

Second-Party Opinion

KPN Sustainability-Linked Finance Framework



Evaluation Summary

Sustainalytics is of the opinion that the KPN Sustainability-Linked Finance Framework aligns with the Sustainability-Linked Bond Principles 2020 and Sustainability Linked Loan Principles 2021. This assessment is based on the following:

- Selection of Key Performance Indicators (KPI)** KPN Sustainability-Linked Finance Framework includes one KPI: Value chain CO₂e emissions (scope 3, see Table 1). Sustainalytics considers the KPI chosen to be very strong based on its high materiality and relevance to the sector, the clear and consistent methodology used, which is externally defined and verifiable, and its ability to be externally benchmarked.
- Calibration of Sustainability Performance Targets (SPTs)** Sustainalytics considers the SPTs to be aligned with KPN's sustainability strategy. Sustainalytics further considers the SPTs to be highly ambitious based on their alignment with KPN's historical performance, with best practice among its peers and with a science-based 1.5°C scenario.
- Bond/Loan Characteristics** KPN will link the financial characteristics of its sustainability-linked instruments to achievement of the SPTs. Failure to achieve the SPTs at the target observation date will trigger an adjustment to the coupon rate or a higher repayment amount. A financial penalty will also be applicable if KPN fails to calculate and report on the SPTs in a timely and satisfactory manner.
- Reporting** KPN commits to report on an annual basis on its performance on the KPI in its integrated annual report and/or corporate responsibility report available on its website. KPN further commits to disclose on its website relevant information that affect KPI performance. The reporting commitments are aligned with the Sustainability-Linked Bond Principles and Sustainability-Linked Loan Principles.
- Verification** KPN commits to have external limited assurance conducted on its KPI performance at the communicated SPTs deadline, which is aligned with market expectations.

Evaluation Date	November 01, 2021
Issuer Location	Rotterdam, The Netherlands

The SPTs contribute to the following SDGs:



Overview of KPIs and SPTs

KPI	Baseline	SPTs	Strength of the KPI	Ambitiousness of SPTs
Value chain CO ₂ e emissions (scope 3)	2014	1a: Reduce absolute scope 3 emissions by 20% by 2025 against a 2014 baseline 1b: Reduce absolute scope 3 emissions by 30% by 2030 against a 2014 baseline	Very Strong	Highly Ambitious

Table of Contents

Scope of Work and Limitations	3
Introduction	4
Sustainalytics' Opinion	5
Section 1: Sustainalytics' Opinion on the Alignment of KPN's Sustainability-Linked Finance Framework with the Sustainability-Linked Bond Principles.	5
Selection of Key Performance Indicators (KPIs)	5
Calibration of Sustainability Performance Targets (SPTs)	6
Bond Characteristics	8
Reporting	8
Verification	8
Section 2: Assessment of KPN's Sustainability Strategy	9
Section 3: Impact of the SPTs chosen	10
Conclusion	11
Appendix 1	11

Scope of Work and Limitations

Koninklijke KPN N.V. (“KPN”, the “Company” or the “Issuer”) has engaged Sustainalytics to review the KPN Sustainability-Linked Finance Framework (the “Framework”) and provide an opinion on the alignment of the notes with the Sustainability-Linked Bond Principles (SLBP)¹ and Sustainability-Linked Loan Principles (SLLP).²

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent³ opinion on the alignment of the reviewed Framework with the Sustainability-Linked Bond Principles 2020, as administered by ICMA and Sustainability-Linked Loan Principles 2021, as administered by LSTA.

As part of this engagement, Sustainalytics exchanged information with various members of KPN’s management team to understand the sustainability impact of their business processes and SPTs, as well as reporting and verification processes of aspects of the Framework. KPN’s representatives have confirmed that:

- (1) They understand it is the sole responsibility of the Issuer to ensure that the information provided is complete, accurate and up to date;
- (2) They have provided Sustainalytics with all relevant information; and
- (3) Any provided material information has been duly disclosed in a timely manner.

Sustainalytics also reviewed relevant public documents and non-public information. This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with the Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and KPN. Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ Second-Party Opinion addresses the anticipated SPTs of the KPI but does not measure the KPI performance. The measurement and reporting of the KPI is the responsibility of the Issuer. No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favor or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that KPN has made available to Sustainalytics for the purpose of this Second-Party Opinion.

The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written and aligned with the methodology to calculate the KPI performance outlined in the Second-Party Opinion up to 24 months or until one of the following occurs:

- (1) A material change to the external benchmarks⁴ against which targets were set;
- (2) A material corporate action (such as material M&A or change in business activity) which has a bearing on the achievement of the SPTs or the materiality of the KPI.

