we have marked a success particularly in the field of waste: we have cut waste by 22% and are now re-using 80% of the waste.

## KPN AND ITS PEOPLE

The past years have been turbulent ones for KPN's employees. The need to get the company's finances back into shape was

accompanied by steps that included a reduction of personnel and a different style of working. This style has considerably sharpened the focus on individual performance.

## KPN AND SOCIETY

A company like KPN fulfils numerous roles. The company is not only provider of commercial services, but also a player in society. KPN is committed to making its contribution to the knowledge economy. An example of this commitment is our offering of free broadband Internet access to schools in the Netherlands. We also attach importance to continuing the services we provide for people with a physical disability, for whom we have developed a special text telephone service and telephone directory service.

## DIALOGUE

This is the first time that we have produced this report in this form. It is only our first step. We will press ahead in the coming years on embedding corporate social responsibility in our organisation and operational processes, on setting measurable targets and reporting periodically on these matters.

I started by saying that we want to do 'our things' increasingly better. That also applies to our Sustainability Report. We invite you to enter into a dialogue with us about our Sustainability Reporting. You can use a special e-mail address for this purpose: [duurzaamheid@kpn.com](mailto:duurzaamheid@kpn.com)



*Ad Scheepbouwer*



# KPN AND SUSTAINABILITY

This is KPN's first Sustainability Report. It follows publication of our Environmental Reports on 2001 and 2002. We have now expanded the document to include reporting on economic, social and community matters. We produced the report in accordance with the general guidelines of the GRI (Global Reporting Initiative). The GRI is a leading international institute that promotes and has formulated guidelines for standardisation of sustainability reporting.

KPN's Sustainability Report on 2003 covers the economic, social, community and environmental aspects of our operations in the Netherlands (KPN), Germany (E-Plus) and Belgium (BASE) but not of our subsidiaries other than E-Plus and BASE. We are not yet reporting in the same degree of detail on all areas of our operations because we have not yet implemented a structural reporting procedure in some areas. Moreover, some reporting procedures still need to be aligned to each other.

In the first half of 2004, KPN will reach decisions on a modernised Policy on Corporate Social Responsibility (Sustainability and Social Commitment) and embed this policy in the organisation. We intend to round off our reporting procedures by introducing quarterly reports and we expect to submit our 2004 results to external verification.

KPN invites interested parties to enter into a dialogue about the company's sustainability report. For this purpose, we have opened a special e-mail address: [duurzaamheid@kpn.com](mailto:duurzaamheid@kpn.com).



e-plus

BASE®



## The KPN company - Joop Vissers

KPN has a division that ensures that the customer no longer needs to go out and a division that ensures that the customer never needs to stay at home.

# THE COMPANY

## Profile

KPN offers telecommunications services to both consumers and business customers. The company's core activities are telephony and data services through the fixed network in the Netherlands, mobile telecommunications services in Germany, the Netherlands and Belgium and data services in Western Europe. KPN is the market leader in the major segments of the Dutch telecommunications market. Through E-Plus in Germany and BASE in Belgium, KPN holds the number three position in the mobile market in these countries.

At the end of December 2003, KPN had 7.7 million fixed-line subscribers and 1.5 million Internet customers in the Netherlands and 14.7 million mobile customers in the Netherlands, Germany and Belgium. As of the same date, the company had 32,736 employees.

KPN was incorporated in 1989. The shares are listed on the stock exchanges of Amsterdam, New York, London and Frankfurt.

## MISSION STATEMENT

'We are committed to providing a portfolio of modern, high quality telecommunications services to our customers. We want to help our customers to achieve their goals and to enrich their lives, whether for business or pleasure.'

This approach will lead to satisfied customers, providing the basis for profitable growth and to value creation for shareholders.

Service quality and customer satisfaction will only flourish if employees are motivated to provide the best possible service to the customers.

KPN is conscious of its responsibilities and is accountable for its performance also to all stakeholders.

## STRATEGY

KPN aims to continuously improve its operational and financial performance. Among the numerous business aspects that KPN focuses on, customer satisfaction stands out above all others, as this is a prerequisite for profitable growth. To that end, a number of initiatives have been started during 2003 with the aim of increasing the quality of service. KPN has confidence in the potential for growth in broadband services in both of its core divisions (Fixed and Mobile) and in the potential for further increasing the number of mobile subscribers. KPN closely monitors the regulatory climate in the countries in which it operates because of its importance to the company.

In the Fixed division, the objective is to retain market leadership in the Netherlands. The strategy is focused on preserving as much as possible the traditional voice and data revenues, whilst at the

same time increasing revenues from Internet and broadband services, with an emphasis on cash flow. Like other incumbent telecommunications operators, KPN's Fixed division is experiencing pressure on its traditional voice and data revenues due to competition from other operators (including mobile) and migration to less expensive IP-based services. KPN's customer loyalty is being enhanced through improved quality of service and the introduction of discount packages, which were launched in the course of 2003. Broadband experienced substantial growth in 2003, mainly due to ADSL in the consumer market. Although current growth in Internet and broadband is being generated almost exclusively in connectivity, KPN believes there is also potential for growth of new services and applications, both in the consumer and business markets. As a first step, KPN introduced its broadband portal in November 2003. The increase in the number of broadband connections and the growth in content and new applications serve to mutually reinforce and support each other. Within the Fixed division, Fixed Networks services both residential and business customers, while Business Solutions provides business customers and service providers with data connectivity, customised communications solutions and international services through the KPN EuroRings portfolio and the distribution of Infonet data communication services.

KPN's Mobile division aims to significantly increase its customer base. KPN believes the best opportunities for customer growth are in Germany and Belgium. This strategy was already successfully implemented in 2003 at E-Plus in Germany. In the Dutch market KPN aims to maintain its clear market leadership position. It sees the possibility of further increasing usage per customer, mainly through developing and commercialising mobile data services, such as i-mode. These services are currently based on the existing GSM/GPRS network. KPN's future service offerings will also use UMTS networks that have more capacity and higher speeds than present networks, thus making new applications possible. KPN will meet the construction and coverage obligations of the acquired UMTS licenses, with the pace of the rollout depending on customer demand.

The boundaries between the mobile and fixed telecommunications markets are blurring. KPN's customers are increasingly looking for access to communication and personal information everywhere and at any time, irrespective of the underlying technology. Businesses are increasingly managing the total cost of ownership across mobile and fixed voice, as well as across data services. KPN sees opportunities to increase customer retention through, for example, service bundling and joint marketing. Convergence between fixed and mobile is also evident with high-speed wireless data services (WiFi) at public hotspots such as hotels and restaurants.

KPN is confident that it is well positioned to achieve its goals.

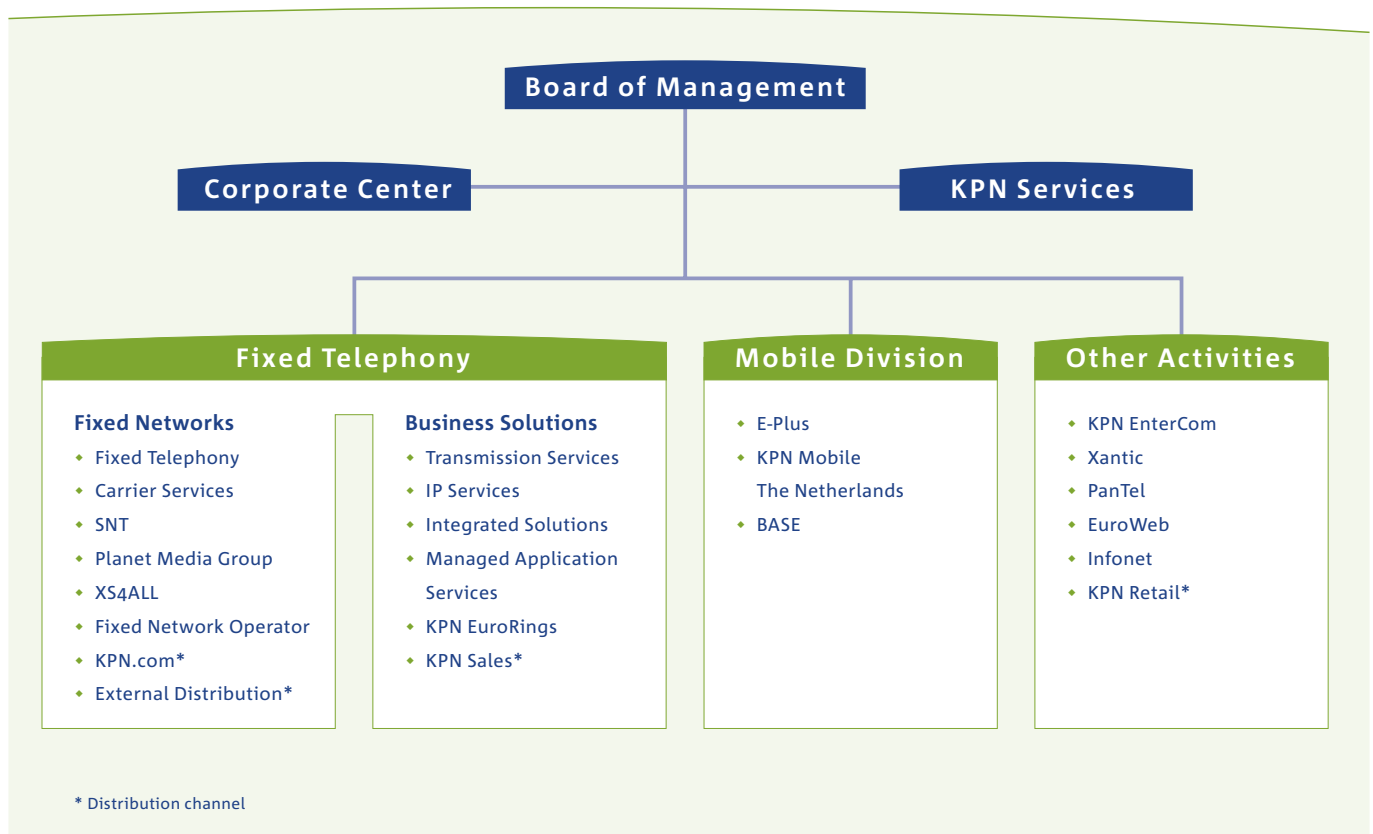
## ORGANISATIONAL STRUCTURE

As from January 1, 2003, KPN combined its Fixed Networks and Business Solutions divisions into one division (Fixed). The main purpose of this clustering was to reduce internal complexity, thus improving efficiency and customer satisfaction. Within the Fixed division, the company is in the process of changing our market approach (portfolio development and customer processes) to focus on the following markets: Consumer, Business and Operations & Wholesale.

Our business unit KPN EnterCom (which delivers, installs and services communications equipment for business customers) was part of Other activities until December 31, 2003. KPN is in the process of moving KPN EnterCom from Other activities to the

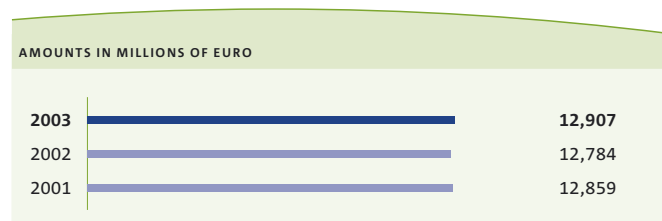
Fixed division in 2004. In addition, the company is also in the process of moving the distribution channel for personal sales, KPN Sales (including External Distribution), from the Fixed division to Other activities.

The list below reflects the organisational structure as of December 31, 2003 (before the changes described above).

