

**TERMS OF REFERENCE
OF THE AUDIT COMMITTEE
OF THE SUPERVISORY BOARD
OF ROYAL KPN N.V.**

As approved by the Supervisory Board on 7 December 2017

0. INTRODUCTION

- 0.1 These terms of reference have been drawn up by the Supervisory Board pursuant to clause 5 of the By-Laws of the Supervisory Board¹.
- 0.2 The Audit Committee (“the Committee”) is a standing committee of the Supervisory Board.
- 0.3 These Terms of Reference and the composition of the Committee are posted on the Company’s website.²
- 0.4 Certain capitalised or uncapitalised terms used but not defined in these terms of reference have the meanings given to them in the By-Laws of the Supervisory Board and the List of Definitions attached to those By-Laws as Annex 1.

1. PURPOSE

- 1.1 The purpose of the Committee is to oversee, also in light of the company’s strategy for long term value creation, the main financial and accounting procedures of the company, and the measures taken to safeguard the integrity of said procedures, as further set out in Clause 4 of these Terms of Reference. Without prejudice to article 5.2. of the By-Laws of the Supervisory Board, the Committee advises the Supervisory Board in relation to its responsibilities and shall prepare resolutions of the Supervisory Board in relation thereto.
- 1.2 While the Committee has the responsibilities and powers set forth in these Terms of Reference, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's statements and disclosures are complete or accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. Neither these Terms of Reference nor any activity of the Committee shall release KPN's Board of Management or the external and internal auditors from their duties and responsibilities. In carrying out its function, the Committee is not providing any expert or special assurance as to KPN's financial statements or compliance with laws and regulations, or any professional certification as to the external auditor's work.

2. COMPOSITION

- 2.1 The Committee consists of at least three members. All members of the Committee must also be members of the Supervisory Board. More than half of the members of the Committee, and the chairman of the Committee shall be independent within the meaning of clause 1.5 of the By-Laws of the Supervisory Board.³
- 2.2 The members of the Committee shall be appointed and may be replaced at any time by the Supervisory Board.
- 2.3 The Supervisory Board shall appoint one of the members of the Committee as chairman of the Committee. The Committee shall not be chaired by the chairman of the Supervisory Board or by a former member of the Board of Management.⁴

¹ Dutch Corporate Governance Code, best practice provision 2.3.3.

² Dutch Corporate Governance Code, best practice provision 2.3.3.

³ Dutch Corporate Governance Code, best practice provision 2.3.4 and Audit Committee Decree 2016, Article 2.

⁴ Dutch Corporate Governance Code, best practice provision 2.3.4 and Audit Committee Decree 2016, Article 2.

- 2.4 The Committee shall have at least one member who qualifies as an "Audit Committee Financial Expert", i.e. a person who has all of the following attributes:
- (a) an understanding of financial statements and generally accepted accounting principles (IFRS);
 - (b) an ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
 - (c) experience in preparing, auditing, analysing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience in actively supervising one or more persons engaged in such activities;
 - (d) an understanding of internal controls and procedures for financial reporting; and
 - (e) an understanding of the objectives and meaning/purpose of the Committee and how it should function.
- 2.5 The term of office of a member of the Committee will generally not be set beforehand. It will, inter alia, depend on the composition of the Supervisory Board as a whole and that of other committees from time to time, provided that membership rotation should be effected where practicable.
- 2.6 The Company Secretary shall act as secretary to the Committee. The secretary may delegate his duties, or parts thereof, under these Terms of Reference, to a deputy appointed by him in consultation with the chairman of the Committee.

3. RESPONSIBILITIES OF THE AUDIT COMMITTEE

- 3.1 The responsibilities of the Committee shall include:^{5, 6}
- (a) the monitoring of the financial-accounting process and the safeguarding of the integrity of said process;
 - (b) the monitoring of the effectiveness of the internal management system, the internal audit system and the internal risk management and control systems with respect to financial reporting;
 - (c) the review of intended material financial disclosures, including the Annual Accounts and the Report of the Board of Management, as well as the interim figures of the Company, as further set out in Annex 1 to these Terms of Reference.
 - (d) the monitoring of the statutory audit of the annual accounts and consolidated accounts, and in particular the process of such audit;
 - (e) the relationship with the External Auditor, including::

⁵ Audit Committee Decree 2016, Article 2(2) (b-f).

⁶ Dutch Corporate Governance Code, best practice provision 1.5.1.

