
Remuneration Policy

Introduction

The objective of KPN's remuneration policy for the Board of Management is to attract, reward and retain the necessary leadership talent, in order to support the execution of the company's strategic objectives. The objective of KPN's remuneration policy for the Supervisory Board is to reward the members appropriately for their work based on market-competitive fee levels.

We aim for organic sustainable growth. Our focus is on creating value over volume, and building an efficient and simple organization supported by our three strategic pillars:

1. Offering the best converged smart infrastructure;
2. Focus on profitable growth segments and;
3. Acceleration of simplification and digitalization.

Considering KPN's core values which form the essence of our organizational culture and being aware of the public debate surrounding the topic of executive remuneration, we strive to balance our core values and the interest of all stakeholders in our remuneration programs.

Governance

KPN's General Meeting of Shareholders sets the remuneration policy for members of the Board of Management and the Supervisory Board, based on a proposal by the Supervisory Board. Within the Supervisory Board, the Remuneration Committee prepares decisions for the full Supervisory Board on both the remuneration policy and the application thereof in individual situations.

Annually, the Remuneration Committee drafts a report on the application of the remuneration policy and the individual remuneration of members of the Board of Management and the Supervisory Board in the previous year. This report is submitted to the General Meeting of Shareholders for an advisory vote.

The Remuneration Committee regularly discusses and reviews the remuneration policy in light of relevant developments in the company's strategy and organization, legislation, or stakeholder considerations. If deemed necessary, the Remuneration Committee will propose changes to the Supervisory Board, for final submission to the General Meeting of Shareholders. The remuneration policy will be submitted for shareholders' approval at least once every four years. Prior to submitting the remuneration policy or an amendment to the policy to the General Meeting of Shareholders, the Remuneration Committee requests the advice of the Central Works Council.

The remuneration policy (including the date thereof and the voting results) will be made available on the company's website.

Any proposed adjustments to the remuneration policy (after the AGM 2020) will include a description of the most important changes and how stakeholders views on the remuneration policy and remuneration report have been taken into consideration.

The remuneration policy was last amended by the General Meeting of Shareholders in April 2019. The (proposed) policy amends the 2019 remuneration policy on some minor elements as described hereafter.

- Regarding the Board of Management remuneration policy, the Supervisory Board proposes to remove the discretionary factor (that ranges between 0.7 and 1.3) from the Short Term Incentive (STI) plan as the use of such a factor is no longer perceived to be in line with common market practice and evolving insights of good corporate governance practices. The Supervisory Board also wishes to clarify that, in considering potential increases to the base salary for members of the Board of Management, it will use the development of general CLA increases for KPN employees as an important reference. The proposed adjustments are also supported by the input and views collected as part of the stakeholder engagement process.
- Regarding the Supervisory Board remuneration policy, the Supervisory Board confirms the existing remuneration policy, with two proposed minor amendments: the fee for attending meetings outside the member's country of residence shall no longer apply for newly appointed or re-appointed members of the Supervisory Board. In addition, eligibility to fees for committee membership shall be limited to a maximum of two committees (i.e. the two highest fees will be applicable).
- In all other material aspects, the proposed remuneration policy is identical to the policy adopted by the General Meeting of Shareholders in April 2019, but has been written in accordance with the new requirements stemming from the implementation of the Shareholder Rights Directive in Dutch law per 1 December 2019.

The company's remuneration policy is compliant with, and in addition to, relevant legal requirements and the principles of the Dutch Corporate Governance Code and the Dutch- and European legislation. In the event of changes to binding national and/or international legislation that directly impact the remuneration policy, such changes will be deemed incorporated into this policy.

Stakeholder engagement

KPN values the views of different stakeholders on its remuneration policy and aims to take on board such views in its deliberations and decision making. In the preparation of the review of the remuneration policy in April 2019 and the subsequent update leading to the current (proposed) policy, KPN engaged with several stakeholders, including shareholder

representatives, proxy advisory firms, external remuneration advisors, peer companies, the Central Works Council and the members of the Board of Management and Supervisory Board themselves. As the views of these stakeholders are not always aligned, the Supervisory Board strives to find the right balance between the various interests. We believe the current remuneration policy has found such balance, also considering the focus of the short- and long-term incentive plans on both financial- and non-financial targets for the Board of Management, supporting our license to operate and emphasizing the strategic direction to deliver more sustainable long-term business performance.

