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Consolidated Statement of Profit or Loss

For the year ended 31 December

€ million	Notes	2021	2020
Revenues	[4.1]	5,271	5,283
Other income	[4.2, 21]	852	19
Total revenues and other income		**6,122**	**5,303**
Cost of goods & services		1,298	1,284
Personnel expenses	[5]	863	892
Information technology/Technical infrastructure		316	328
Other operating expenses	[6]	323	335
Depreciation, amortization and impairments	[10, 11, 19]	1,460	1,552
Total operating expenses		**4,260**	**4,390**
Operating profit		**1,862**	**912**
Finance income		-	-3
Finance costs		-223	-239
Other financial results		-11	-28
Financial income and expenses	**[7, 19]**	**-234**	**-269**
Share of the profit/loss (-) of associates and joint ventures	[12, 21]	-2	6
Profit before income tax from continuing operations		**1,627**	**649**
Income taxes	[8]	-344	-88
Profit for the year from continuing operations		**1,283**	**561**
Profit/loss (-) for the year from discontinued operations		5	-
Profit for the year		**1,288**	**561**
Profit attributable to non-controlling interests		1	-
Profit attributable to equity holders of the company		1,288	560
Earnings per ordinary share after taxes attributable to equity holders of the company for the year in EUR	[9]		
Basic (continuing operations)		0.30	0.13
Diluted (continuing operations)		0.30	0.13
Basic (discontinued operations)		-	-
Diluted (discontinued operations)		-	-
Basic (total, including discontinued operations)		0.31	0.13
Diluted (total, including discontinued operations)		0.31	0.13

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Consolidated Statement of Other Comprehensive Income

For the year ended 31 December

€ million	Notes	2021	2020
Profit for the year		**1,288**	**561**
Other comprehensive income, net of tax			
Other comprehensive income to be reclassified subsequently to profit or loss when specific conditions are met:			
Net gain/loss (-) on cash flow hedges	[16]	31	84
Currency translation differences	[16]	-7	3
Net other comprehensive income/loss (-) to be reclassified to profit or loss in subsequent periods		**24**	**87**
Items of other comprehensive income not to be reclassified subsequently to profit or loss:			
Retirement benefits remeasurements		52	-11
Net gain/loss (-) on equity instruments designated at fair value through other comprehensive income	[13.1]	5	6
Net other comprehensive income/loss (-) not to be reclassified to profit or loss in subsequent periods		**57**	**-5**
Other comprehensive income/loss (-) for the year, net of tax		**81**	**82**
Total comprehensive income for the year, net of tax		**1,369**	**643**
Total comprehensive income for the year, net of tax, attributable to:			
Equity holders of the company		1,368	643
Non-controlling interests		1	-
		1,369	**643**
Total comprehensive income/loss (-) attributable to equity holders of the company arises from:			
Continuing operations		1,363	643
Discontinued operations		5	-

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Consolidated Statement of Financial Position

Assets

€ million	Notes	31 December 2021	31 December 2020
Non-current assets			
Property, plant and equipment	[10]	5,463	5,422
Intangible assets	[11]	3,006	3,238
Right-of-use assets	[19]	804	857
Equity investments accounted for using the equity method	[12]	511	8
Equity investments measured at fair value through other comprehensive income	[13.1]	49	37
Derivative financial instruments	[13.3]	212	191
Other financial asset at fair value through profit or loss	[12]	204	-
Deferred income tax assets	[8]	506	567
Trade and other receivables	[14.1]	77	132
Contract assets and contract costs	[14.2]	36	18
		10,869	**10,469**
Current assets			
Inventories		37	47
Trade and other receivables	[14.1]	677	636
Contract assets and contract costs	[14.2]	45	49
Income tax receivables	[8]	2	1
Derivative financial instruments	[13.3]	-	11
Other financial asset at fair value through profit or loss	[12]	14	-
Other current financial assets	[13.1]	300	270
Cash and cash equivalents	[15]	793	597
		1,868	**1,611**
Total assets		**12,737**	**12,080**

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Equity and liabilities

€ million	Notes	31 December 2021	31 December 2020
Equity			
Share capital		168	168
Share premium		8,445	8,445
Other reserves		-358	-199
Retained earnings		-5,523	-6,289
Equity attributable to holders of perpetual capital securities		496	496
Equity attributable to equity holders of the company		**3,228**	**2,621**
Non-controlling interests		2	1
Total equity	**[16]**	**3,230**	**2,622**
Non-current liabilities			
Borrowings	[13.2]	6,067	5,821
Lease liabilities	[19]	736	787
Derivative financial instruments	[13.3]	64	192
Provisions for retirement benefit obligations	[17]	92	152
Provisions for other liabilities and charges	[18]	150	151
Contract liabilities	[20]	169	136
Other payables	[20]	8	12
		7,286	**7,250**
Current liabilities			
Trade and other payables	[20]	1,176	1,128
Contract liabilities	[20]	186	209
Borrowings	[13.2]	677	679
Lease liabilities	[19]	137	150
Derivative financial instruments	[13.3]	-	4
Income tax payables	[8]	17	-
Provisions for other liabilities and charges	[18]	27	38
		2,221	**2,209**
Total equity and liabilities		**12,737**	**12,080**

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Consolidated Statement of Changes in Equity

€ million, except number of shares	Notes	Subscribed ordinary shares	Share capital	Share premium	Other reserves	Retained earnings	Equity attributable to holders of perpetual capital securities	Equity attributable to equity holders of the company	Non-controlling interests	Total equity
Balance at 31 December 2019		**4,202,844,404**	**168**	**8,445**	**-300**	**-6,302**	**496**	**2,507**	**1**	**2,507**
Profit for the year			-	-	-	561	-	560	-	561
Other comprehensive income for the period			-	-	87	-5	-	82	-	82
Total comprehensive income for the period			**-**	**-**	**87**	**556**	**-**	**643**	**-**	**643**
Share based compensation	[5]		-	-	-	-11	-	-11	-	-11
Sold treasury shares			-	-	14	-	-	14	-	14
Dividends paid			-	-	-	-529	-	-529	-	-529
Paid coupon perpetual hybrid bond	[13.2]		-	-	-	-3	-	-3	-	-3
Total transactions with owners, recognized directly in equity			**-**	**-**	**14**	**-543**	**-**	**-529**	**-**	**-529**
Balance at 31 December 2020		**4,202,844,404**	**168**	**8,445**	**-199**	**-6,289**	**496**	**2,621**	**1**	**2,622**
Profit for the year			-	-	-	1,288	-	1,288	1	1,288
Other comprehensive income for the period			-	-	24	57	-	81	-	81
Total comprehensive income for the period			**-**	**-**	**24**	**1,344**	**-**	**1,368**	**1**	**1,369**
Share based compensation	[5]		-	-	-	-14	-	-14	-	-14
Sold treasury shares			-	-	17	-	-	17	-	17
Dividends paid			-	-	-	-554	-	-554	-	-554
Paid coupon perpetual hybrid bond	[13.2]		-	-	-	-10	-	-10	-	-10
Share repurchase	[16]		-	-	-200	-	-	-200	-	-200
Total transactions with owners, recognized directly in equity			**-**	**-**	**-183**	**-578**	**-**	**-761**	**-**	**-761**
Balance at 31 December 2021		**4,202,844,404**	**168**	**8,445**	**-358**	**-5,523**	**496**	**3,228**	**2**	**3,230**

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Consolidated Statement of Cash Flows

For the year ended 31 December

€ million	Notes	2021	2020
Profit before income tax from continuing operations		1,627	649
Adjustments for:			
– Net financial expense	[7]	234	269
– Share-based compensation	[5]	6	5
– Share of the profit/loss (-) of associates and joint ventures		2	-6
– Depreciation, amortization and impairments	[10, 11, 19]	1,460	1,552
– Other income and non-cash income and expense	[4.2, 21]	-852	-19
– Changes in provisions (excluding deferred taxes)		-56	-117
Changes in working capital relating to:			
– Current assets		-49	98
– Current liabilities		53	-131
Income taxes paid/received		-77	-
Interest paid/received		-218	-255
Net cash flow from operating activities from continuing operations		**2,129**	**2,043**
Net cash flow from operating activities from discontinued operations		**-1**	**-1**
Net cash flow from operating activities		**2,128**	**2,043**
Acquisition of and investments in subsidiaries, associates and joint ventures (net of acquired cash)	[21]	-30	-14
Disposal of subsidiaries and associates (net of cash)	[21]	196	28
Tax paid on disposal of subsidiaries and associates	[21]	-197	-
Investments in software		-227	-225
Investments in other intangible assets		-4	-417
Investments in property, plant and equipment		-989	-922
Disposals of property, plant and equipment and intangible assets		79	4
Acquisition or disposal of other financial assets	[13.1]	-37	1
Net cash flow from investing activities from continuing operations		**-1,209**	**-1,545**
Net cash flow from investing activities from discontinued operations		**-3**	**-**
Net cash flow from investing activities		**-1,212**	**-1,545**
Dividends paid		-554	-529
Share repurchase	[16]	-200	-
Paid coupon perpetual hybrid bonds		-10	-3
Proceeds from borrowings	[13.2]	689	949
Repayments of borrowings and settlement of derivatives	[13.1, 13.2]	-498	-951
Repayments of lease liabilities	[19]	-135	-135
Other		-9	-2
Net cash flow from financing activities from continuing operations		**-717**	**-670**
Net cash flow from financing activities from discontinued operations		**-**	**-**
Net cash flow from financing activities		**-717**	**-670**
Total net cash flow from continuing operations		**203**	**-172**
Total net cash flow from discontinued operations		**-4**	**-1**
Changes in cash and cash equivalents		**198**	**-173**
Net cash and cash equivalents at 1 January		594	767
Net cash and cash equivalents at 31 December		**793**	**594**
Bank overdrafts		-	2
Cash and cash equivalents	**[15]**	**793**	**597**

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General notes to the Consolidated Financial Statements

[1] General information

Koninklijke KPN N.V. (KPN or the company) was incorporated in 1989 and is domiciled in the Netherlands. KPN is registered at the Chamber of Commerce (file no. 02045200). The address of KPN's registered office is Wilhelminakade 123, 3072 AP, Rotterdam. KPN's shares are listed on Euronext Amsterdam.

KPN is a leading telecommunications and IT provider in the Netherlands, offering fixed and mobile telephony, fixed and mobile broadband internet and TV to retail and business consumers. KPN is market leader in the Netherlands in infrastructure and network-related IT solutions to business customers. KPN also provides wholesale network services to third parties.

The Financial Statements were authorized for issue by both the Supervisory Board and the Board of Management on 21 February 2022 and are subject to adoption by the Annual General Meeting of Shareholders on 13 April 2022.

[2] Summary of significant accounting policies

Basis of preparation

The Consolidated Financial Statements of KPN have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code, under the historical cost convention, except for certain equity investments accounted for using the equity method, and certain equity investments and derivative financial instruments measured at fair value, and on a going concern basis.

All amounts are presented in millions unless stated otherwise. Certain figures may not tally exactly due to rounding. In addition, certain percentages may have been calculated using rounded figures.

Summary of significant accounting policies

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

Changes in accounting policies and disclosures

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

KPN has concluded that the following, endorsed amendments effective 1 January 2021 did not have a significant impact:
- IFRS 9, IAS 39 and IFRS 7 regarding interest rate benchmark reforms
- IAS 1 and IAS 8 on the definition of 'material'

KPN has not applied the amendments to IFRS 16 regarding COVID-19 related rent concessions.

Future implications of new and amended standards and interpretations

The IASB has issued several new standards and amendments to existing standards with an effective date of 1 January 2022 or later. Only changes with a possible relevant impact are discussed.

Amendment to IAS 37: Onerous contracts

The amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets specify which costs must be included when assessing whether a contract is onerous or loss-making using a 'directly related cost approach'.

Costs that relate directly to a contract to provide goods or services include both incremental costs (such as costs of direct labor and materials) and an allocation of costs directly related to contract activities (such as depreciation of equipment used to fulfill the contract as well as costs of contract management). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. Currently, KPN does not consider costs of own personnel as incremental costs, whereas costs of externally hired personnel are included in the incremental costs.

The amendments are effective as of 1 January 2022 and must be applied prospectively to contracts for which an entity has not yet fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments. The cumulative effect of initially applying the amendments must be recognized as an adjustment to the opening balance of retained earnings. The amendments have been endorsed by the EU. The amendments will result in an increase of the provisions for onerous contracts of EUR 13m on 1 January 2022. The impact on equity (net of tax) is EUR 10m.

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Amendments to IAS 12: Deferred tax related to assets and liabilities arising from a single transaction
The amendments are intended to reduce diversity in accounting for deferred tax on transactions and events that lead to recognition of both an asset and a liability, such as leases and decommissioning obligations.

The initial recognition exception of IAS 12 will no longer apply to transactions that give rise to equal taxable and deductible temporary differences. Also, the amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgment (having considered the applicable tax laws) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgment will be relevant when determining if any temporary differences exist on initial recognition of the asset and liability.

The amendments are effective as of 1 January 2023 and have not been endorsed. Prospective application is required to transactions that occur on or after the beginning of the earliest comparative financial period presented. KPN already applies the main principle of this amendment.

Other amendments
KPN has concluded that the following, endorsed amendments effective 1 January 2022 (or later) will not have a significant impact:
- IFRS 3 regarding the added exception to avoid potential 'day 2' gains or losses from contingent assets and liabilities or levies
- IAS 16 regarding recognition of proceeds generated by items of PP&E during its construction phase

KPN is reviewing the impact of the following amendments which are effective as of 1 January 2023 (or later) but have not yet been endorsed:
- IAS 1 regarding the classification of liabilities as current or non-current
- IAS 8 regarding the definition of accounting estimates
- IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture

KPN currently does not expect an significant impact from these standards.

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

Subsidiaries are all entities directly or indirectly controlled by KPN. 'Control' is defined as the power over an entity, i.e. the ability to govern the financial and operating policies, resulting in obtaining the gains or losses from the entity's activities.

Subsidiaries are fully consolidated from the date on which control is obtained by KPN and are deconsolidated from the date on which KPN's control ceases. All intercompany transactions, balances and unrealized results on transactions with subsidiaries are eliminated.

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

Foreign currency translation
The Financial Statements are presented in euro (EUR), which is KPN's presentation currency as well as functional currency.

Transactions in foreign currencies are translated into euro using the exchange rates applicable at transaction date. At reporting date, monetary assets and liabilities denominated in foreign currencies are translated to euro using the rates at reporting date. Exchange rate differences are recognized in profit or loss except when these differences are related to qualifying cash flow hedges and qualifying net investment hedges in which case the exchange rate differences are recorded in OCI.

Exchange rate differences on non-monetary assets and liabilities are reported as part of the fair value gain or loss from that asset or liability. Exchange rate differences arising from the translation of the net investment in foreign entities, of borrowings and other currency instruments designated as hedges of such investments are recognized in OCI.

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

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

Statement of Cash Flows
The Statement of Cash Flows is prepared using the indirect method. Cash flows denominated in currencies other than euro are translated at average exchange rates. Cash flows relating to interest and taxes on profits and tax deductions relating to interest on perpetual hybrid bonds are included in the cash flow from operating activities. Tax payments directly related

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to disposal of subsidiaries are presented as part of the cash flows from investing activities when separately identifiable. The consideration paid in cash for acquired subsidiaries is included in the cash flow from investing activities, net of cash acquired. Cash flows resulting from the disposal of subsidiaries are disclosed separately, net of cash sold.

Significant accounting estimates, judgments and assumptions made by management

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

The accounting estimates, judgments and assumptions deemed significant to KPN's Financial Statements relate to:

Subjects	Notes
Determination of deferred tax assets for losses carry forward and provisions for tax contingencies	Notes 8 and 22
Determination of value in use of cash-generating units for goodwill impairment testing	Note 11
Assessments of exposure to credit risk and financial markets risk	Note 13.4
The 'more likely than not' assessment required to determine whether or not to recognize a provision for idle cables, which are part of a public electronic communications network	Notes 18 and 22
The assessment of the lease terms deemed reasonably certain of KPN's lease contracts and the incremental borrowing rate used to measure the lease liabilities	Note 19
Assessments whether revenue for variable consideration is probable or highly probable. This concerns revenue related to disputes and revenue related to VAT regarding unused multipurpose bundles	Notes 4
Several assessments related to KPN's 50% interest in Glaspoort B.V. (classified as a joint venture): - The assessment whether KPN has joint control over Glaspoort - The assessment whether Glaspoort, as divested subsidiary, classifies as a 'business' in terms of IFRS 3 - The assessment whether operational contracts between Glaspoort and KPN are at arms' length - The valuation of KPN's interest in the joint venture (initially set at fair value, subsequently accounted for using the equity method subject to periodic impairment testing) - The allocation of the initial fair value of the joint venture to identifiable intangible assets and goodwill - The valuation of the contingent cash consideration (financial asset at fair value through profit or loss)	Notes 12, 13.1 and 21

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

Impact of COVID-19

During 2021, KPN continued to closely monitor the developments of the COVID-19 pandemic and the impact on its customers, suppliers and KPN's own performance. KPN continued to closely monitor a number of business drivers including payment behavior, net working capital and credit quality. The total estimated net effect on KPN's financial results was limited.

The financial results of KPN do not indicate that any impairment may be necessary. KPN's balance sheet and liquidity position remain strong.

Sustainability and climate change

KPN is continuously enhancing, improving and modernizing its network to realize its sustainability goals which include: providing internet access for everyone and everything and stimulate social inclusion, while building the most efficient network using technology to reduce energy consumption despite higher data usage. Through its sustainability efforts, KPN not only reduces its own energy consumption but also enables its customers to do the same. KPN's increasing fiber footprint and the migration from copper to the more energy efficient fiber network contributes to realization of KPN's sustainability goals. Through participation in its joint venture Glaspoort B.V., KPN has realized a substantial acceleration of these nationwide ambitions. In mobile, initiatives include the modernization of broadcasting and customer premises equipment. Other initiatives include the reduction of KPN's leased fleet and replacement of expired vehicle leases with electric vehicles only. The Board of Management has committed to the sustainability goals by adding non-financial sustainability linked targets to the LTI plans such as circularity of assets and reputation.

In 2021, KPN issued a sustainability-linked bonds, demonstrating its commitment to the realization of its goals (see Note 13.2).

KPN has analysed whether the above has had any impact on the valuation of KPN's assets, liabilities and financial results and concluded the impact is limited. The migration to new generation network equipment has resulted in an acceleration of depreciation charges for the assets to be replaced. KPN is also investing in its employees by facilitating suitable solutions to continue working from home.

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[3] Segment reporting

Operating segments are reported in a manner consistent with the internal reporting to KPN's CEO, who is the Chief Operating Decision-Maker according to IFRS 8 Operating Segments.

Comparative financial information for 2020 has been restated as several smaller units were transferred from the Consumer and Business segments to Network, Operations & IT (NOI) and Other. The impact on the segment information was not material.

Almost all of KPN's operating activities are in the Netherlands.

Operating segments

KPN's operating segments comprise of Consumer, Business, Wholesale and Network, Operations & IT (NOI). For general information on these segments, read more in sections Shareholder value and Flexible, simple and converged products and services.

Other

'Other' comprises KPN Holding, Corporate Center and eliminations. KPN accounts for its interest in Glaspoort within this segment.

Segment performance

As part of the simplification process, KPN has limited the intercompany charges to charges that are considered relevant for tax purposes.

