

● Remuneration Board of Management

# Remuneration Report

## Introduction

The objective of the remuneration policy for the Board of Management is to attract, reward and retain necessary leadership talent, in order to support the execution of the company's strategic objectives. 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
3. Acceleration of simplification and digitalization

We made good progress on the execution of our strategy and our financial results in 2019 were solid and continue to reflect a mix of an ongoing competitive environment and the impact of our strategic actions.

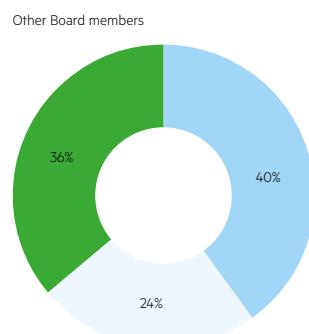
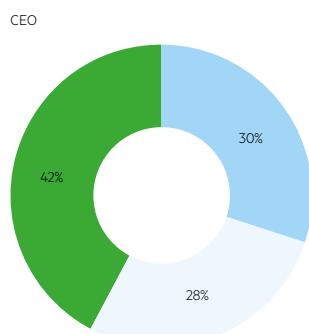
The integrated remuneration policy was subject to an internal review in 2018/2019 to ensure further alignment with the company's strategic direction. The proposed adjustments to the integrated remuneration policy (enhancing simplicity, long-term focus and share ownership) were approved by the AGM in April 2019. Annually, the Remuneration Committee prepares this remuneration report on the application of the remuneration policy and the individual remuneration of members of the Board of Management. This remuneration report was prepared as much as possible in line with the new requirements stemming from the implementation of the Shareholder Rights Directive in Dutch law, noting however that it refers to the Remuneration Policy 2019, which was not yet based on this new legislation. This report will be submitted to the General Meeting of Shareholders for an advisory vote.

## Remuneration policy 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 pay 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 competences and performance of individual jobholders
- Balancing all stakeholder interests, including the views of shareholders and society (a.o. dialogue with 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 following pie charts represent the fix/variable pay mix for both the CEO and other board members in the case of an on-target performance:



The following adjustments to the remuneration policy were proposed to and approved by the AGM in 2019:

1 A revised employment market peer group, comprising 50% AEX companies and 50% industry peers:

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

2 Adjusted targets for the long-term incentive (LTI) plan:

- 70% based on 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.

- 30% based on 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
  - (V) Market share

3 Increase in the share ownership guideline for the CEO from 200% to 250% of annual base salary, and for the other members of the Board of Management from 100% to 150% of annual base salary. To further stimulate reaching the anticipated share ownership levels, any payments under the short-term incentive (STI) plan, after deduction of taxes, are paid for a maximum of 50% in shares, if the share ownership guideline levels have not yet been reached.

4 Holding period for any shares received under the LTI plan adjusted from two to three years.

### Main features of the short and long-term incentive plan

#### Short-term incentive (STI) plan 2019

Component	Short-term incentives
Form of compensation	Cash, possible pay-out for maximum 50% in shares, if share ownership guideline levels have not yet been reached
Value determination (on-target level)	CEO: 90% of base salary and other members Board of Management: 60% of base salary
Financial- and non-financial targets	Financial (70% weight) and Non-financial targets (30% weight), subject to the financial circuit-breaker; linear vesting
Scenario at or below threshold performance	At threshold: 25% of the on-target incentive paid. Below threshold no pay-out
Scenario on-target performance	100% of the on-target incentive paid
Scenario maximum performance	150% of the on-target incentive paid
Discretionary factor	A factor between 0.7, reducing the incentive by 30%, and 1.3, increasing the incentive by 30%

#### Long-term incentive (LTI) plan 2019

Component	Long-term incentives
Form of compensation	Shares
Value determination (on-target level)	CEO: 135% of base salary and other members of Board of Management: 90% of base salary
Financial- and non-financial targets	Financial (70% weight) and non-financial targets (30% weight); linear vesting
Scenario at or below threshold performance	At threshold: 25% of granted shares vest (TSR 75% i.e. 50th percentile peer group). Below threshold: no vesting.
Scenario on-target performance	100% of the granted shares vest (for TSR linear between 50th percentile and first position peer group).
Scenario maximum performance	200% of the granted shares vest (for TSR first position in the peer group)
Holding period	3 years after vesting

## ● Remuneration Board of Management

### Composition Board of Management

The composition of the Board of Management changed importantly in 2019, with the appointments of Joost Farwerck as CEO and Chairman of the Board of Management per 1 October 2019, Jean-Pascal Van Overbeke as Chief Consumer Market (CCM), Marieke Snoep as Chief Business Market (CBM), Babak Fouladi as Chief Technology and Digital Officer (CTDO), Hilde Garssen as Chief People Officer (CPO), all per 1 December 2019, and Chris Figee as Chief Financial Officer (CFO) as of 1 February 2020. All appointments were made for a period of four years.