The Central Works Council was asked for its advice with regard to the proposed adjustments to the remuneration policy (for details of the advice see company's website) and rightly concluded that the underlying principles of the remuneration policy are basically not deviating from the policy submitted to and approved by the General Meeting of Shareholders in April 2019. Although the Central Works Council generally supports the proposed minor adjustment to the remuneration policy, it also recommends to review the remuneration policy more thoroughly with a specific focus to strive for further simplification of the remuneration policy, while maintaining an adequate alignment with the company's performance. Considering the advice of the Central Works Council, the committee fee structure for the Supervisory Board is more specified in the remuneration policy. KPN appreciates the advice and input provided by the Central Works Council and will continue to conduct the constructive dialogue with the Central Works Council regarding the underlying principles of the remuneration policy and any anticipated adjustments that might be considered in due course, also taking into account the views of other relevant stakeholders and sustainable market developments.

Remuneration of the Board of Management

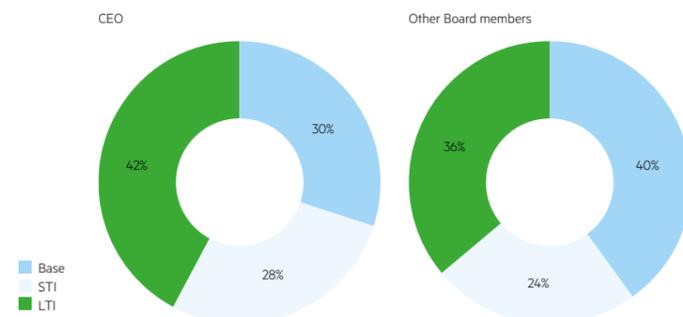
The main principles of KPN's remuneration policy as described below are based on a balanced approach between market competitive standards, the ratio between fixed and variable pay and the economic and social contribution of the company linked to the non-financial parameters of the variable pay:

- Paying at market-competitive level (considering all fixed- and variable components of the remuneration policy), achieved through benchmarking against an employment market peer group;
- Pay-for-performance by driving financial and non-financial performance that generates long-term sustainable and profitable growth. Target remuneration aims at 30-40% of pay in base salary and 60-70% in variable pay in order to maintain a strong alignment with the company's financial performance goals and long-term value creation strategy;
- Differentiating by experience and responsibility through alignment of the pay with the responsibilities, relevant experience, required competence and performance of individual jobholders;
- Balancing all stakeholder interests, including the views of shareholders and society (a.o. dialogue with the Central Works Council) by complying with best practices in corporate governance, defining targets for the variable pay plans based on financial- and non-financial targets and a transparent and clear remuneration policy.

The Supervisory Board uses, most notably when reviewing the remuneration policy, scenario analyses to understand the possible outcomes of the remuneration policy, considering factors such as the maximum pay-out of the short-term and long-term incentives in case of stretched performance. In its review of the remuneration policy, the Supervisory Board also considers the overall level of pay and pay differentials within the company.

The ratio between fixed and variable pay (pay mix)

The following pie charts represent the pay mix for both the CEO and the other members of the Board of Management in case of 'on-target' performance and reflects the underlying pay-for-performance principles and market-competitive reference of our remuneration policy.



Pay ratio

KPN takes into account the internal pay ratio when formulating the remuneration policy. KPN applies a methodology to calculate the internal pay ratio that is IFRS-driven. KPN's internal pay ratio is calculated as the total CEO compensation divided by the average employee compensation (total personnel expenses for KPN employees divided by the average number of KPN FTEs). A pay ratio around 15 (in case no variable compensation is paid), around 35 (in case of on-target performance) and around 55 (in case variable compensation is paid at the maximum level) is considered to be a reasonable reference for the bandwidth.