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

Investments in property, plant and equipment, and intangible assets (Capex) are centrally managed and reported to KPN's Chief Operating Decision-Maker at the KPN Group level, not at a segment level.

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

Segmentation 2021

€ million	Notes	Consumer	Business	Wholesale	NOI	Other[1]	Total KPN Group
Statement of Profit or Loss							
External revenues[2]		2,845	1,755	646	13	11	5,271
Other income	[4.2]	1	1	-	20	830	852
Inter-division revenues		12	7	38	1	-57	-
Total	**[4]**	**2,857**	**1,762**	**684**	**34**	**785**	**6,122**
Operating expenses		-984	-926	-132	-597	-162	-2,800
EBITDA		**1,873**	**837**	**553**	**-563**	**623**	**3,322**
DA&I		-176	-57	-8	-1,162	-57	-1,460
Operating result		**1,697**	**780**	**545**	**-1,726**	**566**	**1,862**
Share of profit or loss of associates and joint ventures	[12]	-	-	-	-	-2	-2
EBITDA		1,873	837	553	-563	623	3,322
DA&I right-of-use assets	[19]	-12	-2	-1	-63	-45	-123
Interest lease liabilities	[19]	-1	-	-	-14	-5	-20
EBITDA after lease		**1,860**	**834**	**552**	**-640**	**574**	**3,180**
Total assets[3]		4,398	2,846	629	9,343	-4,480	12,737
Total liabilities		4,401	2,727	630	9,354	-7,605	9,507

1 Including eliminations

2 External revenues mainly consist of rendering of services

3 Total assets of Segment Other includes the carrying value of Glaspoort (EUR 503m, see Note 12) and the deferred consideration related to Glaspoort (EUR 218m, see Note 13.1)

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Segmentation 2020 (restated)

€ million	Notes	Consumer	Business	Wholesale	NOI	Other[1]	Total KPN Group
Statement of Profit or Loss							
External revenues[2]		2,852	1,832	590	5	4	5,283
Other income		-	12	4	3	-	19
Inter-division revenues		11	8	46	1	-66	-
Total	**[4]**	**2,863**	**1,852**	**641**	**9**	**-62**	**5,303**
Operating expenses		-981	-968	-126	-614	-149	-2,839
EBITDA		**1,881**	**884**	**514**	**-605**	**-211**	**2,464**
DA&I		-189	-53	-9	-1,237	-63	-1,552
Operating result		**1,692**	**831**	**505**	**-1,842**	**-274**	**912**
Share of profit or loss of associates and joint ventures	[12]	-	-	-1	-	6	6
EBITDA		1,881	884	514	-605	-211	2,464
DA&I right-of-use assets	[19]	-10	-4	-1	-65	-50	-130
Interest lease liabilities	[19]	-2	-	-	-15	-5	-22
EBITDA after lease		**1,869**	**881**	**513**	**-685**	**-266**	**2,312**
Total assets		4,453	2,779	612	9,232	-4,996	12,080
Total liabilities		4,537	2,759	612	9,263	-7,712	9,458

1 Including eliminations

2 External revenues mainly consist of rendering of services

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Notes to the Consolidated Statement of Profit or Loss

[4] Revenues and Other income

[4.1] Revenues

€ million	2021	2020
Service revenues	4,860	4,891
Non-service revenues	378	368
Revenues from contracts with customers	**5,238**	**5,258**
Rentals and other revenues	33	25
Revenues	**5,271**	**5,283**

Service revenues are all revenues recognized over time and includes fees for usage of KPN's network and facilities, e.g. monthly subscription fees and revenues from customer-specific IT solutions.

Non-service revenues are revenues recognized at a point in time and includes for example sale of handsets, peripheral equipment as well as software licenses sold without ongoing support.

The application of KPN's accounting policies on revenue recognition, including relevant judgments, and information about KPN's performance obligations is summarized below:

Service revenues

- Exploitation services are considered a separate performance obligation. Revenue is recognized over time during the contract period.
- Network access is considered a separate performance obligation. Revenue is recognized over time during the subscription period. In general content, e.g. TV content, is considered part of the network access performance obligation and revenue is recognized on a gross basis.
  Revenue for streaming services, which are contracted and billed to customers separately, are recognized on a net basis if KPN acts as an agent.
- One-off connection fees are not separate performance obligations as they are considered to be necessary to get access to the network. The fees charged to the customer are recognized as a contract liability and bundled with the performance obligation for network access.
- Transaction-related dealer fees paid to acquire or retain subscribers are capitalized as contract costs and expensed on a straight-line basis over the contract term of the underlying customer contract.
- Installation services offered to consumer customers are generally considered a separate performance obligation, as the customer can choose to use an engineer for installation or to install the equipment themselves. Installation services treated as a separate performance obligation include installing of customer premises equipment (CPE), e.g. set-top boxes, setting up in-home WiFi and installing customers' own devices. Revenue from installation services is allocated to the installation service at the start of the contract and recognized as revenue at a point in time (at completion of the installation).
  The difference between the amount of revenue recognized and the amount charged to the customer is recognized as a contract asset. Most CPE is considered part of KPN's network. These hardware elements are capitalized as part of property, plant and equipment as KPN retains ownership and control over the economic benefits, and are therefore not considered a separate performance obligation.
- Transition projects for corporate customers are considered separate performance obligations, as the customer can benefit from the project deliverables on their own. Revenue is recognized over time (percentage of completion during the project phase). Transition projects sometimes include the delivery of peripheral equipment and software licenses. These are not considered as separate performance obligations if KPN performs the installation and/or must provide ongoing support as part of the transition project. If not part of a transition project, revenue for peripheral equipment is recognized as revenue at a point in time (upon delivery of the equipment), whereas revenue for licenses with ongoing support is recognized over time (on a monthly basis).
- The Wholesale segment bills customers at (regulated) tariffs that may be disputed by other operators and regulators. A contract liability is recognized in case the invoiced revenue is not considered highly probable.

Non-service revenues

- Handset sales are a separate performance obligation and are recognized as revenue at a point in time (upon delivery of the handset equipment). The amount of revenue allocated to the handset less the amount charged to the customer upfront is recognized as a contract asset if the payment to be received for the handset is conditional on the delivery of telco services and as a financial receivable if the payment to be received is unconditional.
- As of 1 May 2017, KPN is legally required to treat a handset combined with a postpaid subscription as a consumer loan under the Dutch Financial Supervision Act (Wet op het financieel toezicht, Wft) if the consumer customer repays the handset in monthly instalments and the credit amount is above EUR 250. The outstanding handset credit is considered

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a contract asset because the payment is conditional on the delivery of telco services. As of 1 January 2018, the contract with consumer customers for the handset instalment payments changed and is no longer conditional on the delivery of the telco services. Therefore, a financial receivable is recognized for the instalments to be received (see Note 14). Taking into account the low interest rates and contract duration, these receivables do not include a significant financing component.
- The handsets sold and delivered by third parties, related to KPN subscription contracts, do not qualify as performance obligations for KPN. Handset-related dealer fees result in an unbilled receivable on the Statement of Financial Position, which is decreased when handset instalments are billed to the end-customer.

In 2020 and 2021, the time value of money was not significant and therefore not recorded.

Generally, the payment term is two weeks in the consumer market and 30 days in the business market.

KPN applies the practical expedients provided in IFRS 15 under which disclosure of amounts of consideration allocated to the remaining performance obligations (unsatisfied or partially satisfied) do not need to be disclosed. This applies to contracts with an original expected duration of less than one year or when KPN bills a fixed amount for network services provided. KPN recognizes revenue from network services in the amount to which KPN has a right to invoice the customer and this amount corresponds directly with the value of KPN's performance completed to date.

The remaining performance obligations expected to be recognized in future periods relating to the transition and transformation projects for workspace services with business customers were nil as at 31 December 2021 and 31 December 2020.

Revenues, disaggregated per segment, including interdivision revenues

The disaggregation of the revenues per segment has been restated, consistent with internal reporting, to align with KPN's strategy to converge fixed-mobile propositions and differentiate the Business segment into SME (small & medium enterprises), LCE (large corporate enterprises) and Tailored Solutions (large corporate customers with integrated solutions). In all segments, a split is made between service revenues and non-service revenues. In the Consumer segment, the revenue disaggregation between Residential and Mobile communication services has been restated to Fixed-Mobile, Fixed-only, Postpaid-only and Legacy services. In the Business segment, the revenue disaggregation by product portfolio has been restated to a split between the market segments SME, LCE and Tailored Solutions and per segment a disaggregation into the portfolio clusters Access & Connectivity, IT services & Other and Service management. In the Wholesale segment, the restate includes the split into service and non-service revenues and the disaggregation of the Fixed service revenues into Broadband services (lines) and Other services.

€ million	2021	2020 (Restated)
Fixed-Mobile service revenues	1,455	1,416
Fixed-only service revenues	779	810
Postpaid-only service revenues	241	242
Legacy/other service revenues	109	135
Consumer service revenues	**2,584**	**2,604**
Consumer non-service revenues[1]	273	259
Total Consumer revenues	**2,857**	**2,863**
Access & connectivity[2]	518	529
IT services[3]	31	23
SME service revenues	**549**	**552**
Access & connectivity[2]	473	498
IT services & Other[3]	184	215
LCE service revenues	**657**	**713**
Access & connectivity[2]	126	130
IT services & Other[3]	98	94
Service management	202	218
Tailored Solutions service revenues	**426**	**442**
Business service revenues	**1,633**	**1,706**
Non-service & other revenues[1]	130	135
Total Business revenues	**1,762**	**1,841**
Mobile service revenues	156	138
Broadband service revenues	293	245
Other service revenues[4]	233	245
Wholesale service revenues	**681**	**628**
Non-service revenues	2	8
Total Wholesale revenues	**683**	**636**
NOI and Other (incl. eliminations)	**-32**	**-56**
Total	**5,271**	**5,283**

1 Non-service revenues includes the sale of handsets and peripheral equipment and in the business segment also the sale of software licenses.
2 Service revenues for among others mobile, broadband & networking, fixed voice and internet of things.
3 IT services includes cloud & workspace and cybersecurity.
4 Service revenues for among others interconnect traffic, visitor roaming, digital products (messaging, content delivery) and NL-ix (interconnect exchange).

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Accounting policy: Revenues

The core principle is that revenue is recognized to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which KPN expects to be entitled in exchange for those goods or services. Revenue is recognized when it is probable that the economic benefits associated with a transaction will flow to KPN and the amount of revenue and associated costs can be measured reliably.

KPN follows the five-step process of IFRS 15 to recognize revenue. After a contract with a customer has been entered into, the separate performance obligations are identified which are the distinct goods and services promised to the customer (the customer can benefit from the goods or services either on their own or together with other resources that are readily available to the customer, and the transfer of goods or services to the customer are separately identifiable from other promises in the contract). The next steps are the determination of the transaction price and the allocation to the performance obligations. Allocation of the transaction price to performance obligations is based on standalone selling prices, which are based on our price lists and therefore readily available. The final step is to recognize revenue when a performance obligation is satisfied. Revenue is recognized either at a point in time or over time. In general, telco and IT services are delivered over time, whereas handsets and peripheral and network equipment, in case they are treated as separate performance obligations, are delivered at a point in time.

Revenue for variable considerations, including revenue under dispute, is recognized only when it is highly probable which, in some cases, requires significant judgment.

An adjustment for the time value of money is made to a transaction price for the effects of financing if time between recognition of revenue and cash receipt is expected to exceed 12 months and if it provides the customer with a significant benefit.

If KPN transfers goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized in case the earned consideration is conditional. A financial receivable is recognized if KPN's right to an amount of consideration is unconditional (only the passage of time is required before payment of the consideration is due).

KPN recognizes contract liabilities in the Statement of Financial Position for considerations received in respect of unsatisfied performance obligations. Contract liabilities are recognized as revenue when KPN performs under the contract. At the start of a contract with a customer, in case services or goods are delivered by sub-contractors, KPN determines whether its performance obligation is to provide the specified goods or services itself (acting as a principal) or to arrange for another party to provide those goods or services (acting as an agent) based on the agreed terms and conditions with the customer and the sub-contractor, as well as the nature of the goods and services promised to the customer.

Accounting policy: Costs to obtain and/or fulfill a contract

The incremental costs of obtaining a contract with a customer are recognized as an asset if KPN expects to recover those costs. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained or not. Costs to fulfill a contract are recognized as an asset if:

- The costs relate directly to a contract; and
- The costs generate or enhance resources that will be used in satisfying performance obligations in the future; and
- The costs are expected to be recovered.

Capitalized contract costs are amortized on a linear basis over the period in which KPN transfers the related goods or services to the customer. KPN applies the practical expedient to immediately expense contract costs when the asset that would have resulted from capitalizing such costs would have been amortized within one year or less.

Assets recognized for costs to obtain a contract and costs to fulfill a contract are subject to impairment testing.

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[4.2] Other income

€ million	2021	2020
Other income	852	19

Other income in 2021 relates to the book gain on the sale of the subsidiary Glaspoort B.V. (EUR 830m), see Note 21 for further information on the sale of subsidiaries, the book gain on the sale of assets to Glaspoort B.V. (EUR 15m), book gains on the sale of various fixed assets (EUR 5m) and adjustments to the book result on sale of subsidiaries in 2019 and 2020 (EUR 1m).

Other income in 2020 relates to the sale of KPN's subsidiary KPN Consulting B.V. (EUR 11m), book gains on the sale of various fixed assets (EUR 6m) and adjustments to the book result on sale of subsidiaries in 2019 (EUR 2m).

Accounting policy: Other income

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

[5] Personnel expenses

€ million	2021	2020
Salaries and wages	748	739
Retirement benefits	79	79
Social security contributions	84	90
Additional labor capacity	76	105
Own work capitalized	-116	-120
Other	-8	-1
Total personnel expenses	**863**	**892**

Employee redundancy costs are not included in personnel expenses but in other operating expenses (see Note 18).

Number of own personnel (FTE) per segment	31 December 2021	31 December 2020 Restated[1]
Consumer	2,566	2,519
Business	2,694	2,829
Wholesale	213	202
NOI	3,232	3,525
Other	993	1,027
Total FTE	**9,699**	**10,102**

1 Comparative financial information for 2020 has been restated as several smaller units were transferred from the Consumer and Business segments to Network, Operations & IT (NOI) and Other.

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Share plans

KPN has granted shares (equity-settled) and share-based awards (cash-settled) on its shares to members of the Board of Management and senior management. The conditionally granted awards will vest after three years if the employee is still employed by KPN. For awards granted until 2018 vesting is based on individual vesting of 25% relative total shareholder return (TSR) versus peer group, 25% free cash flow, 25% earnings per share, 12.5% on sustainability/environmental targets and 12.5% on stakeholder/customer targets. Vesting of non-financial targets is subject to achieving a cumulative net profit during the vesting period of three years (i.e. a qualifier for vesting). The peer group and the vesting schedule can be found under 'Long-term incentives' in the Remuneration Report.

As of 2019, the targets for the LTI plan are set as follows: 70% financial targets, of which 45% on cumulative free cash flow over the plan period and 25% on relative TSR measured against the STOXX Europe 600 Telecommunications index and 30% non-financial targets, determined at the start of a new plan from the following categories: (i) Sustainability; (ii) Reputation; (iii) Social; (iv) Key business projects; and (v) Market share.

The main features of the awards granted to KPN management are summarized in the following table.

	Board of Management	Senior management	Maximum term	Settlement type[1]	Vesting period	Holding period after vesting of/until
2017	X	X	5 years	Equity[2]	3 years	2 years
		X	3 years	Cash	3 years	–
2018	X	X	5 years	Equity[2]	3 years	2 years
		X	3 years	Cash	3 years	–
2019	X	X	5 years	Equity[2]	3 years	3 years
		X	3 years	Cash	3 years	–
2020	X		5 years	Equity[2]	3 years	3 years
		X	3 years	Cash	3 years	–
2021	X		5 years	Equity[2]	3 years	3 years
		X	3 years	Cash	3 years	–

1 The cash-settled share awards will be settled in cash and no holding restrictions apply. An exception to the holding period for equity-settled plans is made with respect to shares that were sold upon vesting to cover the tax obligation on the vested shares. After vesting, the holder is able to sell a number of unconditional granted shares only up to the amount necessary to settle the wage taxes liability relating to the profit made on the stock compensation plan. Wage tax in the Netherlands is generally around 50% of the total vested amount.

2 Including deferred dividend.

The total compensation expense associated with the share plans was EUR 8m in 2021 (2020: EUR 6m). The related liability (for cash-settled shares) on 31 December 2021 was EUR 8m (31 December 2020: EUR 6m). This liability is included under Other payables. For the 2018 Share Plan and share-based awards, the service conditions were met in the year 2021. The intrinsic value at vesting was EUR 6m (2020: EUR 5m).

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

	Total 31 Dec 2019	Granted/ additional vesting[1]	Exercised/ Vested	Forfeited	Total 31 Dec 2020	Granted/ additional vesting[2]	Exercised/ Vested	Forfeited[3]	Total 31 Dec 2021[4]	-of which: Non-vested
2017 Share-based awards Sr. man.	1,061	-	-677	-384	-	-	-	-	-	-
2017 Shares BoM/Sr. man.	1,872	-	-1,194	-678	-	-	-	-	-	-
2018 Share-based awards Sr. man.	1,209	-	-	-126	1,083	-	-834	-249	-	-
2018 Shares BoM/Sr. man.	2,184	-	-	-271	1,913	-	-1,473	-440	-	-
2019 Share-based awards Sr. man.	2,059	13	-	-50	2,022	-	-	-265	1,757	1,757
2019 Shares BoM/Sr. man.	1,176	-	-	-39	1,137	-	-	-30	1,107	1,107
2020 Share-based awards Sr. man.		2,942	-	-17	2,925	-	-	-167	2,758	2,758
2020 Shares BoM		1,809	-	-	1,809	-	-	-	1,809	1,809
2021 Share-based awards Sr. man.					-	2,033	-	-	2,033	2,033
2021 Shares BoM					-	1,409	-	-	1,409	1,409

1 On the basis of a 100% grant. The equity-settled share numbers do not include any deferred dividend during the vesting period. The deferred dividend during the vesting period will be granted in additional shares.

2 At grant date, the fair value is calculated using a Monte Carlo Simulation model. In April 2021 the fair value was EUR 2.41 (2020 grant: EUR 1.77) for the 2021 share-based award (cash-settled) and EUR 2.70 (2020 grant: EUR 2.04) for the 2021 equity-settled share grant for the Board of Management (excluding deferred dividend).

3 At the end of 2021, KPN held the 8th position with respect to the 2019 share grant and at the end of 2020, KPN held the 6th position with respect to the 2018 share grant. This position and the outcomes of the other targets will lead to a 92% vesting in April 2022 of the 2019 share grant. Final TSR measurement for the 2018 share grant was conducted in February 2021 which resulted in 77% vesting in April 2021.

4 The fair value of each cash-settled share-based award was measured on 31 December 2021 using recent strategic plans, forecasts and a Monte Carlo Simulation model, based on the most recent available share price of KPN and its performance compared with peer companies at the moment of valuation (i.e. closing share prices as at 31 December 2021). The fair value on 31 December 2021 was EUR 2.33 (2020: EUR 2.15) for the 2019 share-based award, EUR 2.23 (2020: EUR 2.06) for the 2020 share-based award and EUR 2.19 for the 2021 share-based award.