As Maximo Ibarra decided to resign from his position as CEO and Chairman of the Board of Management effective 30 September 2019, he was not entitled to any payment as part of the STI 2019 plan. In addition, all outstanding LTI grants

forfeited as of 30 September 2019 and the agreed one-off retention fee was not due as the agreed terms and conditions were not fulfilled. He was also not entitled to a severance payment.

Jan Kees de Jager will resign from the Board of Management per 1 March 2020. As part of the arrangements made around his resignation, he is entitled to a severance payment in 2020 equal to one year's base salary, and will be treated as a good leaver under the outstanding STI and LTI plans.

### Remuneration Board of Management in 2019

The actual remuneration of the members of the Board of Management has been determined by the Supervisory Board according to the remuneration policy as approved by the AGM.

#### Remuneration packages individual current members of the Board of Management:

Member	Position	Base salary	On-target STI (% annual base salary)	On-target LTI (% annual base salary)
Joost Farwerck	CEO	EUR 875,000	90%	135%
Jan Kees de Jager <sup>1</sup>	CFO	EUR 675,000	60%	90%
Jean-Pascal Van Overbeke	CCM	EUR 650,000	60%	90%
Marieke Snoep	CBM	EUR 650,000	60%	90%
Babak Fouladi	CTDO	EUR 650,000	60%	90%
Hilde Garssen	CPO	EUR 500,000	60%	90%

<sup>1</sup> Chris Figee appointed as CFO effective as of 1 February 2020 based on the same remuneration package.

#### Details actual pay-out level STI 2019

Plan	Target	Weight	Bandwidth pay-out level			
			Minimum	On-target	Maximum	Actual performance
<b>STI 2019</b>						
	Financials (70% weighting):					
	- Adjusted EBITDA-AL	25%	25%	100%	150%	Between on-target and maximum level
	- Total Revenue	15%	25%	100%	150%	Slightly below on-target level
	- FCF (excl. TEFD dividend)	30%	25%	100%	150%	Maximum level
	Non-financials (30% weighting):					
	- NPS NL	15%	25%	100%	150%	Slightly above on-target level
	- Employee engagement	15%	25%	100%	150%	Below minimum threshold level
	Total pay-out level	100%				104% of on-target level <sup>1+2</sup>

<sup>1</sup> With the exception of Mr. De Jager, it is assumed that other board members will obtain 50% of the STI pay-out in shares to further stimulate reaching the anticipated share ownership levels. The Supervisory Board did not deviate from the standard discretionary factor of 1.0.

<sup>2</sup> Pay-out CLA population around 141% of on-target

The STI 2019 outcome in the overview above reflects the fact that we delivered on our financial guidance aspects for 2019, supported by a strong Consumer NPS performance and a continued solid progress on simplification and digitalization. We continued to execute disciplined cost control resulting in solid growth in adjusted EBITDA after leases. The employee engagement target for 2019 was related to the employee's views

on the future of the company and their individual contribution to the strategy supported by further simplification of processes. Although the employees were overall more optimistic about the future of the company and their individual contribution, the threshold of the employee engagement target was not reached, predominantly the result of a continuing need for improvement on processes as part of a more simplified operating model.

## Details actual pay-out (vesting) level LTI 2017: vesting period 2017-2019

Plan	Target	Weight	Bandwidth pay-out level				
			Minimum	On-target	Maximum	Outcome	Actual vesting %
<b>LTI 2017 Financials (75% weighting):</b>							
TSR versus peer group	25%	75% 6th position peer group	100% 5th position peer group	200% 1st position peer group	75%	18.75%	
Free cash flow	25%	25%	100%	200%	28%	7.10%	
Earnings per share (EPS)	25%	25%	100%	200%	0%	0.0%	
<b>Non-financials (25% weighting)</b>							
Reputation target	12.5%	25%	100%	200%	200%	25.0%	
Energy reduction target	12.5%	25%	100%	200%	103%	12.93%	
Vesting %	100% (on-target)					63.78% (total vesting)	

The LTI plan 2017 vests in April 2020 and final TSR was measured mid-February 2020. The plan vested based on the TSR performance with a 6th position in the peer group, supported by KPN's progressive dividend policy. During the vesting period 2017-2019, KPN's results on free cash flow performed slightly above the ambitious threshold level of the bandwidth which contributed to a progressive regular dividend and deleveraging. Earnings per share (EPS) performed below the threshold and therefore did not contribute to the vesting of the LTI plan. EPS performance was, for example, partly impacted by additional finance expenses related to the repurchase of USD 405m senior bonds in 2019, a transaction that lowers KPN's interest expenses going forward, delivering significant value.

The energy reduction target was aligned with a reduction of KPN's energy consumption during the vesting period compared to the baseline in 2016. The energy reduction (compared to the baseline in 2016) during the vesting period was equal to -5.02% and resulted in a vesting slightly above the on-target level which was set at -4.9%. This was the result of additional energy savings in our networks, data centers and offices, despite an exponential increase in the volume of our IT services. The energy figures are based on external sources and validated by both our internal and external auditors.