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 and is regularly reviewed by the Supervisory Board to ensure that its composition is still appropriate. The employment market peer group consists of Dutch-listed and European sector-specific companies and its composition may be adjusted as a result of mergers or other corporate activities.

The following table shows the composition of KPN's employment market peer group:

Akzo Nobel	Telecom Austria
DSM	Iliad
Randstad	Telia Company
Ahold Delhaize	Telecom Italia
Philips	Telenor
ASML	Proximus
Signify	Swisscom

Base salary

The base salaries are set at a market-competitive level taking into account the individual responsibilities, relevant experience and required competences in line with the remuneration principles. Each year, the Supervisory Board reviews the base salaries and decides whether circumstances justify adjustments. In considering base salary increases for members of the Board of Management, the development of general CLA increases for KPN employees and general movements in annual base salaries of the employment-market peer group will be used as an important reference.

Short-term incentives (STI)

General

The STI plan aims to ensure that the Board of Management is well incentivized to achieve company performance targets in the shorter-term. At the beginning of each year, the Supervisory Board sets financial and non-financial target ranges for the Board of Management, based on the company's business plan.

At the end of the year, the Supervisory Board reviews the company's performance against the target ranges. Members of the Board of Management are eligible for an annual cash incentive only if company performance is at or above the predetermined ranges (i.e. threshold level). The CEO can earn an on-target STI of 90% of base salary, with the maximum incentive pay-out capped at 135% of base salary (i.e. 150% of the on-target level). For the other members of the Board of Management the on-target STI is equal to 60% of base salary, with the maximum incentive pay-out capped at 90% of base salary (i.e. 150% of the on-target level). Any STI payments, after deduction of taxes, are paid for a maximum of 50% in shares if the share ownership guideline levels have not yet been reached.

Financial targets (70% weighting)

The Supervisory Board selects each year a maximum of three financial performance measures and determines their relative weightings. To support the company's strategic objective to aim for growth, in an organic and sustainable way and focus on profitable growth segments, such performance measures are typically:

- Profit-related (such as EBITDA-AL);
- Cash-related (such as free cash flow); and/or
- Revenue-related (such as total revenue or service revenue).

Performance against these targets is measured based on the company's financial records, as audited by the external auditor.

Non-financial targets (30% weighting)

The Supervisory Board selects each year a maximum of three non-financial performance measures and determines their relative weightings. To support our strategic focus to create sustainable customer value, be a human tech company where our employees make the difference and regain/retain market share in a highly competitive Dutch Telco environment, such performance measures are typically:

- Customer-related (such as customer satisfaction or customer loyalty);
- Employee-related (such as employee engagement); and/or
- Market share-related (such as customer base).

Performance against these targets is measured using internal and external survey- and benchmark data.

A circuit breaker is applicable as a minimum requirement for pay-out of the STI non-financial targets. If this minimum requirement is not achieved, the non-financial targets of the STI will not generate a pay-out. The Supervisory Board selects a specific target each year as circuit breaker.

In the event targets are selected of which disclosing specific details requires providing commercially or otherwise sensitive information, the specific details of the targets will not be disclosed, but the company will strive to provide alternative information to help understand the outcome of the STI. In its remuneration report, the Supervisory Board will explain annually which financial- and non-financial targets it has selected (including the weightings) and why, and how performance on these targets will be measured.

Performance incentive zone

The target ranges for measuring performance comprise:

- A 'threshold' performance level at which the minimum incentive of 25% of the on-target level is paid. Performance below this threshold level is not generating a pay-out;
- An 'on-target' performance level at which the 'on-target' incentive is paid; and
- A 'stretch' performance level at which the maximum incentive is paid (i.e. 150% of the on-target level).

The pay-out methodology is based on a separate pay-out for each of the financial and non-financial targets and a linear calculation approach for performance between the incentive zones.

The Supervisory Board has the discretionary authority to recover variable pay awarded on the basis of incorrect financial or other data. Discretion can be applied by the Supervisory Board if the outcome of the STI plan would produce an unfair result or if the outcome would not be considered to reflect KPN's remuneration principles. In its remuneration report, the Supervisory Board will explain if, why and how it has made use of its discretion.