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

Assumptions	2021 LTI	2020 LTI
Risk-free interest rate based on euro government bonds for remaining time to maturity of 2.7 years	-0.5%	-0.3%
Expected dividend for KPN (based on one year's historical daily data preceding the date of award)	5.6%	5.4%
Expected volatility (PSP grant based on 2.7 years' historical daily data) used for TSR	27.0%	24.1%
Share price at date of award (closing at grant date)	€ 2.82	€ 2.20

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

Details of actual remuneration

The remuneration of the Board of Management, representing the costs incurred by the company measured under IFRS principles, is as follows:

Name current member	Year	Salary	STI[1]	LTI[2]	Pension Cost[3]	Social security and other compensation[4]	Total
J.F.E. Farwerck	2021	875,000	936,775	971,240	213,246	30,364	3,026,625
	2020	875,000	675,833	767,501	185,345	19,793	2,523,472
H.C. Figee	2021	675,000	481,815	324,249	109,638	37,416	1,628,118
	2020[5]	618,750	318,594	132,674	99,675	34,386	1,204,079
J.P.E.D. van Overbeke	2021	650,000	463,944	526,584	152,525	14,814	1,807,867
	2020	650,000	334,698	401,564	123,973	15,019	1,525,254
M. Snoep	2021	650,000	463,944	462,514	117,328	30,070	1,723,856
	2020	650,000	334,698	278,445	106,089	30,275	1,399,507
B. Fouladi	2021	650,000	463,944	501,586	124,975	12,901	1,753,406
	2020	650,000	334,698	317,624	123,979	14,031	1,440,332
H. Garssen	2021	500,000	356,880	300,294	81,984	14,828	1,253,986
	2020	500,000	257,460	158,551	81,544	15,033	1,012,588
Total current members	**2021**	**4,000,000**	**3,167,302**	**3,086,467**	**799,696**	**140,393**	**11,193,858**
	2020	**3,943,750**	**2,255,981**	**2,056,359**	**720,605**	**128,537**	**9,105,232**

1 Actual STI relates to performance in the current year but paid out in the following financial year. Please see the 'Short-term incentives' section in the Remuneration Report for the actual pay-out levels per target.

2 The amounts in the table represent the cost recognized for shares in 2021 and 2020 based on their fair values at grant date. The fair value of the share-based award is recorded as cost over the vesting period. Please see the 'Long-term incentives' section in the Remuneration Report for a further explanation.

3 The pension costs include the costs for survivor's pension, disability coverage, administration as well as the gross allowances. The fixed gross allowance (for the base pay part above EUR 112,189) in 2021 was, EUR 153,991 for Mr. Farwerck (2020: EUR 127,940), EUR 75,095 for Mr. Figee (2020: EUR 67,990), EUR 110,922 for Mr. Van Overbeke (2020: EUR 83,533), EUR 81,622 for Ms. Snoep (2020: EUR 72,270), EUR 87,758 for Mr. Fouladi (2020: EUR 86,753) and EUR 53,411 for Ms. Garssen (2020: EUR 52,984).

4 In addition to social security, the stated amounts include allowances that can be considered as indirect remuneration and relates to the value for the private use of the company car.

5 Remuneration since 1 February 2020.

Name former member	Year	Salary	Severance	STI[1]	LTI[2]	Pension Cost[3]	Social security and other compensation[4]	Total
J.C. de Jager (until February 2020)	2020	112,500	-	57,929	84,114	22,097	5,813	282,453

1 Actual STI relates to performance in the current year but paid out in the following financial year. Please see the 'Short-term incentives' section in the Remuneration Report for the actual pay-out levels per target.

2 The amounts in the table represent the cost recognized for shares based on their fair values at grant date. The fair value of the share-based award is recorded as cost over the vesting period. Please see the 'Long-term incentives' section in the Remuneration Report for a further explanation.

3 The pension costs include the costs for survivor's pension, disability coverage, administration as well as the gross allowances. For the former members the fixed gross allowance in 2020 was EUR 15,885 for Mr. De Jager

4 In addition to social security, the stated amounts include allowances that can be considered as indirect remuneration and relates to the value for the private use of the company car.

See the Remuneration Report for the number of shares under the share plans per individual board member.

See the Insider Transactions section for stock ownership of members of the Board of Management and Supervisory Board.

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Supervisory Board

Please see the Remuneration Report for the actual fee received by each member of the Supervisory Board. The total fee for 2021 is EUR 652,889 (2020: EUR 655,626).

Accounting policy: Share-based compensation

For equity-settled plans, the fair value of shares granted to employees is measured at grant date. For cash-settled plans, the fair value of the liability for the awards granted is remeasured at each reporting date and at settlement date.

The costs of share-based compensation plans are determined based on the fair value of the shares and the number of shares expected to vest. On each balance date, KPN determines whether it is necessary to revise the expectation of the number of shares that will vest. The fair value is recognized as personnel expense in profit or loss over the vesting period of the shares against an increase in equity in the case of equity-settled share-based compensation plans and against the recognition of a liability in the case of cash-settled share-based compensation plans.

[6] Other operating expenses

Other operating expenses comprise, among others, a net addition to the restructuring provision (see Note 18).

Auditor's fees

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

€ million	2021	2020
Financial statements audit fees	3.9	3.6
Other assurance fees	0.9	0.9
Total audit fees	**4.7**	**4.5**
Tax fees	0.2	0.1
Total	**5.0**	**4.6**

The total audit fees of Ernst & Young Accountants LLP charged to KPN and its consolidated group entities amounted to EUR 4.7m in 2021 (2020: EUR 4.5m). The financial statements audit fees include the fees for professional services rendered for the audit of KPN's annual financial statements and the annual statutory financial statements of subsidiaries or services that are normally provided by the auditor in connection with the audits.

The other assurance fees include the fees incurred for assurance and related services that are reasonably related to the performance of the audit or review of KPN's Financial Statements, such as revenue and IT-related assurance services and regulatory-related assurance services.

Accounting policy: Operating expenses

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

Cost of goods and services are costs incurred in the context of a sales transaction and include subscriber acquisition and retention costs and traffic expenses. These costs are expensed as incurred, except handset fees paid to dealers and transaction related dealer commissions that are capitalized and amortized over the contract term. The cost of a handset is expensed when the handset is sold (as incurred), both as an individual sale or as a component of a transaction in combination with a subscription.

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

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

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

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[7] Financial income and expenses

€ million	Notes	2021	2020
Finance income		**-**	**-3**
Interest on borrowings		-192	-207
Interest expense lease liability	[19]	-20	-22
Interest on other provisions		-3	-3
Other interest expenses		-8	-7
Finance costs		**-223**	**-239**
Amortizable part of hedge reserve	[13.1]	-15	-15
Amortization discontinued fair value hedges	[13]	22	29
Derivative financial instruments not qualified for hedge accounting	[13]	-17	-27
Exchange rate differences		5	-4
Other		-6	-11
Other financial results		**-11**	**-28**
Total		**-234**	**-269**

Finance income in 2021 was EUR 0m (2020: EUR -3m). Negative interest on cash balances of EUR 3m was offset by the interest accrued in 2021 on the contingent cash receivable related to Glaspoort.

Finance costs decreased by EUR 16m, which was mainly related to debt redemptions and lower interest rates on borrowings. Interest on borrowings included a non-cash amount of EUR 6m (2020: EUR 4m) relating to debt issuance and similar costs, which are amortized over the remaining life of the respective bonds using the effective interest rate method.

Other financial results decreased by EUR 17m (lower net cost), mainly due to lower fair value changes on derivative financial instruments not qualified for hedge accounting due to maturing swaps (EUR 17m loss versus EUR 27m loss in 2020), hedge ineffectiveness of EUR 0m (2020: EUR 7m loss) and exchange rate gains of EUR 5m (2020: EUR 4m loss), partly offset by a EUR 2m fair value loss on the contingent cash receivable related to Glaspoort included in Other (2020: n.a.) and EUR 7m lower gains from amortization of discontinued fair value hedges.

[8] Taxation

The Netherlands

The book loss, which is recognized as a result of the sale of E-Plus in 2014 (see schedule net DTA book loss sale of E-Plus), was used to offset KPN's taxable income in the Netherlands in 2014 up to and including 2021, and will be used to offset a significant part of KPN's taxable income in the Netherlands in the coming years.

The realization of the joint venture (Glaspoort) with APG triggered a taxable event in Q2 2021, which has been discussed and agreed with the Dutch tax authorities (see Note 21). The extension of the fiber roll-out, KPN, APG and Glaspoort agreed on in Q4 2021, will follow the same principles for tax purposes as the initial transaction (see Note 12).

KPN has an agreement with the Dutch tax authorities with respect to the application of the Dutch innovation box tax regime. This is a facility under Dutch corporate income tax law where profits attributable to innovation are taxed at an effective rate of 9.0% (2020: 7.0%). The application of the innovation box resulted in a benefit of EUR 40m over 2021 (2020: EUR 16m). The increase in the iBox benefit is a result of the realization of the joint venture Glaspoort and the agreement to extend the fiber roll-out.

Germany

Upon completion of all prior years, the German Tax authorities started a tax audit of E-Plus over fiscal year 2014. In 2014, KPN completed the sale of E-Plus. Over the years, E-Plus had incurred substantial debts to KPN, a.o. in relation to the acquisition of the UMTS licenses and the roll-out of its network. The sale of E-Plus excluded these debts, which were subsequently restructured. In 2021, the German Tax authorities requested KPN's German subsidiary to further substantiate its tax filing with regard to these debt restructurings. The subsidiary has addressed the questions on the basis of supporting third party expert opinions regarding this matter. Completion of this process may take time given the materiality and complexity of the 2014 tax filings. As this matter could have a material impact for KPN, it is treated as a contingent liability as referred to in Note 22.

See Note 21 for the impact of the acquisitions, which are separately liable for income taxes, and disposals of subsidiaries and business units and see Note 22 and the Tax and regulations section in this Integrated Annual Report for tax proceedings on disposed businesses.

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Income tax expense

€ million	2021	2020
Current tax	-292	1
Deferred taxes	-52	-89
Income tax (charge)/benefit from continuing operations	**-344**	**-88**

KPN used all remaining realized losses in 2021. Consequently, KPN reports significantly more current income tax expense compared to prior years and cash tax payments increased accordingly as well.

The reconciliation from the Dutch statutory tax of 25% (2020: 25%) to the effective tax rate (ETR) of 21.1% (2020: 13.7%) is explained in the following table.

	2021		2020[1]	
	€ million	ETR	€ million	ETR
Profit before income tax from continuing operations excluding associates and joint ventures	**1,628**		**643**	
Taxes at Dutch statutory tax rates	-407	25.0%	-161	25.0%
Dutch tax rate adjustment	14	-0.8%	67	-10.4%
Not taxable income, non deductible expenses and liquidation losses	1	-0.1%	3	-0.5%
Innovation tax facilities current year	40	-2.4%	16	-2.4%
Innovation tax facilities prior year	-	0.0%	-8	1.3%
Deferred tax related to prior years	7	-0.4%	-1	0.1%
Deferred tax related to current year	3	-0.2%	-3	0.4%
Other	-1	0.0%	-1	0.2%
Income tax benefit/(charge) from continuing operations	**-344**	**21.1%**	**-88**	**13.7%**

1 Deferred tax related to prior years is restated. The 2020 amount related to the additional tax expense recognized in PL for the estimated adjustment on depreciation limitations of < EUR 1m on real estate for the years 2018-2019.

Changes in Dutch tax rates resulted in a benefit of EUR 14m in 2021 (2020: EUR 67m) due to the valuation of our net deferred tax assets, while the tax exemption of the result on disposal of subsidiaries and business units resulted in a tax benefit of EUR 1m (2020: EUR 3m). Furthermore, a one-time tax benefit of EUR 7m has been claimed due to an update of tax calculations on real estate and lease property depreciation that relate to deferred tax positions reported in prior years.

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Deferred tax positions

Deferred tax assets

€ million	Tax loss & other carry forwards[1]	Unrealized liquidation losses[2]	Bonds & hedges[3]	Restriction on depreciation[4]	Fiscal goodwill[5]	Lease Liabilities[6]	Other liabilities	Offset against deferred tax	Total[7]
Balance at 31 December 2019	**195**	**435**	**85**	**105**	**16**	**201**	**76**	**-452**	**662**
Income statement benefit/(charge)	-29	-	-7	-19	-14	2	-14	16	-65
Transfer to current tax	-102	-	-	12	-	-	-	-	-90
Tax charged to OCI	6	-	-25	-	-	-	-	-	-19
Tax rate changes[8]	11	66	11	-4	1	3	-1	-10	77
Transfer to held for sale	-	-	-	-	1	-	-	-	1
Balance at 31 December 2020	**81**	**501**	**64**	**94**	**4**	**206**	**61**	**-446**	**567**
Income statement benefit/(charge)	-8	-	-4	-20	-5	-16	28	33	7
Transfer to current tax	-73	-	-	1	-	-	-	-	-72
Tax charged to OCI	-	-	-10	-	-	-	-	-	-10
Tax rate changes[8]	-	16	2	6	1	11	-	-22	14
Balance at 31 December 2021	**-**	**517**	**52**	**81**	**-**	**201**	**89**	**-435**	**506**

1 Net offsettable losses expected to be recovered within the foreseeable future. KPN has a history of recent profits.

2 Unrealized losses will become available for offset against taxable profits as from 2022. The offset is unlimited in time.

3 Amounts relate to capitalized costs for tax purposes, derivative positions adjusted for tax purposes and unrealized FX results included in the hedge reserve.

4 Amounts relate to assets depreciated in 5 years for tax purposes and less than 5 years for book purposes.

5 Amounts relate to goodwill depreciated for tax purposes (originated from internal transfers).

6 For leases, KPN separately recognizes both deferred tax assets and deferred tax liabilities, based on the underlying temporary difference.

7 Of which EUR 230m to be recovered within 12 months (2020: EUR 100m). Recoverability depending on future taxable results. Based on current projections, KPN expects to fully utilize its losses within the foreseeable future.

8 Representing the impact of the Dutch corporate tax rate change of which a net benefit of EUR 1m has been added to OCI in 2021 (2020: net benefit of EUR 10m).

Net DTA book loss on the sale of E-Plus

€ million	Net DTA	Realized	Unrealized	Offset by DTL	Net Loss
Balance at 31 December 2019	**588**	**153**	**435**	**-**	**2,638**
Movement 2020	-41	-107	66	-	-450
Balance at 31 December 2020	**547**	**46**	**501**	**-**	**2,188**
Movement 2021	-30	-46	16	-	-184
Balance at 31 December 2021	**517**	**-**	**517**	**-**	**2,004**

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Deferred tax liabilities

€ million	Software development[1]	Goodwill depreciation[2]	PPA[3]	Right-of-use assets[4]	Other	Offset against deferred tax assets	Total
Balance at 31 December 2019	**126**	**86**	**45**	**183**	**12**	**-452**	**-**
Income statement benefit/(charge)	-25	16	-8	3	-2	16	-
Tax rate changes	-1	-	7	3	1	-10	-
Balance at 31 December 2020	**100**	**102**	**44**	**189**	**11**	**-446**	**-**
Income statement benefit/(charge)	-24	10	-7	-14	2	33	-
Tax rate changes	7	4	1	10	-	-22	-
Balance at 31 December 2021	**83**	**116**	**38**	**185**	**13**	**-435**	**-**

1 Amounts relate to capitalized software costs which are taken as expenses for tax books.

2 Amounts relate to acquired goodwill depreciated for tax purposes (not for book purposes).

3 See Note 21 for the impact of the acquisitions.

4 For leases, KPN separately recognizes both deferred tax assets and deferred tax liabilities, based on the underlying temporary difference.

Tax loss carry forward

€ million	31 December 2021			31 December 2020		
	Tax loss carry forward	Maximum deferred tax asset	Recognized deferred tax asset	Tax loss carry forward	Maximum deferred tax asset	Recognized deferred tax asset
Koninklijke KPN – corporate tax[1]	-	-	-	328	82	81
Other	77[2]	16	-	71	15	-
Total KPN Group	**77**	**16**	**-**	**400**	**97**	**81**

1 The offset of realized losses with future profits is unlimited as from 2021. Furthermore, we refer to "Tax and regulations" in this integrated report on changes regarding the use of losses as from 2022. Note: this schedule does not yet include the unrealized losses (loss E-Plus) that will become available as from 2022.

2 Losses relating to foreign jurisdictions that are not expected to materialize in foreseeable future.

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

€ million	31 December 2021			31 December 2020		
	Tax loss carry forward	Maximum deferred tax asset	Recognized deferred tax asset	Tax loss carry forward	Maximum deferred tax asset	Recognized deferred tax asset
2023	-	-	-	186	47	46
2024	-	-	-	1	-	-
2025	-	-	-	141	35	35
2026	3	1	-	-	-	-
Later	54	11	-	53	11	-
Unlimited	20	4	-	18	4	-
Total	**77**	**16**	**-**	**400**	**97**	**81**

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Accounting policy: Taxation

Current income tax

The current income tax charge is calculated in accordance with the prevailing tax regulations and rates, taking into account non-taxable income and non-deductible expenses. The current income tax expense reflects the amount for the current reporting period that KPN expects to recover from or pay to the tax authorities. Current income tax related to items recognized directly in equity/OCI is recorded in equity/OCI and not in profit or loss, with an exception for (hybrid) financial instruments classified as equity.

KPN's management periodically evaluates positions taken in the tax returns regarding situations in which uncertainty on a tax position exists over whether the relevant taxation authority will accept the tax treatment under law. These uncertain tax positions ('UTP') will be recognized if the amount can be reliably estimated and when the chance of a cash outflow is estimated as probable. When these criteria are not met, these positions are classified as contingent liabilities, unless the cash outflow is considered remote.

Deferred income tax

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

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

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

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[9] Earnings per share

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

€ million	2021	2020
Profit for the year from continuing operations	1,283	561
Profit for the year from discontinued operations	5	-
Profit for the year	**1,288**	**561**
Profit attributable to non-controlling interests	-	-
Deduction for perpetual capital securities	-10	-10
Adjusted profit (loss) attributable to ordinary shareholders of the company	**1,278**	**551**
Weighted average number of subscribed ordinary shares	**4,178,961,845**	**4,196,846,423**
Dilution effects: non-vested shares	4,363,596	5,079,463
Weighted average number of subscribed ordinary shares including dilution effects	**4,183,325,441**	**4,201,925,886**

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

€	2021	2020
Basic (continuing operations)	0.30	0.13
Diluted (continuing operations)	0.30	0.13
Basic (discontinued operations)	-	-
Diluted (discontinued operations)	-	-
Basic (total, including discontinued operations)	0.31	0.13
Diluted (total, including discontinued operations)	0.31	0.13

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Non-vested shares are regarded to have potential dilutive effects on the ordinary shares.

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

The total basic earnings per share include EUR 0.08 (2020: EUR 0.02) tax expenses.

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Notes to the Consolidated Statement of Financial Position

[10] Property, plant and equipment

Statement of changes in property, plant and equipment

€ million	Land and buildings	Plant and equipment	Other tangible non-current assets	Assets under construction	Total
Balance at 1 January 2020	**351**	**4,839**	**40**	**203**	**5,432**
Investments[1]	101	952	14	-79	987
Depreciation	-44	-925	-15	-	-984
Impairments and retirements	-2	-15	-	-7	-25
Changes in consolidation[2]	-	11	-	-	11
Other	-	1	-1	-	-
Closing net book value	**405**	**4,863**	**38**	**116**	**5,422**
Cost	1,536	9,570	87	116	11,310
Accumulated depreciation/impairments	-1,131	-4,707	-50	-	-5,888
Balance at 31 December 2020	**405**	**4,863**	**38**	**116**	**5,422**
Investments[1]	44	937	13	3	997
Depreciation	-46	-872	-15	-	-933
Impairments and retirements	-	-8	-	-1	-10
Other	-2	-9	-2	-	-13
Closing net book value	**401**	**4,912**	**34**	**118**	**5,463**
Cost	1,569	9,756	79	118	11,521
Accumulated depreciation/impairments	-1,168	-4,845	-45	-	-6,058
Balance at 31 December 2021	**401**	**4,912**	**34**	**118**	**5,463**

1 Investments in plant and equipment include the acquisitions of fiber networks not qualifying as a business under IFRS 3 of EUR 17m in 2021 (2020: EUR 9m).