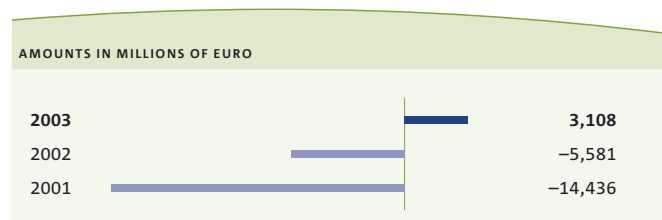


## KEY FINANCIAL FIGURES AND WORKFORCE

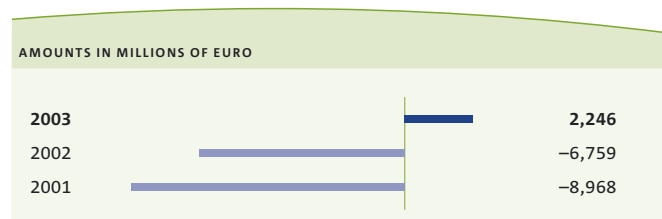
## OPERATING REVENUES



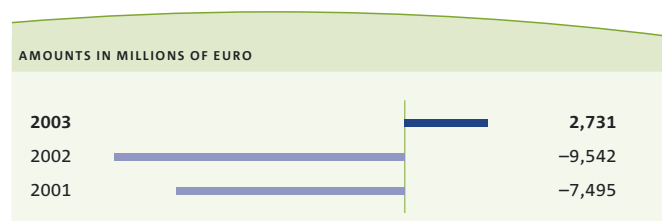
## OPERATING RESULT



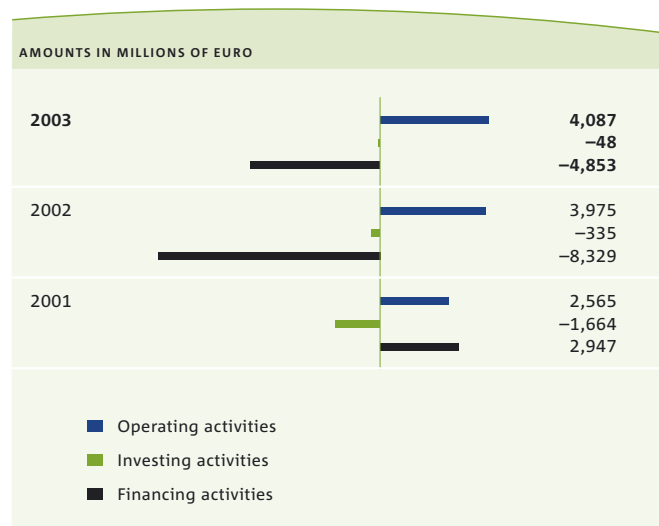
## PROFIT OR LOSS BEFORE TAXES



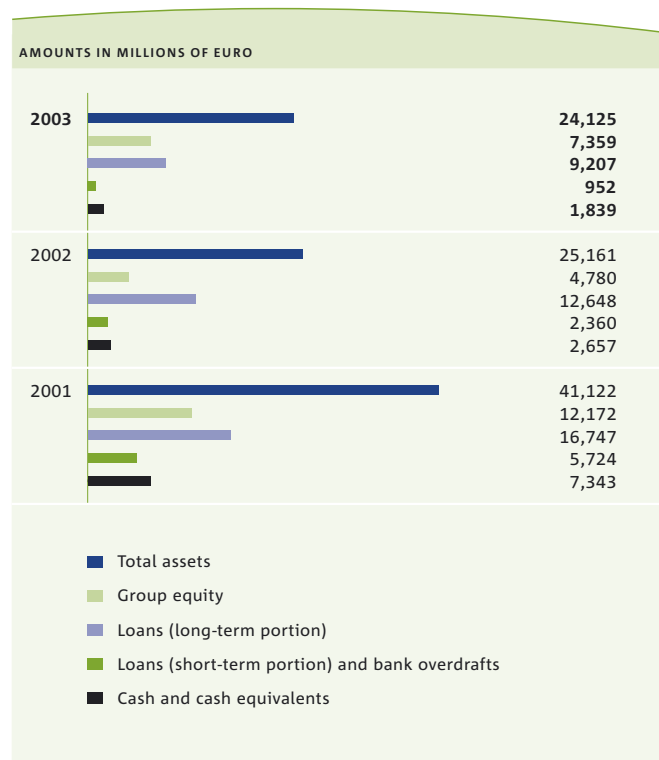
## PROFIT OR LOSS AFTER TAXES



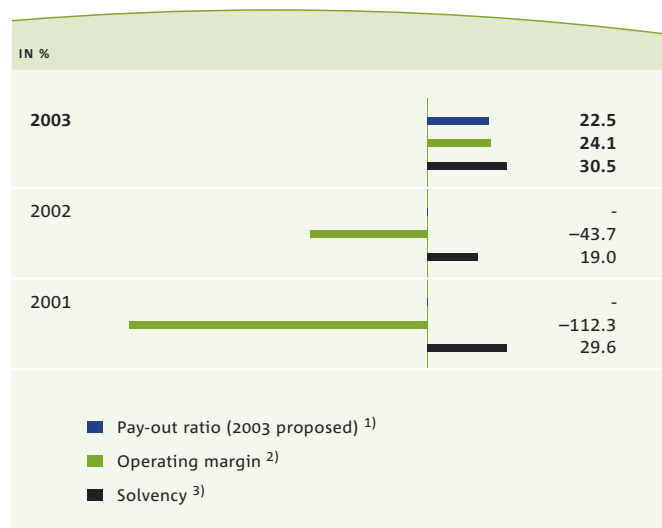
## NET CASH FLOWS



## CAPITAL

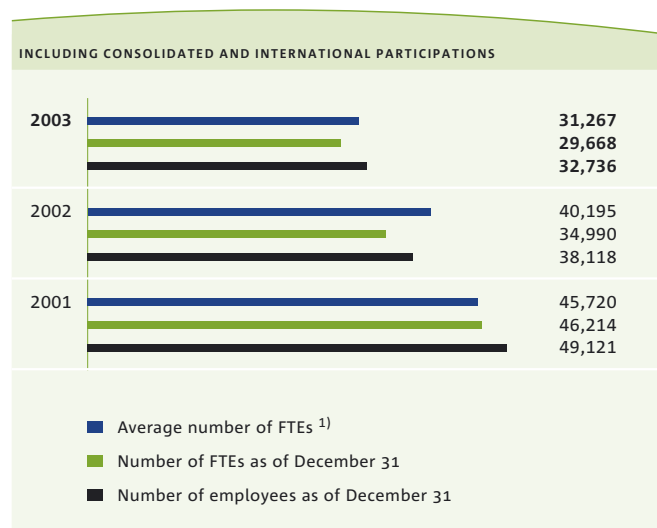


## RATIOS



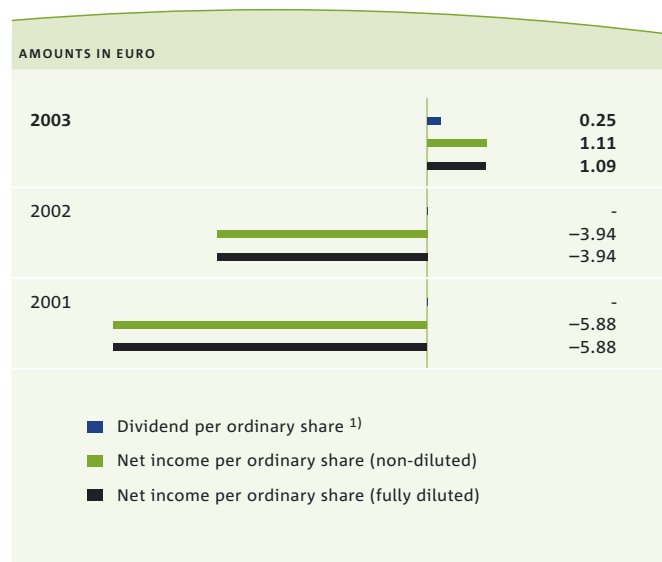
- 1) Pay-out ratio: dividend per ordinary share divided by earnings per (ordinary) share.  
 2) Operating margin: operating result divided by total operating revenues.  
 3) Solvency: shareholder's equity plus minority interests (group equity) divided by total assets.

## WORKFORCE



- 1) One FTE (Full Time Equivalent) equals an employment of 37 hours per week.

## PER SHARE INFORMATION



- 1) The proposed dividend over 2003 consists of a cash dividend of EUR 0.12 per share and an additional special cash dividend of EUR 0.13 per share.

## ANNUAL HIGH AND LOW CLOSING PRICES OF OUR ORDINARY SHARES on the Stock Exchange of Amsterdam and our ADSs on the New York Stock Exchange (NYSE)

	Stock Exchange of Amsterdam		NYSE	
	High	Low	High	Low
	EUR	EUR	USD	USD
2003	7.1	5.4	8.0	5.9
2002	6.9	4.0	6.8	3.7
2001	18.0	2.2	16.9	2.1

## Corporate Governance

Corporate governance deals with efficient supervision of the Board of Management and a balanced distribution of influence and power between the Board of Management, the Supervisory Board and the general meeting of shareholders. Application of sound corporate governance principles is important for a company but should not be an aim in itself. The true aim is to achieve and maintain a culture of honesty and integrity. Ultimately, this aim can be achieved only if the culture and behaviour in a company are in all respects positive and transparent. The KPN Board of Management will make all necessary efforts to ensure that the culture at KPN promotes honesty and integrity.

### CORPORATE GOVERNANCE CODE BY THE TABAKSBLAT COMMITTEE

In 2003, the discussion on corporate governance in the Netherlands was dominated by the publication of the Corporate Governance Code by the Tabaksblat Committee on December 9, 2003. The Corporate Governance Code expects public companies to devote a separate chapter to corporate governance in their annual report for 2004. Based on the leading principle of the Code, known as 'apply or explain', a company is required to clarify any specific cases of non-application of the best practice provisions as set out in the Corporate Governance Code in their annual report. KPN reaffirms its full support for the principles of the Corporate Governance Code and is working on a comprehensive implementation program and expects to restrict cases of non-compliance to a minimum. KPN's point of view towards each best practice provision will be made available on its website [www.kpn.com](http://www.kpn.com).

As KPN is subject to the provisions of the US Sarbanes-Oxley Act, KPN already continues to review and enhance its internal controls, thereby complying with the relevant best practice provisions of the Corporate Governance Code. KPN's Annual Report and Form 20-F 2003 includes a remuneration report that demonstrates that, on remuneration issues, KPN will be nearly fully compliant with the basic best practice provisions of the Corporate

Governance Code, for both Board of Management and Supervisory Board members.

### US SARBANES-OXLEY ACT

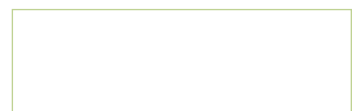
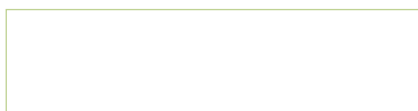
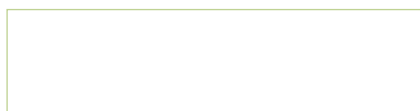
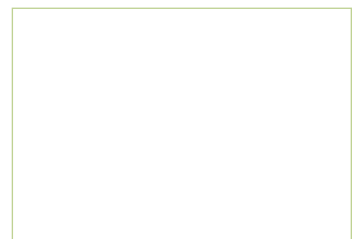
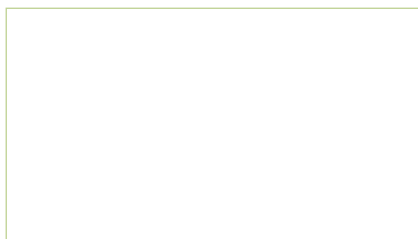
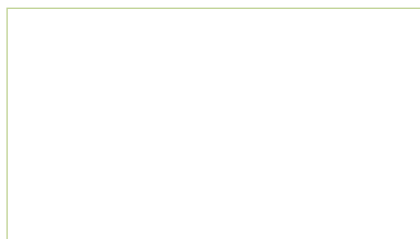
KPN complies with the applicable requirements of the Sarbanes-Oxley Act of 2002, which it is subject to given its listing on the New York Stock Exchange. Pursuant to this Act, KPN has formed a Disclosure Committee that meets regularly to review and help implement disclosure controls and procedures. In addition, the Audit Committee has implemented policies and procedures to ensure the independence of KPN's external auditors and designated Mr. Eustace and Mr. Streppel as financial experts as required by the Act.

### LEGAL STRUCTURE OF THE COMPANY

Under Section 6, Part 4 of Book 2 of the Dutch Civil Code, KPN qualifies as a large company. As such, KPN has a mandatory two-tier management structure, with a Supervisory Board with broad powers, such as the power to appoint and dismiss members of the Board of Management. Some of the resolutions of KPN's Board of Management are subject to Supervisory Board approval. A new regime will probably come into effect in 2004. Under the new legislation, shareholders will be entitled to approve decisions of the Board of Management that have a company transforming effect, to approve the remuneration policy and share (option) plans, to appoint members of the Supervisory Board upon proposal by the Supervisory Board, and to dismiss members of the Supervisory Board.

### SUPERVISORY BOARD

The Supervisory Board oversees strategic and organisational policymaking by the Board of Management and the way it manages and directs the operations of the company and affiliated/associated companies. The Supervisory Board advises the Board of Management. Under the current regime the Supervisory Board appoints and re-appoints its own members. However, the General Meeting of Shareholders and the Central Works Council may make recommendations for nomination. Members of the Supervisory Board step down at the first shareholders' meeting following their four-year term of office. The Supervisory Board has



an Audit Committee (responsible for supervision of the financial reporting practices, policies and procedures as well as the quality of the internal control system) and a Remuneration & Nomination Committee (oversees the company's executive remuneration strategy and the compensation of the company's executive officers). The written by-laws govern the responsibilities and working methods of the Supervisory Board and its committees.

In order to comply with the Corporate Governance Code, the Supervisory Board allocated per January 2004 the responsibilities of the Remuneration & Nomination Committee to two separate committees: a Remuneration & Organisation Development Committee and a Nominating & Corporate Governance Committee. KPN also developed an introduction program for new members of its Supervisory Board and has appointed KPN's Chief Legal Officer in the position of company Secretary.

#### BOARD OF MANAGEMENT

The Board of Management, supervised and advised by the Supervisory Board, manages KPN's strategic, financial and organisational matters and appoints senior managers. The Supervisory Board appoints, discharges and establishes the remuneration of members of the Board of Management. The Supervisory Board will submit a proposal for the remuneration policy of the Board of Management to the Annual General Meeting of Shareholders in 2004. The written by-laws govern the responsibilities and working methods of the Board of Management.