Short-term incentive (STI) plan at a glance:

Form of compensation	<ul style="list-style-type: none"> • Cash • Possible pay-out for maximum 50% in shares, if share ownership guideline levels have not yet been reached
Value determination (on-target level)	<ul style="list-style-type: none"> • CEO: 90% of base salary • Other members Board of Management: 60% of base salary
Targets	<p>Financial targets (70% weighting) are typically:</p> <ul style="list-style-type: none"> • Profit-related • Cash-related • Revenue-related <p>Non-financial targets (30% weighting) are typically:</p> <ul style="list-style-type: none"> • Customer-related • Employee-related • Market share-related <p>Separate pay-out for each of the financial and non-financial targets (linear calculation for performance between the incentive zones). Circuit breaker applicable for pay-out non-financial targets.</p>
Scenario at or below threshold performance	<ul style="list-style-type: none"> • Performance at threshold level: 25% of on-target incentive paid • Performance below threshold level: no pay-out
Scenario on-target performance	<ul style="list-style-type: none"> • 100% of the on-target incentive paid
Scenario maximum performance	<ul style="list-style-type: none"> • 150% of the 'on-target' incentive paid <ul style="list-style-type: none"> - CEO: 135% of base salary - Other members Board of Management: 90% of base salary
Claw-back	<ul style="list-style-type: none"> • The Supervisory Board has the discretionary authority to recover variable pay awarded on the basis of incorrect financial or other data

Long-term incentives (LTI)

General

Members of the Board of Management are eligible for an equity-based incentive under the company's long-term incentive plan (LTI). The LTI aims to ensure that the interests of the members of the Board of Management are aligned with those of its long-term shareholders and to provide an incentive for members of the Board of Management to continue their employment relationship with the company. KPN's LTI plan consists of performance shares only, which are conditionally granted each year.

The on-target value is based on a percentage of annual base salary and used as the reference to determine the number of conditional shares at the grant date. For the CEO, this value is set at 135% of annual base salary (with deferred dividend payment), with a maximum percentage of 270% (i.e. 200% of the on-target value). For the other members of the Board of Management this value is set at 90% of annual base salary (with deferred dividend payment), with a maximum percentage of 180% (i.e. 200% of the on-target value). The number of conditional shares at the grant date is calculated based on the on-target value and the average share price of the first trading day after the AGM. Vesting of the granted shares is conditional on the achievement of financial- and non-financial targets which are measured over a period of three-years.

Financial targets (70% weighting)

The financial targets are cumulative free cash flow (45% weighting) and relative total shareholder return (TSR, 25% weighting) measured against the STOXX Europe 600 Telecommunications index. The use of an index reference for TSR aims to ensure that performance is measured against relevant peers, and that the peer group is automatically adjusted in case of changes in this group. The relative TSR performance provides a relative performance measure with transparent measurement criteria and links back directly to shareholder value creation in comparison to our peers, while the cumulative free cash flow performance measure during the three year vesting period supports the company's aim for organic and sustainable growth of adjusted EBITDA-AL and free cash flow.

Non-financial targets (30% weighting)

The non-financial targets are selected from a basket of targets at the start of a new plan. The Supervisory Board believes this enables incentivization of the Board of Management to focus on the topics that the Supervisory Board considers most relevant at that moment, based on developments and expectations in the market and in society. The basket consists of the following strategic categories:

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

In its remuneration report, the Supervisory Board will explain which targets it has selected each year and why, and how performance on these targets will be measured. To prevent a large number of non-financial targets, the Supervisory Board selects a maximum of two targets per year, but will not set more than four non-financial targets in parallel plans.

Performance incentive zone

The target ranges for vesting of the LTI plan comprise:

- A 'threshold' performance level at which shares vest at the minimum level i.e. 25% vesting for all targets other than TSR; and 75% vesting for the TSR target. Performance below this threshold level does not generate any vesting;
- An 'on-target' performance level at which shares vest at the on-target level; and
- A 'stretch' performance level at which shares vest at the maximum level (200% of on-target level, 1st position in TSR peer group and maximum performance on other financial and non-financial targets).