2 Changes in consolidation include the acquisition of the cooperative Sterk Midden-Drenthe.

Estimated useful lives of the principal PPE categories

PPE category	Depreciation period
Land	No depreciation
Buildings	14-33 years
Network equipment	3-7 years
Fiber network infrastructure	30 years
Copper network infrastructure	5-10 years
Office equipment	4-10 years

The assets' residual values and useful lives are reviewed at least annually and adjusted if appropriate.

KPN's strategy includes, amongst others, accelerating the roll-out of fiber which affects the depreciation period of all new investments in copper infrastructure. As of 1 January 2019, depreciations of these investments were capped at 10 years.

In early 2020, KPN announced its plans to phase out its copper network after three years starting in early 2023 for existing addresses where fiber service delivery is available as per early 2020 and for the addresses in every then already announced fiber roll-out project under construction. Together with the current fiber roll-out these overlay addresses receive an announcement that copper will be phased out after three years. The depreciation of this part of the copper network was accelerated for an additional amount of EUR 17m in 2021 (2020: EUR 13m).

Interest is capitalized as an increase in PPE if the construction of assets takes a substantial period of time and the amount is material.

Accounting policy: PPE

PPE are valued at cost less depreciation and impairment. The cost include direct costs (materials, direct labor and work contracted out) and directly attributable overhead costs.

Asset retirement obligations are capitalized as part of the cost of tangible fixed assets and expensed as either depreciation over the assets' estimated useful life or as impairment charges.

PPE are depreciated using the straight-line method, based on estimated useful life, taking into account residual value. Land is not depreciated. PPE are reviewed for impairment whenever events or changes in circumstances indicate that the book value of the assets concerned may not be recoverable. An impairment loss is recognized for the amount by which the assets' book value exceeds its recoverable amount.

Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an assets' fair value less costs of disposal and its value in use.

[11] Intangible assets

Statement of changes in intangible assets with finite lives and goodwill

€ million	Goodwill	Customer relationships	Software acquired from third parties	Software internally generated	Software in development	Licenses	Other	Total
Balance at 1 January 2020	**1,495**	**202**	**117**	**341**	**30**	**805**	**4**	**2,995**
Investments	1	-	60	178	-3	417	-	653
Changes in consolidation	-	2	-	-	-	-	-	2
Amortization	-	-29	-74	-214	-	-91	-2	-409
Impairments	-	-	-	-3	-	-	-	-3
Reclassifications	-	-	-2	3	-	-	-	-
Closing net book value	**1,496**	**175**	**100**	**305**	**27**	**1,132**	**3**	**3,238**
Cost	2,153	334	249	678	27	1,803	13	5,256
Accumulated amortization/impairments	-657	-159	-149	-373	-	-671	-10	-2,018
Balance at 31 December 2020	**1,496**	**175**	**100**	**305**	**27**	**1,132**	**3**	**3,238**
Investments	-	-	31	182	9	-	4	226
Changes in consolidation[1]	-64	-	-	-	-	-	-	-64
Amortization	-	-26	-61	-199	-	-100	-1	-387
Impairments	-	-	-1	-6	-	-	-	-8
Reclassifications	-	-1	-1	1	-	-	1	-
Closing net book value	**1,432**	**148**	**69**	**283**	**35**	**1,032**	**7**	**3,006**
Cost	2,089	326	177	650	35	1,779	17	5,074
Accumulated amortization/impairments	-657	-178	-108	-367	-	-747	-11	-2,068
Balance at 31 December 2021	**1,432**	**148**	**69**	**283**	**35**	**1,032**	**7**	**3,006**

1 Changes in consolidation of EUR 64m is related to the sale of Glaspoort B.V. (see Note 21).

Licenses

In 2020, KPN acquired a combination of frequency licenses in the Dutch multiband auction for EUR 417m, including additional expenses. These licenses, with in total 75MHz of the spectrum, are amortized over a period of 20 years. The investment in the 700MHz and 1400MHz band (EUR 253m) has been used and amortized as of July 2020. The investment in the 2100MHz band (EUR 164m) has been used and amortized as of January 2021.

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Goodwill per CGU

€ million	31 December 2021	31 December 2020
Consumer	743	770
Business	654	689
Wholesale	35	36
Total[1]	**1,432**	**1,496**

1 Decline of EUR 64m is due to the sale of Glaspoort B.V. (see Note 21).

On 9 June 2021, KPN sold 50% of the shares of its subsidiary Glaspoort B.V. The book value of KPN's remaining interest in Glaspoort, which includes goodwill (see Note 12), is not part of the above mentioned CGU's and is tested separately for impairment when there is an indication that the book value may be impaired.

Goodwill impairment tests

In accordance with IAS 36, KPN assesses goodwill for impairment at the end of each year and when a triggering event occurs. The annual impairment tests as at 31 December 2021 did not indicate that the book value of KPN's goodwill is not recoverable. KPN's market capitalization on 31 December 2021 was higher than the book value of its equity. A test was performed of the recoverable amount of the book value of each cash-generating unit (CGU), based on their value-in-use, which was determined by using the discounted cash flow method.

Key assumptions used in the cash flow projections are estimated EBITDA, Capex, change in working capital and pre-tax weighted average cost of capital (WACC). The cash flow projections are management's best estimate based on the updated strategic plan and extrapolation to terminal values. The WACC is calculated using a capital asset pricing model. The WACC used reflects the impact of the lease liabilities recognized in accordance with IFRS 16. The terminal growth rate for the period after 10 years is updated consistently in line with the changes in the post-tax WACC. In 2021, the post-tax WACC and the terminal growth rate were slightly lower compared to 2020.

For all three CGUs, the annual impairment tests in 2021 and 2020 resulted in significant positive headroom as at 31 December 2021 and 31 December 2020.

Key assumptions in goodwill impairment tests

CGU	EBITDA margin	Capex intensity	Discount rate	Terminal sales growth[1]
Consumer 2021	53% – 56%	25% – 30%	6% – 7%	-0.6%
Consumer 2020	52% – 57%	27% – 29%	6% – 7%	-0.5%
Business 2021	30% – 33%	14% – 16%	6% – 7%	-0.6%
Business 2020	28% – 35%	16% – 17%	6% – 7%	-0.5%
Wholesale 2021	69% – 75%	35% – 39%	6% – 7%	-0.6%
Wholesale 2020	67% – 70%	36% – 40%	6% – 7%	-0.5%

1 Estimates after 10 years.

The sensitivity analyses on the impairment test, resulting from a change in the key assumptions, showed that the headroom of the CGUs is more than sufficient. The analyses were performed for each key assumption separately. For example, a 1% higher discount rate, a 20% higher Capex, a 1% lower terminal growth rate or a 20% lower EBITDA in each of the CGUs would not lead to a goodwill impairment.

Accounting policy: Goodwill and intangibles with finite lives

The excess of the consideration transferred over the fair value of the identifiable net assets acquired in a business combination is recorded as goodwill. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is allocated to CGUs for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination. Goodwill is carried at cost less accumulated impairment losses and tested for impairment annually or whenever there is an indication that goodwill may be impaired. Goodwill is impaired if the recoverable amount is lower than the book value. The recoverable amount is defined as the higher of the fair value less costs of disposal and the value in use of the CGU concerned. Impairment losses on goodwill are not reversed in the event that circumstances that triggered the impairment have changed.

Licenses and software are valued at cost less amortization and impairment. Amortization is calculated using the straight-line method over the economic useful life and commences at the date that services can be offered (available for use). Internally developed and acquired software which is not an integral part of PPE, is capitalized on the basis of the costs incurred, which includes direct costs and directly attributable overhead costs incurred.

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

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset may not be recoverable. An impairment loss is recognized for the amount by which the book value of the licenses exceeds its recoverable amount. Impairments are reversed if and to the extent that the impairment no longer exists. Intangible assets not yet available for use are tested annually for impairment or whenever KPN has an indication that the intangible fixed assets may be impaired. For example, licenses are tested as part of a CGU as licenses do not generate independent cash flows.

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

[12] Equity investments accounted for using the equity method

KPN holds several equity investments accounted for using the equity method of which Glaspoort (see below) is the most significant. Other equity investments are not material, individually nor in aggregate. Their combined carrying value at 31 December 2021 is EUR 8m (31 December 2020: EUR 8m) and KPN's share in their net result amounted to nil in 2021 (2020: EUR 6m).

Joint venture Glaspoort

On 9 June 2021, KPN sold 50% of the shares of its subsidiary Glaspoort B.V. to Drepana Investments Holding B.V., an investment entity managed by APG. At the same time, KPN entered into a joint venture agreement with Drepana Investments Holding B.V. regarding Glaspoort. Glaspoort is a network company, pursuing an open-access wholesale strategy based on non-discriminatory terms, fostering competition and innovation in the Netherlands. See Note 21 for more information on the sale of Glaspoort.

Glaspoort is classified as a joint venture based on the assessment of ownership and voting power (50/50 with the joint venture partner) and the joint control established through the joint venture agreement between the shareholders. The assessment includes among others the following:

- KPN's option to purchase one additional share in Glaspoort. This option is exercisable between the 5th and the 8th anniversary of the transaction provided certain criteria are met, and in any case after the 8th anniversary.
- KPN's influence on Glaspoort's relevant activities through KPN's presence in the governance structure.
- KPN is anchor tenant on Glaspoort's network and will also be one of its suppliers through a number of operational contracts between KPN and Glaspoort.

The assessment whether joint control remains in place is reviewed annually.

KPN accounts for its interest in Glaspoort using the equity method in the consolidated financial statements. KPN initially recognized its interest in the joint venture at its fair value (EUR 451m), based on the total consideration received (see Note 21). The initial fair value has been allocated to equity of Glaspoort, determined under application of KPN's accounting policies, and goodwill. In determining equity, intangible assets of EUR 878m have been recognized in the initial balance sheet of Glaspoort which mostly relate to contractual relationships held by Glaspoort with, among

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others, KPN. The sale of the additional scope projects to Glaspoort in December 2021 (refer below), which is treated as a sale of assets, has been used as an input to determine the fair value of the intangible assets. The intangible assets are expected to be amortized over a period ranging from 15-30 years. The allocation of the fair value and the amortization term of the intangible assets are considered provisional.

In December 2021, KPN, Drepana and Glaspoort signed an agreement to extend the scope of the fiber roll-out of Glaspoort. KPN will receive EUR 170m (pre-tax) for the sale of the additional scope from Glaspoort. Of this amount, EUR 60m has been received in cash upon closing of the transaction and the remaining amount will be received in annual installments based on the roll-out progress. KPN will recognize 50% of the agreed consideration as other income when the roll-out activities of the additional scope projects have started by Glaspoort at which point KPN's obligations regarding realization of the additional scope projects are deemed fulfilled. The remaining 50% will be recognized over time as part of the result from joint ventures following the requirements of IAS 28 on downstream transactions. During 2021, KPN recognized EUR 15m in other income related to the sale of these additional scope projects. As at 31 December 2021, the corresponding deferred gain of EUR 15m is included in the net book value of the joint venture. The extended scope of the fiber roll-out is not tax exempt and resulted in a tax expense of EUR 3m, a current tax payable of EUR 36m and a deferred tax asset of EUR 33m. This deferred tax asset will be realized upon recognition of the gains on the transaction.

On the closing date of the initial transaction (9 June 2021), both shareholders paid a share premium contribution of EUR 39m to Glaspoort's equity. In December 2021, both shareholders contributed an additional share premium of EUR 30m as part of the scope extension. KPN added the share premium payments to the carrying value of KPN's interest in the joint venture.

Summarized financial information of the joint venture, based on IFRS as applied by KPN, and reconciliation with the carrying amount of the investment in the consolidated financial statements, is set out below:

Summarized statement of financial position of Glaspoort B.V.

€ million	31 December 2021
Tangible fixed assets	77
Intangible assets	908
Other non-current assets	11
Current assets	90
Net cash and cash equivalents	28
Non-current liabilities	-99
Current liabilities	-11
Equity	**1,004**
KPN's share in equity	502
Goodwill from initial valuation at fair value	15
Carrying amount of the investment Equity Method	**517**
Less: Deferred gain on downstream transactions	-15
Carrying amount of the investment	**503**

Summarized statement of profit or loss of Glaspoort B.V.

€ million	2021
Revenue	2
Operating expenses	-6
Depreciation, amortization & impairment expenses	-1
Net finance cost	-
Profit before tax	**-5**
Income tax expense	2
Profit for the year	**-3**
Total comprehensive income for the year	**-3**
KPN's share of profit for the year	**-2**

Both shareholders have committed to additional share premium contributions. On 31 December 2021, the remaining maximum commitment of each shareholder is EUR 187m, payable to Glaspoort based on funding requirements following its annual budget. Neither shareholder has additional funding obligations regarding Glaspoort. Glaspoort has entered into funding agreements with financial institutions to cover its financial commitments, which include its fiber roll-out activities. These funding agreements have been entered into on a non-recourse basis without any guarantees from the shareholders.

For information on transactions between Glaspoort and KPN and unsettled positions between Glaspoort and KPN, see Note 23. Glaspoort cannot distribute its profits without the consent from the two joint venture partners and not before 2026. After 2026, Glaspoort can distribute dividends only if specific criteria are met.

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Accounting policy: Equity investments accounted for using the equity method

Equity investments accounted for using the equity method include associates and joint ventures.

Associates are entities over which KPN has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in KPN's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss reflects KPN's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of KPN's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, KPN recognizes its share of any change, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between KPN and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture through KPN's share of the profit (or loss) of associates and joint ventures.

The aggregate of KPN's share of profit or loss of an associate and a joint venture is shown in the statement of profit or loss.

The financial statements of the associate or joint venture are prepared for the same reporting period as KPN. When necessary, adjustments are made to bring the accounting policies in line with those of KPN.

After application of the equity method, KPN determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, KPN determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, KPN calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognizes the loss within 'share of profit/loss (-) of associates and joint ventures' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control, and the fair value of the retained investment and proceeds from disposal, is recognized in profit or loss.

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[13] Financial assets and financial liabilities

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

		31 December 2021		31 December 2020	
€ million	**Notes**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets at FVPL					
Other financial asset at fair value through profit or loss	[13.1]	218	218	-	-
Other current financial assets	[13.1]	300	300	270	270
Derivatives	[13.3]	212	212	202	202
Cash and cash equivalents, including classified as held for sale	[15]	793	793	597	597
Financial assets at amortized cost					
Trade and other receivables[1]	[14]	641	641	641	641
Financial assets at FVOCI					
Equity investments	[13.1]	49	49	37	37
Total financial assets		**2,213**	**2,213**	**1,746**	**1,746**
Financial liabilities FVPL					
Derivatives	[13.3]	64	64	196	196
Financial liabilities at amortized cost					
Borrowings	[13.2]	6,744	7,223	6,500	6,997
Lease liabilities	[19]	873	873	937	937
Trade and other payables[2]	[20]	973	973	953	953
Total financial liabilities		**8,654**	**9,132**	**8,587**	**9,083**

1 Excluding prepayments.

2 Excluding social security and other taxes payable.

Fair value measurement hierarchy at 31 December 2021

€ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVPL				
Other financial asset at fair value through profit or loss	-	-	218	218
Derivatives (cross-currency interest rate swap)	-	117	-	117
Derivatives (interest rate swap) and other	-	95	-	95
Financial assets at FVOCI				
Equity investments:				
Unlisted securities	-	-	49	49
Total assets	**-**	**212**	**267**	**479**
Financial liabilities at FVPL				
Derivatives (cross-currency interest rate swap)	-	47	-	47
Derivatives (interest rate swap)	-	17	-	17
Total liabilities	**-**	**64**	**-**	**64**

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Fair value measurement hierarchy at 31 December 2020

€ million	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
Derivatives (cross-currency interest rate swap)	-	26	-	26
Derivatives (interest rate swap) and other	-	176	-	176
Financial assets at FVOCI				
Equity investments:				
Unlisted securities	-	-	37	37
Total assets	**-**	**202**	**37**	**239**
Financial liabilities at FVPL				
Derivatives (cross-currency interest rate swap)	-	161	-	161
Derivatives (interest rate swap)	-	34	-	34
Total liabilities	**-**	**196**	**-**	**196**

Fair value estimation

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

Accounting policy: Financial assets

Financial assets are classified at initial recognition.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and KPN's business model for managing them.

KPN initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

For the purposes of subsequent measurement, financial assets are classified into four categories:
- Financial assets at amortized cost (debt instruments).
- Financial assets at fair value through other comprehensive income (OCI) with recycling of cumulative gains and losses (debt instruments).
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).
- Financial assets at fair value through profit or loss.

[13.1] Financial assets

Other financial asset at fair value through profit or loss

Upon sale of the 50% interest in Glaspoort B.V. to Drepana Investments Holding B.V. (see Note 21), KPN received a cash consideration upon deal close of EUR 233m and a contingent cash receivable of EUR 234m. The contingent cash receivable, to be received in annual installments based on the roll-out progress of Glaspoort, is classified as a financial asset measured at fair value through profit or loss. The contingent cash receivable was initially value at EUR 218m. As at 31 December 2021, the carrying value is EUR 218m, of which EUR 14m is current. In 2021, the book value increased with interest income of EUR 3m and decreased with EUR 2m due to a fair value adjustment. The latter was recognized as a loss in other financial results.

Based on Glaspoort's current roll-out plan, KPN expects the final payment in 2027. The fair value of this contingent receivable is deemed equal to the net present value of the full amount of the installments to be received using the expected roll-out schedule as included in Glaspoort's initial business plan. A weighted average discount rate of 2.39% has been used based on the following elements:
- A base-rate using mid-swap rates to account for the time value of money, plus
- A credit spread mark-up to account for the risk of non-payment based on AA rated credit curves resulting in a spread of ~0.2% over a 5 year tenor, plus
- A mark-up to reflect the roll-out risk (mostly the risk of delay)

Equity investments measured at fair value through OCI

This includes several minority stakes of which the largest is Actility SA, a provider of network solutions and managed information systems for the Internet of Things market with a carrying value of EUR 7m (2020: EUR 7m). In 2021, additional investments for an amount of EUR 7m were acquired.

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These investments were irrevocably designated at fair value through OCI because KPN believes that the fluctuations in the fair value of these investments do not give a fair view of KPN's performance. In 2021, fair value gains of EUR 5m were recognized.

Other current financial assets
Other current financial assets include investments in short-term money market funds of EUR 300m (2020: EUR 270m), which are held at fair value through profit or loss (FVPL). These funds have a low volatility, with an investment objective of preservation of principal.