A managing director, who is also a member of KPN's Board of Management, heads each of the divisions. Management teams assist the managing directors. The managing director and his management team are responsible for achieving targets defined for their divisions and for organising, managing and controlling business processes within their division. They are required to observe KPN's codes of conduct governing such matters as financial accounting, investment decisions, cash management and internal control. The Fixed division consists of several reporting units, whereas the Mobile division primarily consists of KPN's three mobile operators in Germany, Belgium and the Netherlands.

#### AUDITOR

KPN's external auditor is responsible for auditing the Financial Statements and is appointed by the Annual General Meeting of Shareholders, upon proposal by the Board of Management and the Supervisory Board. The external auditor reports to the Supervisory Board and Board of Management. The external auditor is present at the meetings of the Audit Committee and the Supervisory Board when KPN's quarterly and annual results are being discussed. In 2003, the procedures within KPN to ensure the independence of the external auditor were made more robust.

#### Code of Conduct

KPN introduced a Code of Conduct in 2001 and revised it in 2003. KPN expects to adopt the revised code in 2004. The code sets out KPN's standards and values. KPN is conscious of its social and ethical responsibilities and KPN wishes to ensure that work practices across the company are in strict compliance with the law and consistent with social and ethical norms. KPN's key values are: professionalism, innovation, commitment and respect. KPN can be held accountable for its performance in this regard by all of its stakeholders. The Code of Conduct is available on KPN's website.

To translate the Code of Conduct into practical terms for employees, KPN has introduced in recent years a number of separate codes to clarify the rules in various areas of its operations. These area-specific codes set rules for KPN's employees, for example with respect to business transactions and business gifts, information about customers and relationships with competitors. KPN has also adopted rules to prevent insider trading. In 2002 and 2003, KPN introduced a Code of Ethics for its financial management and a whistleblowers procedure, respectively. The updated Code of Conduct and the separate codes will be made available on KPN's website in the course of 2004.

KPN encourages its employees to actively report any (suspected) breach of the Code of Conduct or the separate codes. KPN's internal security department plays a key role in this by offering support via a helpdesk, where employees can anonymously report such breaches and also obtain information regarding the

principles underlying the codes. In the event a breach is reported, KPN's security department will conduct an investigation on a strictly confidential basis. The outcome of the investigation is reported to local management.

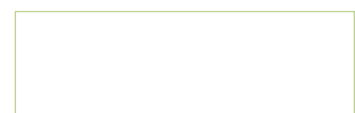
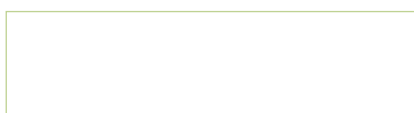
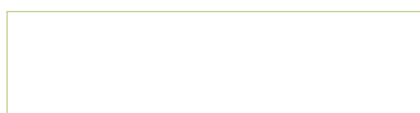
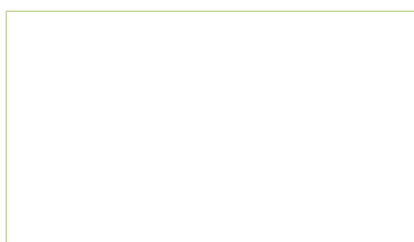
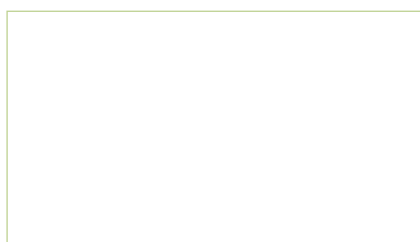
#### ANNUAL GENERAL MEETING OF SHAREHOLDERS

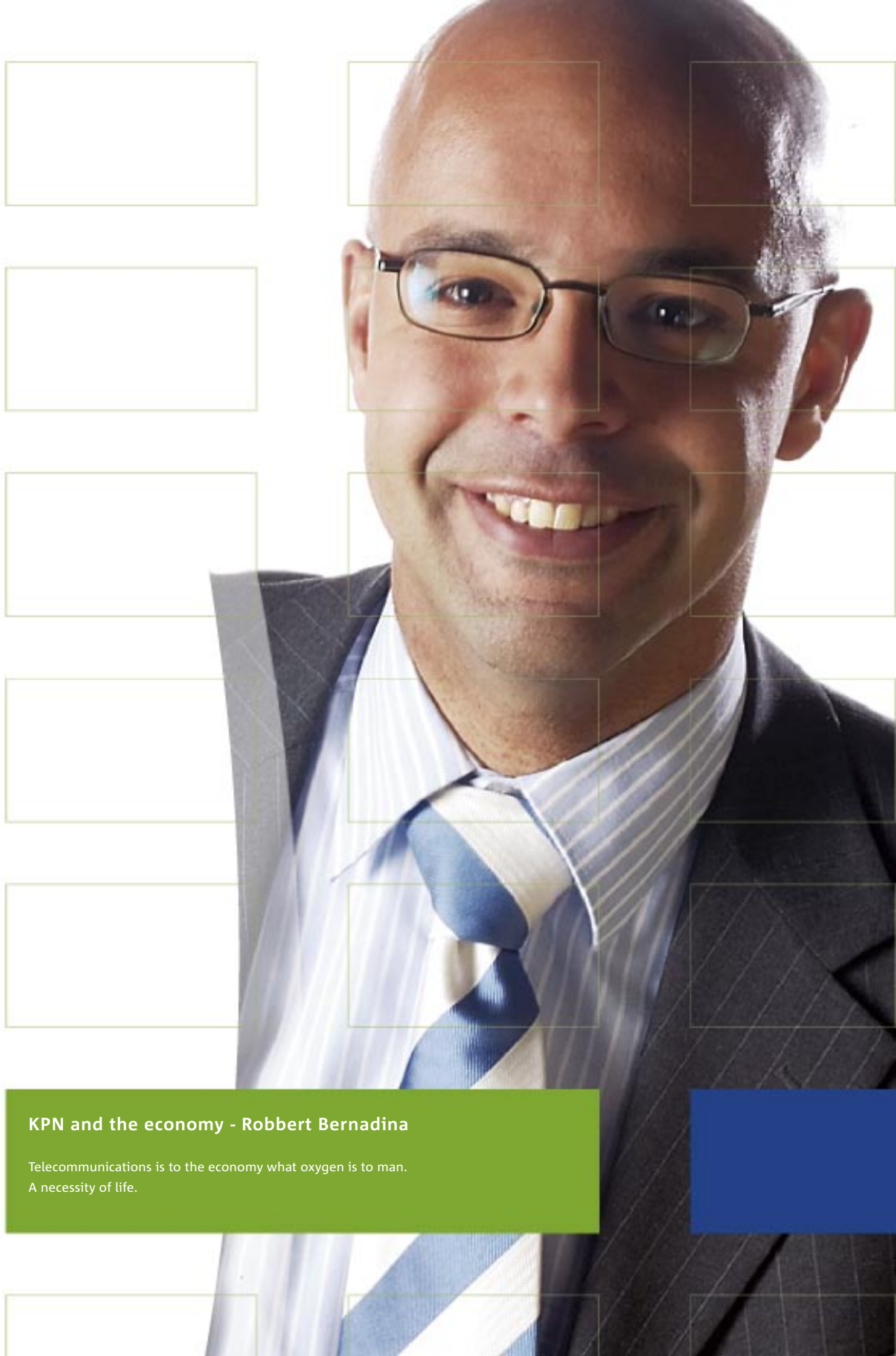
Within six months of the end of every fiscal year, an Annual General Meeting of Shareholders is held, where the discussion of the Annual Report and approval of the Financial Statements are put on the agenda. Other general meetings are held as often as the Supervisory Board or Board of Management deem necessary. The Board of Management and Supervisory Board determine the agenda of shareholders' meetings. Shareholders who individually or collectively represent at least 1% of the issued capital 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.

#### THE STATE OF THE NETHERLANDS

The State of the Netherlands holds 19.3% of KPN's ordinary shares and the special share, that carries the right to approve resolutions causing fundamental changes to the structure of the KPN group and certain additional rights. As part of KPN's initial public offering in 1994, the Dutch State undertook not to exercise, not even in part, its special share privileges to protect KPN from undesirable shareholder influence. Following amendment of the Enabling Act in 2001, the State gave an undertaking to exercise the rights attached to the special share only to protect its financial interest as a shareholder. At that time, the State announced its intention to retain the rights attached to the special share until such time as its capital interest in KPN is substantially reduced. The State has announced that it intends to sell the remainder of its KPN shares, subject to market conditions.

*For extensive information on KPN's corporate governance policy and remuneration, see the Annual Report and Form 20-F 2003.*





## KPN and the economy - Robbert Bernadina

Telecommunications is to the economy what oxygen is to man.  
A necessity of life.

# KPN AND THE ECONOMY

## Introduction

As a supplier and innovator of telecommunication services, KPN is a key player in the Dutch and European knowledge economies and in the development of the information society.

KPN fulfilled most of the ambitious goals it had set itself for 2003. What's more, we did so in a challenging market climate with considerable competition. In 2003, we not only achieved robust growth in our mobile customer base and in the broadband market (notably ADSL), we also made a comeback as a profitable company. Indeed, we recorded our highest-ever net income: a profit of EUR 2.7 billion compared with the net loss of EUR 9.5 billion we reported over 2002 (caused mainly by significant amortisation on goodwill and licences). Even when you leave aside incidental revenues, the larger part of which related to an agreement with the Dutch tax authorities, we made a profit of EUR 0.7 billion in 2003. Together with lower depreciation and interest charges, our major cost reductions were the most important reasons for this significant improvement of our results.

Our focus in 2004 will be on profitable growth through ongoing investments in our mobile activities and broadband, on permanent efforts to reduce costs still further and on maximum attention to customer satisfaction.

## Customers

At year-end 2003, KPN's 32,736 employees were serving 7.7 million customers with fixed telephone lines, 1.5 million Internet customers in the Netherlands and 14.7 million mobile customers in Germany, the Netherlands and Belgium.

### NUMBERS OF CUSTOMERS

IN MILLIONS (AT YEAR-END)	2003	2002	2001
Fixed network	7.7	7.9	8.0
ADSL connections	0.7	0.3	0.1
ISP subscribers	1.5	1.4	1.4
Mobile customers	14.7	13.4	13.7
- of which in Germany	8.2	7.3	7.5
- of which in the Netherlands	5.2	5.0	5.2
- of which in Belgium	1.3	1.1	1.0

KPN had total consolidated revenues of EUR 12,907 million in 2003, a 1% increase compared with the year before. Disregarding non-recurring revenues from the sale of non-core activities and termination of the roaming agreements with Quam and MobilCom, our Fixed and Mobile core divisions achieved growth of 3.5%. The Mobile division was the chief growth driver, especially through a marked increase in the number of connections. The Fixed division faced falling sales of traditional telephone services in 2003 because of increased competition and substitution effects. However, the decrease was counterbalanced by a growth in wholesale traffic volumes and in the broadband market.

IN MILLIONS OF EURO	2003	2002	2001
Fixed Division	7,399	7,376	7,320
Mobile Division	5,379	5,312	4,673
Other activities	1,364	1,264	2,148
Inter-divisional revenues	-1,235	-1,168	-1,282
<b>Total consolidated revenues</b>	<b>12,907</b>	<b>12,784</b>	<b>12,859</b>

The table below shows the geographical distribution of our total consolidated revenues:

IN %	2003	2002	2001
Fixed Division			
- Netherlands	97	97	98
- International	3	3	2
Mobile Division			
- Netherlands	44	48	52
- International	56	52	48
Other activities			
- Netherlands	91	92	81
- International	9	8	19
<b>Total</b>			
- Netherlands	<b>76</b>	<b>76</b>	<b>78</b>
- International	<b>24</b>	<b>24</b>	<b>22</b>

## Personnel

At year-end 2003, KPN employed a total of 32,736 people (29,668 full-time equivalents), including 19,542 people (18,649 FTEs) at KPN in the Netherlands. E-Plus in Germany had 3,051 people on its payroll at year-end. BASE in Belgium had 896 payroll employees. The other employees work at KPN's other affiliated and associated companies.

Distribution of employees over the divisions:

NUMBER OF EMPLOYEES AT END OF STATED PERIOD	2003	2002	2001
Fixed	20,479	24,441	28,005
Mobile	6,111	6,051	7,388
Other activities	6,146	7,626	13,728
<b>Total</b>	<b>32,736</b>	<b>38,118</b>	<b>49,121</b>

Average distribution of FTEs over the divisions:

AVERAGE NUMBER OF FTEs	2003	2002	2001
Fixed	19,245	23,871	23,924
Mobile	5,869	6,617	6,916
Other activities	6,153	9,707	14,880
<b>Total</b>	<b>31,267</b>	<b>40,195</b>	<b>45,720</b>

Total costs of salaries and social security contributions<sup>1)</sup>:

IN MILLIONS OF EURO	2003	2002	2001
Salaries	1,302	1,543	1,813
Pension charges	217	226	146
Social security contributions	184	206	235
<b>Total</b>	<b>1,703</b>	<b>1,975</b>	<b>2,194</b>

1) A reorganisation provision is being created for the costs of severance pay and similar payments. These costs do not form part of the wage bill for salaries and social security contributions.

The costs of salaries and social security contributions decreased by 13,8 % in 2003, mainly through the downsizing of the workforce necessitated by our reorganisation and through deconsolidation effects.

