

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

As approved by the Supervisory Board on 7 December 2017

As lastly amended on 23 October 2018

## **0. INTRODUCTION**

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

## **1. PURPOSE**

- 1.1 The purpose of the Committee is to oversee the Company's remuneration strategy and principles for members of the Board of Management, to draft proposals to the Supervisory Board (hereinafter "the Board") for the remuneration policy to be pursued for members of the Board of Management, as well as the implementation of the remuneration policy for the members of the Board of Management and to report to stakeholders – through the Company’s annual report – on these matters. It will also be informed by the Company on the policies and general principles on which the compensation plans of the Executive Committee and senior managers of the Company are based to ensure that these are consistent with the adopted strategy and principles for members of the Board of Management.
- 1.2 The Committee performs its task in preparation for joint decision-making by the Board.

## **2. COMPOSITION**

- 2.1 The Committee shall consist of at least 3 members. All members of the Committee must also be members of the Supervisory Board. More than half of the members of the Committee shall be independent within the meaning of clause 1.5 of the By-Laws of the Supervisory Board.<sup>3</sup>
- 2.2 The members of the Committee shall be appointed and may be replaced at any time by the Supervisory Board.
- 2.3 The Supervisory Board shall appoint one of the members of the Committee as chairman of the Committee. The Committee shall not be chaired by the chairman of the Supervisory Board or by a former member of the Board of Management.<sup>4</sup>
- 2.4 The term of office of a member of the Committee will generally not be set beforehand. It will, inter alia, depend on the composition of the Supervisory Board as a whole and that of other

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<sup>1</sup> Dutch Corporate Governance Code, best practice provision 2.3.3.

<sup>2</sup> Dutch Corporate Governance Code, best practice provision 2.3.3

<sup>3</sup> Dutch Corporate Governance Code, best practice provision 2.3.4

<sup>4</sup> Dutch Corporate Governance Code, best practice provision 2.3.4

committees from time to time, provided that membership rotation should be effected where practicable.

- 2.5 The Company Secretary shall act as secretary to the Committee. The secretary may delegate his duties, or parts thereof, under these Terms of Reference, to a deputy appointed by him in consultation with the chairman of the Committee.

### **3. DUTIES AND POWERS**

- 3.1 The Committee has the following duties in respect of remuneration:

- (a) submitting a clear and understandable proposal to the Supervisory Board for the remuneration policy (which includes the severance pay) to be pursued for members of the Board of Management<sup>5</sup>, whereby the following aspects should be considered in any event:<sup>6</sup>
  - (i) the objectives for the strategy for the implementation of long-term value creation;
  - (ii) the scenario analyses carried out in advance;
  - (iii) the pay ratios within the Company;
  - (iv) the development of the market price of the shares;
  - (v) an appropriate ratio between the variable and fixed remuneration components; the variable remuneration component is linked to measurable performance criteria determined in advance, which are predominantly long-term in character;
  - (vi) if shares are being awarded, the terms and conditions governing this; shares should be held for at least five years after they are awarded; and
  - (vii) if share options are being awarded, the terms and conditions governing this and the terms and conditions subject to which the share options can be exercised;
- (b) drafting proposals for the remuneration of the individual members of the Board of Management consistent with the aforesaid remuneration policy and setting out specifically the remuneration structure and the amount of the fixed and variable remuneration components, the performance criteria used, the scenario analyses that are carried out and the pay ratios within the Company;<sup>7</sup>
- (c) if there are reasons therefor, to make proposals for changes or additions to the remuneration of individual members of the Board of Management, which remuneration and possible changes and/or additions shall be submitted for adoption to the Supervisory Board;

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<sup>5</sup> Dutch Corporate Governance Code, best practice provision 3.1.1.

<sup>6</sup> Dutch Corporate Governance Code, best practice provision 3.1.2.

<sup>7</sup> Dutch Corporate Governance Code, best practice provision 3.2.1.

- (d) within the framework of the remuneration policy as referred to under a) and the individual remuneration as set under b), set the elements of total remuneration for the individual members of the Board of Management based on their individual performance and functioning as assessed by the Supervisory Board;
- (e) to review, at least annually, the remuneration of the members of the Executive Committee.<sup>8</sup>
- (f) to prepare the Remuneration Report referred to in the By-Laws of the Supervisory Board;<sup>9</sup> This report should in any event describe, in a transparent manner, in addition to the matters required by law:
  - (i) how the remuneration policy has been implemented in the past financial year;
  - (ii) how the implementation of the remuneration policy contributes to long-term value creation;
  - (iii) that scenario analyses have been taken into consideration;
  - (iv) the pay ratios within the company and its affiliated enterprise and, if applicable, any changes in these ratios in comparison with the previous financial year;
  - (v) in the event that a management board member receives variable remuneration, how this remuneration contributes to long-term value creation, the measurable performance criteria determined in advance upon which the variable remuneration depends, and the relationship between the remuneration and performance; and
  - (vi) in the event that a current or former management board member receives a severance payment, the reason for this payment.
- (g) to make proposals to the Supervisory Board for the remuneration of the individual members of the Supervisory Board and the committees of the Supervisory Board, for adoption by the General Meeting of Shareholders.

