

Partnership agreement between KPN and TNO

Background

On 1 January 2003, KPN Research, the former R&D division of telecommunications provider KPN, was outsourced to TNO, where it now forms the core of a new TNO research institute:

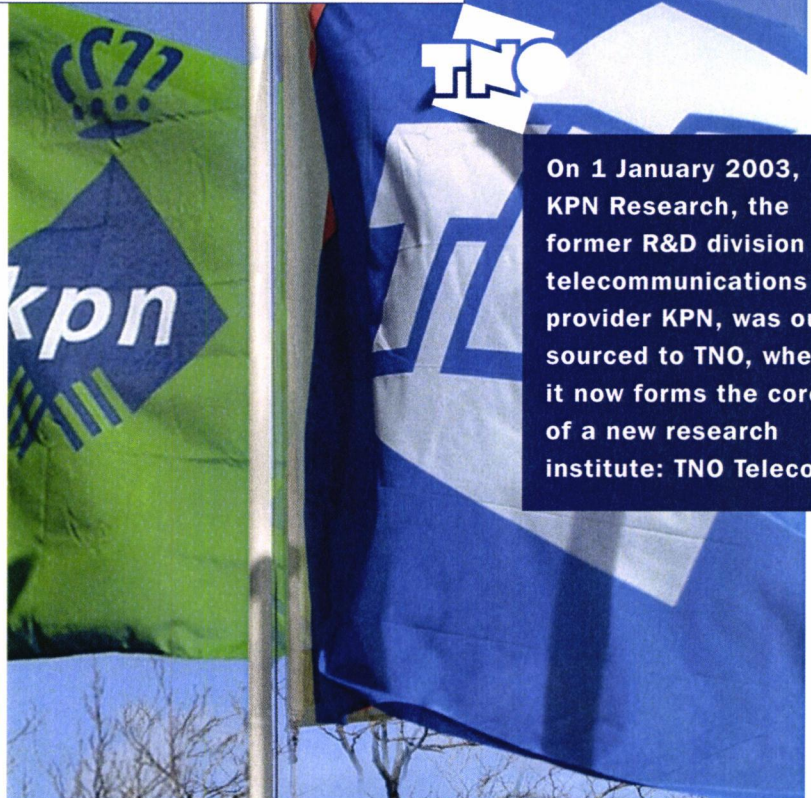
TNO Telecom. The transaction has allowed KPN greater flexibility with regard to its Research & Development expenditure. With the outsourcing of its R&D division, KPN can also be sure that its knowledge capital will be protected in the future, since TNO Telecom is part of a much larger knowledge institution. In addition, TNO has announced that it aims to become a leading player in the European ICT market. This document explains the main points of the outsourcing agreement that was concluded between KPN and TNO. For further details, see the relevant headings.

TNO Telecom is KPN's partner in knowledge

TNO Telecom and KPN took the decision to enter into a long-term strategic partnership, within which TNO can offer KPN's divisions a number of important benefits that depart from TNO's standard terms and conditions. First, the ownership rights attaching to the results of TNO Telecom projects are more comprehensive than is usual in the market. Second, within the terms of the partnership, KPN has an active say in the development of TNO Telecom's knowledge portfolio. A knowledge audit is carried out every four years for this purpose. The third main benefit is that, subject to certain conditions, TNO Telecom staff can move to KPN and vice versa.

Main agreements

In principle, KPN and TNO Telecom have entered into the contract for an indefinite term. If either party wishes to



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terminate the contract, and informs the other party with the notice period, a phase-out period of four years will be implemented. KPN will determine its R&D needs on an annual basis, within the available budget. Under the terms of the partnership, KPN's expenditure on research by TNO Telecom in any one year can deviate by up to 20% from the previous year's expenditure. KPN gives a annual minimum-expenditure guarantee to TNO Telecom.

Clear, detailed agreements have been made with regard to ownership rights and confidentiality when TNO Telecom carries out contract research for KPN. KPN owns the intellectual property rights attaching to the results of projects it commissions. A distinction is made between 'Specific' and 'Generic' research results. 'Specific' results have direct implications for KPN's market position.

TNO Telecom cannot make these results available to third parties without the permission of KPN. TNO Telecom can use Generic results in contract research for third-parties, subject to certain conditions. The first condition is that the cost to the third party for contract research based on such knowledge must be equal to the amount that KPN paid to TNO Telecom for developing that knowledge. In addition, royalty agreements must be made with KPN in each case. The Specific or Generic nature of research results must be confirmed at three stages during the project: at the beginning, during the course of the project and on completion. A list of Specific and Generic results is available for reference. In addition, KPN and TNO must guarantee that all the information they exchange remains confidential. This applies for a period of four years. Additional agreements are in place relating to the use of the TNO Telecom trade name in external communications. TNO Telecom must not express views on a product or service provided by KPN to third parties (e.g. "Research by TNO Telecom shows that...").

Obligations of TNO Telecom

- Following consultations between TNO Telecom and KPN, projects designated as "strategically sensitive" will be given priority over the projects of third parties.
- TNO Telecom will of course take the necessary precautionary measures when staff and resources deployed on a strategically sensitive KPN project are also assigned to a project for a third party.

Obligations of KPN

- KPN must not establish a new R&D institute or engage in competing activities.
- KPN must give an annual minimum-expenditure guarantee. Each year, in September, the guaranteed amount is determined on the basis of the actual project portfolio and the predicted expenditure for that year.

What does the agreement mean in practice?

Working methods for projects

TNO Telecom and KPN both designate a manager for every project. The Project Manager at TNO Telecom provides monthly progress reports. At least every three months, the report must establish whether the research results are Generic or Specific.

Invention Disclosures and patent searches

KPN expects a pro-active approach from TNO Telecom with regard to the patentability of research findings. In concrete terms, this means that the TNO Telecom researcher must notify KPN of patentable concepts that are within the scope of a project. All notifications must be made via CJZ/Patents & Licensing TNO. KPN will then decide whether to apply for a patent. KPN has the right to check whether inventions disclosed by TNO Telecom to TNO Patents & Licensing are the 'property' of KPN.

Infringement of third-party rights

All projects involve checks to ensure that the research results do not infringe the intellectual property rights of third parties. This includes compiling a list of 'third-party software' required for the commercial exploitation of the research results, and an assessment of related patents issued to third parties. The cost of this search is for the account of KPN. Before a contract research project begins, KPN and TNO must therefore reach clear agreements with regard to contracting-out the work, as well as the maximum cost and scope of the research. The patent search and agreements described here are especially important for TNO Telecom projects involving the introduction or development of new concepts, or projects relating to a new combination of existing products and/or services.

Further information is available from:

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Contact group

A Contact Group has been appointed to monitor relations between KPN and TNO Telecom in the context of the partnership agreement. The Contact Group members come from KPN Mobile, KPN Concern Contracts, KPN's Fixed Network division and TNO Telecom. The Contact Group meets every month. Its main task is to safeguard and develop the strategic partnership. The group has decision-making powers and is the first point of escalation in the event of disputes.

Knowledge audit

In order to guarantee that the quality of research remains consistently high, a quality audit will be carried out every four years by an independent committee. 2003 will be taken as the base year for future audits. The audit results will be discussed by the Contact Group, and the necessary improvement measures will be taken.