The vesting methodology is based on separate vesting for each of the financial and non-financial targets and a linear calculation approach for performance between the performance incentive zones. Total shareholder return (TSR) is measured against the individual constituents of the STOXX Europe 600 Telecommunications index, using three-month average TSR performance around the start and end of the measurement period. TSR analyses are conducted by an independent external advisor and take into account both share price appreciation as well as paid out dividends over the measurement period. The threshold vesting for the TSR performance is set at the 50th percentile of the peer group, at which level 75% of the on-target performance level will vest. Free cash flow performance is measured based on the company's financial records, as audited by the external auditor, and performance on the non-financial targets is measured by using internal and external survey- and benchmark data.

In the event targets are selected of which disclosing specific details requires providing commercially or otherwise sensitive information, the specific details of the targets will not be disclosed, but the company will strive to provide alternative information to help understand the outcome of the LTI. In its remuneration report, the Supervisory Board will explain annually which (non-financial) targets it has selected, and why and how performance on these targets will be measured.

Holding period

The holding period for shares received under the LTI plan is three years after vesting and will continue to apply after the end of the tenure of the member of the Board of Management. An exception to this rule is made for shares that are sold at the vesting date to cover income tax obligations in relation to the vested shares. The value taxed as income typically equals the number of shares vested multiplied by the share price at the time of vesting.

The Supervisory Board has the discretionary authority to recover variable pay awarded on the basis of incorrect financial or other data. Discretion can be applied by the Supervisory Board if the outcome of the LTI plan would produce an unfair result or if the outcome would not be considered to reflect KPN's remuneration principles. In its remuneration report, the Supervisory Board will explain if, why and how it has made use of its discretion.

Special circumstances

The Supervisory Board may amend the granted number of shares prior to vesting to maintain the same economic value in case of specific circumstances, such as a share split/merger, a repayment on shares, an issuance of shares, a rights issue and a merger/demerger without a change of control.

The conditionally granted (i.e. not yet vested) shares expire at the time of earlier termination of the agreement, unless the agreement is terminated due to disability, death, retirement or through no fault of the member of the Board of Management (subject to the sole discretion of the Supervisory Board), in which case 1/36 part of the grant is maintained for every full calendar month that the agreement lasted, counting from the grant date, and remains subject to the conditions for vesting.

The LTI plan rules contain a change of control clause, which provides for immediate vesting at 100% (irrespective of the actual performance) and lifting of the holding period, to enable the members of the Board of Management to dispose of their shares in the situation of a change of control. The immediate vesting at 100% will be pro rata for the time passed in the plan during the vesting period of three years (i.e. 1/3 in year one, 2/3 in year two, full in year three).

Long-term incentive (LTI) plan at a glance:

Form of compensation	Shares
Value determination (on-target value) for granted shares	<ul style="list-style-type: none"> CEO: 135% of base salary Other members Board of Management: 90% of base salary Number of shares based on the average share price of the first trading day after the AGM
Targets	Financial targets (70% weighting): <ul style="list-style-type: none"> 45% on cumulative free cash flow 25% based on relative TSR measured against the STOXX Europe 600 Telecommunications index Non-financial targets (30% weighting), determined by the Supervisory Board from the following categories: <ul style="list-style-type: none"> Sustainability Reputation Social Key business projects Market share The Supervisory Board can select up to two targets per year, but not more than four in parallel plans
	Separate vesting for each of the financial and non-financial targets (linear calculation for performance between the incentive zones)
Scenario at or below threshold performance	<ul style="list-style-type: none"> Performance at threshold level financial- and non-financial targets other than TSR: 25% vesting Performance at 50th percentile TSR peer group (threshold level): 75% vesting Performance below threshold level: no vesting
Scenario on-target performance	<ul style="list-style-type: none"> 100% of granted shares vest based on KPN's relative position in the TSR peer group (linear calculation between 50th percentile and maximum position peer group) and 'on target' performance of financial and non-financial targets.
Scenario maximum performance	<ul style="list-style-type: none"> 200% of granted shares vest based on 1st position in TSR peer group and maximum performance of financial- and non-financial targets
Holding period	<ul style="list-style-type: none"> 3 years after vesting
Claw-back	<ul style="list-style-type: none"> The Supervisory Board has the discretionary authority to recover variable pay awarded on the basis of incorrect financial or other data