KPN announced in January 2004 plans to shed 800 full-time equivalents at its Fixed division, including 300 involuntary redundancies. The remaining reduction will be achieved through natural wastage. The downsizing is the result of new technologies and the pressure on sales at the Fixed Division.

More details are provided in chapter 4, 'KPN and its people'.

## Suppliers

KPN reorganised its purchasing function in 2003 to create a more co-ordinated and professional purchasing organisation. We spent more than one third of our total purchasing amount with our top 25 strategic suppliers. KPN has thousands of suppliers.

The policy of KPN is to pay its suppliers on time and in full in accordance with the payment date agreed with them. We invested heavily in 2003 in improving our payment process, an activity that will continue well into 2004. One third of all invoices were paid within the agreed time in 2003 and another one third within a week of expiry of the due date.

Costs of purchased goods, materials and services:

IN MILLIONS OF EURO	2003	2002	2001
Cost of materials	983	1,000	1,159
Cost of work contracted out and other external expenses	3,999	4,125	4,608

## Capital providers

The price of the KPN share fell by 1% in 2003. This means the share performed below the AEX and Dow Jones telecom indexes. Competition for fixed telephone services meant that the share prices of integrated telecom operators was generally lower than those of dedicated mobile and data communication companies, which recovered strongly in 2003. An examination of the past three years shows that KPN performed in line with the aforementioned indexes.

KPN did not pay any dividends over 2001 and 2002 because of the financial situation in which the company found itself. Our financial position has improved significantly in the meantime. In November 2003, KPN announced that it expected to pay a cash dividend of EUR 0.12 per share over the 2003 fiscal year. Following the recent agreement reached with the Dutch tax authorities, KPN decided to add to this a special dividend of EUR 0.13 per share. The proposal to pay out these dividends will be placed before the General Meeting of Shareholders on 15th April 2004 and, subject to approval, the dividends will be made available for payment.

At the present time, KPN expects an annual dividend level of at least EUR 0.20 per share from 2004 onwards. KPN intends to resume paying interim dividends. The company envisages being able to announce an interim dividend for 2004 when it publishes its half-year results (scheduled for 9th August 2004).

KPN does not plan to keep surplus cash and cash equivalents on the balance sheet but wants to channel back these funds to shareholders in the form of a special dividend or through the buy-back of shares. The company will buy back shares only at a price that adds value for the remaining shareholders.

In 2003, KPN paid less interest charges than in 2002, because of the significant reduction of debt in the course of the year.

IN MILLIONS OF EURO	2003	2002	2001
Interest and similar expenses	929	1,398	1,677

KPN's debt reduction is clearly reflected by its improved credit ratings. In June, Moody's raised KPN's rating to Baa1 (with stable prospects), while Standard & Poor's increased the rating to BBB+ in June and then to A- (with stable prospects) in January 2004.

By year-end 2003, KPN's shareholders equity amounted to EUR 7,163 million, while provisions on the balance sheet totalled EUR 3,339 million and current and long-term liabilities came to EUR 13,427 million.

KPN had total assets of EUR 24,125 million at year-end 2003.

## SHARE PRICE 2001 - 2003 (IN EURO)



Dow Jones Telecom Index and the AEX have been rebased to the KPN share price on January 1, 2001.



## KPN and the environment - Theo Krul

Telecommunications and the environment automatically run in parallel with each other in many fields. KPN goes a step further than this automatism by actively looking for environmental gains.

# KPN AND THE ENVIRONMENT

## Introduction

KPN is committed to achieving business excellence. This means having excellent products, services and processes, high-quality performance levels and transparent communication with shareholders and stakeholders.

When it comes to the environment, KPN wants to be among the top performing companies in the telecommunications industry. We believe we can fulfil this objective within four years (2004-2007). KPN needs this time to make environmental care an integral part of its operational processes. This step is a logical follow-up to our environmental policy in the 1998-2002 period that we carried out largely as a project. In the coming period, our focus will be a structural approach built upon the 'plan-do-check-act' cycle. We will translate our policy into targets that we will strive to achieve. Progress towards the targets will be monitored and after reporting we will make any adjustments found to be necessary.

## Policy and targets

KPN has taken on board its responsibility for the environment. We want to minimise environmentally harmful effects. We do everything possible to deliver increasingly higher levels of environmental performance and we comply with all legal requirements and voluntary agreements. Our aim is to achieve better financial results, with the proviso that we can make our environmental efforts at a responsible cost in relation to our business operations.

KPN's environmental policy for the coming years will be to:

- conduct business in an environmentally responsible fashion through working methods that in every respect relieve the burden on the environment as much as possible;
- identify the effects of our operations on the environment;
- be a leader in finding solutions and undertaking initiatives for environment-friendly operations;
- comply with legislation and voluntary codes of conduct;
- pursue a leading position in the long term in relation to other telecom operators.

## TARGETS

Our environmental policy is reflected by targets that we will elaborate in the first half of 2004 to define corporate goals. We have already formulated targets in the following policy fields:

Policy field	Target
<b>Climate</b>	<ul style="list-style-type: none"> <li>• Improve the energy efficiency of our processes.</li> <li>• Increase the proportion of 'green electricity' in our total consumption of electricity provided achievable in a cost-neutral way.</li> <li>• Obtain an insight into the nature and quantity of our consumption of coolants.</li> </ul>
<b>Soil</b>	<ul style="list-style-type: none"> <li>• Continue monitoring the controlled situation on the seabed.</li> <li>• Update records of spare cables on land.</li> </ul>
<b>Materials</b>	<ul style="list-style-type: none"> <li>• Co-operate with the suppliers with regard to the products we sell.</li> <li>• Make our conditions of purchase more stringent.</li> <li>• Reduce paper consumption still further.</li> </ul>
<b>Transport</b>	<ul style="list-style-type: none"> <li>• Improve the fuel efficiency of our fleet of vehicles.</li> <li>• Stimulate teleworking depending on the results of the evaluation now in progress.</li> </ul>
<b>Waste</b>	<ul style="list-style-type: none"> <li>• Increase the degree of paper separation still further.</li> <li>• Raise the percentage of re-use of produced waste.</li> <li>• Endeavour to use the most environment-friendly types of packaging where possible and obtainable.</li> </ul>
<b>Water</b>	<ul style="list-style-type: none"> <li>• Obtain a complete insight into our actual consumption of water.</li> </ul>
<b>Community</b>	<ul style="list-style-type: none"> <li>• Continue watching developments concerning radio waves and contribute actively to the debate.</li> <li>• Promote use of Max Havelaar coffee and make a renewed attempt to offer a variety of biological food in our larger staff restaurants.</li> </ul>
<b>Organisation</b>	<ul style="list-style-type: none"> <li>• Introduce ISO 14001 environmental standard at relevant parts of the company.</li> <li>• Benchmark our environmental performance against that of other telecom operators.</li> <li>• Increase knowledge of environmental laws at our foreign affiliated and associated companies.</li> </ul>

## Raw materials

KPN uses raw materials and items like cables, network hardware, personal computers and paper in its business operations. We always try to use them as efficiently as possible. In practical terms, this means we re-use as much as possible and make the least possible use of raw materials.

### CABLES

Cables are pivotal to the services that KPN provides. In 2003, we expanded our underground cable base by adding approximately 9,000 kilometres of fibre-optic cables. No changes occurred in our submarine cable base. KPN endeavours to re-use metal components and other cable parts. We maximise re-use by separating specific types of cable parts into three different streams of waste. The separated waste is then recycled as far as possible.

### PAPER

Since 1990, KPN has kept a sharp watch on the volumes and types of paper that it uses for the purpose of correspondence, promotional activities and office work. Almost all our suppliers hold ISO 14001 certificates. This shows they continuously pursue improvements in the environmental field. As was the case in 2002, most of the paper products we purchased in 2003 had an environmental quality mark.

An important difference compared with figures stated in previous years is that this year's figures no longer include telephone directories. KPN sold Telemedia BV, the publisher of telephone directories, in February 2003. Approximately 10,000 tons of paper were used to produce telephone directories every year. After a decrease in 2002, our paper consumption increased by 47% to 4,751 tons in 2003. This was due largely to a larger number of marketing campaigns by means of mailshots, including use of envelopes, folders and brochures.

## Energy

KPN's energy requirements fall into two categories, direct and indirect. Direct energy consumption consists of fuel for our fleet of vehicles plus natural gas and diesel oil for our in-building facilities. Indirect energy is electricity that KPN purchases from gas-fired power stations. We refer to this category as indirect consumption because the consumers like KPN are unable to influence the efficiency or generation of the energy.

KPN consumed less energy in 2003. The reduction was due to circumstances that included a smaller number of company vehicles and lower consumption of diesel by emergency power generators. Another positive development was the larger volume of green electricity that we purchased. This reflects KPN's ongoing improvements in energy consumption.

### DIRECT ENERGY USAGE

KPN uses mainly natural gas to heat its buildings. The calculated gas consumption by all KPN buildings in the Netherlands is slightly more than 6.9 million Nm or 218 TJ. Our calculations for the gas consumption at our offices are based 60% on meter readings and 40% on estimated key ratios. Consumption at technical buildings is estimated through extrapolation based on data recorded at 20 model premises. To obtain a better insight into our gas consumption, we began modifying the software that records consumption towards the end of 2003. At the start of 2004, we began recording key consumption data (including natural gas) at almost all KPN premises with gas-fired central heating systems. Consequently, we will be able to report precise consumption data from the 2004 reporting year.

KPN reduced its vehicle fleet to approximately 7,580 commercial vehicles in 2003 as a result of a further reduction of the workforce. Fuel consumption thus decreased in absolute terms.



Our number of emergency power generators decreased from 600 in 2002 to 595 in 2003. The generators are powered by diesel oil, which causes emissions of carbon dioxide (CO<sub>2</sub>). After consuming 335,000 litres of diesel oil in 2001, the figure dropped to 119,000 litres in 2003, a 65% reduction. The decrease resulted from reduced maintenance frequency in 2002 and a further reduction in 2003. This has lowered emissions, fuel consumption and maintenance costs.

## INTERNATIONAL

KPN's international affiliated and associated companies consumed 0.6 million Nm<sup>3</sup> of natural gas in 2003. Figures for previous years are unavailable. This year's figures have not yet been corrected for weather differences over several years to reflect gas consumption relative to outdoor temperatures. This correction will take place in 2004.

BASE's 174 emergency power generators consumed 3,773,000 litres in 2003. This high consumption is due to the circumstance that BASE must use fuel until such time as all its premises have been connected to the electricity mains. E-Plus has an unknown number of emergency power generators that consumed 22,000 litres in 2003. KPN's international companies had 1,385 vehicles on the roads in 2003.

## NEW-STYLE DRIVING

By way of a trial, KPN sent a group of ten telecom engineers on a one-day course to teach them how to drive economically late 2001/early 2002. The course aims to show drivers how to drive more calmly and economically, for example by changing gear earlier. Following the course, KPN monitored the driving styles of the engineers over a period of three months. Their fuel consumption went down by approximately 9%, less than had been expected. The main reason was the difficulty in maintaining a different style of driving without continuous supervision and correction. There will be a follow-up to the trial because KPN company vehicles have been fitted with on-board computers and some with a navigation system. The on-board computer provides data about the driver's driving style and is expected to make it easier to bring about changes. Thanks to the navigation system, KPN vehicles are covering fewer kilometres and consuming less fuel because drivers spend less time looking for addresses. The follow-up trial is taking place in the first two quarters of 2004. The results will be analysed to determine further policy in this field.

## DRIVING ON GAS

KPN has initiated research into possibilities for gas powered vehicles. Gas is a cleaner, safer and cheaper fuel than petrol, LPG and diesel. But a major problem is the absence of a network of gas filling stations in the Netherlands (there are not more than five and most of these are privately owned by large companies) and the small number of suitable vehicles and models. KPN has sought co-operation for this trial with other large companies and organisations. So far they have shown little interest in co-operation, mainly because no government grants are available. Therefore, potential co-operation partners see a trial of this kind as an investment that has considerable risks despite the significant potential opportunities. Nevertheless, KPN will try to start a pilot project in 2004 in one region with between 10 and 20 vehicles. If the aforementioned problems can be solved, the results of the trial are likely to be available towards the end of 2004.

## INDIRECT ENERGY CONSUMPTION

We have itemised the energy consumption figures for different parts of the KPN group, including this year the data of our international affiliated and associated companies.

### *The Netherlands*

KPN's total energy consumption in the Netherlands in 2003 amounted to 637 GWh. This compares with 628 GWh in 2002.

Reasons for the rise include:

- increase in telecommunications equipment as a result of the expansion of services. The large number of new ADSL lines had the biggest impact on energy consumption;
- increased number of telephone exchanges used for other telecom operators;
- expansion of in-building systems, particularly cooling equipment;
- a hot summer that necessitated extra cooling.

A significant reduction was achieved by increasing the threshold temperature in technical rooms from 25 to 28 degrees Celsius. The air conditioning system does not activate until the temperature reaches 28 degrees Celsius, which means energy is consumed later and less frequently. Provisional consumption figures for some 450 buildings indicate a significant saving. Definitive figures will be available some time in 2004.