- (i) the review and monitoring of the independence of the External Auditor or audit firm, with a special focus on other services provided to the Company;
 - (ii) the adoption of a procedure for the selection of the External Auditor or audit firm and the nomination for appointment of the external auditor with respect to the statutory audit of the annual accounts and consolidated accounts.
 - (iii) The review and follow up of comments made by External Auditor;
 - (iv) Any further aspects as set out in Annex 2 to these Terms of Reference
- (f) the relationship with the internal audit department, including
- (i) reviewing the annual audit plan, and advising the the Supervisory Board on this plan⁷
 - (ii) the review and follow up of comments made by the internal audit department
 - (iii) advising the Supervisory Board on the proposed appointment or dismissal of the head of the internal audit department⁸
- (g) the financing of the Company, including the general financial strategy and policies, including currency policies;
- (h) the application of information and communication technology (ICT), including risks relating to cyber security;
- (i) the Company's tax policy; and
- (j) the Company's policies and practices with regard to compliance with laws and regulation, including any major issues of non-compliance.
- 3.2 The Committee shall perform its tasks as set out above in preparation of discussion and/or decision making in the Supervisory Board.
- 3.3 The Committee may in its sole discretion carry out any investigation which it determines to be necessary or desirable to carry out its duties. Each member of the Committee has access to all relevant books, records and offices of the Company and the authority to interview officers and employees of the Company to the extent necessary or useful for the proper performance of his duties. Members of the Committee shall exercise this right in consultation with the chairman of the Committee and the Company Secretary.
- 3.4 The Audit Committee may only exercise such powers as are explicitly attributed to it by the Supervisory Board and may never exercise powers beyond those exercisable by the Supervisory Board as a whole.
- 3.5 The Committee may, in exercising its duties, seek the assistance or advice of one or more experts, at a price and conditions to be agreed by the Committee in consultation with the Chairman, at the expense of the Company.

⁷ Dutch Corporate Governance Code, best practice provision 1.3.3.

⁸ Dutch Corporate Governance Code, best practice provision 1.3.1.

- 3.6 At least once a year, the Committee shall review its own performance and reassess the adequacy of these Terms of Reference in such manner as it deems appropriate and submit such evaluation, including any recommendations for change, to the full Supervisory Board for review, discussion and approval.

4. MEETINGS

- 4.1 The Committee shall meet as often as required for a proper functioning of the Committee, and for that purpose at least four times a year, prior to the scheduled publication of the annual and quarterly results of the Company. The meetings are, as much as possible, scheduled annually in advance. The Committee shall meet ad hoc when this is deemed necessary by the chairman of the Committee or by two other members of the Committee.
- 4.2 Meetings of the Committee are in principle called by the secretary of the Committee in consultation with the chairman of the Committee. Save in urgent cases, to be determined by the chairman of the Committee, the agenda for the meeting shall be made available to all members of the Committee as early as possible, and where possible at least seven calendar days before the meeting. Supporting documentation shall be made available as soon as possible.
- 4.3 The Committee shall decide if and when the CEO, the Chief Financial Officer, the internal auditor or the external auditor should attend (part of) its meetings. In addition, other individuals, including company or independent experts may be invited to attend (part of) meetings of the Committee.⁹
- 4.4 Each member of the Committee has the right to cast one vote. All resolutions must be adopted by an absolute majority of the votes cast. If there is a tie in voting, the chairman of the Committee shall have a casting vote.
- 4.5 The secretary of the Committee or any other person designated for such purpose by the chairman of the meeting shall draw up minutes of the meeting of the Committee.
- 4.6 At least once per year (or more often if deemed necessary), the Committee shall meet separately with the external auditor to discuss all matters that the Committee or the external auditor deems necessary¹⁰. Similarly, the Committee may decide to meet separately with each of the Chief Executive Officer, the Chief Financial Officer or the internal auditor.

5. REPORTING TO THE SUPERVISORY BOARD

- 5.1 The Committee shall, as soon as possible after its meeting, report to the Supervisory Board on its deliberations and findings, including major developments in the area of its responsibilities, and in any case¹¹:
- (a) the methods used to assess the effectiveness of the design and operation of the internal risk management and control systems;
 - (b) the methods used to assess the effectiveness of the internal and external audit processes;

⁹ Dutch Corporate Governance Code, best practice provision 1.5.2.

¹⁰ Dutch Corporate Governance Code, best practice provision 1.7.4.

¹¹ Dutch Corporate Governance Code, best practice provision 1.5.3.

- (c) material considerations regarding financial reporting;
 - (d) the way material risks and uncertainties have been analysed and discussed, along with a description of the most important findings of the Committee
- 5.2 The minutes of the meetings of the Committee shall be circulated among all members of the Supervisory Board once available.
- 5.3 Every Supervisory Board member shall have unrestricted access to all records of the Committee.