[13.2] Financial liabilities

	31 December 2021		31 December 2020	
€ million	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Senior eurobonds EUR	3,638	3,667	3,616	3,681
Senior eurobonds GBP	1,478	1,762	1,380	1,678
Senior global bonds USD	620	751	591	687
Subordinated hybrid bonds classified as liability	529	558	487	516
Other borrowings	480	484	427	434
Total borrowings	**6,744**	**7,223**	**6,500**	**6,997**
> of which: current	**677**	**681**	**679**	**685**
> of which: non-current	**6,067**	**6,542**	**5,821**	**6,311**

The fair value for eurobonds, global bonds and hybrid bonds is based on the listed price of the bonds. Other borrowings include commercial paper, cash collateral received on derivatives, bank overdraft and other loans.

KPN's weighted average interest rate on total outstanding borrowings on 31 December 2021 was 2.9% after swaps (2020: 3.0%). KPN's weighted average interest rate on senior debt on 31 December 2021 was 2.7% after swaps (2020: 2.9%).

Senior bonds

KPN has an unlimited Global Medium-Term Notes program which is used to meet medium- to long-term funding requirements. As at 31 December 2021, the total amounts outstanding under this program were EUR 3,597m across six bonds (carrying value EUR 3,638m) and GBP 1,250m across two bonds (carrying value EUR 1,478m, swapped to EUR 1,445m nominal). In addition, KPN has a senior global bond with USD 595m outstanding (carrying value EUR 620m, swapped to EUR 450m nominal) which was issued under standalone documentation.

During the year, KPN redeemed bonds with a total nominal value of EUR 614m and issued bonds with a nominal value of EUR 700m:
- On 1 February 2021, KPN redeemed the 3.25% coupon eurobond with a remaining outstanding principal amount of EUR 361m, in line with its scheduled maturity.
- On 4 October 2021, KPN redeemed the 4.50% coupon eurobond with a remaining outstanding principal amount of EUR 253m, in line with its scheduled maturity. This bond had been swapped to an effective interest rate of 0.867%.
- On 15 November 2021, KPN issued its first EUR 700m sustainability-linked eurobond with a term of 12 years, maturing on 15 November 2033. The issuance was priced at 98.772% and carries an annual coupon of 0.875%. The bond is linked to the achievement of a target to reduce absolute value chain CO_2 emissions (scope 3) by 30% by the end of 2030 against a 2014 baseline. If this target is not achieved on 31 December 2030, the interest rate for this bond will increase by 0.375% p.a. for the period from 15 November 2031 until the maturity date. The accounting (effective interest) for this bond is based on the assumption that the target will be achieved.

Hybrid bonds

million	Nominal	Nominal €	Coupon	Classification	Redemption	First call date	Swapped	Credit rating
USD hybrid bond	600	465	7.000%	Liability	28 Mar 2073	28 Mar 2023	Fixed 6.34%	BB/Ba2
EUR perpetual hybrid bond	500	500	2.000%	Equity	Perpetual	8 Feb 2025	N/a	BB+/Ba2

As at 31 December 2021, two hybrid bonds are outstanding with an aggregate nominal amount of EUR 965m after swaps. The USD 600m hybrid bond (carrying value EUR 529m, swapped to EUR 465m nominal) is included in borrowings, while the

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EUR 500m perpetual hybrid bond is classified as equity. Both hybrid bonds are subordinated debt instruments and are treated for 50% as equity and 50% as debt in KPN's gross and net debt definitions.

KPN may, at its discretion and subject to certain conditions, elect to defer payments of interest on the hybrid bonds. Arrears of interest must be paid if dividends are paid on ordinary shares, if payments are made on other hybrid bonds, in the event of early redemption, and for the USD hybrid bond at final maturity. KPN does not recognize accruals for coupon payments on the EUR perpetual hybrid bond of EUR 10m per annum. If an accrual had been recognized, the amount would have been EUR 9m on 31 December 2021.

Other borrowings

As at 31 December 2021, KPN has fully drawn its EUR 300m credit facility from the European Investment Bank. The loan has a floating interest rate referenced to 3-month Euribor and a single repayment on 2 August 2027. The interest for the current interest period was floored at 0%.

KPN has a Euro commercial paper program under which KPN can issue short-term debt instruments for up to EUR 1 billion. As at 31 December 2021, the outstanding balance of commercial paper amounted to EUR 60m (2020: EUR 60m) issued at an average interest rate of -0.45%.

As at 31 December 2021, other borrowings furthermore included EUR 70m of collateral received as security under derivative financial instruments and EUR 50m borrowings under private placements.

Accounting policy: Borrowings

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

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Changes in liabilities arising from financing activities

€ million	Borrowings	Derivative financial instruments	Net liability	Lease liabilities	Net liability, including lease liabilities
Balance at 1 January 2020	**6,659**	**-118**	**6,541**	**930**	**7,472**
Exchange differences	-197	199	1	-	1
Movements recorded as net cash flows arising from/used in financing activities:					
Repayments of borrowings and settlement of derivatives and repayments of lease liabilities[1]	-901	-21	-922	-135	-1,057
Issued bonds & loans[2]	950	-	950	-	950
Fair value adjustments	-8	-68	-76	-	-76
Other movements	-3	3	-	142	142
Balance at 31 December 2020	**6,500**	**-6**	**6,494**	**937**	**7,432**
Exchange differences	177	-178	-2	-	-2
Movements recorded as net cash flows arising from/used in financing activities:					
Repayments of borrowings and settlement of derivatives and repayments of lease liabilities[1]	-613	-	-613	-135	-748
Issued bonds & loans	689	-	689	-	689
Fair value adjustments	-67	36	-31	-	-31
Other movements[3]	59	-	59	70	130
Balance at 31 December 2021	**6,744**	**-148**	**6,596**	**873**	**7,469**

1 In the Consolidated Statement of Cash Flows, this line item includes a net receipt of EUR 115m in 2021 and a payment of EUR 29m in 2020 regarding cash collateral on derivatives (presented as non-current other receivables). The interest component of the lease payments is presented within cash flow from operating activities.

2 Includes net proceeds from commercial paper of EUR 60m.

3 Other movements of borrowings in 2021 includes receipts of EUR 55m of cash collateral on derivatives and energy contracts. Other movements of the derivative financial instruments are predominantly movements in the interest part of cash flow hedges. Other movements of the lease liabilities include interest, additions of new contracts, remeasurements and modifications (see Note 19).

[13.3] Hedging activities and derivatives

KPN uses derivatives solely for the purpose of hedging underlying exposures. The primary risks managed using derivative instruments are foreign currency risk and interest rate risk.

€ million	31 December 2021	31 December 2020
Assets (current and non-current)	212	202
Liabilities (current and non-current)	-64	-196
Total derivatives	**148**	**6**
of which: designated in a hedge relationship	**122**	**-37**
of which: other derivatives not designated in a hedge relationship	**26**	**43**

A total loss of EUR 0.2m due to hedge ineffectiveness was recognized in the P&L in 2021 (2020: EUR 11m loss). This was mainly due to small differences in the valuation of hedging instruments and hedged items due to credit risk and valuation curves in combination with the cumulative change of the fair value of the hedging instrument becoming greater than the change in the fair value of the hedged item. Note that all hedges continue to be highly effective prospectively.

Derivatives positions are reported on a gross basis and include a credit value adjustment attributable to derivative counterparty default risk. As at 31 December 2021, this was a net liability of EUR 0.2m (2020: net asset of EUR 0.1m). Part of the derivatives portfolio is subject to master netting agreements that allow netting under certain circumstances.

If netting had been applied, the total derivatives asset position would be EUR 155m and the total derivatives liability position would be EUR 6m as at 31 December 2021 (2020: EUR 70m and EUR 64m respectively).

Derivatives designated in a hedge relationship

Cash flow hedges

Bonds denominated in foreign currencies are hedged with cross-currency swaps. The currency exposure is hedged by effectively

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fixing the countervalue in the foreign currency to EUR and by hedging the interest rate exposure by swapping the fixed interest rates in foreign currency to fixed interest rates in EUR. There is an economic relationship between the hedged items and hedging instruments as the terms of the cross-currency swaps match the terms of the bonds. KPN has established a hedge ratio of 1:1 for the hedging relationships as the quantity of hedged items equals the notional amount of the cross-currency swaps. The hedges are until maturity of the underlying senior bonds or until the first call date in the case of the USD hybrid bond. For these hedges, KPN meets the criteria of, and also applies, cash flow hedge accounting. The effectiveness of the hedges is determined at inception and on a quarterly basis. To test the hedge effectiveness, KPN uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in the fair value of the hedged items attributable to the hedged risks. If the cumulative change in fair value of the hedging instrument and hedged item are not equal in absolute terms, the difference will be reported in the P&L to the extent that, in absolute terms, the fair value change of the hedging instrument is greater than the fair value change of the hedged item. Hedge ineffectiveness can arise from:

- Different curves linked to hedged items and hedging instruments
- The counterparties' credit risk differently impacting the fair value movement of the hedging instruments and hedged items
- Changes in the terms of the hedged item or hedge instrument

Overview of the cross-currency swaps at 31 December 2021 and 31 December 2020

Nominal (receive)	Coupon (receive)	Nominal (pay) (EUR m)	Coupon (pay)	Maturity date	Fair value 2021 (EUR m)	Fair value 2020 (EUR m)
USD 600m	7.000% semi-annual	465	6.344% semi-annual	28-3-2023	66	25
GBP 400m	5.000% annual	474	4.424% annual	18-11-2026	-16	-43
GBP 850m	5.750% annual	971	5.432% annual	17-9-2029	-18	-88
USD 595m	8.375% semi-annual	450	8.517% semi-annual	1-10-2030	38	-28
Total					**70**	**-135**

Impact of the cash flow hedges on the Statement of Financial Position

€ million	Notional amount	Carrying amount	Line item in Statement of Financial Position	Change in fair value used for measuring ineffectiveness for the period
As at 31 December 2021				
Cross-currency swaps GBP	1,445	-34	Derivatives	97
Cross-currency swaps USD	915	104	Derivatives	108
Total	**2,361**	**70**		**205**
As at 31 December 2020				
Cross-currency swaps GBP	1,445	-131	Derivatives	-51
Cross-currency swaps USD	915	-4	Derivatives	-56
Total	**2,361**	**-135**		**-107**

The change in fair value of the associated hedged items attributable to the hedged risks resulted in an ineffectiveness gain in 2021 of EUR 1m (2020: EUR 12m loss, which included a EUR 10m loss caused by an adjustment of the hedge accounting procedure, mainly reversing gains in previous years).

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Effect of the cash flow hedge in the P&L and OCI

€ million	Total hedging gain/(loss) recognized in OCI	Ineffectiveness recognized as a gain/(loss) in P&L	Line item in P&L	Amount reclassified from OCI as a gain/(loss) in P&L	Line item in P&L
Year ended 31 December 2021					
Cross-currency swaps GBP	-97	2	Other financial results	97	Other financial results
Cross-currency swaps USD	-108	-	Other financial results	81	Other financial results
Total	**-205**	**1**		**178**	
Year ended 31 December 2020					
Cross-currency swaps GBP	51	-11	Other financial results	-109	Other financial results
Cross-currency swaps USD	56	-1	Other financial results	-90	Other financial results
Total	**107**	**-12**		**-199**	

Fair value hedges

The 1.125% fixed-rate eurobond maturing on 11 September 2028 has been swapped to a floating rate using fixed-to-floating interest rate swaps, where KPN receives a fixed rate of 0.907% and pays interest at a variable rate equal to six-month Euribor.

The 0.625% fixed-rate eurobond maturing on 9 April 2025 has also been swapped to a floating rate using fixed-to-floating interest rate swaps, where KPN receives a fixed rate of 0.920% and pays interest at a variable rate equal to six-month Euribor (fixed in arrears). The swaps are used to hedge the exposure to changes in the fair value of these fixed rate eurobonds against changes in the EUR interest curve.

There is an economic relationship between the hedged item and the hedging instrument, as the terms of the interest rate swaps match the terms of the fixed-rate bonds (i.e. notional amount, maturity and payment dates). KPN has established a hedge ratio of 1:1 for the hedging relationships as the quantity of hedged item equals the notional amount of the hedging instrument. For these hedges, KPN meets the criteria of, and also applies, hedge accounting. If the cumulative change in the fair value of the hedging instrument and hedged item are not equal in absolute terms, the difference will be recorded in the P&L. The hedge ineffectiveness can arise from:

- Different curves linked to the hedged items and hedging instruments
- The counterparties' credit risk differently impacting the fair value movement of the hedging instruments and hedged items
- Changes in the terms of the hedge item or hedge instrument

Impact of the fair value hedges on the Statement of Financial Position

€ million	Notional amount	Carrying amount	Line item in Statement of Financial Position	Change in fair value used for measuring ineffectiveness for the period
As at 31 December 2021				
Interest rate swaps	1,250	52	Derivatives	-47
As at 31 December 2020				
Interest rate swaps	1,250	98	Derivatives	23

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Impact of the hedged items on the Statement of Financial Position

€ million	Carrying amount	Change in fair value adjustments	Line item in Statement of Financial Position	Change in fair value used for measuring ineffectiveness for the period
As at 31 December 2021				
Fixed-rate eurobonds 2025 & 2028	-1,308	47	Borrowings	45
As at 31 December 2020				
Fixed-rate eurobonds 2025 & 2028	-1,337	-23	Borrowings	-22

The ineffectiveness recognized in the P&L for the year ended 31 December 2021 was a loss of EUR 1m (2020: EUR 1m gain).

Derivatives not designated in a hedge relationship

In 2011, fixed-rate eurobonds with maturities on 21 September 2020, 4 October 2021 and 30 September 2024 were swapped to a floating interest rate using fixed-to-floating interest rate swaps. Subsequently, in May 2015, KPN decided to re-fix these bonds (until maturity) by entering into offsetting floating-to-fixed interest rate swaps. At that time fair value hedge accounting for fixed-to-floating interest rate swaps was discontinued. As a result, the cumulative gain until de-designation, which amounted to EUR 224m, is amortized to earnings until maturity of the associated bonds. This is offset by the change in fair value of the outstanding interest rate swaps. The amortization recognized in earnings for 2021 was a gain of EUR 11m (2020: EUR 18m) and the remaining balance of the unamortized gain was EUR 19m at 31 December 2021 (2020: EUR 30m). The fair value of the outstanding interest rate swaps was EUR 26m as at December 2021 (2020: EUR 43m) and the change in fair value of these swaps resulted in a P&L loss of EUR 17m in 2021 (2020: EUR 27m loss). The net interest income of these swaps was an additional gain of EUR 16m (2020: EUR 18m) which results in net earnings (including amortization and change in fair value) of EUR 10m (2020: EUR 8m).

Accounting policy: Derivatives and hedging activities

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

KPN applies IFRS 9 hedge accounting. Derivatives related to loans are designated as either cash flow or fair value hedges.

Offsetting effects are recognized in the P&L.

The hedge documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how KPN will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined).

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:
- There is 'an economic relationship' between the hedged item and the hedging instrument
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that KPN actually hedges and the quantity of the hedging instrument that KPN actually uses to hedge that quantity of hedged item

Changes in the fair value of an effective derivative, which is designated as a fair value hedge, along with the gain or loss on the hedged item that is attributable to the hedged risk, are recorded in the P&L as finance cost/ income. Changes in the fair value of an effective derivative, which is designated as a cash flow hedge, are recorded in OCI for the effective part, until the P&L is affected by the variability in cash flows of the

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designated hedged item. The ineffective part of the cash flow hedge is recognized as finance cost/income. If an underlying transaction has ceased to be an effective hedge or in case of early redemption of the hedged item, hedge accounting is discontinued prospectively which means that subsequent changes in fair value are recognized in the P&L as finance cost/income and the cumulative amount recorded in OCI is released in the P&L.

[13.4] Financial risk management and policies

Financing policy

KPN strives for the right balance between investments in the business, shareholder remuneration and a prudent financing policy. It is KPN's policy to utilize excess cash for operational and financial flexibility and/or shareholder remuneration.

The net debt/EBITDA AL ratio is one of the drivers for KPN's credit rating and is based on the nominal value of borrowings borrowings and takes 50% equity credit on hybrid bonds into account. KPN remains committed to an investment grade credit profile and aims for a net debt/EBITDA AL ratio of below 2.5x in the medium term.

The difference between the carrying value and nominal value of borrowings includes: (1) carrying value adjustments resulting from fair value hedges; (2) in case of foreign currency bonds, the difference between the nominal amount at the prevailing spot rate and the swapped nominal amount in EUR; and (3) amortized debt issuance costs.

€ million	31 December 2021	31 December 2020
Borrowings	6,744	6,500
Perpetual hybrid	500	500
Bank overdraft	-	-2
50% equity credit for hybrid bonds	-483	-483
Cash collateral paid on derivatives	-56	-117
Difference between carrying value and nominal value	-305	-202
Adjusted gross debt	**6,400**	**6,197**
Net cash and cash equivalents	793	594
Short-term investments	300	270
Net debt[1]	5,307	5,332
Adjusted EBITDA AL	2,347	2,320
Net debt/EBITDA AL	**2.3x**	**2.3x**

1 Excluding lease liabilities.

Financial risk management

KPN is exposed to a variety of financial risks. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on KPN's financial position and performance.

Derivatives are used to hedge certain risk exposures (see Note 13.3).

KPN's key financial risks are:
- Credit and counterparty risk
- Liquidity risk
- Market risk

KPN's Treasury department manages the financial risks according to policies approved by the Board of Management and Supervisory Board. These policies are established to identify and analyze financial risks, set appropriate risk limits and controls, and monitor adherence to those limits.

The COVID-19 pandemic in 2020 and 2021 led to increased volatility in capital markets and a deterioration in market liquidity. KPN's Treasury department monitored the situation closely and the impact on KPN's liquidity position, sources of financing and financial counterparties remained within acceptable risk limits. KPN did not suffer any material impact on its liquidity reserves and its ability to raise financing at attractive rates remained very strong.

Credit and counterparty risk

Credit risk arises from the possibility of asset impairment occurring when counterparties are unable to meet their obligations in transactions involving financial instruments. KPN's counterparty policy sets limits for the maximum exposure per counterparty, which are primarily based on credit ratings, investment periods and collateral. The minimum counterparty credit rating (Moody's equivalent) is Baa2 for cash balances and Baa1 for entering into new derivative transactions. Cash balances used for working capital purposes can also reside at banks with lower credit ratings. Capital preservation is KPN's main priority when investing excess cash.

As at 31 December 2021, KPN's cash balances and short-term investments were held in bank accounts, bank deposits and money market funds with maturities of up to three months. The majority of cash balances were invested with counterparties with a credit rating equivalent to A3 at Moody's or higher and the counterparties of outstanding derivatives have a credit rating equivalent to Baa1 or higher with Moody's.

KPN mitigates credit risk on bank counterparties arising from derivative financial instruments through collateral support agreements, which results in cash being paid or received as

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security. This is repayable when derivatives are settled and/or mature. As at 31 December 2021, cash collateral received was EUR 70m (2020: EUR 15m) and cash collateral paid was EUR 56m (2020: 117m).

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

KPN's policy is to provide financial guarantees only to wholly-owned subsidiaries. As at 31 December 2021, KPN had parent guarantees and bank guarantees outstanding to third parties for various Dutch wholly-owned subsidiaries. The carrying amount of financial assets, including cash, and contract assets represents the maximum credit exposure, which amounts to EUR 2,265m as at 31 December 2021 (2020: EUR 1,784m). On 31 December 2021, the total outstanding bank guarantees amounted to EUR 6m (2020: EUR 7m), which were issued in the ordinary course of business.

See schedule of the allowances for expected losses in Note 14 for information about credit losses on trade and other receivables. There were no other credit losses.