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¹ The Sustainability-Linked Bond Principles (SLBP) were launched by ICMA in June 2020. They are administered by the ICMA and are available at: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-PrinciplesJune-2020-100620.pdf>

² The Sustainability-Linked Loan Principles (SLLP) were launched by LSTA in May 2021. They are administered by the LSTA and are available at: https://www.lma.eu.com/application/files/8416/2210/4806/Sustainability_Linked_Loan_Principles.pdf

³ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

⁴ Benchmarks refer to, amongst others, science based target benchmarks

Introduction

KPN is a telecommunications and IT service provider in the Netherlands, providing telephony, broadband and television services for retail and business customers through its fixed and mobile networks. KPN's portfolio of services includes fixed and mobile telephony, internet, core connectivity solutions and close-to-core IT services such as cloud, security and workspace. In addition, KPN offers third party telecom providers access to its nationwide fixed and mobile networks. KPN is headquartered in Rotterdam in the Netherlands and currently employs approximately 10,000 employees.

KPN intends to issue sustainability-linked finance instruments where the coupon rate of the bond is tied to the achievement of the SPTs for one KPI related to percentage reduction of value chain CO₂e emissions.

KPN has engaged Sustainalytics to review the Framework and provide an opinion on its alignment with the Sustainability-Linked Bond Principles (SLBP) and Sustainability-Linked Loan Principles (SLLP).

The KPIs and SPTs used by KPN are defined in Tables 1 and 2 below.

Table 1: KPI Definitions

KPI	Definition
Value chain CO ₂ emissions (scope 3)	Absolute scope 3 GHG emissions measured in kilotonnes of carbon dioxide equivalent (ktCO ₂ e) calculated in accordance with the GHG Protocol standards.

Table 2: SPTs and Past Performance

KPI	2014 (baseline)	2017	2018	2019	2020	SPT 2025	SPT 2030
Value chain CO ₂ emissions (scope 3) (ktCO ₂ e)	1063.2	944.7	898.9	897.5	885.4	Reduce absolute scope 3 emissions by 20% i.e. to 851 ktCO ₂ e by 2025 against a 2014 baseline	Reduce absolute scope 3 emissions by 30% i.e. to 744 ktCO ₂ e by 2030 against a 2014 baseline

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Alignment of KPN Sustainability-Linked Finance Framework with the Sustainability-Linked Bond Principles.

Sustainalytics is of the opinion that the KPN Sustainability-Linked Finance Framework aligns with the five core components of the Sustainability-Linked Bond Principles 2020 (SLBP) and Sustainability Linked Loan Principles 2021 (SLLP).



Selection of Key Performance Indicators (KPIs)

Relevance and Materiality of KPIs

In its assessment of materiality and relevance Sustainalytics considers: i) whether an indicator speaks to a material issue of the issuer business on environment or social impact, and ii) to what portion of impact the KPI is applicable.

Sustainalytics considers the KPI to be material and relevant based on the following:

- The ICT industry is responsible for approximately 3-4% of global greenhouse gas emissions.⁵ Indirect or scope 3 emissions caused by downstream and upstream activities typically make up more than two-thirds of an ICT company's total carbon emissions and sometimes can go up to 90%, while most the remainder comes from electricity used to run network base stations, telephone exchanges and data centers. Sustainalytics' Industry Report on Telecommunication Services⁶ estimates that the rapid expansion of international telecommunications infrastructure, including deployment of 5G technology and growing customer demand, is expected to increase the industry's energy requirements substantially in the following years. The International Telecommunication Union (ITU) highlighted that the ICT sector needs to achieve a 45% GHG emissions reduction between 2020 and 2030 to meet the Paris Agreement's climate goals.⁷ Further, the European Union in its Digital Strategy 2020 committed to climate neutral data centres and ICT infrastructure by 2030.⁸
- The Sustainability Accounting Standards Board has also identified telecom networks' lifecycle GHG emissions as a material sustainability issue for telecommunication companies.⁹
- KPN conducted a materiality assessment in 2020, following GRI standards. As per the assessment, Environmental Performance was identified as one of the top six material issues that are considered to have a significant impact on the economic, environmental and social aspects of the Company and considered to be important by its stakeholders. The material topic of environmental performance includes sustainable value chain as one of its core components. As part of its strategy to reduce the

⁵ BCG, Building Sustainable Telecommunication Companies, at: <https://www.bcg.com/en-in/publications/2021/building-sustainable-telecommunications-companies>

⁶ Sustainalytics' Industry report, Telecommunication Services, (2020).