Use of green electricity by Dutch parts of the KPN group amounted to more than 85 GWh in 2003. KPN purchased green electricity to meet almost 13% of its total electricity consumption. This represents a substantial increase in the proportion of green electricity compared with 2002 when KPN purchased 12 GWh (2% of total energy consumption). The increase is due to the conversion to green electricity of all technical buildings with a mains capacity of less than 50 kilowatts. The sustainability of this growth in the years ahead will depend on how the price of green electricity develops and on government policy for this type of electricity.

#### *International*

The total energy consumption of KPN's international affiliated and associated companies came to 208 GWh in 2003.

### COMMUTING

#### *The Netherlands*

Eleven per cent of KPN's employees in the Netherlands commute by public transport using railway season tickets or annual public transport tickets that the company obtains for them. The workforce includes 31% who use a company car or leased car. KPN reimburses 58% of all employees for their monthly commuting expenses. More than 76% of this latter group live within a radius of 30 kilometres of their place of work. KPN does not know what means of transport they use.

The 'Environment' appendix states the total number of kilometres covered by leased vehicles and the environmental consequences of using them. KPN will attempt to include the total number of commuting kilometres in next year's report.

#### *International*

Four hundred of the 1,200 employees in Germany have a 'company ticket'. They receive a public transport ticket from E-Plus for travel between home and work. In Belgium, BASE operates a shuttle bus between its office and the local railway station. The service runs four times in each direction in the morning and evening for commuting employees.

## Water

#### *The Netherlands*

KPN's consumes water in the Netherlands mainly for in-building services in offices. The water is used for drinking, cleaning, staff restaurants and toilets. Water is used for cooling at some technical buildings (like telephone exchanges).

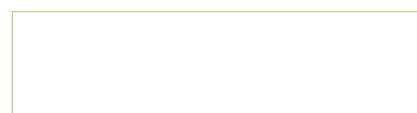
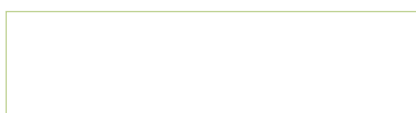
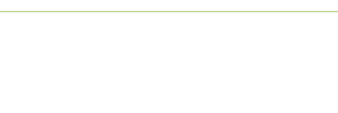
Seventy buildings started recording their water consumption in 2003. Compared to previous years, a more accurate picture of the water measurements is derived thanks to a combination of measurements and extrapolations. For offices, we made the extrapolation based on consumption per m<sup>2</sup>, while for technical buildings we extrapolated using the number of toilets. Approximately 297,000 m<sup>3</sup> of water was consumed in 2003.

We have included the cooling water of five technical buildings in the figures for the first time in 2003. Our estimate comes to approximately 70,000 m<sup>3</sup>. The water is not treated with chemicals. This consumption was not included in the figures of previous years, so the 2003 data provide a more precise picture. Water consumption reported in previous years was based mainly on calculations.

An important focus of attention in 2003 was avoiding Legionella risks. Although this is not directly related to the environment, it does have high priority because of the need to safeguard the health of our employees (under health & safety laws). Towards the end of 2003, we started a risk analysis at technical buildings where staff work. The results will identify places where KPN needs to take measures in 2004. Combating Legionella is also necessary in offices. KPN conducted a risk analysis in three office buildings. KPN has sent letters to the lessors of its rented buildings, asking them to address Legionella risks.

#### *International*

KPN's international affiliated and associated companies consumed approximately 28,000 m<sup>3</sup> of water in 2003.



## Emissions into the air, water and soil

### AIR

Most air emissions consisted of greenhouse gases (CO<sub>2</sub>) and coolants.

#### Greenhouse gases

Carbon dioxide (CO<sub>2</sub>) is released through the burning of fuels like gas, diesel and oil. Emissions of CO<sub>2</sub> contribute to the greenhouse effect. Greenhouse gases are emitted during the generation of electricity. CO<sub>2</sub> is the main greenhouse gas that KPN emits through its use of energy. This occurs during consumption of gas and diesel for the heating of rooms, fuels used by vehicles and indirectly through electricity consumption in buildings. Electricity falls into two categories, i.e. green electricity and grey electricity. Green electricity is generated without the CO<sub>2</sub> emissions by using such means as wind, water and solar energy, whereas grey electricity is generated using fossil fuels and thus causes CO<sub>2</sub> emissions. KPN's activities in the Netherlands in 2003 resulted in total emissions of almost 419 kilotons of CO<sub>2</sub>. Compared with the 2002 figure (472 kilotons), this represents an 11% reduction. Some of the reduction is due to increased purchases of green electricity that avoided more than 56 kilotons of CO<sub>2</sub>. Also, the KPN vehicle fleet consumed half a million litres less fuel, accounting for a further reduction of 7 kilotons of CO<sub>2</sub>.

#### International

It proved difficult to calculate the CO<sub>2</sub> emissions of KPN's international activities. The CO<sub>2</sub> conversion factors used in the Netherlands (based on gas and coal) are not usable for our international affiliated and associated companies. This is because in Germany the use of brown coal causes higher CO<sub>2</sub> emissions, while electricity obtained from nuclear power stations like those in Belgium does not cause any CO<sub>2</sub> emissions at all. In 2004, KPN will determine the conversion factors that should be applied. We will also investigate which other fuels are used to generate electricity, and the associated risks and emissions might be presented in a future report.

#### Substances harmful to the ozone layer

Substances that damage the ozone layer are sometimes used in coolants and extinguishing agents. Coolants like (H)CFCs are found almost exclusively in air conditioning systems. Some of these systems are used in our offices to provide the best possible working conditions for KPN employees. Air conditioning systems have also been installed in buildings housing telecommunications hardware. Coolants are further used in catering showcases.

KPN reduced to zero in 2003 the use of extinguishing agents that harm the ozone layer. KPN reduced to zero in 2003 the use of extinguishing agents, mostly halon in fire extinguishing systems,

that harm the ozone layer. Many buildings with telephone exchanges and other electronic equipment have cooling systems to prevent an excessive rise in room temperature from damaging the equipment. These cooling systems use coolants (HCFC or Freon). When replacing systems and building new ones, KPN uses R407c instead of the more environment-unfriendly R22 commonly used at present.

Any leaks in cooling systems – necessitating the top-up of coolants – are recorded in a log book and minimised through annual inspection by an accredited company. KPN is endeavouring to set up central records of the use of coolants and a KPN-wide reporting system.

### WATER

KPN uses water only for drinking, cleaning, staff restaurants and toilets and additionally for the cooling of a few technical buildings. The number of pollution units has been decreasing in recent years. This is related to the decrease in the number of employees at KPN.

Figures are not yet available over 2003 for KPN's international companies because of the different conversion factors applied in Germany and Belgium.

### SOIL

#### The Netherlands

KPN stores diesel fuel mainly at its emergency power generators. Occasionally, KPN uses diesel to heat remote technical buildings. The diesel oil is stored in above-ground and below-ground tanks. These tanks contain 2,000 to 30,000 litres. The number of tanks has increased because in addition to those used for facilities in technical buildings we have now included the tanks of 'mobile' and office premises. In total, KPN has 331 tanks in the Netherlands. All below-ground tanks are protected against electro-chemical rusting and are inspected each year.

#### International

BASE has 172 above-ground storage tanks for various generators. This is a temporary situation because the storage sites of the mobile network have not yet been connected to the public electricity mains. In year under review, BASE removed 7 m<sup>3</sup> of contaminated soil after a leak.

E-Plus has 60,000 litres of fuel storage capacity. Details of the number of tanks and their condition are not available.

## WASTE

KPN worked towards a better separation of waste in 2003. A greater proportion of waste is now reusable and less waste needs to be incinerated or dumped.

### *The Netherlands*

KPN had 22% less waste in 2003 than in 2002. The reduction of waste is continuing. The decreasing volume is due to fewer employees (as in 2002) and also to some projects for the prevention and better separation of waste that began to produce results in 2003. Wherever possible, we re-use waste. The average recycling percentage remained virtually unchanged in 2003 at 57%. But the figure comes to 78% when waste offered for incineration with energy recovery is included in the calculation.

Facility waste is office waste of a domestic nature. It consists of paper, cardboard, staff restaurant waste, glass, film and residual waste. This large stream of waste was reduced by more than 1,000 tons in 2003 to less than 6,000 tons. KPN's re-use of paper, glass and restaurant waste is 100%. Approximately 61% of the large stream of residual waste (more than 3,000 tons) is reusable. The results of paper separation are improving all the time: whereas in 1998 KPN separated only 1% of paper, the figure was 35.8% in 2003. In 2006, KPN wants to reach 70%. All of the paper and cardboard is recycled in the paper industry.

The stream of process waste decreased in 2003, mainly because of a substantial reduction of wood waste (down 72%). A large proportion of process waste is reusable. KPN has 25 different streams of hazardous waste. There is a downward trend in the volume of total waste. Since 1999, hazardous waste at KPN has been almost halved to the 2003 level of 35 tons. KPN removed 132 tons of cables in a responsible fashion in 2003. Of the remaining cable material, KPN removed 95% for useful recycling.

KPN signed the Packaging Covenant III in 2003 and thus gave a voluntary undertaking to reduce packaging waste. The agreement concerns packaging that enters the Dutch market through imports. Packaging waste at KPN consists of paper, cardboard, plastic and metal. Compared with 2002, KPN put 30 tons less

packaging waste into the Dutch market in 2003. An important development was the shift in packaging from plastic to environment-friendlier paper.

KPN removed approximately 270 tons of white and brown goods in 2003. This waste is made up of IT hardware, printers, copiers and telecommunications equipment. Of this volume, 75% originated from KPN's Primafoon retail outlets and Business Centers.

### *International*

The data KPN collected from E-Plus and BASE is not comparable with the Dutch situation. KPN is currently examining whether it is possible to obtain compatible data.

## COFFEE BEAKERS

KPN won the SDB Award in 2003 for collecting coffee beakers. The Benelux Disposables Foundation (SDB) gave KPN the award because our head office retrieved a total of 797,000 plastic beakers in 2002. This score comes close to 100%. SDB presents the award each year to the company judged to have achieved the best performance in getting back disposable articles like coffee beakers.

## Suppliers

KPN reorganised its purchasing function in 2003 to create greater co-ordination and efficiency. We want to use fewer suppliers by applying a stringent selection process. Sustainability plays an important role in the selection procedure. A limited group of suppliers makes it easier for KPN to determine and carry out its environmental policy.

KPN has general conditions of purchase. They contain environmental requirements regarding product components, waste processing and recycling. KPN requires suppliers to explain how



they protect the environment. Departures from the standard conditions of purchase necessitated by specific purchasing contracts require the prior approval of the KPN employee responsible for the functional area concerned.

KPN has adopted this approach to translate legal requirements and voluntary agreements like the Packaging Covenant into specific requirements for the company's purchasing procedure.

Purchasing contracts reflect KPN's policy. A few examples are:

- ♦ cleaning companies are allowed to use only environment-friendly or environment-neutral cleaning agents;
- ♦ the proportion of Max Havelaar coffee was a 30% in 2003, an increase of 5% compared with 2002. By using Max Havelaar coffee, KPN is promoting social working conditions, fair prices and good environmental conditions in the coffee growing sector;
- ♦ packaging requirements have been defined in greater detail in respect of such matters as permissible materials.

## Products and services

Products are becoming ever-smaller and the consumption of materials is decreasing through technological advances and market mechanisms. New mobile products with colour displays and cameras originally appeared set to become larger, but the current trend is towards smaller sizes. Gains are also being achieved with batteries and accessories thanks to technological progress. The latest mobile phones typically have smaller batteries (with less consumption of materials) and greater power per volume unit. This adds up to less burden on the environment. Similarly, increasingly less material is being used in chargers and adaptors, which in turn means less waste.

KPN will endeavour in 2004 to reduce the use of paper for users' manuals. In consultation with suppliers, we will examine whether manuals can be provided only in Dutch, English and German instead of being printed in other languages as well. The use of

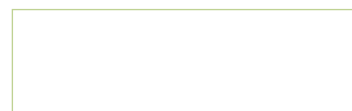
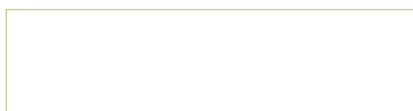
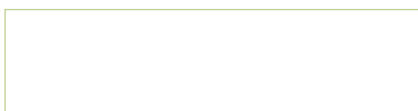
paper can be reduced still further by making greater use of the Internet. KPN made a start in 2003 by publishing users' manuals on its website [www.kpn.com](http://www.kpn.com).

