# Koninklijke KPN N.V.

## PROPOSAL TO AMEND THE REMUNERATION POLICY
Annex to agenda item 4

The Supervisory Board proposes the following amendments to the Remuneration Policy for members of the Board of Management:

**1) The employment market peer group is set as follows:**

| | |
|---|---|
| AkzoNobel | Telekom Austria |
| DSM | Iliad |
| Randstad | Telia Company |
| Ahold Delhaize | Telecom Italia |
| Philips | Telenor |
| ASML | Proximus |
| Signify | Swisscom |

**2) The targets for the LTI plan will be set as follows:**

a. 70% financial targets, of which 45% on cumulative Free Cash Flow over the plan period and 25% on relative Total Shareholder Return (TSR) measured against the STOXX Europe 600 Telecommunications index.

b. 30% non-financial targets, determined at the start of a new plan by the Supervisory Board from the following categories: (i) Sustainability; (ii) Reputation; (iii) Social; (iv) Key business projects; and (v) Market share. The Supervisory Board can set up to two targets per year, but not more than four in parallel plans.

c. The non-financial targets shall no longer be subject to a (financial) circuit breaker.

**3) To enhance long-term focus and share ownership:**

a. The share ownership guideline shall be 250% of annual base salary for the CEO, and 150% of annual base salary for the other members of the Board of Management;

b. Payment of the (net) STI shall be for 50% in shares, until the share ownership guidelines have been met; and

c. The holding period for any shares received under the LTI plan shall be 3 years.

The different elements of the proposal are interlinked, and the amendments are therefore submitted as one integral proposal. All other elements of the Remuneration Policy, as described in the Integrated Annual Report 2018, remain unchanged.

**EXPLANATORY NOTES**

During 2018, the Supervisory Board reviewed KPN's remuneration policy for members of the Board of Management, also in light of the company's updated strategy and its new management. In doing so, it took on board various views, including a review of the market practice. The Supervisory Board engaged an external advisor, Korn Ferry, for support in its review.

The Supervisory Board's main conclusion is that the Company's remuneration policy is still broadly in line with market practice and supports the implementation of the updated strategy. It therefore concluded to maintain the basic set-up of the Remuneration Policy, existing of a base salary, a cash based short-term incentive plan ('STI' - with an 'on-target' level of 90% of annual base salary for the CEO, and 60% for other members of the Board of Management) and a share based long-term incentive plan ('LTI' - with an 'on-target' level of 135% of annual base salary for the CEO, and 90% for other members of the Board of Management). For a full description of KPN's remuneration policy, please refer to the Remuneration Report in KPN's Integrated Annual Report 2018.

The Supervisory Board however saw room for certain improvements to the policy based on the following principles:

- Enhance simplicity
- Enhance long-term focus
- Enhance share ownership

Based on these principles, and the need to update the employment market peer group, the Supervisory Board proposes the abovementioned amendments to the Remuneration Policy, which are further explained below:

**1. Update of the employment market peer group**

The employment market peer group is used as a reference to evaluate the overall market competitive pay-level for the members of the Board of Management, also considering the individual responsibilities, relevant experience and required competences.

The former peer group contained certain companies that no longer existed as independent companies, or that had undergone significant changes. At the same time, KPN has also undergone substantial changes in the last years. The Supervisory Board therefore composed a new peer group, existing of 50% AEX companies and 50% industry peers. These companies are believed to be a relevant reference for KPN. Below is an overview of the former and proposed peer group:

| Employment Market Peer Group | |
|---|---|
| **Former** | **Proposed** |
| AkzoNobel | AkzoNobel |
| DSM | DSM |
| Randstad | Randstad |
| Ahold Delhaize | Ahold Delhaize |
| Philips | Philips |
| Heineken | ASML |
| RELX | Signify |
| Unilever | Telekom Austria |
| BT Group | Iliad |
| CapGemini | Telia Company |
| Portugal Telecom | Telecom Italia |
| Vodafone | Telenor |
| Proximus | Proximus |
| Swisscom | Swisscom |

Please note that the Supervisory Board does not foresee a change in the overall remuneration level of the members of the Board of Management as a consequence of setting this new employment market peer group.