⁷ International Telecommunication Union, ICT industry to reduce greenhouse gas emissions by 45 per cent by 2030, at: <https://www.itu.int/en/mediacentre/Pages/PR04-2020-ICT-industry-to-reduce-greenhouse-gas-emissions-by-45-percent-by-2030.aspx>

⁸ European Commission, Supporting the Green Transition, Feb 2020, at:

https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwjYv_ehhrnzAhVTyTgGHQeUAlcQFnoECB_EQAQ&url=https%3A%2F%2Fec.europa.eu%2Fcommission%2Fpresscorner%2Fapi%2Ffiles%2Fattachment%2F862091%2FSupporting_the_green_transition_en.pdf&usq=AOvVaw1-8jNk-GbSKFayWN_m4jD

⁹ Telecommunications Research Brief, at: https://www.sasb.org/wp-content/uploads/2019/08/SASB_Telecom_Brief.pdf

environmental footprint of the value chain, KPN has set long-term targets to reduce the GHG emissions from its entire supply chain.¹⁰

In terms of applicability, the KPI represents scope 3 emissions, which constitute about 75% of KPN’s total emissions (scopes 1, 2 and 3). The value chain or scope 3 emissions primarily include suppliers’ emissions during production phase and emissions during use phase, disposal and recycling of KPN’s products, services and equipment. On this basis, Sustainalytics considers the KPI to be highly applicable.

KPI Characteristics

Sustainalytics in its assessment of the KPI characteristics considers: i) whether a clear and consistent methodology is used, ii) whether the issuer follows an externally recognized definition, iii) whether the KPIs are a direct measure of the performance of the issuer on the material environmental or social issue, and iv) whether the methodology can be benchmarked to an external contextual benchmark.¹¹

Sustainalytics considers the KPI – Measuring value chain GHG emissions – to be a direct measure of KPN’s sustainability performance regarding material climate impact. The definition and methodology to calculate the KPI are clear and consistently applied historically. KPN calculates its scope 3 GHG emissions using spend-based and process-based methodology, which are in accordance with the GHG Protocol’s corporate reporting standards and the data provided on the KPI is audited with limited assurance. Sustainalytics further notes that the KPI is comparable against external contextual benchmarks such as the 1.5°C scenario of the Science-Based Targets Initiative (SBTi).

Overall Assessment

Sustainalytics overall considers the KPI –value chain CO₂e emissions (scope 3) – to be very strong given that it: i) is a relevant and highly material issue to KPN and the industry it operates in, ii) follows a clear and consistent calculation methodology which is externally verifiable, and iii) is benchmarkable against science-based trajectories.

Value chain CO₂e emissions (scope 3)	Not Aligned	Adequate	Strong	Very strong
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Calibration of Sustainability Performance Targets (SPTs)

Alignment with Issuer’s Sustainability Strategy

KPN has set the following SPTs for its KPI:

- SPT1a: Reduce absolute scope 3 emissions by 20% to 851 ktCO₂e by 2025 against a 2014 baseline
- SPT1b: Reduce absolute scope 3 emissions by 30% to 744 ktCO₂e by 2030 against a 2014 baseline

Sustainalytics considers the SPTs to be aligned with KPN’s sustainability strategy (please refer to Section 2 for an analysis of the credibility of KPN’s sustainability strategy).

As part of KPN’s sustainability commitments, the Company has set targets to: (i) reduce its upstream and downstream value chain CO₂ emissions, (ii) reduce its overall energy consumption, (iii) remain climate neutral, (iv) increase reuse and recycling, and (v) achieve close to 100% circular operations. KPN has been climate neutral for scope 1 and 2 since 2015 and has set a long-term target to maintain annual emissions at level zero from 2030 to 2050. The Company now focuses on reducing its scope 3 emissions and is aiming for net zero emissions in the chain by 2040. KPN has previously already committed to reduce scope 3 emissions by 20% by 2025 and 50%

¹⁰ KPN Integrated Annual Report 2020, at: https://ir.kpn.com/download/companies/koninkpnnv/Results/KPN_IR_2020_Single_navigation.pdf

¹¹ External contextual benchmarks provide guidance on the alignment with ecological system boundaries. This criterion is not applied to social KPIs or impact areas for which such contextual benchmarks are not available.

by 2040 from a 2014 baseline, as verified by SBTi, which is aligned with a 1.5°C scenario. At the end of 2020, KPN had reduced its scope 3 emissions by 17% as compared to 2014 and now targets to achieve 18% reduction by 2021 from a 2014 baseline.¹²

Strategy to Achieve the SPTs

KPN intends to achieve the SPTs through the following strategy:

- KPN intends to engage with its suppliers to reduce carbon emissions in the value chain by extending the scope of its ISO 14001 certificate with energy management and carbon reduction management. KPN has implemented sustainable solutions with its suppliers to reduce cost, energy consumption and material use.
- KPN is a member of the Joint Audit Cooperation (JAC)¹³ and intends to engage with its key suppliers in collaboration with other telecommunications providers in the JAC to accelerate implementation of circular economy applications and transition to renewable energy in the value chain. Through its participation in the JAC, KPN intends to encourage more suppliers in the telecom sector to become climate neutral.
- KPN intends to engage with suppliers to refine the database of its emissions calculation and further improve reporting and data quality. KPN also collaborates with other telecommunications providers and suppliers to refine its own emissions calculation data aiming to increase reporting on value chain emissions.
- In order to reduce downstream emissions, KPN intends to encourage its customers to use energy saving features for in-home equipment.