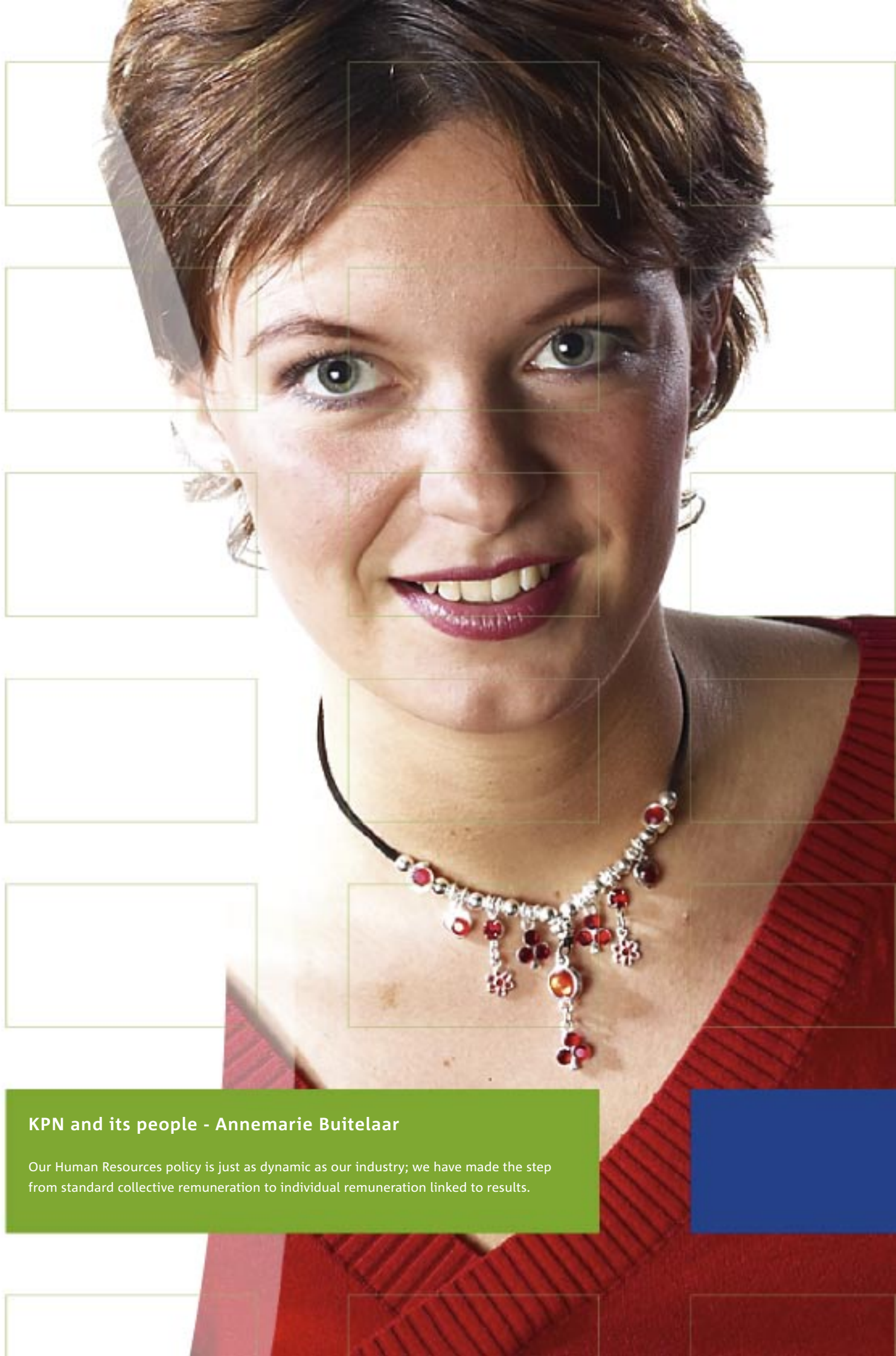
KPN markets two kinds of phonecards: chipcards for use in payphones (5.4 million cards) and cards for mobile phones. Since KPN increased card values, sales of cards have been decreasing in absolute numbers. This has a positive effect on the waste stream. Similarly, the possibility to top up cards electronically reduces the volume of waste. Top-up cards for mobile phones have been included in the report for the first time in 2003. This explains the increase to 2.4 million cards compared with the 1.4 million in 2002.

Hardware returned to KPN can be processed in number of ways. Repairable articles are taken to a central location for repair. The other articles and hardware no longer covered by a guarantee are sent by KPN to a licensed waste processing company. Wherever possible the waste processing company converts the parts to the original raw materials to enable recycling. In 2003, a total of 224,737 devices were returned to KPN (compared with 251,887 in 2002).

### International

Since August 2003, E-Plus has been offering returned mobile phones to Greener Solutions (GS). This company repairs the phones for resale or recycles their components. For every supplied telephone, GS transfers EUR 4 to AIDS research. In 2003, 42% of mobile phones was re-used in this way, while 33% of the equipment was recycled. Ultimately, 25% was taken away as waste.





## KPN and its people - Annemarie Buitelaar

Our Human Resources policy is just as dynamic as our industry; we have made the step from standard collective remuneration to individual remuneration linked to results.

# KPN AND ITS PEOPLE

## Introduction

Employees make KPN what it is. They play a crucial role in retaining and strengthening our company's position in a market where competition is still growing and employment opportunities are under threat. KPN wants to stimulate and motivate its employees as much as possible to work in a more result-driven way. Conditions of employment that have always been of a highly collective and protective nature are making way for a policy geared more to the individual. KPN rewards joint results and individual contributions to them.

## Employment at KPN

### EMPLOYMENT OPPORTUNITIES

KPN employed a total of 32,736 employees (29,668 full-time equivalents) at year-end 2003, including 19,542 employees (18,649 FTEs) at the KPN personnel unit in the Netherlands. This unit includes all employers named in the preamble to the KPN collective labour agreement. E-Plus in Germany had 3,051 employees at year-end 2003. At the same date, BASE in Belgium had 896 employees. The other employees (9,247) work at KPN's other affiliated and associated companies, particularly SNT.

Women account for 28.1% of the workforce at E-Plus. The proportion of part-timers at E-Plus is 9%. The workforce of BASE includes 36.9% women. The proportion of part-timers at BASE is 11.3%.

The tables below show the breakdown of the workforce at the KPN personnel unit in the Netherlands (19,542 employees and 18,649 FTEs).

### AGE DISTRIBUTION

	Number	%
16 - 19	12	0.1%
20 - 24	244	1.2%
25 - 29	1,403	7.2%
30 - 34	2,901	14.8%
35 - 39	3,614	18.5%
40 - 44	3,329	17.0%
45 - 49	3,336	17.1%
50 - 54	3,490	17.9%
55 - 59	1,147	5.9%
60 - 65	66	0.3%

### SALARY LEVEL

	Number	%
Scale 2	1	0.0%
Scale 3	18	0.1%
Scale 4	373	1.9%
Scale 5	3,125	16.0%
Scale 6	3,149	16.1%
Scale 7	2,812	14.4%
Scale 8	2,377	12.2%
Scale 9	1,698	8.7%
Scale 10	1,436	7.3%
Scale 11	1,370	7.0%
Scale 12	1,329	6.8%
Scale 13	890	4.6%
Graduates (college/university)	410	2.1%
Personal contract of employment	554	2.8%

### LENGTH OF SERVICE

	Number	%
< 1 year	211	1.1%
1 - 4 years	3,402	17.4%
5 - 9 years	2,636	13.5%
10 - 14 years	3,041	15.6%
15 - 19 years	2,375	12.2%
20 - 24 years	2,460	12.6%
>24 years	5,417	27.7%

### GENDER AT EACH DIVISION

	Men	Women	Men	Women
Mobile division	1,441	723	66.6%	33.4%
Fixed division	7,539	1,798	80.7%	19.3%
Fixed/Business Solutions	2,213	800	73.4%	26.6%
Other	3,764	1,264	74.9%	25.1%
<b>Total</b>	<b>14,957</b>	<b>4,585</b>	<b>76.5%</b>	<b>23.5%</b>

**FULL-TIME/PART-TIME**

	Part-time	Full-time	Part-time	Full-time
Mobile division	454	1,710	21.0%	79.0%
Fixed division	1,303	8,034	14.0%	86.0%
Fixed/Business Solutions	400	2,613	13.3%	86.7%
Other	967	4,061	19.2%	80.8%
<b>Total</b>	<b>3,124</b>	<b>16,418</b>	<b>16.0%</b>	<b>84.0%</b>

**NUMBERS AT EACH DIVISION**

	Number	FTEs
Mobile division	2,164	2,054
Fixed division	9,337	8,977
Fixed/Business Solutions	3,013	2,917
Other	5,028	4,701
<b>Total</b>	<b>19,542</b>	<b>18,649</b>

**NUMBER OF EMPLOYEES<sup>1)</sup>**

1998	34,553
1999	35,362
2000	37,380
2001	30,647
2002	21,489
2003	19,542

1) Number of employees at year-end at KPN personnel unity in the Netherlands.

**MOBILITY**

Employment opportunities at KPN remained under pressure in the year under review, especially in the Netherlands. The workforce in the Netherlands decreased by 1,947 employees (1,884 FTEs). A total of 503 shed employees (469 FTEs) were covered by the Social Plan; these were supernumeraries and employees who took advantage of the voluntary severance scheme. The outsourcing of non-core activities resulted in another 718 employees (700 FTEs) leaving the company. The rest of the workforce downsizing was achieved through natural attrition. In 2004, KPN announced plans to reduce the organisation still further by shedding approximately 800 jobs. Much of this downsizing will occur through natural attrition and through replacement of external temporary workers by payroll staff. Despite these steps, some involuntary redundancies will be

unavoidable at the Fixed division. Through its in-house Mobility Shop, KPN will continue helping supernumeraries find other work. By year-end 2003, 71% of the 3,566 employees declared supernumerary under the 2001 reorganisation had found new jobs.

For the first time, the Mobility Shop provided assistance in 2003 to employees who voluntarily agreed to employment mobility. Several business units have set up special programmes to promote the mobility of employees. A large number of career development interviews were conducted and personal development plans were created for the employees concerned.

**REMUNERATION POLICY**

More than in the past, our remuneration policy is linked to KPN's results. Employees in the Netherlands received a one-off bonus, for example, when it was established mid-2003 that KPN had successfully moved out of the threatening situation that existed at year-end 2001.

The modernised remuneration policy agreed at year-end 2003 is built upon introduction of Performance Reward. Groups of employees will be rewarded for achieving challenging predefined targets. This approach is designed to stimulate employees to fulfil the shared objectives of their business unit: reduce costs, increase sales and improve customer satisfaction. Bonuses will vary between 0 and 3.5% and may be as much as 5.5% for exceptionally good results. Regular salary will be determined more by an employee's functioning. Any general salary increase will be combined with the personal increase in salary. The dual increase will depend on how the employee functions.

**TRADES UNIONS AND EMPLOYEE PARTICIPATION**

KPN is working closely on numerous fronts with the trades unions and works councils. The far-reaching reorganisation plans agreed towards the end of 2001 were possible only through the constructive stance adopted by the unions. Permanent consultation is necessary about essential organisational changes and unavoidable job reductions. The company discussed conditions of employment with the unions.

Managers representing KPN discussed with the works councils the company's operations and reorganisations. KPN has a Central Works Council plus 14 local works councils. The agenda of the Central Works Council in 2003 included general items like annual plans and reorganisations – including the preparation of the reorganisation at the Fixed division – and specific items like employee motivation and smoking at the workplace. At the traditional one-day meeting with the Central Works Council, KPN's senior management discussed the company's long-term strategy.

## FACILITIES

The KPN collective labour agreement includes separate provisions for employees who perform union work. KPN supports union work by giving the combined trades unions an annual contribution of €13 for each employee covered by the collective labour agreement. The company provides facilities like conference rooms, telecommunication services and copying equipment. Other means of communication like notice boards and the intranet are also available to the unions and works councils. Unions and their officers may attend conferences and personnel training and development meetings.

In Germany and Belgium, E-Plus and BASE provide facilities for representatives of their employees in the form of conference rooms and copying services. The Belgian government offers unions financial support for performance of their work.

## HEALTH AND SAFETY

KPN has traditionally given considerable attention to the health and safety of its employees. The company has a comprehensive package of policy measures for monitoring matters related to workplace health and safety and for making any improvements necessary. This approach applies to all countries where KPN operates.

Employee satisfaction surveys continued in 2003 with a focus on motivation of employees. The response to the survey and the scores on key items were better than in 2002.

## SICK LEAVE

Sick leave decreased at KPN in the Netherlands from 5.5% in December 2002 to 4.7% in December 2003. The sick leave rate in Germany was 2.8% in 2003. In Belgium it was 4.4%

Several factors were instrumental in KPN's 0.8% year-on-year reduction of sick leave in the Netherlands. The company took steps to ensure speedy and proper reintegration of sick employees in accordance with the Gatekeeper Act (Wet Poortwachter). The KPN Health & Safety Service works in conformity with best practices. KPN has broadly embedded within its organisation successful approaches like the Exercise and Psyche Guidelines of the Dutch Association for Medical Services in Industry and the Labour Disputes Guideline of STECR (a national reintegration platform). Policy on health and welfare is worked out by safety consultants, company doctors and industrial social workers. External factors also influence sick leave. The sick leave rate has decreased in the Netherlands.

## HEALTH AND SAFETY LAWS

KPN produces a Health & Safety Plan for sizable construction and digging projects, often in consultation with safety instructors. Employee safety is the number one consideration when work involves hazardous substances, glass and rock wool and the use

of ladders and laser equipment. At its office buildings, KPN devotes attention to workstation layouts and provides instruction on working with VDUs. The company has developed special guidelines to monitor the health and safety of employees who work at customer's premises (at great heights or in contaminated groundwater, for example) and for teleworking from home.

KPN has a special procedure for industrial accidents. The KPN Security & Integrity Helpdesk reports regularly to the KPN Board of Management. The company notifies the Labour Inspectorate of all serious workplace accidents. KPN holds liability insurance.