Maturity analysis of the financial liabilities based on the remaining contractual maturities on 31 December 2021

	Borrowings				Derivatives			
€ million	Bonds and loans[1]	Interest on bonds and loans[2]	Lease liabilities (undiscounted)	Other debt and cash collateral	Derivatives inflow (including interest)	Derivatives outflow (including interest)	Trade and other payables[3]	Total
2022	676	201	156	-52	-279	236	896	1,833
2023	-	174	126	3	-788	685	-	201
2024	431	174	113	36	-239	205	-	719
2025	625	150	104	-	-225	200	-	854
2026	476	146	95	-	-931	909	-	695
2027 and further	4,342	451	382	-	-3,244	3,078	-	5,008
Contractual cash flows	**6,550**	**1,297**	**975**	**-13**	**-5,707**	**5,312**	**896**	**9,310**

1 Includes the USD hybrid bond with final maturity in 2073 (redemption value of EUR 465m).

2 Interest payments on the USD hybrid bond (EUR 37m per year until the first call date in 2023) are not included. KPN may, at its discretion and subject to certain conditions, elect to defer payments of interest on this hybrid bond. Any arrears of interest must be paid at the latest at redemption in 2073, the amount of which cannot be reliably measured because of the duration of the hybrid bond.

3 Excluding accrued interest and social security and other taxes payable.

Liquidity risk

Liquidity risk is the risk that KPN will not be able to meet its financial obligations associated with financial instruments as they become due. KPN's approach to managing liquidity is to ensure sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage. Some of the derivatives contain reset clauses or collateral postings at pre-agreed dates, in order to mitigate counterparty exposure during the life of the swap. These reset clauses will result in early euro settlement obligations in cash with the swap counterparty, which could lead to additional cash inflows or outflows before maturity. In order to reduce liquidity risks, the reset clauses or collateral postings are spread over different points in time.

During 2021, KPN received net collateral of EUR 115m (2020: paid EUR 29m) according to pre-agreed settlement schedules.

Available financing resources

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

Revolving credit facility

On 4 August 2021, KPN signed a new sustainability-linked revolving credit facility for EUR 1.0 billion with twelve banks, refinancing the 2016-dated EUR 1.25 billion facility. The new revolving credit facility matures in August 2026 and includes two one-year extension options. The credit facility has a mechanism to adjust the margin based on KPN's performance on predefined sustainability targets including roll-out of fiber, reduction in KPN's energy consumption and reduction of carbon emissions in the supply chain. Both the previous and new facility are used for general corporate purposes and do not contain any financial covenants. The facilities were undrawn as at 31 December 2021 resp. 31 December 2020.

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Capital resources covenants
KPN's existing capital resources contain the following covenants as at 31 December 2021, which could trigger additional financial obligations or early redemption of the outstanding indebtedness. All senior bonds issued after 1 January 2006 (EUR 5.0bn outstanding as at 31 December 2021) contain a change of control clause. KPN may be required to early redeem if certain changes of control occur and within this change of control period (maximum of 90 days) a rating downgrade to sub-investment grade occurs. The hybrid bonds also contain a change of control clause by means of which KPN has the possibility to repurchase the hybrid bonds at par. A 5% interest step-up applies if a rating downgrade occurs during the change of control period in respect of that change of control. In addition, many of KPN's capital resources contain a covenant prohibiting KPN from entering into any amalgamation, demerger, merger, corporate restructuring or reorganization, unless prior written consent has been given by a majority of the lenders or bondholders or the resulting company assumes all of the rights and obligations with respect to the loans or bonds.

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

Foreign currency exchange rate risk
Foreign currency risks mainly result from settlement of international telecommunications traffic and purchase of assets and primarily consist of GBP and USD exposure. Foreign currency exchange rate risks related to bonds that are not denominated in EUR are hedged into EUR in line with KPN's hedging policies. Group companies and business operations are obliged to hedge their firm commitments and highly predictable anticipated transactions in non-functional currencies by forward exchange contracts.

Accordingly, KPN's Treasury department matches and manages the intercompany and external exposures using forward exchange contracts. No hedge accounting is applied for these hedge instruments.

As at 31 December 2021, more than 98% (2020: 97%) of cash and cash equivalents was denominated in the functional currency of the related entities. More than 99% of the net amount of trade receivables and more than 93% of the amount of trade payables was outstanding in the functional currency of the related entities as at 31 December 2021 (2020: more than 99% resp. 95%).

Interest rate risk and interest rate profile
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. Borrowings, derivatives, cash and cash equivalents are subject to interest rate risk. With regard to interest rate risk exposure, KPN periodically evaluates the desired mix of fixed and floating interest rate liabilities, balancing the benefit of lower interest costs vs. the variability of cash flows. Any interest rate risk exposure longer than one year is considered to be fixed. KPN may use derivative financial instruments to adjust the desired interest rate risk exposure.

As at 31 December 2021, 77% of KPN's interest-bearing gross debt (after swaps, excluding bank overdrafts) was at fixed interest rates (2020: 76%).

With a view to the existing and forecasted debt structure, KPN could enter into additional future derivatives to further adjust the mix of fixed and floating interest rate liabilities.

A sensitivity analysis as at 31 December 2021 with regard to interest rate risk on interest-bearing liabilities (excl. cash flow hedges) showed that, ceteris paribus, each adverse change of 100 bps in six-month Euribor would hypothetically result in EUR 13m higher interest costs per annum (2020: EUR 16m).

Interest rate benchmarks (Interbank Offered Rates, or IBORs) are reformed and/or replaced by alternative Risk-Free Rates (RFRs). This affects financial instruments on the derivatives and cash markets that operate with the impacted floating reference rates. The three most used IBORs are the European Interbank Offered Rate (Euribor), the London Interbank Offered Rate (Libor) and the EURO Overnight Index Average (Eonia). For each benchmark the developments are at different stages and vary in scope and transition time. For example, GBP Libor is discontinued after 31 December 2021 whereas most tenors of USD Libor will continue until 1 July 2023. Euribor has been reformed and is not scheduled to be discontinued. As the Euribor benchmark remains, there is no impact for KPN on the used floating EUR interest rates. The transition of Eonia to Euro Short-Term Rate (ESTR) has a negligible impact for KPN, concerning interest on collateral paid and/or received under credit support agreements with swap counterparties. The relevant agreements have been amended to reflect the change to ESTR. The transition of GBP Libor to Secured Overnight Financing Rate (SOFR) may have a small impact on the valuation of KPN's cross-currency swaps as this benchmark is used to value the derivatives with a GBP currency leg.

Cash flow hedges
KPN carried out a sensitivity analysis as at 31 December 2021 with regard to interest rate and currency risk on the cash flow hedges. KPN applies cash flow hedge accounting on all bonds not denominated in EUR. With all other variables held constant, KPN calculated the hypothetical impact of changes in interest rates based on various scenarios. This would hypothetically result in a higher or lower value of the hedge reserve, which is included in equity attributable to equity holders. In a similar

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way, KPN calculated the hypothetical impact of changes in the EUR/USD rate and the EUR/GBP rate, holding all other variables constant. The results of the analysis are shown in the table below, indicating the hypothetical impact on the fair value of the cross-currency swaps (excluding the partially offsetting impact on the hedged items).

		GBP		USD		Total	
€ million (before tax)	**Change**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Change in interest rate	+1%-point	-3	-5	3	1	-	-4
	-1%-point	3	5	-3	-2	-	3
Change in FX rate	+10%-point	31	41	29	36	60	77
	-10%-point	-42	-52	-36	-45	-78	-96

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

Fair value hedges

KPN carried out a sensitivity analysis on 31 December 2021 with regard to the fair value of interest rate swaps (excluding the partial offsetting impact on the hedged items):

€ million	Change	2021	2020
Change in EUR interest rates	+1%-point	-63	-77
	-1%-point	66	82

For the sensitivity analysis on interest rate risk regarding pensions, see Note 17.

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Offsetting financial assets and financial liabilities

Financial assets

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

€ million	Gross amount	Financial liabilities offset	Net amount in balance sheet	Not offset: Financial instruments/ Cash collateral	Net amount
31 December 2021					
Cash and cash equivalents	793	-	793	-	793
Derivatives	212	-	212	-46	166
Total	**1,005**	**-**	**1,005**	**-46**	**959**
31 December 2020					
Cash and cash equivalents	597	-	597	-	597
Derivatives	202	-	202	-15	187
Total	**799**	**-**	**799**	**-15**	**783**

Financial liabilities

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

€ million	Gross amount	Financial assets offset	Net amount in balance sheet	Not offset: Financial instruments/ Cash collateral	Net amount
31 December 2021					
Derivatives	64	-	64	-56	7
Total	**64**	**-**	**64**	**-56**	**7**
31 December 2020					
Derivatives	196	-	196	-117	79
Total	**196**	**-**	**196**	**-117**	**79**

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

Accounting policy: Offsetting financial assets and liabilities

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

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[14] Trade and other receivables, contract assets and contract costs

[14.1] Trade and other receivables

€ million	31 December 2021 Current	31 December 2021 Non-current	31 December 2020 Current	31 December 2020 Non-current
Trade receivables	222	-	219	-
Financial receivables handsets	199	-	216	-
Sales to be invoiced	103	-	82	-
Interest to be received	17	-	18	-
Prepayments	95	16	98	10
Accruals and other receivables	40	61	4	122
Total	**677**	**77**	**636**	**132**

The financial receivables handsets consist of installment payments on the handset loans, mainly issued by KPN Finance B.V.

The non-current other receivables relate for EUR 56m to cash collateral received on derivatives (2020: EUR 117m).

Sales to be invoiced include accrued income related to usage of KPN's network, which is invoiced monthly in arrears.

The carrying amounts of trade and other receivables approximate their fair value. Trade and other receivables are non-interest bearing. Trade receivables are generally on payment terms of 14-30 days. The aging of the gross trade receivables is as follows:

€ million	31 December 2021	31 December 2020
Trade receivables gross		
Amounts undue	169	151
Past due 0–90 days	48	55
Past due 91–360 days	17	16
More than one year	10	18
Total trade receivables gross	**244**	**240**
Provision for credit risk exposure	-21	-20
Total trade receivables net	**222**	**219**

[14.2] Contract assets and contract costs

€ million	31 December 2021 Current	31 December 2021 Non-current	31 December 2020 Current	31 December 2020 Non-current
Contract assets	32	20	35	2
Costs to obtain a contract	-	15	-	16
Costs to fulfill a contract	13	-	13	-
Total	**45**	**36**	**49**	**18**

Contract assets

A contract asset is recognized if the earned consideration is conditional. This includes:

- Deferred discounts invoiced to customers if the discount is only granted in the first period of the service contract and the discount is recognized on a straight-line basis over the contract term.
- The consideration to be received regarding those additional scope projects sold to Glaspoort B.V. in December 2021 of which the roll-out activities have started at which point other income is recognized. KPN has received 35% of the total consideration in cash upon closing of the transaction and the remaining amount will be received based on the roll-out progress (see Note 12 for the sale to Glaspoort of additional scope projects).
- Installation services and hardware delivered at the start of the contract if the amount of revenue recognized is higher than the amounts charged upfront.
- Transition projects for business customers when the revenue recognized is higher than the amounts invoiced for the transition phase.

Upon invoicing of contracts assets, the invoiced amounts are reclassified to trade receivables.

Contract costs

Contract costs include:

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- Transaction-related dealer fees paid to acquire or retain mobile subscribers.
- Costs incurred during the transition phase of projects for business customers to be able to deliver exploitation services that are not treated as a separate performance obligation. The costs are capitalized as costs to fulfill a contract and expensed in principle on a straight-line basis over the remaining contract term in which the exploitation services are delivered.

[14.3] Allowances for expected credit losses

Movement schedule of the allowances for expected credit losses:

€ million	Trade receivables	Financial receivables handsets	Contract assets	Total
Balance at 1 January 2020	**20**	**4**	**-**	**24**
Additions/releases P&L	14	-1	-	13
Usage	-14	-	-	-13
Balance at 31 December 2020	**20**	**3**	**1**	**24**
Additions/releases P&L	9	-	-	9
Usage	-8	-1	-1	-10
Balance at 31 December 2021	**21**	**3**	**-**	**24**

Accounting policy: Trade and other receivables, contract assets and contract costs

Trade and other receivables and contract assets classify as financial assets and are measured at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest method less provisions for impairment. An allowance for expected credit losses is recorded for all financial assets and contract assets at initial recognition. This allowance is regularly updated.

The amortized cost is calculated by taking into account any discounts or premiums on acquisition and transactions costs.

The effective interest rate amortization is recognized under finance income or finance costs.

See Note 4 for the accounting policy regarding contract costs.

[15] Cash and cash equivalents

Cash and cash equivalents consist of highly liquid instruments with initial maturities of three months or less, including balances on bank accounts, bank deposits and money market funds.

€ million	31 December 2021	31 December 2020
Cash	258	253
Short-term bank deposits and money market funds	535	344
Total cash and cash equivalents	**793**	**597**

The increase in cash and cash equivalents was mainly the result of EUR 784m free cash flow, EUR 236m net proceeds related to the Glaspoort joint venture with APG, EUR 115m of net inflow of cash collateral on derivatives, EUR 76m of net funding (EUR 689m bond proceeds minus EUR 613m bond redemptions), partly offset by EUR 554m dividend payments, EUR 200m share repurchases, EUR 197m tax payments related to investing activities and EUR 30m change in short term investments.

Accounting policy: Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, AAA-rated prime money market funds and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included in borrowings in current liabilities.

[16] Equity

Limitations in distribution of shareholders' equity

Total distributable reserves as at 31 December 2021 amounted to EUR 2,545m which includes the perpetual capital securities (2020:

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EUR 2,304m). For further details on non-distributable reserves, see Note C to the Corporate Financial Statements.

Share capital

Authorized capital stock totals EUR 720m divided into nine billion ordinary shares of EUR 4ct each and nine billion preference shares B of EUR 4ct each. At 31 December 2021, a total of 4,202,844,404 ordinary shares were outstanding and fully paid-in. Dutch law prohibits KPN from casting a vote on shares KPN holds (treasury shares). The ordinary shares and preference shares B carry the right to cast one vote each. The ordinary shares are registered or payable to the bearer.

Shareholders may request the company to convert their registered shares to bearer shares, but not vice versa.

Share buyback

In 2021, KPN repurchased 73,684,157 ordinary shares at an average price of EUR 2.71. These shares will be cancelled in 2022, reducing the number of outstanding shares to 4,129,160,247.

At the 14 April 2021 AGM, shareholders granted the Board of Management the authority to acquire the company's own ordinary shares for a period of 18 months starting on 14 April 2021 and ending on 14 October 2022. The number of ordinary shares to be acquired is limited to a maximum of 10% of the issued capital per 14 April 2021. The shares may be acquired, by or on behalf of the company, on the stock exchange or through other means at a price per share of at least the par value and at most the quoted share price plus 10%. The quoted share price is defined as the average of the closing prices of KPN shares as reported in the official price list of Euronext Amsterdam over the five trading days prior to the acquisition date. Resolutions by the Board of Management to acquire the company's own shares are subject to the approval of the Supervisory Board.

Ordinary shares purchased by the company will either be cancelled or held in treasury. At the 14 April 2021 AGM, shareholders granted the Board of Management the authority to reduce the issued capital by cancelling own shares with the approval of the Supervisory Board. The number of shares that may be cancelled is restricted to a maximum of 10% of the issued capital as at 14 April 2021 and may, if desired, be cancelled in one or more phases.

Other reserves

€ million, unless indicated otherwise	Number of treasury shares	Treasury shares reserve	Hedge reserve	Currency translation reserve	Total Other reserves
Balance at 1 January 2020	**6,929,923**	**-79**	**-240**	**19**	**-300**
Movements recorded in OCI (net)	-	-	84	3	87
Sold treasury shares	-1,320,491	14	-	-	14
Balance at 31 December 2020	**5,609,432**	**-65**	**-156**	**22**	**-199**
Movements recorded in OCI (net)	-	-	31	-7	24
Share buyback	73,684,157	-200	-	-	-200
Sold treasury shares	-1,643,571	17	-	-	17
Balance at 31 December 2021	**77,650,018**	**-248**	**-125**	**15**	**-358**

The additional paid-in capital is exempt from Dutch tax up to an amount of EUR 9,282m at 31 December 2021 (2020: EUR 9,282m).

Hedge reserve

€ million	31 December 2021	31 December 2020
Effective portion cash flow hedges[1]	-61	-87
Amortizable part[2]	-107	-122
Hedge reserve	**-168**	**-209**
Tax effect	43	53
Hedge reserve, net of tax	**-125**	**-156**

1 The effective portion of cash flow hedges will be recognized in the P&L in line with the maturities of the related derivatives (see Note 13.3).

2 The amortizable part of the hedge reserve is amortized over the remaining life of the related bonds (between 2016 and 2030). The impact on the P&L will be EUR 15m in 2022.

Treasury shares reserve

KPN purchased shares in its own capital for delivery upon vesting of equity-settled share plans for management (see Note 5). Votes on purchased shares may not be cast and do not count in determining the number of votes required at a General Meeting of Shareholders. In 2021 and 2020, no shares were purchased for the equity-settled share plans. In 2021 and 2020, shares were sold in connection with vesting of these plans.

Treasury shares are accounted for at cost, representing the market price on the acquisition date. The proceeds at delivery of the treasury shares are recognized directly in the other reserves.

Equity attributable to holders of perpetual capital securities

On 8 November 2019, KPN issued a EUR 500m hybrid bond with a 2.00% coupon and a perpetual maturity. This bond is classified as equity in the Consolidated Statement of Financial Position and valued at net proceeds (see Note 13.2).

Foundation Preference Shares B KPN

KPN has granted a call option, which is not limited in time, to the Foundation Preference Shares B KPN (the Foundation) to acquire preference shares B. For further information about the Foundation, see chapter 'Corporate governance'.

In KPN's opinion, the call option does not represent a significant fair value due to the fact that the preference shares B, issued after exercise of the call option, bear interest linked to Euribor.

Dividend per share

At the AGM of Shareholders on 13 April 2022, a final dividend of EUR 9.1ct per share will be proposed in respect of 2021. In August 2021, KPN paid an interim dividend in respect of 2021 of EUR 4.5ct per share, in total EUR 189m, bringing the total regular dividend in respect of 2021 to EUR 13.6ct per share (in total EUR 564m based on the number of outstanding shares at 31 December 2021 less Treasury shares held by KPN).

These Financial Statements do not reflect the proposal for the remaining dividend payable. In April 2021, KPN paid a final dividend of EUR 8.7ct per share in respect of 2020, in total EUR 365m. The total dividend in respect of 2020 was EUR 13.0ct per ordinary share.

[17] Retirement benefits

Retirement benefits are provided through a number of defined contribution plans and funded and unfunded defined benefit plans. The most significant plans are described hereafter.

KPN main pension plan

KPN's main pension plan covers employees in the Netherlands who are subject to KPN's collective labor agreement and employees with an individual labor agreement, and is externally funded through Stichting Pensioenfonds KPN. This plan is a collective defined contribution pension plan and is accounted for as a defined contribution plan because KPN has no other obligation than to pay the annual contribution which is a fixed percentage of the pensionable base for a period of three years as of 1 January 2020. After this three-year period, the annual contribution will be reassessed based on a fixed and agreed method in which no reflection to past service or the funded status of the fund is included.