Ambitiousness, Baseline and Benchmarks

To determine the ambitiousness of the SPTs, Sustainalytics considers: (i) whether the SPTs go beyond the business-as-usual trajectory, ii) how the SPTs compare to targets set by peers, iii) and how the SPTs compare with science.¹⁴

KPN has set the baseline for the SPTs as 2014, which was the base year used for SBTi approval.

Sustainalytics was able to use the following benchmarks to assess ambitiousness: past performance, peer performance, and the Science Based Targets initiative (SBTi) pathways.

KPN has continuously decreased its absolute scope 3 emissions with historical performance demonstrating an annual average reduction of 2.1% between 2017 and 2020. To achieve SPT1a, KPN will be required to reduce its scope 3 emissions at an implied annual average of 0.8% during the period 2021 to 2025. To achieve SPT1b, KPN will have to reduce its scope 3 emissions at an implied annual average of 1.6% during the period 2021 to 2030. Given this context, Sustainalytics notes that the SPTs are aligned with the downward trend observed in the Company's historical performance albeit the rate of reduction projected for the period between 2020 and 2025 is lower than the reduction KPN achieved in 2017 to 2020.

Based on research carried out by Sustainalytics, KPN has been an outperformer with respect to its scope 3 targets and its overall environmental performance when compared to similar market sized peers in Europe.¹⁵ Sustainalytics' analysis shows that globally 54 telecommunication services providers have committed to science-based targets for SBTi, out of which only 29 companies have committed to a business ambition that is aligned with the 1.5°C scenario trajectory.¹⁶ Moreover, only 50% of KPN's regional peers have defined targets that are aligned with the 1.5°C scenario trajectory. Sustainalytics' analysis of KPN's regional peers with similar market

¹² KPN Integrated Annual Report 2020, at: https://ir.kpn.com/download/companies/koninkpnnv/Results/KPN_IR_2020_Single_navigation.pdf

¹³ Joint Audit Cooperation (JAC) is an association of telecom operators aiming to verify, assess and develop sustainability implementation across the manufacturing centers of important multinational suppliers of the Information Communication Technology (ICT) industry.

¹⁴ We refer here to contextual benchmarks that indicate the alignment of targets with ecosystem boundaries.

¹⁵ Sustainalytics analyzed KPN's peers' scope 3 emissions targets in the telecommunications sub-industry and notes that KPN's targets are above peers' targets.

¹⁶ Science Based Targets, accessed in October 2021, at: <https://sciencebasedtargets.org/companies-taking-action?sector=Telecommunication%20Services#table>

size shows that KPN has been one of the first market players to achieve climate neutrality for scope 1 and 2 emissions.

KPN’s 2040 target to achieve 50% reduction in scope 3 emissions as compared to 2014 was verified by SBTi in 2017. The SPTs are interim targets set by the Company and are aligned with KPN’s SBTi-verified commitment to reduce scope 3 emissions and staying consistent with a 1.5°C scenario. In 2021, KPN increased its sustainability ambition and is now targeting for net zero emissions in its value chain by 2040.

Overall Assessment

Sustainalytics considers the SPTs to be aligned with KPN’s sustainability strategy and considers KPN’s SPTs to be highly ambitious given that they present a continued reduction in scope 3 emissions aligned with past performance, industry best practices, and a 1.5°C scenario trajectory approved by the SBTi.

1a: Reduce absolute scope 3 emissions by 20% by 2025 against a 2014 baseline				
1b: Reduce absolute scope 3 emissions by 30% by 2030 against a 2014 baseline (percentage reduction of value chain CO₂ emissions (scope 3))	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious



Bond/Loan Characteristics

KPN will link the financial characteristics of its sustainability-linked instruments to achievement of the SPTs. Failure to achieve the SPTs at the target observation date will trigger an adjustment to the coupon rate or a higher repayment amount. A financial penalty will also be applicable if KPN fails to calculate and report on the SPTs in a timely and satisfactory manner.

Sustainalytics positively notes the requirement of meeting the SPTs to avoid an increase in the coupon rate; however, Sustainalytics does not opine on the adequacy of the penalty imposed for not achieving the set SPTs.