## COMPANY EMERGENCY SERVICES

KPN has a company emergency services organisation that provides help in the event of serious incidents. The organisation is staffed by volunteers trained in first aid, elementary fire fighting and evacuations. They take refresher courses each year. In connection with reorganisations and internal relocations, KPN devoted extra attention in the year under review to redesigning its company emergency services, including recruiting new volunteers.

E-Plus gave special attention to rendering first aid in the year under review. Its security personnel received special training for ensuring company safety in the event of calamities. BASE has a Prevention & Safety Committee that discusses company safety each month. The shop personnel of BASE are trained to deal with violent customers and dangerous situations. They attend an annual refresher course. Reception desk and security employees receive instruction in accordance with prevailing regulations. Among other things, they receive guidance on observing privacy laws in situations like conducting checks on people leaving buildings and personal searches.

## TRAINING AND EDUCATION

KPN attaches great importance to the professionalism of its employees. Our training policy focuses on ensuring that employees are 'fit for the job' in terms of their competences. The company offers numerous training courses tailored to fit its business. The courses are provided by Business Schools that cover such subjects as mobile communication, billing and security, and by Academies for consultancy, finance and marketing. Our training policy includes special attention to programmes for customer care and marketing & sales because of the importance that we attach to customer satisfaction.

For some years now, KPN has been offering its employees an opportunity to take broadly based training leading to state certificates for lower, intermediate and higher vocational education in economic, accounting and technical subjects. In the first semester of the 2003/2004 academic year, a total of 304 employees received training through the regular education system.

KPN employees spent a total of 16,109 half-days on training courses in 2003. Web-based training via the Internet is used to provide 18% of all training. Approximately 80% of our training is of a conventional nature and the rest is self-tuition.

Following the major investments made by E-Plus in UMTS in Germany, the company has developed comprehensive training and instruction programmes. BASE concentrates primarily on training its salespersons. Every promotional campaign, like those for i-mode pre-pay and post-pay, are preceded by bespoke training programmes.

### DEVELOPMENT OF TALENT

KPN continues to attach importance to investing in talented employees as a way of filling management positions in due course. Our emphasis is on demand-driven development of talent. We have identified the talents KPN will need in the coming years and the targeted individual investments that will be necessary. The emphasis is on the interests of the organisation and on the personal responsibility of talented employees to build their own careers.

KPN is again recruiting talented young people. Compared with 2002, there was an increase in 2003 in the number of college and university graduates who joined KPN under its strategic recruitment programme. Compared with the year before, we doubled the number of work experience placements for graduates and dual learners. KPN remains a favourite employer among young graduates.

### DIVERSITY AND RESPECT

KPN keeps a careful watch on the labour market position of specific sections of the population in the Netherlands. Means for achieving a proportional representation of women in the workforce include providing facilities for childcare, creating possibilities for part-time work, offering flexible ways of saving for care leave, devoting attention to the working climate and enforcing a policy on harassment.

As part of our reorganisations since 2001, we give employees declared supernumerary priority over other employees when filling internal vacancies. This policy has resulted in a substantial number of supernumeraries been transferred to different jobs within the company (a total of 1,325 people since the start of the reorganisation programme).

In numerous different ways, KPN addresses the issue of discrimination. We are conscious of the need for the careful use of language in internal and external communication in order to avoid statements that could be considered discriminatory. Employees who consider management decisions discriminatory are able to lodge objections with the KPN General Complaints Committee.

Respect for society and for fellow human beings is part of KPN's general purchasing conditions and specific purchasing contracts. Suppliers will have to comply with these principles. Products and services must be in accordance with ILO Resolution 182 (e.g. child labour is not allowed) and no illegal materials or products should be used.

BASE and E-Plus give special attention to the multicultural nature of their companies. BASE employees 25 different nationalities. The company sees the multi-formity of society as a commercial opportunity and has developed special products reflecting the situation, like cheap rate calls for Belgium's Turkish community to Turkey and some neighbouring countries.

### COMPLAINTS PROCEDURE AND DISCIPLINARY POLICY

KPN has embedded the right of complaint and a complaints procedure in a company regulation. An employee who believes that a decision or action by the company has disproportionately prejudiced his or her interests has the right to lodge a complaint. Before reaching a decision on a complaint, the employer seeks advice from a Complaints Committee under a procedure laid down in consultation with the Central Works Council. The same procedure applies to discussion about any negative effects of a reorganisation for individual employees. E-Plus and BASE have their own complaints procedures. Their works councils play a role in the procedures. E-Plus operates an anonymous complaints line for employees.

Employees may report violations of the KPN Company Code to the KPN Security & Integrity Helpdesk. Any employees confronted by unwanted advances at the workplace can approach a specially appointed contact person in confidence. The KPN collective labour agreement sets out company policy on violations of the company code and unwanted advances. KPN Security integrity consultants conduct internal investigations into integrity questions. They perform their work subject to the Protocol for Integrity Investigations and the Code of Conduct for Integrity Consultants.



## KPN and society - Lone Vaerndal

The offer of free Internet access to schools is a unique example of real and tangible sustainable business.

# KPN AND SOCIETY

## Introduction

A large company like KPN fulfils many roles. Besides being a provider of commercial services, we are an employer and a major stakeholder in society.

'Technology' and 'telecommunication' evoke feelings of distance in some people. KPN takes a different view. Telecommunication brings people closer together and gives them access to the information they want – wherever, whenever and however they want it. By the same token, without people there would be no telecommunication. People, like KPN, lie at the heart of society.

## Society

### SERVICES FOR PEOPLE WITH LIMITATIONS

It is impossible to imagine society without the products and services that KPN provides. Fixed and mobile phones along with Internet access and services are indispensable in everybody's private and business life. People with physical limitations are extra reliant upon telecommunication for their participation in mainstream society. KPN feels a sense of commitment towards them. KPN's products and services are developing in such a way that they are beneficial to an increasingly wider group of users. Since the introduction of mobile phones, for example, the deaf and hard of hearing have benefited considerably from facilities like SMS text messaging, MMS and vibrating batteries, and also from broadband Internet access.

KPN has integrated adapted services in its regular offerings as fully as possible. We offer two dedicated services especially for people with a physical limitation, namely the text telephone service and the telephone directory service. The text telephone is a service adapted to the needs of the deaf and hard of hearing to enable them to communicate with the hearing world. People are available day and night at our call centre to convert spoken messages into written text readable by the deaf and hard of hearing on a specially designed device, and vice versa. KPN handled 220,000 calls of this kind in 2003.

KPN offers the telephone directory service in association with the Dutch Council for the Chronically Ill and the Disabled for people unable to use normal telephone directories because of a visual limitation. The service comprises a helpdesk and the freephone number 8008. Five thousand people used this service in 2003.

The KPN range further includes the Biarritz telephone for the hard of hearing. In co-operation with the National Police Force, KPN ensures that the 112 emergency number is always reachable by people with a limitation. Similarly, the KPN website [www.kpn.com](http://www.kpn.com) is accessible to a large extent to people with impaired eyesight.

KPN consults regularly with the authorities and interest organisations with a view to meeting specific needs. Some insurance companies reimburse the cost of indispensable products adapted to the needs of the disabled and in some cases the costs are tax deductible.

### COMMUNICATION DURING DISASTERS

KPN safeguards communication between authorities like ministries, municipalities, fire brigades and the police in the event of disasters. The National Emergency Network was created for this purpose. KPN manages the emergency network on behalf of the Ministry of Economic Affairs. This national network for voice, fax and data communication is completely separated from the public networks. The National Emergency Network is used only if a risk exists of the failure of the regular networks in circumstances like the start of the Iraq war in 2003.

On the instructions of the government, KPN installed the uniform European emergency number 112 for situations where every second counts. KPN ensures correct handling of 112 calls originating from other fixed and mobile operators. The working of the 112 service is monitored continuously.

### CONTINUITY AND AVAILABILITY

Telecommunication is an important cornerstone of the social and economic structure of the Netherlands. Like the energy sector, telecommunication has been designated 'vital to society'. KPN actively and loyally participates in discussions and initiatives in society like:

- National Telecommunication Continuity Plan (Nacotel);
- National Anti-Terrorism Action Plan (vulnerability and cohesion of vital infrastructures);
- Vulnerability on the Internet (KWINT).

### INFORMATION SECURITY

More and more companies are outsourcing their corporate ICT infrastructures to KPN. This means KPN shares responsibility for the security of the business operations of its customers. KPN has aligned its information security policy to international standards (BS7799, the Information Security Code in the Netherlands).

## BROADBAND INNOVATION

Broadband services make life easier and better. They provide added value to society because broadband services allow faster communication. Companies will develop new services that include applications that meet the needs of the community in such fields as healthcare, security, safety and education. KPN watches the market closely so as to respond to present and future marketplace developments and users' wishes.

Among other things, KPN is co-operating in a consortium in Eindhoven with Stichting Kenniswijk and other companies. As part of a trial, the consortium has provided three residential districts with a fibre-optic network. Residents can obtain a subscription to high-speed Internet, take new broadband services and even develop their own services. The trial will identify services for which a need exists. In the city of Almere, KPN is preparing new residential districts for fibre-optic cabling by laying pipes underground alongside existing copper-wire cables so as later to insert fibre-optic cables in a simple way. Installing fibre-optic cables is not enough in itself. Therefore, KPN is co-operating with the Stichting Nederland Kennisland to stimulate the knowledge-driven economy in the Netherlands. We are participating in brainstorming about various broadband services for the community at large. People in the field make known their ideas for services in sectors like healthcare, education and safety. An example is a project called Digibeter that gives sick schoolchildren virtual access to lessons in their own classroom.

Field trials are also being conducted with regard to UMTS. KPN is consulting directly with business customers and co-operating with them in field trials, including one in the Port of Rotterdam.

Piloting a ship into the Port of Rotterdam requires a great deal of precision. A pilot needs an awful lot of data to do his work safely, quickly and properly. Water levels, current speeds and wind speeds are just some of the data a pilot must have to hand.

The Rotterdam-Rijnmond Pilots Service provides pilotage in the Port of Rotterdam. To examine the benefits of a solution built on mobile data communication, the organisation joined a UMTS trial at the end of 2003. Pilots have real-time access via a laptop computer to the very latest information from the port authority's traffic control centre. Rotterdam is and wants to remain a safe port in the fast-changing world of shipping. To continue offering the same high degree of safety in the years ahead, the port must evolve in step with these changes. The port authority decided to participate in the UMTS trial because it wants to know as much as possible about mobile data communication before formulating its strategic vision for a new traffic safety system.

The UMTS trials with KPN Mobile customers will continue into the second quarter of 2004. The market launch of UMTS services is scheduled for mid-2004 in Germany and the Netherlands. Belgium will follow later.

## Products and services

KPN plays a leading role in developing broadband services, the Internet and the distribution of information. The growing use of data and mobile services is also driving growth in fixed networks. Literally and figuratively, the fixed telephone network is the backbone of telecommunication and of the networked economy. KPN recognises that it is only possible to provide reliable high-quality communication services if the fixed networks offer sufficient quality and capacity. We have seamlessly interconnected communication solutions and infrastructures to offer customers reliable and secure access to information and applications.

## CONSUMER HEALTH AND SAFETY

KPN's company code states that 'KPN promotes the responsible, safe use of communications equipment.' KPN recognises the importance of safeguarding the health and safety of its customers. That is why we always choose the right equipment, technologies, employees, partners and access. All KPN products and services satisfy European and international laws and regulations.

### *Radio waves in mobile communication*

The Dutch government has stated in its National Antenna Policy that a good communication infrastructure forms the backbone of our information society. The government takes the view that the Netherlands must have and maintain a top class, affordable, accessible and reliable mobile communication infrastructure complete with base stations. To enable mobile communication from a technical point of view, 4,000 base stations have been installed on roofs and in open countryside in the Netherlands. People who live or work in the vicinity of a base station rightly want clarity about the health aspects of the radio waves that the antennas transmit. The same goes for the radio waves transmitted by mobile phones.

Base stations and mobile phones have relatively low transmitting power. By way of comparison, the signal transmitted by a television broadcasting mast is many times stronger. Over the past decades, a lot of intensive research has been conducted into the radio waves of mobile phones and base stations, both in the Netherlands and in other countries. Stringent standards have been defined on the basis of that research, with a very narrow safety margin. As a leading mobile network operator, KPN

obviously adheres to those standards and will not deviate from them. Nevertheless, we recognise that some customers still have their doubts about the safety of radio waves. That is why KPN conducts an active public guidance policy and keeps a sharp watch on the developments that occur. KPN is investing in research and supports initiatives for further independent research. Among other things, we are helping to find objective answers to questions in the minds of many customers and concerns among people who live or work near base stations. All of these people may rightly expect mobile communication to be safe as well as exceptionally useful, handy and fun.

### PROCESS MANAGEMENT AND CERTIFICATION

KPN conducts its business with a view to sustainably improving its performance levels. In our pursuit of business excellence, we have adopted the EFQM Excellence Model. Our quality system includes use of the following tools:

- ♦ Business Balanced Scorecard (BBSC)
- ♦ EFQM self-assessment
- ♦ the 'plan-do-check-act' approach
- ♦ Key Performance Indicators (KPIs)
- ♦ Monthly management letters at each part of the company
- ♦ Monthly management reviews
- ♦ Personal scorecards (for agreeing targets with employees).