**2. Targets LTI**

The Supervisory Board proposes to make some changes to the targets of the LTI plan, in order to enhance simplicity and long-term focus:

To align with the STI plan, the targets will be divided in 70% financial targets and 30% non-financial targets (current: 75% vs. 25%). There will be two (current: three) financial targets: 25% of the total on-target opportunity will be determined by the relative TSR position (see below) and 45% will be determined by the cumulative Free Cash Flow level over the duration of the LTI plan. In order to reduce complexity, the current Earnings Per Share (EPS) target is no longer used. Given the profile of the company and its long-term investment strategy, a focus on Free Cash Flow is considered most appropriate.

To measure KPN's relative position on Total Shareholder Return, or 'TSR', a peer group must be used. Instead of a self-managed peer group (as is currently used), it is proposed that performance is measured against an industry benchmark: the STOXX Europe 600 Telecom index. This ensures that performance is always measured against all relevant peers, and that the peer group is automatically adjusted in case of changes in this group. In line with current practice, vesting will commence at the 50th percentile of the peer group (75% vesting), and maximum vesting (200%) will only occur if KPN is the leader of the peer group.

The Supervisory Board currently determines on an annual basis specific non-financial targets for the LTI plan within the categories 'Sustainability/Environmental' and 'Reputation'. It is proposed that these strategic categories are extended to a basket of potential non-financial strategic categories for the LTI, from which the Supervisory Board, at the start of a new plan, selects a maximum of two targets that best fit the strategy and focus of the company.

The Supervisory Board believes this enables it to incentivize the Board of Management to focus on those topics that are, in its view, most relevant at that moment, based on developments and expectations in the market and in society. The basket will consist of the following strategic categories:

i. Sustainability (e.g. energy reduction, circularity);
ii. Reputation (e.g. based on Reputation Institute benchmark data);
iii. Social (e.g. employee engagement, diversity);
iv. Key business projects (e.g. network roll-out, simplification); and
v. Market share (e.g. fixed-mobile convergence, new business).

In its Remuneration Report, the Supervisory Board will explain which targets it has selected and why, and how performance on these targets will be measured. Upon vesting of the plan, the Supervisory Board will – in line with current practice – report on the performance versus the target, unless this is restricted by reasons of confidentiality or competition.

As LTI plans are set each year for the then coming three-year period, these plans overlap. To avoid a large number of non-financial targets applying in parallel, the Supervisory Board intends to not set more than four non-financial targets in parallel.

In the current LTI plan, vesting of the non-financial targets is subject to a so-called 'circuit breaker': the non-financial targets will only vest if a net profit over the plan period has been achieved. Also considering market practice, it is felt that the importance of non-financial targets is such that vesting thereof should not be limited by vesting of certain financial targets. The Supervisory Board therefore proposes to remove the circuit breaker from the LTI plan. A general 'fairness evaluation' for the Supervisory Board will remain in place to correct a clearly unreasonable outcome.

**3. Enhance long-term focus and share ownership**

The Supervisory Board believes that share ownership for members of the Board of Management is important to align the interests of the Board of Management with that of the company and its stakeholders, including shareholders. The current remuneration policy already contains various elements to ensure this alignment, but the Supervisory Board believes that certain enhancements are justified.

First, the share ownership guidelines for members of the Board of Management are increased from 200% of base salary to 250% for the CEO, and from 100% of base salary to 150% for other members of the Board of Management. This increase further enhances the envisaged alignment of interests. In line with the current guidelines, these levels should be achieved within approximately 5 years from the first appointment to the Board of Management. To further stimulate reaching the anticipated share ownership levels, any payments under the STI plan, after deduction of taxes, shall be paid for 50% in shares, until the anticipated share ownership levels have been reached.

Lastly, the holding period for shares received under the LTI plan will be increased from two to three years after vesting and will continue to apply after the end of the tenure of the member of the Board of Management.