Reporting

KPN commits to report on an annual basis on its performance on the KPI in its integrated annual report and/or corporate responsibility report available on its website. KPN further commits to disclose on its website relevant information that affect KPI performance, such as any update on KPN’s sustainability strategy or on the related KPI or ESG governance.



Verification

KPN commits to having an external verifier provide limited assurance certificate confirming whether the performance of the KPI meets the relevant SPTs, which is aligned with the SLBP and the SLLP on verification. On an annual basis, KPN will seek an assurance statement from an external auditor on the KPI information included in its integrated annual report.

Section 2: Assessment of KPN's Sustainability Strategy

Credibility of KPN's sustainability strategy

According to Sustainalytics' ESG Risk Rating, KPN is considered to be an outperformer on environmental issues and its overall management of material ESG issues is considered to be strong.¹⁷ KPN's Board of Management is responsible for overseeing the Company's progress on ESG matters. The Company publishes an annual integrated report which provides details on the Company's approach to managing key ESG issues. KPN has been conducting materiality assessments since 2012 and has identified environmental performance as one of the six most relevant materiality issues that are considered to have a significant impact on the economic, environmental and social aspects of the Company and considered to be important by its stakeholders.

KPN has committed to a business ambition that is aligned with the 1.5°C scenario and has set targets that are verified by SBTi. In 2017, SBTi verified KPN's target to have zero scope 1 and 2 emissions by 2050. In 2021, KPN increased this sustainability ambition and is now targeting to achieve net zero emissions in its value chain by 2040.

KPN's Sustainability Vision has three focus areas which guide the Company's sustainability initiatives: (i) Sustainability (ii) Digital and Social Inclusion and (iii) Innovation. As part of its commitment to climate neutrality, KPN ensures that its services are delivered in as low carbon a way as possible. The Company was able to reduce its gross scope 1 emissions, mainly relating to its fleet, by 35% in 2020 compared to 2019. As a step towards eventually achieving zero emissions by 2040, KPN further plans to use only fossil-fuel free cars from 2025. The Company has been using 100% green electricity since 2011 for limiting its gross scope 2 emissions. To reduce its downstream scope 3 emissions KPN encourages use of its cloud services, audio and video conferencing and online meeting services among its business customers. KPN's estimated avoided CO₂ emissions almost quadrupled between 2017 and 2020. With a view to improve supply chain sustainability and sustainability standards, KPN collaborates with other industry peers, cross-industry groups, environmental associations and is a part of industry associations such as JAC.¹⁸ KPN has also committed to the goals of the Paris agreement (COP21) and has aligned its goals with the Dutch Climate Agreement, which includes agreements about sustainable energy sources and reduction of CO₂ emissions.¹⁹

Sustainalytics considers KPN to have a strong sustainability strategy and considers that the instruments eventually issued under the Framework will further support the KPN sustainability strategy.

KPN's environmental and social risk management

Overall, Sustainalytics considers KPN's ESG risk management as strong. Sustainalytics recognizes that KPN's defined targets are impactful, but also acknowledges that achieving the SPTs bears environmental and social risks related to emissions, energy, waste, value chain environmental risks, and information security.

In the following section, Sustainalytics comments on KPN's ability to mitigate such potential risks.

- KPN has established an Environmental Policy to minimize the impact of its own and its value chain operations on the environment. An ISO 14001 certified environment management system is in place that enables the Company to manage its operations in a way that prevents and limits its environmental impacts as well as enables monitoring and compliance with applicable environmental legislation. This overarching policy addresses environmental risks and mitigation approach relevant to KPN's operations, such as energy consumption, direct and indirect CO₂e emissions, material use, waste generation, hazardous substances and water consumption and discharge.²⁰
- To mitigate risks associated with waste, KPN has adopted the principle of circular economy in its operations by using fewer materials, enhancing product lifespans, taking measures to reduce waste generation and increasing energy efficiency of products. It has set targets to produce zero waste and become nearly 100% circular by 2025. For inflow of materials such as modems, network units, fiber-optic cables, etc. KPN prefers procurement of materials made of recycled components and for managing outflow of waste, it collaborates with third parties in the value chain to improve waste reduction, reuse and recycling rates. In 2020, the Company's reuse and recycling rate was at 81%.¹⁰ KPN has also established guidelines for reuse and safe handling of e-waste. Handling and processing of e-waste is done by certified operators and contractors.²⁰

¹⁷ This assessment has been derived from Sustainalytics' ESG Rating Report accessed in October 2021

¹⁸ KPN Integrated Annual Report 2020, at: https://ir.kpn.com/download/companies/koninkpnnv/Results/KPN_IR_2020_Single_navigation.pdf

¹⁹ KPN, website, 'Vision on Sustainability', accessed in October 2021, at: <https://www.overons.kpn.nl/kpn-voor-nederland/duurzaamheid/visie-op-duurzaamheid-1>