Process management forms the heart of the EFQM model and establishes the link between policy and strategy and their fulfilment. For that reason, KPN devotes considerable attention to designing, organising, defining, controlling and evaluating its processes properly.

Assessing the performance of our business processes starts at the customer: throughout the year, we commission regular surveys conducted among our customers to find out how satisfied they are with our services.

We have defined key performance indicators (KPIs) to manage objectively the service provisioning required by customers. The KPIs are monitored and remedial action is taken early if variances occur.

The ISO 9001:2000 standard aims to enable companies to conduct business effectively based on a clear customer focus with systematic pursuit of ongoing improvements. Customers want to know whether KPN conducts its business efficiently and is capable of delivering reliable services. A basic principle that we have adopted within KPN is that all our processes must satisfy ISO 9001:2000. Most of our customer processes have been accredited since 1993. In 2003, KPN switched to the new standard under ISO 9001:2000. After internal and external audits, all our certificates were upgraded to the new standard.

### QUALITY

KPN knows that its employees are a key factor in achieving its objectives. Their professionalism, motivation and commitment are crucially important. Each year we conduct a survey using an online questionnaire on our intranet to gauge the motivation of our employees. These surveys and discussion of the results with the employees lead to improvement targets and activities.

KPN focuses strongly on customer satisfaction and quality. We attach great importance to raising customer satisfaction and strengthening customer loyalty. An independent organisation regularly measures customer satisfaction for us. The results published in monthly and quarterly reports reveal areas where customers expect better performance. KPN has initiated targeted improvement projects centrally and locally to sharpen its customer focus.

### KPN IDEAS MANAGEMENT (KIM)

For many years now, KPN has enjoyed widespread recognition as a manager of ideas. The KPN ideas system is part of our quality policy. This shows how much importance we attach to managing ideas within the company. As the submitted ideas produce substantial savings, KPN will continue to invest in the systematic management of ideas. Our employees sent in a total of 2,700 ideas in 2003, together producing a net saving of EUR 10 million in the first year alone. Partly thanks to this policy, the jury of the National Ideas Centre unanimously decided to award KPN Ideas Management the 'Investor in Ideas Award 2003'.

### ADVERTISING

In the contract with its principal advertising agency, KPN has formulated some basic principles for its advertising. Among other things, we require that all marketing activities and results satisfy all applicable legal requirements and other regulations. All our commercial advertising is checked for compliance with the Dutch Advertising Code and examined by KPN's weekly External Communication Review Board (e-CRB) in which all parts of the company are represented. Over the full year of 2003, six investigated complaints were found to breach the Dutch Advertising Code. KPN acted on adjudications that called on the company to discontinue the advertising concerned. The External Communication Review Board discussed the complaints and judgments. KPN produces an annual overview of the number and types of complaints received.

### RESPECTING PRIVACY

The Netherlands has a substantial body of legislation to safeguard the privacy of private individuals. KPN observes all privacy rules. Among other things, we adhere to the provisions of the Personal Data Protection Act by notifying the Dutch Data Protection Authority of our processing of personal details of our customers.

The council oversees compliance with and application of privacy laws. We have published a brochure entitled 'Hoe gaat KPN om met uw persoonsgegevens' (What KPN does with your personal data) to explain to all customers how we respect their privacy when developing and delivering services and products.

KPN was nominated in 2003 for the Netherlands Big Brother Award 2003 organised by Bits of Freedom. The award goes to 'persons, companies and authorities that in the past year have made the greatest effort to increase control over members of the public and violate their privacy'. KPN was said to sell the address details of ex-directory telephone numbers without the knowledge of its customers. The nomination remained a nomination and KPN did not get the award.

In response to ten complaints that it received, the Dutch Data Protection Authority conducted an investigation into KPN's supply of ex-directory telephone numbers for direct marketing purposes. The investigation concluded that customers with ex-directory telephone numbers were entitled to expect non-disclosure of their details. KPN acted on the outcome of the investigation by revising its policy concerning ex-directory telephone numbers. The company no longer supplies names and addresses associated with 'secret' numbers for direct marketing activities if this is specified.

## Social sponsorship

Due to the financial situation that obliged KPN to carry out reorganisations in 2001 and 2002, the company decided to scale down its sponsorship activities as far as possible. As part of this process, KPN decided in 2003 to invest instead in the knowledge economy. Our offering of free Internet access and services to all schools in the Netherlands allows young people to become familiar at an early age with broadband Internet and, more importantly, the applications and services made possible by broadband technology. The central themes of our community sponsorship policy are young people, education and innovation. In this context, KPN has offered all schools free broadband Internet access for three years through its subsidiary XS4ALL (see sidebar).

### INTERNET FOR ALL SCHOOLS

Through its subsidiary XS4ALL, KPN is offering all schools in the Netherlands free broadband Internet access for three years. KPN considers development of advanced learning methods based on the latest telecommunication technologies to be of great importance to the community as a whole. Through this offer, KPN wants to do its part in developing the knowledge economy in the Netherlands. A well-educated working population is good for the long-term competitive position of the Netherlands. It is also in the interests of KPN for the workers and customers of the future to be able to make the fullest possible use of ICT at work and at home. The offer is open to primary schools, secondary schools and institutions of adult and vocational education.

For a few years now, KPN has been supporting the Johan Kooij Fellowship. This fund was established in 2000 in memory of Johan Kooij, former KPN board member and a promoter of communication by means of ICT. The fellowship consists of four parties: KPN, Lucent Technologies, Media Plaza and the International Institute for Communication and Development (IICD). The organisation supports the Global Teenager Project of the IICD. Besides transferring knowledge by training ICT trainers from developing countries, the fellowship undertakes networking activities that allow secondary school pupils from different countries to maintain contacts with each other over the Internet. The pupils work on certain themes as a way of exchanging knowledge. In the coming year, KPN will examine ways of increasing its contribution, for example in the form of volunteer work.

### GOOD CAUSES

KPN employees were given an opportunity to donate the value of their traditional year-end present from the company to two good causes in 2003. The good causes were Jantje Beton (children in need) and Natuurmonumenten (nature conservation). KPN employees made donations totalling EUR 55,000 to the two organisations.

### Art

KPN plays a prominent role in the world of art by actively managing and maintaining one of the leading art collections nationally and internationally. Through its long-standing cultural tradition, people see the works in KPN's collection as a reflection of the company. The emphasis is on works that convey a modern, creative and bold image.

KPN Art & Design regularly co-operates with exhibitions and museums in the Netherlands and other countries. By loaning works free of charge, KPN plays an important role in the museum world and at the same time presents its 'business card'. KPN donates reproductions no longer in keeping with the collection to the Pallieter children's hospices.

## Doing business fairly

### CORRUPTION AND BRIBERY

KPN has adopted internationally accepted standards against corruption and bribery, including the code of the International Chamber of Commerce. We have set down our policy on these matters in the KPN Company Code. We obviously adhere to competition laws. Our Code of Conduct for Competition for the Mobile division provides our employees with guidelines for operating in a competitive marketplace. This guidance is extremely important in a market with such intensive competition. The code will be implemented KPN-wide.

### CONTRIBUTIONS TO POLITICAL ORGANISATIONS

The KPN Company Code describes how we expect our employees to act in relation to political parties and political lobbyists. KPN does not give any financial contributions to political organisations or parties.

### COMPETITION AND PRICE POLICY

The KPN Company Code states that we are in favour of intensive and fair competition in the interests of customers. Fair competition means that market players must not misuse the market situation to win or retain customers. KPN does not misuse its position as the manager of major communication networks. We obtain and use information about our competitors in an honest way. KPN neither gives nor takes bribes either directly or through agents. KPN does not undertake any activities capable of undermining the market. KPN does not accept gifts or invitations capable of influencing straightforward decision-making.

Following a fine that the Netherlands Competition Authority imposed on KPN for alleged cartel forming, KPN Mobile the Netherlands introduced a Code of Conduct for Competition at the start of 2003. The code explains competition laws to employees and includes an obligation to obtain the Compliance Officer's prior approval before engaging in contacts with other market parties (operators, service providers and dealers). A generic exception has been made for some frequent contacts but even these are subject to clearly defined rules. The company is currently enlarging this Compliance Programme to make it applicable KPN-wide.

# GRI REFERENCES

GRI		Chapter	Section
EC1	Customers	KPN and the economy	Customers
EC2			Customers
EC3	Suppliers	KPN and the economy	Suppliers
EC4			Suppliers
EC11			Not reported
EC5	Employees	KPN and the economy / KPN and its people	Personnel / Employment at KPN
EC6	Providers of capital	KPN and the economy	Capital providers
EC7			Not reported
EC8	Public sector	KPN and the economy	Not reported
EC9			Not reported
EC10		KPN and society	Social sponsorship
EC12			Not reported
EC13			Not reported
EN1	Materials	KPN and the environment	Raw materials and chapter 7 'Environment' appendix
EN2			Raw materials, Emissions into the air, water and soil, and chapters 6 and 7 'Environment' appendix
EN3	Energy	KPN and the environment	Energy and chapter 8 'Environment' appendix
EN4			Energy and chapter 8 'Environment' appendix
EN17			Energy and chapter 8 'Environment' appendix
EN18			Not reported
EN19			Not reported
EN5	Water	KPN and the environment	Water and chapter 9 'Environment' appendix
EN20			Not reported
EN21			Not reported
EN22			Not reported
EN6	Biodiversity	KPN and the environment	Not reported
EN7			Not reported
EN23			Not reported
EN24			Not reported
EN25			Not reported
EN26			Not reported
EN27			Not reported
EN28			Not reported
EN29			Not reported
EN8	Emissions, effluents and waste		Emissions into the air, water and soil and chapter 11 'Environment' appendix
EN9			Emissions into the air, water and soil and chapter 11 'Environment' appendix
EN10			Not reported
EN11			Emissions into the air, water and soil and chapter 12 'Environment' appendix
EN12			Chapter 11 'Environment' appendix
EN13			Chapter 11 'Environment' appendix
EN30			Not reported
EN31			Not reported
EN32			Not reported

GRI		Chapter	Section
EN33	Suppliers	KPN and the environment	Suppliers and chapter 6 'Environment' appendix
EN14	Products and services	KPN and the environment	Products and services and chapters 13 and 14 'Environment' appendix
EN15			Products and services and chapter 13 'Environment' appendix
EN16			Not reported
EN34	Transport	KPN and the environment	Not reported
EN35	Overall	KPN and the environment	Not reported
LA1	Employment	KPN and its people	Employment at KPN – Employment opportunities
LA2			Employment at KPN – Mobility
LA12			Not reported
LA3	Labour/management relations	KPN and its people	Not reported
LA4			Employment at KPN – Trades unions and employee participation
LA13			Employment at KPN – Facilities
LA5	Health and safety	KPN and its people	Employment opportunities – Health and safety / Health and safety laws
LA6			Employment opportunities – Sick leave
LA7			Employment opportunities – Sick leave
LA8			Not reported
LA14			Employment opportunities – Health and safety laws / Company emergency services
LA15			Not reported
LA9	Training and education	KPN and its people	Employment opportunities – Training and education
LA16			Employment opportunities – Training and education / Development of talent
LA17			Employment opportunities – Training and education / Development of talent
LA10	Diversity and opportunity	KPN and its people	Employment opportunities – Diversity and respect
LA11			Not reported
HR1	Strategy and management	KPN and its people	Employment opportunities – Complaints procedure and disciplinary policy
HR2			Employment opportunities – Diversity and respect
HR3			Not reported
HR8			Not reported
HR4	Non-discrimination	KPN and its people	Employment opportunities – Diversity and respect
HR5	Freedom of association and collective bargaining	KPN and its people	Employment opportunities – Trades unions and employee participation
HR 6	Child labour		Not reported
HR 7	Forced and compulsory labour		Not reported
HR9	Disciplinary practices	KPN and its people	Employment opportunities – Complaints procedure and disciplinary policy

GRI		Chapter	Section
HR10			Employment opportunities – Complaints procedure and disciplinary policy
HR11	Security practices		Employment opportunities – Company emergency services
HR12	Indigenous rights		Not reported
HR13			Not reported
HR14			Not reported
SO1	Community	KPN and society	Society
SO4	KPN and the environment / KPN and society		Emissions into the air, water and soil – Coffee beakers / Products and services – Respecting privacy
SO2	Bribery and corruption	KPN and society	Doing business fairly – Corruption and bribery
SO3	Political contributions		Doing business fairly – contributions to political organisations
SO5			Not applicable
SO6	Competition and pricing	KPN and society	Doing business fairly – Competition and price policy
SO7			Doing business fairly – Competition and price policy
PR1	Customer health and safety	KPN and society	Products and services – Consumer health and safety
PR4			Not reported
PR5			Not reported
PR6			Products and services – Consumer health and safety
PR2	Products and services	KPN and society	Not reported
PR7			Not reported
PR8			Products and services – Process management and certification / quality
PR9	Advertising	KPN and society	Products and services – Advertising
PR10			Products and services – Advertising
PR3	Respect for privacy	KPN and society	Products and services – Respecting privacy
PR11			Products and services – Respecting privacy

## Colophon

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