3.2 When drafting the proposal for the remuneration of the members of the Board of Management, the Committee takes note of the views of the individual members of the Board of Management with regard to the amount and structure of their own remuneration. In doing so, the Committee shall ask the members of the Board of Management to pay attention to the aspects referred to in clause 2.1(a).<sup>10</sup>

3.3 The Committee may only exercise such powers as are explicitly attributed or delegated to it by the Supervisory Board and it shall not exercise powers beyond those exercisable by the Supervisory Board as a whole.

3.4 The Committee may, in exercising its duties, seek the assistance or advice of one or more experts, at a price and conditions to be agreed by the Committee in consultation with the Chairman, at the expense of the Company. The Committee shall verify that the consultant concerned does not also provide advice to the Company's (members of the) Board of Management.

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<sup>8</sup> Dutch Corporate Governance Code, best practice provision 3.1.3.

<sup>9</sup> Dutch Corporate Governance Code, best practice provision 3.4.1

<sup>10</sup> Dutch Corporate Governance Code, best practice provision 3.2.2.

#### **4. MEETINGS**

- 4.1 The Committee shall meet as often as required for a proper functioning of the Committee, and for that purpose shall meet at least twice a year. The meetings are, as much as possible, scheduled annually in advance. The Committee shall meet ad hoc when this is deemed necessary by the chairman of the Committee or by two other members of the Committee.
- 4.2 Meetings of the Committee are in principle called by the secretary of the Committee in consultation with the chairman of the Committee. Save in urgent cases, to be determined by the chairman of the Committee, the agenda for the meeting shall be made available to all members of the Committee as early as possible, and where possible at least seven calendar days before the meeting. Supporting documentation shall be made available as soon as possible.
- 4.3 The Committee shall decide if and when the CEO should attend (part of) its meetings. The CEO shall not attend meetings of the Committee where his own remuneration is discussed. In addition, other individuals, including Company or independent experts may be invited to attend (parts of) meetings of the Committee.
- 4.4 Each member of the Committee has the right to cast one vote. All resolutions must be adopted by an absolute majority of the votes cast. If there is a tie in voting, the chairman of the Committee shall have a casting vote.
- 4.5 The secretary of the Committee or any other person designated for such purpose by the chairman of the meeting shall draw up minutes of the meeting of the Committee.
- 4.6 The Committee shall exercise utmost discretion when making written records of its deliberations and recommendations.

#### **5. REPORTING TO THE SUPERVISORY BOARD**

- 5.1 The Committee shall, as soon as possible after its meeting, report to the Supervisory Board on its deliberations and findings, including major developments in the area of its responsibilities.<sup>11</sup>
- 5.2 The minutes of the meetings of the Committee shall be circulated among all members of the Supervisory Board once available.
- 5.3 Every Supervisory Board member shall have unrestricted access to all records of the Committee.

#### **6. MISCELLANEOUS**

- 6.1 The chairman of the Committee (or one of the other Committee members) shall be available to answer questions regarding the Committee's activities at the Annual General Meeting of Shareholders.

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<sup>11</sup> Dutch Corporate Governance Code, best practice provision 2.3.5.

- 6.2 The Committee shall review and reassess the adequacy of these Terms of Reference periodically, report its assessment to the Supervisory Board and recommend, where appropriate, any proposed changes to the Supervisory Board.
- 6.3 The Supervisory Board can at all times amend these Terms of Reference and/or revoke any powers granted by it to the Committee.
- 6.4 Clause 24 of the By-Laws of the Supervisory Board shall apply by analogy to the Committee, while for the application of these Terms of Reference, the powers of the Supervisory Board or the Chairman of the Supervisory Board referred to in that Clause shall be considered powers of the Committee or the chairman of the Committee.
- 6.5 The annual report of the Supervisory Board as referred to in the By-Laws of the Supervisory Board shall state the composition of the Committee, the number of meetings held by the Committee, the attendance rate of each of the members of the Committee<sup>12</sup>, and the main issues dealt with at these meetings.

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<sup>12</sup> Dutch Corporate Governance Code, best practice provision 2.4.4.