²⁰ Environmental Policy KPN, at: <https://www.overons.kpn/downloads/KPN-Environmental-Policy-2019.pdf>

- KPN's Environmental Policy addresses the environmental impact of the value chain, ensuring regular monitoring of suppliers. KPN identifies and measures ecological risks in the entire supply chain and implements improvement plans and corrective actions for mitigation. Additionally, KPN has in place a Procurement Policy¹² and Supplier Code of Conduct²¹ that sets out social and environmental requirements for suppliers to safeguard the company from risks related to the supply chain. ESG criteria such as environmental, labour and human rights, ethics and sustainable procurement form a part of the code, which is used for selection of suppliers. KPN also accounts for the impact that the suppliers have on the environment and communities. Further, to reduce the environmental footprint of its customers, KPN's environmental policy ensures development of services and products that are economically as well as ecologically sustainable, such as e-health and smart buildings.²⁰
- KPN has established a security cycle that enables it to prevent and take action on risks of information security. The cycle consists of 4 phases: prevent, detect, respond and monitor. KPN's Strategy & Policy team along with its Security Operations Center (SOC) monitors KPN's and its customers' infrastructure, preventing it from any security related incidents. KPN has a team of ethical hackers who test and detect the gaps in security. A Computer Emergency Response Team is in place to immediately neutralize any reported attacks. Further, the company also conducts large scale campaigns to create awareness among consumers for safe online activities.²²

In addition to the above, Sustainalytics notes that it has found no evidence of any major environmental or social controversies related to KPN. Overall, Sustainalytics considers that KPN has adequate management programmes and policies to mitigate risks that are material to its business.

Section 3: Impact of the SPTs Chosen

The ICT sector is responsible for approximately 3-4% of global energy consumption with network base stations, telephone exchanges, core networks and data centres being the largest sources of energy consumption for the industry.²³ ICT sector emissions are expected to increase in the coming years due to growing digitalization, increasing consumer demand for ICT services, and widespread use of smart devices. Global data traffic is projected to grow by 60% annually combined with high rates of electricity still being powered by fossil fuel globally. Some studies estimate that if these growth trends continue, the ICT sector could account for approximately 14% of the total global footprint by 2040, equivalent to about half of the entire transportation sector worldwide.²⁴

According to the International Telecommunication Union's Telecommunication Standardization Sector (ITU-T) compliance with the Paris Agreement will require the ICT industry to reduce GHG emissions by 45 % from 2020 to 2030.²⁵ In the 10-year timeframe for which ITU-T set a 45% reduction target to limit global warming to 1.5°C above pre-industrial levels, the shift to renewable energy and low-carbon energy along with energy efficiency improvements across all stages of the ICT value chain represents an opportunity to significantly reduce the total ICT sector footprint.²⁶ In terms of emissions, scope 3 emissions in downstream and upstream activities represent the largest portion of total emissions in the ICT industry, representing between a third and up to 90% of total emissions. Telecommunication network operators have increasingly taken responsibility for the reduction of their scope 3 emissions and increasing transparency across their suppliers.²⁷ Overall, actions on energy efficiency and encouraging behavior change among end users, in addition to further encouraging switching to renewable or low-carbon electricity sources across the value chain will have an important role in the medium- and long-term sustainability of the ICT sector.

In addition to the importance of reducing the ICT industry's own value chain emissions, companies in the sector have an important role in enabling other industries to become more energy efficient through smart solutions and products.²⁸

²¹ KPN, Supplier Code of Conduct, at: https://www.overons.kpn/content/downloads/KPN_SUPPLIER-CODE-OF-CONDUCT.pdf

²² KPN, Security in practice-Protection of the online world, at: <https://www.overons.kpn/en/kpn-in-the-netherlands/security/in-practice>

²³ BCG, "Putting Sustainability at the Top of the Telco Agenda", at: <https://www.bcg.com/en-in/publications/2021/building-sustainable-telecommunications-companies>

²⁴ Assessing ICT global emissions footprint: Trends to 2040 & recommendations, Journal of Cleaner Production, (2018), at: <https://doi.org/10.1016/j.jclepro.2017.12.239>

²⁵ ITU, "ICT industry to reduce greenhouse gas emissions by 45 per cent by 2030", at: <https://www.itu.int/en/mediacentre/Pages/PR04-2020-ICT-industry-to-reduce-greenhouse-gas-emissions-by-45-percent-by-2030.aspx>

²⁶ Ibid.