Getronics UK and US

The Getronics US and UK operations were divested in 2008 and 2012, respectively. The closed and frozen pension plans of the former US and UK operations remained with KPN and are accounted for as a defined benefit plan. The assets of the plans are held separately from KPN in independently administered funds. The UK plan operates under the regulations of the UK Pensions Regulator and the main US plan under the provisions of the Employee Retirement Income Security Act (ERISA). The deficit in the plans' funding must be recovered by the investment returns in the plans' assets and contributions by KPN. The pension plans in the UK and US expose KPN to a number of risks which can have an impact on the future contributions by KPN and the liability recorded in its balance sheet. The most significant risks are summarized below:

- Asset volatility risk: the pension plans' assets are partially invested in equity securities and other return seeking assets, so the plans' funding levels are exposed to equity market risks. The spread of COVID-19 in 2020, for example, caused great volatility.
- Interest rate risk: a decrease in interest rates will increase the plans' liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.
- Inflation risk: the indexation of part of the accrued benefits in the UK is unconditional and is based on a combination of consumer and retail price indices, so the UK plan is exposed to inflation risk.
- Life expectancy risk: the plans provide benefits for the life of the members, so increases in life expectancy will result in an increase in the plans' liabilities.

In the UK, guaranteed minimum pension (GMP) is a portion of pension that was accrued by individuals who were contracted out of the state second pension prior to 6 April 1997. At present there is an inequality of benefits between male and female members who have GMP. The High Court in the UK ruled in 2018 that equalization will be required for affected defined benefit pension schemes. A number of options can be used to equalize. The estimated cost of equalization as at 31 December 2021 and 2020 for the UK plan is EUR 6m, which has been recognized as a past service cost in 2018. However, the cost to the UK plan for

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equalizing heavily depends on a complex interaction between the benefit design and membership profile as well as the method used to equalize, which must be determined by the trustees.

Other

KPN has a number of other funded (insured) plans in the Netherlands which are all closed to new entrants. Based on Dutch law, KPN could be required to make contributions if participants of these plans require a value transfer to another pension fund or insurer. However, the risk related to these value transfers is limited and therefore no provision has been recognized for these plans.

In 2021. a final payment of EUR 7m for the unfunded transitional early retirement plan was made.

Provisions for retirement benefit obligations

The provisions for retirement benefit obligations consist of the net defined benefit liability regarding pension plans and early retirement plans, which are accounted for as defined benefit plans as described above. See the table below for a specification of the balance sheet position.

	Defined benefit obligation[1]		Fair value of assets		Net defined benefit liability (asset)	
€ million	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Balance at 1 January	**651**	**670**	**-499**	**-482**	**152**	**188**
Included in profit or loss						
Operating expense[2]	-56	1	58	3	2	4
Interest expense (income)	9	14	-7	-10	2	4
Included in OCI						
Remeasurements loss (gain):						
Actuarial loss (gain)[3]	-32	53	-	-	-32	53
Return on plan assets excluding interest income	-	-	-20	-42	-20	-42
Effect of movements in exchange rates	40	-38	-31	27	9	-11
Total	**8**	**15**	**-51**	**-15**	**-43**	**-**
Other						
Employer's contribution	-	-	-21	-45	-21	-45
Benefits paid	-38	-49	38	49	-	-
Balance at 31 December	**574**	**651**	**-482**	**-499**	**92**	**152**

1 The measurement date for all defined benefit plans is 31 December.

2 Service costs were EUR 0m and administrative costs EUR 3m in 2021 and EUR 1m and EUR 3m in 2020. Operating expense in 2021 includes settlement gains of EUR 1m. The latter relates to a partial transfer of the retiree pension liabilities of the US pension fund to an insurance company and a conversion into a non-profit-sharing agreement with regard to a Dutch insured pension plan.

3 The actuarial loss (gain) in 2021 and 2020 consists of demographic assumptions (EUR -5m and EUR -2m, financial assumptions (EUR -29m and EUR +56m) and experience adjustments (EUR 2m and EUR -1m).

Defined benefit obligations

Actuarial assumptions

The key actuarial assumptions used in the calculation of the defined benefit obligations are as follows:

	31 December 2021			31 December 2020		
	Getronics UK	**Getronics US**	**Other**	**Getronics UK**	**Getronics US**	**Other**
Discount rate (%)	2.0	2.6	1.0	1.4	2.3	0.6
Expected salary increases (%)	N/a	N/a	2.0	N/a	N/a	2.0
Expected benefit increases/indexation (%)	2.5-3.1	N/a	0.0	2.1-2.8	N/a	0.0
Life expectancy for pensioners at retirement age:						
Male	22.1	20.6	21.4	22.2	20.5	21.4
Female	24.1	22.6	23.4	24.2	22.4	23.4

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The discount rate is based on yield curves of AA corporate bonds with maturities equal to the duration of the benefit obligations and in the applicable currency. As at 31 December 2021, the (weighted) average duration of the defined benefit obligation was 13 years.

Assumptions regarding life expectancy are based on published statistics and mortality tables that include allowances for future improvement in mortality. The mortality table used in the Netherlands is the projected table AG 2020 which includes projected improvement rates varying by year of birth, corrected for fund specific circumstances. The mortality table used in the UK is the 97% of SAPS S3PXA tables with CMI 2020 projection with a 1.25% long-term improvement, and in the US the Pri-2012 Total Dataset with Scale MP-2021. The life expectancy at the age of 65 is expected to increase in the next 20 years by between one and two years in the UK and the US.

Sensitivity analysis

The following table shows the approximate impact on the defined benefit obligation of a change in the key actuarial assumptions of 0.5% and in the case of life expectancy of a change of one year.

	31 December 2021		31 December 2020	
€ million	Increase	Decrease	Increase	Decrease
Discount rate	-35	39	-42	46
Expected salary increases	-	-	-	-
Expected benefit increases	16	-19	18	-21
Life expectancy	26	-26	30	-30

Plan assets

The assets of all defined benefit pension plans as at 31 December 2021 and 2020 comprise of:

	31 December 2021	31 December 2020
Quoted in active markets:		
Equity securities	21%	19%
Fixed-income securities	41%	35%
Real estate[1]	0%	0%
Commodities[2]	1%	1%
Other	2%	3%
Other:		
Equity securities	6%	8%
Fixed-income securities	10%	11%
Real estate[1]	3%	2%
Other[3]	16%	20%

1 As at 31 December 2021, none of the investments in real estate were located in Europe.

2 Includes investment funds which invest in financial instruments related to commodities such as energy, agricultural products and precious metals.

3 Mainly insurance contracts and hedge funds.

Strategic investment policies

The strategic investment portfolios of the defined benefit plans (before hedging) at year-end 2021 were as follows:

€ million	Getronics UK	Getronics US	Other plans
Equity securities	35%	35%	0%
Fixed-income securities (including inflation-linked bonds)	60%	45%	0%
Other	5%	20%	100%
Total	**100%**	**100%**	**100%**

In both the UK and the US, a roadmap is in place to move to more fixed-income exposure as the funded status improves. The Getronics UK pension fund partially hedges interest rate and inflation risks. The Getronics US pension fund partially hedges interest rate risks. As the pension funds mainly invest in global investment funds, a minor part of these investments could be related to KPN equities. The pension funds do not have direct investments in KPN equities.

Expected contributions and benefits

In 2021, the total employer's contributions and benefit payments for all defined benefit and defined contribution plans amounted to EUR 98m, consisting of EUR 78m employer's premiums for defined contribution plans, EUR 13m contributions for funded defined benefit plans and EUR 7m payments for unfunded plans.

The amount of employer's contributions in 2022 for the remaining defined benefit pension plans is estimated to be EUR 20m for the funded plans. The total amount of employer's premiums to be paid in 2022 for the defined contribution plans is estimated to be EUR 79m.

Accounting policy: Provisions for retirement benefit obligations (pension obligations)

The liability recognized in respect of all pension and early retirement plans that qualify as a defined benefit obligation is the present value of the defined benefit obligation less the fair value of plan assets. KPN uses actuarial calculations (projected unit credit method) to measure the obligations and the costs. For the calculation, actuarial assumptions are made about demographic variables (such as employee turnover and mortality) and financial variables (such as future indexation and the discount rate). The discount rate is determined by reference to market rates. These are interest rates of high-quality corporate bonds that are denominated in the currency in which the benefit will be paid and that have terms to maturity approximating the terms of the related liability. A net defined benefit asset may arise where a defined benefit plan has been overfunded. KPN recognizes a net defined benefit asset in such a case only when future economic benefits are available to KPN in the form of a reduction in future contributions or a cash refund. Actuarial gains and losses are recognized immediately in OCI.

Past service costs, curtailments and settlements are recognized immediately in the P&L.

The amount of pension costs included in operating expenses with respect to defined benefit plans consists of service cost, past service costs, curtailments and settlements and administration costs. Net interest on the net defined benefit liability is presented as part of finance costs.

For pension plans that qualify as a defined contribution plan, KPN recognizes contributions as an expense when an employee has rendered service in exchange for those contributions.

[18] Provisions for other liabilities and charges

€ million	31 December 2021	31 December 2020
Restructuring provision	19	19
Asset retirement obligations	98	94
Other provisions	60	76
Total provisions for other liabilities and charges	**177**	**189**
of which: non-current	150	151
of which: current	**27**	**38**

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Statement of changes in provisions

€ million	Personnel	Contractual	Total restructuring	Asset retirement obligation	Other provisions	Total provisions
Balance at 1 January 2020	**40**	**2**	**42**	**44**	**82**	**168**
of which: current portion restated	**40**	**1**	**40**	**3**	**20**	**63**
Additions	36	-	36	52	4	92
Releases	-	-	-	-1	-	-1
Usage	-58	-	-58	-2	-11	-71
Other movements	-	-	-	-	1	1
Balance at 31 December 2020	**18**	**2**	**19**	**94**	**76**	**189**
of which: current portion restated	**18**	**-**	**18**	**4**	**17**	**38**
Additions	38	-	38	8	8	54
Releases	-	-	-	-1	-7	-7
Usage	-38	-	-38	-4	-13	-55
Other movements, incl. discontinued operations	-	-	-	1	-5	-3
Balance at 31 December 2021	**18**	**1**	**19**	**98**	**60**	**177**
< 1 year	**18**	**-**	**18**	**2**	**7**	**27**
1-5 years	**-**	**1**	**1**	**14**	**2**	**17**
> 5 years	**-**	**-**	**-**	**82**	**51**	**132**

Restructuring provisions
Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts redundancy in exchange for these benefits.

Termination benefits are recognized when KPN is demonstrably committed either to terminating the employment according to a detailed formal plan without the possibility of withdrawal or to providing termination benefits as a result of an individual and accepted offer made to encourage redundancy. Benefits falling due more than 12 months after 31 December are discounted to present value.

Asset retirement obligations
The provision for asset retirement obligations (ARO) is based on assumptions of the estimated costs of removal, discount rate and estimated period of removal, which vary per type of asset. In 2020, EUR 47m was added to ARO provision for the decommissioning costs of the radio sites because the actual costs are considerably higher, partly due to the fact that the new radio site equipment is heavier and bigger. The increase in the ARO provision is recognized fully in the balance sheet as activated asset retirement costs, which is included in plant and equipment.

As defined in the Telecommunications Act, the obligation for landlords to tolerate cables terminates as soon as those cables have been idle for a continuous period of 10 years. Because the date when the cables will become idle is uncertain and KPN is not able to predict whether and when a landlord will place a request for removal, KPN is not able to make a reliable estimate of the impact and therefore no provision was recognized at 31 December 2021 nor at 31 December 2020.

Other provisions
Includes provisions for claims and litigations, onerous contracts and warranties and provisions for long-term employee obligations related to jubilee or other long-service employee benefits, long-term disability benefits and, if they are not fully payable within 12 months after the end of the period, bonuses and deferred compensation. The expected costs of these benefits are accrued over the period of employment using an accounting method similar to that for defined benefit pension plans, except that actuarial gains and losses and past-service costs are recognized immediately in the P&L.

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Accounting policy: Provisions for other liabilities and charges
Provisions for asset retirement obligations, restructuring costs and legal claims are recognized when KPN has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. When these criteria are not met, these positions are classified as contingent liabilities, unless the cash outflow is considered remote.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

[19] Leasing

Right-of-use assets

€ million	Mobile network	Fixed network & data centers	Real estate	Vehicles	Other	Total
Accumulated cost	906	138	510	137	4	1,695
Accumulated depreciation & impairment	-400	-108	-265	-72	-3	-848
Balance as at 1 January 2020	**506**	**30**	**245**	**64**	**1**	**847**
Additions	39	2	1	31	-	74
Remeasurement & lease modifications	76	2	-6	-4	-	70
Depreciation	-55	-11	-35	-31	-1	-132
Impairments	-	-	-	-	-	-
Closing net book value	**566**	**23**	**205**	**61**	**1**	**857**
Accumulated cost	995	119	493	137	4	1,749
Accumulated depreciation & impairment	-429	-96	-288	-76	-3	-892
Balance as at 31 December 2020	**566**	**23**	**205**	**61**	**1**	**857**
Additions	8	-	3	7	8	27
Remeasurement & lease modifications	35	3	9	1	1	48
Depreciation	-57	-10	-31	-28	-2	-127
Impairments	-	-	-	-	-	-
Closing net book value	**553**	**17**	**186**	**40**	**9**	**804**
Accumulated cost	997	89	458	119	14	1,677
Accumulated depreciation & impairment	-445	-71	-272	-80	-5	-872
Balance as at 31 December 2021	**553**	**17**	**186**	**40**	**9**	**804**
Total estimated lease term at commencement of a lease (in years)	5-15	5-20	5-20	5-7	<5	

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Lease liabilities

€ million	Mobile network	Fixed network & data centers	Real estate	Vehicles	Other	Total
Non-current lease liability	477	26	244	37	-	785
Current lease liability	77	12	32	24	-	145
Balance as at 1 January 2020	**554**	**38**	**276**	**61**	**1**	**930**
Additions	37	3	1	31	-	73
Remeasurement & lease modifications	75	2	-7	-2	-	68
Interest	13	1	7	1	-	22
Redemptions	-61	-17	-45	-32	-1	-156
Closing net book value	**618**	**27**	**232**	**58**	**1**	**937**
Non-current lease liability	531	19	202	35	-	787
Current lease liability	88	9	30	23	-	150
Balance as at 31 December 2020	**618**	**27**	**232**	**58**	**1**	**937**
Additions	8	1	3	7	8	27
Remeasurement & lease modifications	30	3	8	-	1	42
Interest	13	1	5	1	-	20
Redemptions	-73	-11	-40	-28	-2	-154
Closing net book value	**597**	**20**	**210**	**37**	**9**	**873**
Non-current lease liability	515	14	180	20	7	736
Current lease liability	83	6	30	17	2	137
Balance as at 31 December 2021	**598**	**20**	**209**	**37**	**9**	**873**

The redemptions reflect the total payments made during the year for the lease fees included in the lease liability. The redemption consists of the repayments of the lease liabilities which are presented in the cash flow from financing activities (2021: EUR 135m, 2020: EUR 135m) and the interest paid during the year (2021: EUR 20m, 2020: EUR 22m) which is part of the cash flow from operating activities.

The maturity analysis of the lease liabilities can be found in Note 13.4.

KPN's lease portfolio consists of mobile network (mostly site rentals and mobile towers), fixed network & data centers (technical buildings), real estate (offices and shops), vehicles and other leased assets.

The following amounts are recognized in the profit or loss:

€ million	2021	2020
Depreciation right-of-use assets	-127	-132
Impairment (-) or impairment reversal right-of-use assets	-	-
Gain or loss (-) on early terminations	5	3
Total depreciation & impairments presented in the P&L	**-123**	**-130**
Interest on lease liabilities	-20	-22
Total amount recognized in profit or loss	**-142**	**-152**

In both 2021 and 2020, KPN entered into sale and leaseback transactions for some of its technical buildings. In 2021, the transactions resulted in a gain of EUR 2m (2020: EUR 3m), other income. The leaseback periods are limited to a period of five years. The impact on the lease liability and right-of-use asset (fixed network) was limited.

The expenses related to short-term vehicle leases (included in employee expenses) are not material. KPN does not apply the low-value exemption and does not have contracts with variable lease payments other than variable lease payments dependent on an index or a rate.

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Most of KPN's lease contracts include extension (renewal) or termination options. KPN exercises significant judgment in determining whether these options are reasonably certain to be exercised (see Note 2). The assessments are updated annually or when a significant change in the economic circumstances occurs. Periods covered by renewal options deemed reasonably certain or early termination options that are reasonably certain not to be exercised are included in the total lease liability.

A significant number of KPN's contracts have an unlimited number of extension options. Only those deemed reasonably certain are included in the lease term and therefore the lease liability. A reliable estimate of the potential future lease payments related to periods beyond the lease terms reflected on the balance sheet cannot be provided. This affects mostly the mobile and fixed network, as well as real estate. Vehicles are generally returned by the end of their term.

KPN as a lessor

KPN acts as a lessor in a limited number of real estate, mobile site contracts and some specific types of customer premises equipment, all classified as operating leases. These lessor contracts are not material to KPN Group, individually nor in aggregate. The terms are 1-10 years. All leases include a clause to enable upward revision of the lease fees (annual indexation). Rental income recognized in 2021 amounted to EUR 2m (2020: EUR 3m). The future minimum lease receivable under the non-cancellable operating leases as at 31 December 2021 is EUR 7m (31 December 2020: EUR 9m).

Accounting policy: Leases

KPN as lessee

Lease liabilities

At the commencement date of a lease (i.e. the date on which the underlying asset of the lease is available for use by KPN), KPN recognizes a lease liability measured at the present value of future lease payments to be made over the term of the lease. This includes fixed fees (including in-substance fixed payments), lease incentives (such as rent-free periods or fee discounts), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. KPN does not have purchase options to be taken into account. Penalties for early termination of a lease are not included when KPN is reasonably certain that the related early termination will not take place.

All contracts of KPN that contain variable lease payments depend on a consumer price index or a rate. However, should other types of fees occur, these variable fees will be accounted for in the operating expenses.

After the commencement date, the lease liabilities increase due to the accrual of interest and decrease due to the payments of the fees due. The lease liabilities are remeasured when a change occurs in the fees due, the lease term deemed reasonably certain and/or changes to the scope of a lease. Upon remeasurement of the lease liability of a contract, the applied discount rate (incremental borrowing rate) is revised unless the remeasurement relates to a fee change following a change in consumer price index or rate.

The total lease liability recognized is split into a non-current and a current portion. The current lease liabilities reflect only the part of the payments due within one year related to the repayment of the total lease liabilities.

Lease term

KPN determined the lease term as the non-cancellable term of a contract together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

KPN applies judgment when assessing if the use of an option is reasonably certain. Factors included are KPN's asset and network strategy, technological developments and other circumstances that may impose an economic incentive affecting the expected use of an underlying asset. For vehicles, renewal options are not included in the initial assessment of the lease term as KPN's policy prescribes the return of vehicles to the lessor at the end of the lease term.

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After the commencement of a lease, KPN reassesses the lease term if there is a significant event or change in circumstances that is within KPN's control and effects KPN's ability to exercise or not to exercise the option to renew or to terminate a lease.

Incremental borrowing rate
The implicit discount rates of KPN's leases are not readily available, with the exception for vehicles, KPN applies its applicable incremental borrowing rate to determine the discounted value of the lease liabilities. Upon modification of a lease, the lease liability is remeasured using the applicable discount rate at the date of the remeasurement. KPN's incremental borrowing rates are mainly determined using a risk-free rate combined with a spread reflecting KPN's credit risk. The applicable rate per contract is primarily dependent on the total expected term of a lease at its commencement date (new leases) or the total expected remaining lease term in case of a remeasurement of a lease.