6. MISCELLANEOUS

- 6.1 The chairman of the Committee (or one of the other Committee members) shall be available to answer questions regarding the Committee's activities at the annual General Meeting of Shareholders.
- 6.2 The Committee shall review and re-assess the adequacy of these Terms of Reference periodically, report its assessment to the Supervisory Board and recommend, where appropriate, any proposed changes to the Supervisory Board.
- 6.3 The Supervisory Board can at all times amend these Terms of Reference and/or revoke any powers granted by it to the Committee.
- 6.4 Clause 24 of the By-Laws of the Supervisory Board shall apply by analogy to the Committee, while for the application of these Terms of Reference the powers of the Supervisory Board or the Chairman of the Supervisory Board referred to in that Clause shall be considered powers of the Supervisory Board or the chairman of the Supervisory Board.
- 6.5 The annual report of the Supervisory Board as referred to in the By-Laws of the Supervisory Board shall state the composition of the Committee, the number of meetings held by the Committee, the attendance rate of each of the members of the Committee¹² and the main issues dealt with at these meetings.

¹² Dutch Corporate Governance Code, best practice provision 2.4.4.

ANNEX 1

SUPERVISION OF FINANCIAL REPORTING AND PUBLICATIONS

- (1) Review and discuss with the Board of Management and the External Auditor the Annual Accounts and the Report of the Board of Management, including disclosures made in management interviews, analyses and the like.
- (2) Review and discuss with the Board of Management and the External Auditor the interim financial statements prior to their release, including the results of any review by the External Auditors of the interim financial statements.
- (3) Determine whether and, if so, how the External Auditor should be involved in the content and publication of financial reports other than the (interim) financial statements.¹³
- (4) Discuss with the Board of Management and the External Auditor significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements, including the quality of earnings, significant deviations between planned and actual performance, any significant changes in the Company's selection or application of accounting principles, any issues as to the adequacy of the Company's internal controls and any special steps adopted in light of control deficiencies.
- (5) Review and discuss reports of the External Auditor on:
 - a) all major elements of the accounting policies and the methods used;
 - b) all key audit matters indicated by the External Auditor as such;
 - c) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with the Board of Management or any member thereof, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the External Auditor; and
 - d) other important written communications between the External Auditor and the Board of Management or one of its members, e.g. management letters.
- (6) Discuss with the Board of Management the Company's (i) earnings press releases, including the use of non-GAAP information and (ii) plans and policies of the Company with respect to comments on financial information and earnings guidance given by analysts and rating agencies.
- (7) Discuss with the Board of Management and the External Auditor the consequences of legislative or regulatory initiatives as well as of off-balance structures for the financial reporting by the Company.
- (8) Discuss with the Board of Management the Company's major financial risk exposures and the steps the Board of Management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.

¹³ Dutch Corporate Governance Code, best practice provision 1.7.3.

ANNEX 2

SUPERVISION OF EXTERNAL AUDITOR AND INTERNAL AUDIT FUNCTION

- (1) Assess and evaluate the External Auditor and the lead partner of the audit team of the External Auditor.
- (2) Obtain and review a report from the External Auditor (at least annually) regarding (i) the External Auditor's internal quality control procedures, (ii) any material issues raised by the most recent internal quality control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five months with respect to one or more independent audits carried out by the firm, (iii) any steps taken to deal with any such issues and (iv) all relationships between the External Auditor and the Company. Evaluate the qualifications, performance and independence of the External Auditor, including considering whether the External Auditor's quality controls are adequate, and taking into account the opinions of the Board of Management and internal auditors.
- (3) Ensure the rotation of the lead (or co-ordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as well as the other members of the External Auditor, as required by law, regulation or the Company's Auditor Independence Policy.
- (4) Review and discuss periodically with the Board of Management and the External Auditor, the regulations for the internal audit function and the internal audit charter and the independence of the audit process (as prescribed by legislation or regulation and the Company's Auditor Independence Policy).
- (5) Meet with the External Auditor prior to the audit to discuss the planning, scope, and staffing of the audit.
- (6) Review the reports most significant to the Board of Management prepared by internal audit function and the Board of Management's response.
- (7) Discuss with the External Auditor and the Board of Management the internal audit function's responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit.
- (8) If there is no separate department for the internal audit function, the Audit Committee shall annually advise the Supervisory Board regarding the need for an internal audit department and whether adequate alternative measures have been taken. On the proposal of the Audit Committee, the Supervisory Board shall include the conclusions, along with any resulting recommendations and alternative measures, in the report of the Supervisory Board.¹⁴
- (9) Annually discussing with the External Auditor:¹⁵
 - (a) the scope and materiality of the audit plan and the principal risks of the financial statements identified by the External Auditor in the audit plan; and
 - (b) based also on the documents from which the audit plan was developed, the findings and outcomes of the audit work on the financial statements and the management letter.

¹⁴ Dutch Corporate Governance Code, best practice provision 1.3.6.

¹⁵ Dutch Corporate Governance Code, best practice provision 1.7.2.