²⁷ BCG, "Putting Sustainability at the Top of the Telco Agenda", at: <https://www.bcg.com/en-in/publications/2021/building-sustainable-telecommunications-companies>

²⁸ UNFCCC, "ICT Sector Helping to Tackle Climate Change", at: <https://unfccc.int/news/ict-sector-helping-to-tackle-climate-change>

Given the potential increase in energy demand from networks resulting from increasing data flows in the coming years, KPN’s commitment to decreasing scope 3 emissions in line with the Paris Agreement while keeping its scope 1 and 2 emissions net-zero is particularly impactful. Sustainalytics is of the opinion that KPN’s focus and efforts in reducing 3 emissions will positively contribute to reducing the carbon footprint of the telecommunications services industry and support the ambitions of the Paris Agreement.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. KPN’s sustainability-linked finance instruments advance the following SDGs:

KPI	SDG	SDG Target
Value chain CO ₂ emissions (scope 3)	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
	9. Industry, Innovation and Infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all
	12.Responsible Consumption and Production	12.2 By 2030, achieve the sustainable management and efficient use of natural resources

Conclusion

KPN intends to issue sustainability-linked financial instruments tying their coupon rate/repayment amount to the achievement of the following SPTs:

- (1) Percentage reduction of value chain CO₂e emissions (Scope 3): 1a: Reduce absolute scope 3 emissions by 20% by 2025 against a 2014 baseline; 1b: Reduce absolute scope 3 emissions by 30% by 2030 against a 2014 baseline.

Sustainalytics considers the KPI chosen to be very strong based on its high materiality and relevance to the sector, the clear and consistent methodology used, which is externally defined and verifiable, and its ability to be externally benchmarked. Sustainalytics considers the SPTs to be highly ambitious based on its alignment with KPN’s historical performance, with best practice among its peers and with a science-based 1.5°C scenario.

Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers KPN’s Sustainability-Linked Finance Framework to be in alignment with the Sustainability-Linked Bond Principles 2020 and Sustainability Linked Loan Principles 2021 and the prospective achievement of the SPTs to be impactful.

Appendix 1: Sustainability-Linked Bonds - External Review Form

Section 1. Basic Information

Issuer name: Koninklijke KPN N.V

Sustainability-Linked Bond ISIN: Not known at the time of publication

Independent External Review provider's name for second party opinion pre-issuance (sections 2 & 3): Sustainalytics

Completion date of second party opinion pre-issuance: November 01, 2021

Independent External Review provider's name for post-issuance verification (section 4): Not known at the time of publication

Completion date of post issuance verification: Not known at the time of publication

At the launch of the bond, the structure is:

- a step-up structure a variable redemption structure

Section 2. Pre-Issuance Review

2-1 SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review:

- assessed all the following elements (complete review) only some of them (partial review):
- | | |
|--|--|
| <input checked="" type="checkbox"/> Selection of Key Performance Indicators (KPIs) | <input checked="" type="checkbox"/> Bond characteristics (acknowledgment of) |
| <input checked="" type="checkbox"/> Calibration of Sustainability Performance Targets (SPTs) | <input checked="" type="checkbox"/> Reporting |
| <input checked="" type="checkbox"/> Verification | |
- and confirmed their alignment with the SLBP and SLLP.

2-2 ROLE(S) OF INDEPENDENT EXTERNAL REVIEW PROVIDER

- | | |
|--|---|
| <input checked="" type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Scoring/Rating |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

2-3 EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

KPN intends to issue Sustainability-Linked Bonds and Sustainability-Linked Loans which will tie the coupon rate/repayment amount to the achievements of the following SPTs:

(1) Percentage reduction of value chain CO₂e emissions (Scope 3): 1a: Reduce absolute Scope 3 emissions by 20% by 2025 against a 2014 baseline, 1b: Reduce absolute Scope 3 emissions by 30% by 2030 against a 2014 baseline.

Sustainalytics considers the KPI chosen to be very strong based on its high materiality and relevance to the sector, a clear and consistent methodology, which is externally defined and verifiable and its ability to be externally benchmarked. Sustainalytics considers the SPTs to be highly ambitious based on their alignment with KPN’s historical performance, with best practice among its peers and with a science-based 1.5°C scenario. Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with market expectations. Based on the above, Sustainalytics considers KPN’s Sustainability-Linked Finance Framework to be in alignment with the Sustainability-Linked Bond Principles 2020 and Sustainability Linked Loan Principles 2021 and the prospective of achievement of the SPTs to be impactful.

Section 3. Detailed pre-issuance review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

3-1 SELECTION OF KEY PERFORMANCE INDICATORS (KPIs)

KPN Sustainability-Linked Finance Framework includes one KPI: Value chain CO2e emissions (scope 3, see Table 1). Sustainalytics considers the KPI chosen to be very strong based on its high materiality and relevance to the sector, a clear and consistent methodology, which is externally defined and verifiable and its ability to be externally benchmarked.