Right-of-use assets
Right-of-use assets are recognized at commencement date of a lease as counterpart to the lease liabilities. The right-of-use assets are measured at cost, less accumulated depreciation and impairment losses and adjusted for any remeasurement in the corresponding lease liabilities. The cost of the right-of-use assets includes the initially recognized amount of the corresponding lease liabilities, initial direct costs incurred in obtaining the lease (if any) and lease payments made at or before commencement of the lease. Lease incentives received are deducted from the carrying value of the right-of-use assets.

The right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the underlying asset and the lease term. Right-of-use assets are subject to impairment.

Short-term leases and leases of low-value assets
KPN does not apply the practical expedients for low-value leases (leases of an underlying asset with a value of less than EUR 5,000) and short-term leases (leases with a total expected term of less than 12 months) except for short-term rental vehicles.

Regarding vehicle leases, KPN applies the practical expedient not to separate non-lease components from lease components. Therefore, the full monthly lease fees are reflected in KPN's Statement of Financial Position. For all types of leased assets, electricity and fuel-related expenses remain part of operating expenses.

KPN as lessor
Leases where KPN as lessor retains a significant portion of the risk and rewards of ownership of the lease asset are classified as operating leases. The assets remain on the balance sheet and are depreciated over the assets' useful life.

Lease payments received from lessees are recognized as revenue on a straight-line basis over the lease period.

If KPN acts as a lessor in a finance lease, the transaction is accounted for as a normal sale and the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is deferred and recognized as interest over the lease term.

[20] Contract liabilities, trade and other payables

Trade and other payables

€ million	31 December 2021 Current	31 December 2021 Non-current	31 December 2020 Current	31 December 2020 Non-current
Trade payables	514	-	531	-
Accrued interest	77	-	88	-
Accrued expenses	338	-	283	-
Social security and other taxes payable	220	-	187	-
Other payables	26	8	39	12
Total	**1,176**	**8**	**1,128**	**12**

Some of KPN's suppliers participate in Supplier Finance Programs giving suppliers the opportunity to receive earlier payment (from a financial institution), without modifying KPN's payment terms, or providing KPN an extended payment period. As the payment terms under these programs do not materially deviate from customary payment terms in the industry or from the terms agreed with suppliers who do not participate in these programs, the relating liabilities are classified as trade and other payables, and payments are classified as operating cash flow. The Supplier Finance Programs do not impact covenants or KPN's access to (future) borrowings from financial institutions. As at 31 December 2021, the total amount of payables under the Supplier Finance Programs amounted to EUR 141m (2020: EUR 162m).

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Contract liabilities

	31 December 2021		31 December 2020	
€ million	Current	Non-current	Current	Non-current
Contract liabilities	186	169	209	136
Of which variable considerations	-	86	-	102

The contract liabilities primarily relate to the consideration received from customers before satisfying performance obligations, such as advances for subscriptions and airtime. KPN recognizes a contract liability for postpaid and prepaid bundled minutes based on the actual usage of these bundles per proposition. The utilization percentage, which is the number of credits used as a percentage of total credits granted for that period, is monitored periodically and is based on the historical data.

For the transition phase of projects for business customers which are treated as a separate performance obligation a contract liability is recognized if the amount invoiced is higher than the amount of revenue allocated to these projects. For the mobile connection fees charged to the customer a contract liability is recognized if the connection is not treated as a separate performance obligation.

Contract liabilities are also recognized for variable considerations which are not deemed highly probable. This applies to the billed roaming and MTA tariffs that are regulated and imposed retrospectively and to VAT related to certain mobile consumer propositions.

The introduction of new mobile consumer propositions in August 2016 caused a change in the VAT calculation methodology, which resulted in a lower remittance of VAT from August 2016 until December 2018. KPN's view is not shared by the Dutch tax authorities. KPN concluded, based on the applicable regulations, that a positive outcome of this dispute is not highly probable and therefore recorded a contract liability for the VAT amount. Additionally, an amount for the corresponding interest amount has been accounted for. A potential negative outcome of a forthcoming court procedure will lead to a negative cash flow in future years.

In 2021, EUR 13m revenue was recognized from variable considerations related to performance obligations satisfied (or partially satisfied) in previous years (in 2020: EUR 17m).

The year's revenues include the current portion of the contract liability balance at the beginning of the year.

Accounting policy: Contract liabilities, trade and other payables

Trade and other payables are classified as 'borrowings' within KPN's financial liabilities. For the accounting policy, see Note 13.

For the accounting policy regarding contract liabilities, see Note 4.

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Notes to the Consolidated Financial Statements

[21] Business combinations and disposals

Disposals

€ million	2021	2020
Amount of assets and liabilities in the subsidiaries or businesses over which control is lost:		
Property, plant and equipment	7	-
Intangible assets	-	5
Right-of-use assets	-	9
Other non-current assets	-	4
Trade and other receivables, prepayments and accrued income	17	12
Net cash and cash equivalents	-	2
Non-current liabilities	-	-5
Trade and other payables and accrued expenses	-24	-17
Total net assets	**-**	**11**
Transaction costs[1]	7	2
Allocation of goodwill upon loss of control over a business	64	-
Total costs	**71**	**2**
Cash consideration[2]	233	25
Contingent cash consideration	218	-
Interest in joint venture (50%)	451	-
Total consideration	**902**	**25**
Book gain before income tax	**831**	**13**
Income taxes	-190	-
Book gain after income tax	**640**	**13**

1 The transaction costs in 2021 include EUR 1m release of accruals related to disposals in previous years.

2 The cash consideration in 2020 includes EUR 2m final settlement of sold subsidiaries in 2019.

Changes in consolidation in 2021

Joint venture Glaspoort

On 9 June 2021, KPN sold 50% of the shares of its subsidiary Glaspoort B.V. to Drepana Investments Holding B.V., an investment entity managed by APG. At the same time, KPN entered into a joint venture agreement with Drepana Investments Holding B.V. regarding Glaspoort. Glaspoort is a network company, pursuing an open-access wholesale strategy based on non-discriminatory terms, fostering competition and innovation in the Netherlands. The total consideration upon sale of the 50% interest in Glaspoort consists of a cash consideration received upon deal close of EUR 238m (later adjusted to EUR 233m) and a contingent cash receivable of EUR 234m to be received in annual installments based on the roll-out progress of Glaspoort. The contingent cash receivable classifies as a financial asset initially recognized at fair value (EUR 218m) and is subsequently measured at fair value through profit or loss (see Note 13.1). On the closing date, both joint venture partners paid a share premium contribution of EUR 39m to Glaspoort's equity.

Glaspoort is classified as a joint venture, based on the assessment of ownership and voting power (50/50 with the joint venture partner) and the joint control established through the joint venture agreement between the shareholders of Glaspoort. In analyzing the joint control status, KPN evaluated among others the following:

- KPN holds the option whether or not to purchase one share. This option is exercisable between the 5th and 8th anniversary of the transaction provided certain criteria are met, and in any case after the 8th anniversary.
- KPN's influence on Glaspoort's relevant activities through KPN's presence in the governance structure.
- KPN is an anchor tenant on Glaspoort's network and also one of its suppliers through a number of operational contracts between KPN and Glaspoort.

Following the requirements of IFRS, KPN initially recognized its interest in the joint venture at its fair value (EUR 456m), based on the total consideration, consisting of the initial cash consideration (EUR 238m) and the fair value of the deferred consideration (EUR 218m), and corroborated by internal valuation models. In December 2021, the initial cash consideration was adjusted by EUR 5m to EUR 233m and the fair value of KPN's interest in the joint venture was adjusted for the same amount to EUR 451m. See Note 12 for further information on Glaspoort.

Due to the limited relative size of Glaspoort to the KPN Group, Glaspoort did not qualify as a discontinued operation. Therefore, the results and cash flows of Glaspoort remained included in KPN's consolidated income and cash flow statements until the date of completion of the transaction, whereas its assets and liabilities were classified on KPN's consolidated balance sheet as part of the 'assets held for sale'.

The transaction was subject to closing conditions and the regulatory approvals were obtained on 12 May 2021. The transaction resulted in a net book gain of EUR 639m, consisting of a book gain on the transaction of EUR 830m, included in other income (see Note 4.2), and a tax expense of EUR 190m. KPN's 50% share in the result of Glaspoort in the period between the transaction and 31 December 2021 was EUR -2m.

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The transaction resulted in a net cash inflow of EUR 196m in 2021, classified as cash flow from investing activities in the Consolidated Statement of Cash Flows. This amount consists of the cash consideration received for the shares (EUR 233m), the transferred assets at closing (EUR 24m), less the share premium contribution (EUR 39m), transaction costs paid (EUR 8m) and EUR 15m for invoices paid by KPN regarding transferred assets.

Due to the specific nature, this transaction is not tax exempt. The total tax paid on the transaction during 2021 was EUR 197m based on preliminary tax assessments. As these tax payments are directly related to the transaction, KPN presents these taxes paid as part of the cash flows from investing activities due to separate identifiability.

Changes in consolidation in 2020

On 1 April 2020, KPN completed the sale of KPN Consulting B.V. to Cegeka N.V. KPN Consulting was part of KPN's Business segment and was classified as held for sale as of 31 December 2019. The transaction resulted in a book gain of EUR 11m, recognized as other income (see Note 4.2). The gain is income tax exempt (see Note 8).

On 2 November 2020, KPN acquired a fiber network with 5,900 addresses in a rural area from the cooperative Sterk Midden-Drenthe, together with the contracts with internet service providers, the business activities and the employees. The transaction is accounted for as a business combination because the assets acquired and liabilities assumed are considered to constitute a business, as KPN acquired business activities of a network operator including inputs and substantive processes applied to those inputs that provide network services to customers.

Purchase price allocation of the acquisition

€ million	2020
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Property, plant and equipment	11
Intangible assets	2
Total identifiable net assets	**13**
Cash consideration	14
Total consideration	**14**
Goodwill	**1**

The impact of the acquisition on KPN Group's revenues, EBITDA and net profit in 2020 is negligible, also if the acquisition had taken place at the beginning of the year.

Accounting policy: Business combinations

KPN uses the acquisition method to account for business combinations. The consideration paid is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange.

Identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their fair values at the acquisition date. When a business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the P&L.

Contingent considerations are recognized at fair value at acquisition date and subsequent changes to the fair value are recognized in the P&L. Contingent considerations classified as equity are not remeasured and subsequent settlement is counted for within equity.

For each business combination, KPN elects to recognize any non-controlling interest in the acquiree either at fair value or at the proportionate share in the acquiree's net assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration paid, non-controlling interests recognized and the acquisition date fair value of any previous equity interests in the acquiree over the fair value of KPN's share of the net assets acquired is recorded as goodwill. If negative goodwill occurs (bargain purchase), the difference is recognized directly in the P&L.

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[22] Commitments, contingencies and legal proceedings

Commitments

€ million	Less than 1 year	1-5 years	More than 5 years	Total 31 December 2021	Total 31 December 2020
Capital and purchase commitments	948	326	17	1,291	1,183
Guarantees and other	-	3	128	131	131
Total commitments	**948**	**329**	**145**	**1,422**	**1,314**

The capital and purchase commitments mainly relate to minimum contractual obligations with regard to network operations, mobile handsets and telco services, and lease contracts that have not yet commenced.

Guarantees consist of financial obligations of group companies under certain contracts guaranteed by KPN. A total amount of EUR 131m relates to parent guarantees (2020: EUR 131m).

Contingent liabilities

KPN is involved in a number of legal and tax proceedings that have arisen in the ordinary course of its business and in discontinued operations, including commercial, regulatory or other proceedings. KPN periodically carefully assesses the likelihood that legal and tax proceedings may lead to a cash outflow and recognizes provisions in such matters if and when the chance of a cash outflow is estimated as probable and a reliable estimate of the cash outflow can be made. When these criteria are not met, such matters are classified as contingent liabilities, unless the cash outflow is considered remote.

However, the outcome of such proceedings can be difficult to predict with certainty and KPN can offer no assurances in this regard. In some cases, the impact of a legal proceeding may be more strategic than financial and such impact cannot properly be quantified. Below is a description of legal and tax related contingent liabilities that could have a material impact for KPN.

Tax

For information on the German Tax Audit, see chapter Tax and regulations, as well as Note 8.

Idle cables

See Note 18 for a contingent liability related to idle cables and the accounting policy of provisions.

Glaspoort

In May 2021, ACM approved the establishment of Glaspoort, our joint venture with APG, under the Dutch merger control regulation. T-Mobile has appealed this decision. Should the appeal be successful, than the result could be that the joint venture cannot be assessed under merger control regulation or can only be approved after carrying out a new assessment of the effects on competition including any potential remedy. Depending on the outcome, a different legal treatment of the joint venture cannot be ruled out. See Note 12 for more information on Glaspoort.

Indemnification

In KPN's Articles of Association and in a further decision by the Board of Management, which was approved by the Supervisory Board, KPN has indemnified the members and former members of KPN's Board of Management and Supervisory Board, as well as a number of KPN's officers and directors and former officers and directors, against liabilities, claims, judgments, fines and penalties incurred by such officer or director as a result of any threatened, pending or completed action, investigation or proceeding (whether civil, criminal or administrative) brought by a third party in relation to acts or omissions in or related to their capacity as officer or director.

The indemnification does not apply to claims and expenses reimbursed by insurers nor to an officer or a director adjudged to be liable for willful misconduct ('opzet') or intentional recklessness ('bewuste roekeloosheid').

[23] Related-party transactions

KPN considers none of the related-party transactions to be material on an individual basis. Transactions between group companies are not included in the description below as these are eliminated in the Consolidated Financial Statements.

Transactions with shareholders

On 8 February 2022, América Móvil, S.A.B. de C.V. (AMX) published in its fourth quarter 2021 report that it owned 21.3% of KPN's ordinary share capital as at 31 December 2021. The total value of sales and purchase transactions by the continuing operations of KPN in 2021 and 2020 with AMX, its subsidiaries and associated companies amounted to less than EUR 1m and total trade

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receivables and payables as at 31 December 2021 also amounted to less than EUR 1m.

Other shareholdings equaling or exceeding 3% of the issued capital:

- On 31 December 2021, BlackRock, Inc. notified the AFM that it held 4.16% of the shares and 5.05% of the voting rights related to KPN's ordinary share capital.
- On 22 April 2021, The Income Fund of America notified the AFM that it held 5.04% of the shares related to KPN's ordinary share capital.
- On 12 January 2021, Capital Research and Management Company notified the AFM that it held 14.99% of the voting rights related to KPN's ordinary share capital.
- On 26 February 2020, Amundi Asset Management notified the AFM that it held 3.00% of the shares and voting rights related to KPN's ordinary share capital.

To KPN's knowledge, no other shareholder owned 3% or more of KPN's issued share capital as at 31 December 2021. KPN did not enter into agreements with AMX or other shareholders that could have a material impact on KPN's Financial Statements.

Transactions with associated companies and joint ventures

On 9 June 2021, KPN sold 50% of the shares of its subsidiary Glaspoort B.V. and entered into a joint venture agreement with APG (see Note 12). As of 9 June 2021, KPN's remaining 50% interest in Glaspoort is classified as a joint venture and accounted for using the equity method. KPN is the anchor tenant on the network of Glaspoort and also supplies services to Glaspoort. In the period between completion of the sale and 31 December 2021, the value of the services delivered to and acquired from Glaspoort amounted to EUR 5m and EUR 3m respectively. Furthermore, in December 2021, KPN, Drepana and Glaspoort signed an agreement to extend the scope of the fiber roll-out of Glaspoort. KPN will receive EUR 170m (pre-tax) from Glaspoort for the sale of the additional scope projects. Of this amount, EUR 60m has been received in cash upon closing of the transaction and the remaining amount will be received in annual installments based on the fiber roll-out. Trade and other receivables with respect to Glaspoort as at 31 December 2021 amounted to EUR 36m, trade payables less than EUR 1m, non-current contract assets EUR 20m and non-current contract liabilities EUR 49m.

The total value of sales transactions and purchase transactions by KPN with other associated and non-consolidated companies in 2021 amounted to approximately EUR 23m and EUR 1m respectively (2020: EUR 20m and EUR 1m respectively). The total trade receivables and payables as at 31 December 2021 amounted to less than EUR 1m (31 December 2020: less than EUR 1m).

Transactions with directors and related parties

For details of the relationship between directors and the company, see the Remuneration Report section of this Integrated Annual Report. Directors in this respect are defined as key management and relate to those having authority and responsibility for planning, directing, and controlling the activities of an entity, either directly or indirectly. At KPN, key management consists of the members of the Board of Management and the Supervisory Board.

The members of KPN's Board of Management and Supervisory Board or close members of their families are also members of supervisory boards or management boards of other companies or are shareholders of other companies, without having (joint) control, with which KPN maintains relations in the ordinary course of business. All transactions with these companies are performed on an arm's length basis.

[24] Legal structure

Name of significant subsidiaries and other principal interests	Country of incorporation
KPN B.V.	
• Broadband Hosting B.V.	The Netherlands
• CAM IT Solutions B.V.	The Netherlands
• E-Zorg B.V.	The Netherlands
• Glaspoort B.V.	The Netherlands
• GroupIT B.V.	The Netherlands
• InSpark Holding B.V.	The Netherlands
• KPN Finance B.V.	The Netherlands
• Reggefiber Group B.V.	The Netherlands
• Solcon Internetdiensten B.V.	The Netherlands
• Telfort Zakelijk B.V.	The Netherlands
• XS4ALL Internet B.V.	The Netherlands
• Yes Telecom Netherlands B.V.	The Netherlands
KPN Mobile N.V.	The Netherlands
• KPN Mobile International B.V.	The Netherlands
KPN Ventures B.V.	The Netherlands
Getronics B.V.	The Netherlands
• Getronics Finance Holdings B.V.	The Netherlands
• Getronics Pensions UK Ltd.	UK
• Getronics US Operations, Inc.	US
KPN Insurance Company DAC	Ireland

The percentage ownership/voting interest of these entities is 100%, except the joint venture Glaspoort B.V. in which KPN has an interest of 50%.

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[25] Proposed appropriation of result

On outstanding Class B preferred shares, a dividend is paid out equal to the average of the 12-month Euribor increased by 1%. If the 12-month Euribor is no longer determined, the dividend on preference shares will be calculated based on the yield on state loans. Subsequently, subject to the approval of the Supervisory Board, the Board of Management will determine what proportion of net income remaining after payment of the dividend on any Class B preferred shares will be appropriated to the reserves. The part of the profit remaining after the appropriation to the reserves shall be at the disposal of the AGM. No Class B preferred shares were outstanding on 31 December 2021.

The profit of the financial year 2021 that is attributable to equity holders of the company amounts to EUR 1,288m. In August 2021, a regular interim dividend of EUR 4.5ct per ordinary share was paid (total amount of EUR 189m). On 18 February 2022, the Board of Management, with the approval of the Supervisory Board, appropriated EUR 723m of the profit 2021 to the other reserves. Taking into account the interim dividend that was paid in August 2021, the remaining part of the profit is available for payment of a final dividend in respect of 2021. The Board of Management, with the approval of the Supervisory Board, will propose to the AGM to pay a final regular dividend of EUR 9.1ct per ordinary share in respect of 2021 (in total EUR 375m based on the number of outstanding shares at 31 December 2021 less Treasury shares held by KPN).

[26] Subsequent event

KPN has evaluated events up to publication date of these Financial Statements of this Integrated Annual Report and determined that no subsequent event activity required disclosure.