Benefits and other arrangements

Pensions

Members of the Board of Management are eligible for a defined contribution pension plan with a pension contribution based on the fiscal defined contribution table that corresponds to a retirement age of 68, an annual accrual rate of 1.875% and a pension accrual capped at the applicable (fiscal) salary level set per annum. Members of the Board of Management receive in addition a fixed gross pension allowance for the annual base salary above the capped (fiscal) salary level for pension accrual equal to the applicable pension contribution of the defined contribution pension plan.

Other benefits

Other benefits (set on a case specific basis) such as life insurance coverage, expense allowances, medical- and housing allowances and company car provisions shall be in line with the market practice of similar companies.

Terms of employment

Members of the Board of Management have an agreement for a definite period of time. Members of the Board are appointed for a period of four years (until the first AGM after completion of such period), which is in line with the requirements of the Dutch Corporate Governance Code. Resignation by a member of the Board of Management is subject to a notice period of 4 months. A notice period of 6 months applies in the event of termination by the company.

Share ownership guidelines

Members of the Board of Management are encouraged to acquire company shares equal to 250% of base salary for the CEO and 150% of base salary for the other members of the Board of Management. Retained vested shares as part of the LTI plan will be included in the share ownership guideline. The share ownership 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, the STI is paid out, after deduction of taxes, for maximum 50% in shares if the share ownership guideline levels have not yet been reached.

Severance arrangements

If the company gives notice of termination of the agreement, other than due to an urgent cause or serious culpability of the member of the Board of Management, the member of the Board of Management is entitled to a severance payment. The level of the severance payment is equal to one-year base salary. The entitlement to a severance payment also exists if a member of the Board of Management terminates his agreement with the company as a consequence of change of control over the company, subject to specific conditions applicable thereto. No entitlement to a severance payment exists in the event of an ordinary termination by the member of the Board of Management.

Loans

KPN does not grant loans or guarantees to members of the Board of Management.

Remuneration of the Supervisory Board

To the extent applicable, the same principles as for the Board of Management remuneration policy apply to the Supervisory Board remuneration policy.

KPN has a fixed annual fee and annual committee membership fees for the members of the Supervisory Board. AEX-listed companies with a two-tier Board serve as a reference to determine market-competitive fee levels and any proposed adjustments. Supervisory Board members do not receive any variable compensation and are not granted any shares as a form of pay.

KPN does not grant loans or guarantees to members of the Supervisory Board.

The table below shows the fixed annual fees and annual committee membership fees for Supervisory Board members.

Position	Annual fees (in EUR)
Chairman Supervisory Board	100,000
Vice-Chairman of the Supervisory Board	70,000
Member Supervisory Board	60,000
Chairman Audit Committee	20,000
Member Audit Committee	10,000
Chairman Strategy & Organization Committee	12,500
Member Strategy & Organization Committee	7,500
Chairman Remuneration Committee	10,000
Member Remuneration Committee	5,000
Chairman Nominating & Corporate Governance Committee	10,000
Member Nominating & Corporate Governance Committee	5,000

The eligibility for committee fees will be limited to two committees (i.e. the two highest fees will be applicable).

The differences in the committee fee structure is primarily related to the fact that the time allocation will, on average, differ per committee, in particular with regard to the preparation time and necessary internal and informal coordination.

The current members of the Supervisory Board that attend a meeting in another country than their country of residence are eligible to an additional international meeting fee of EUR 1,500 per meeting. This fee will no longer be applicable for new appointments or re-appointments to the Supervisory Board.



Royal KPN N.V.
Wilhelminakade 123
3072 AP Rotterdam
The Netherlands

P.O. Box 25110
3001 HC Rotterdam
The Netherlands
www.kpn.com