List of selected KPI:

- Value chain CO2e emissions (scope 3)

Definition, Scope, and parameters

- | | |
|---|---|
| <input checked="" type="checkbox"/> Clear definition of each selected KPI | <input checked="" type="checkbox"/> Clear calculation methodology |
| <input type="checkbox"/> Other (please specify): | |

Relevance, robustness, and reliability of the selected KPI

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials that the selected KPI are relevant, core and material to the issuer’s sustainability and business strategy. | <input checked="" type="checkbox"/> Evidence that the KPI are externally verifiable |
| <input checked="" type="checkbox"/> Credentials that the KPI are measurable or quantifiable on a consistent methodological basis | <input checked="" type="checkbox"/> Evidence that the KPI can be benchmarked |
| | <input type="checkbox"/> Other (please specify): |

3-2 CALIBRATION OF SUSTAINABILITY PERFORMANCE TARGETS (SPTs)

Overall comment on the section (if applicable):
Sustainalytics considers the SPTs to be aligned with KPN’s sustainability strategy. Sustainalytics further considers the SPTs to be highly ambitious based on their alignment with KPN’s historical performance, with best practice among its peers and with a science-based 1.5°C scenario.

Rationale and level of ambition

- | | |
|--|---|
| <input checked="" type="checkbox"/> Evidence that the SPTs represent a material improvement | <input checked="" type="checkbox"/> Credentials on the relevance and reliability of selected benchmarks and baselines |
| <input checked="" type="checkbox"/> Evidence that SPTs are consistent with the issuer’s sustainability and business strategy | <input checked="" type="checkbox"/> Credentials that the SPTs are determined on a predefined timeline |
| | <input type="checkbox"/> Other (please specify): |

Benchmarking approach

- | | |
|--|--|
| <input checked="" type="checkbox"/> Issuer own performance | <input checked="" type="checkbox"/> Issuer’s peers |
| <input checked="" type="checkbox"/> reference to the science | <input type="checkbox"/> Other (please specify): |

Additional disclosure

- | | |
|---|--|
| <input checked="" type="checkbox"/> potential recalculations or adjustments description | <input checked="" type="checkbox"/> issuer’s strategy to achieve description |
| <input checked="" type="checkbox"/> identification of key factors that may affect the achievement of the SPTs | <input type="checkbox"/> Other (please specify): |

3-3 BOND CHARACTERISTICS

Overall comment on the section (if applicable):
 KPN will link the financial characteristics of its sustainability-linked instruments to the achievement of the SPTs. Failure to achieve the SPTs at the target observation date, will trigger an adjustment to the coupon rate or a higher repayment amount. A financial penalty will also be applicable if KPN fails to calculate and report on the SPTs in a timely and satisfactory manner.

Financial impact:

- variation of the coupon
- higher repayment amount
- Other (please specify):

Structural characteristic:

- ...
- ...
- Other (please specify):

3-4 REPORTING

Overall comment on the section (if applicable): KPN commits to report on an annual basis on its performance on the KPI in its integrated annual report and/or corporate responsibility report available on its website. KPN further commits to disclose on its website relevant information that affect KPI performance. The reporting commitments are aligned with the Sustainability-Linked Bond Principles and Sustainability-Linked Loan Principles.

Information reported:

- | | |
|---|---|
| <input checked="" type="checkbox"/> performance of the selected KPI | <input checked="" type="checkbox"/> verification assurance report |
| <input checked="" type="checkbox"/> level of ambition of the SPTs | <input type="checkbox"/> Other (<i>please specify</i>): relevant information that affect KPI performance such as any update on KPN's sustainability strategy or on the related KPI or ESG governance. |
| | <input checked="" type="checkbox"/> |

Frequency:

- | | |
|---|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Means of Disclosure

- | | |
|--|--|
| <input type="checkbox"/> Information published in financial report | <input checked="" type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (<i>please specify</i>): KPN's integrated annual report and/or corporate responsibility report |
| <input type="checkbox"/> Reporting reviewed (<i>if yes, please specify which parts of the reporting are subject to external review</i>): | |

Where appropriate, please specify name and date of publication in the "useful links" section.

Level of Assurance on Reporting

- | | |
|---|---|
| <input checked="" type="checkbox"/> limited assurance | <input type="checkbox"/> reasonable assurance |
| | <input type="checkbox"/> Other (<i>please specify</i>): |

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

Section 4. Post-issuance verification

Overall comment on the section (if applicable):

Information reported:

- | | |
|--|---|
| <input type="checkbox"/> limited assurance | <input type="checkbox"/> reasonable assurance |
| | <input type="checkbox"/> Other (<i>please specify</i>): |

Frequency:

- Annual
- Other (please specify):
- Semi-annual

Material change:

- Perimeter
- SPTs calibration
- KPI methodology

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For more information, visit www.sustainalytics.com

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