The reputation target is set based on external data, which are measured and conducted by the Reputation Institute, the leading international organization devoted to advancing knowledge about corporate reputations. The external data are measured by the Reputation Institute through an online survey among a representative sample of the general public. The bandwidth of the reputation target is based on the 12-month moving averages of the data collected by the Reputation Institute prior to the vesting period. The reputation target for the LTI plan 2017 was measured based on three attributes, i.e. 'providing good value for money', 'being a profitable company'

and 'being fair in the way it does business', stressing the belief that customer and societal satisfaction, whilst at the same time being financially solid, are vital for the company's license-to-operate. The composite performance of the three attributes was 71.4 and outperformed the maximum level of the bandwidth set at 70.0, indicating a significant growth and a steep improvement of KPN's reputation during the vesting period 2017-2019.

### Targets LTI 2019, vesting period 2019-2021

For the LTI plan issued in 2019, the financial targets are based on relative TSR, 25% weight, and free cash flow, 45% weight and the non-financial targets have been determined based on circularity and reputation, each with a weight of 15%.

Circularity was selected as a non-financial target to reflect our long-term ambition on sustainability. We built a road-map to reach our ambition of having close-to-100% circular operations by 2025. This road-map is governed by the Energy & Environmental Board. The circularity target was aligned to a close to 100% performance on re-use and recycling (i.e. outflow of materials and waste) by 2025. The on-target ambition for 2021 on re-use and recycling was set at 82% versus a baseline of on or about 75% in 2018. The measurement and conduct of the sustainability KPI's has been included in Appendix 3.

Reputation was selected as a non-financial target to maintain continued focus on our role in Dutch society during the execution of the new strategy, that is, next to offering the best converged smart infrastructure and focus on profitable growth segments, also based on acceleration of simplification and digitalization. The 2 attributes "excellent managers" and "well-organized company" were selected as main drivers to measure the successful implementation and execution of the new strategy, while the attribute "positive influence on society" was selected for KPN's continuous commitment to Dutch society. The on-target ambition for the composite performance of the three new attributes was set at 67.2.

## ● Remuneration Board of Management

**Total remuneration of the Board of Management – individual remuneration received by current members of the Board of Management during the year shown by each pay component (in thousands of EUR).**

See Note 5 for full disclosure of remuneration cost under IFRS principles (also including former members).

Name	Position	Year	Base	STI <sup>1</sup>	Actual vested LTI <sup>1</sup>	Pension cost and social security	Total <sup>4</sup>	% Fixed <sup>5</sup>	% Variable <sup>5</sup>
Joost Farwerck <sup>2</sup>	CEO	2019	688	497	382	162	1,729	44%	56%
	COO	2018	625	393	219	147	1,384	51%	49%
Jan Kees de Jager	CFO	2019	675	421	386	134	1,616	46%	54%
	CFO	2018	668	382	258	131	1,419	52%	48%
Jean-Pascal Van Overbeke <sup>3</sup>	CCM	2019	54	34	–	10	98	61%	39%
Marieke Snoep <sup>3</sup>	CBM	2019	54	34	–	9	97	61%	39%
Babak Fouladi <sup>3</sup>	CTDO	2019	54	34	–	9	97	61%	39%
Hilde Garssen <sup>3</sup>	CPO	2019	42	26	–	7	75	62%	38%

1 Final measurement of the 2017 share grant was conducted in February 2020, which leads to 63.78% vesting of the shares in April 2020. The amounts give an indication of the value of the shares that will vest based on the closing share price of KPN at 14 February 2020 (EUR 2.50). The STI 2019 is paid in 2020.

2 Actual total remuneration as COO and CEO.

3 Actual remuneration since appointment in the Board of Management with an effective date of 1 December 2019.

4 All remuneration was borne by KPN B.V., please see Note 5 to the Consolidated Financial Statements for the individual pension benefits.

5 Excluding pension cost and social security.

### Change in remuneration for members of the Board of Management versus company performance over five years and remuneration of average employee.

The tables includes the current members of the Board of Management and a comparison is disclosed over the last five years as far as a 'like for like' comparison was possible (i.e. full year appointment during the five years period).

	2015	2016	2017	2018	2019
Remuneration Joost Farwerck (Appointed April 2013)	1,260,000	1,418,000	1,904,000	1,384,000	1,733,000
-Year-on-year difference (EUR)	+391,000	+158,000	+486,000	-520,000	+349,000
-Year-on-year difference (%)	+45%	+13%	+34%	-27%	+25%
Remuneration Jan Kees de Jager (Appointed September 2014)	1,270,000	1,490,000	2,022,000	1,419,000	1,632,000
-Year on year difference ( EUR)	Not comparable	+220,000	+532,000	-603,000	+213,000
-Year on year difference (%)	Not comparable	+17%	+36%	-30%	+15%
TSR position (part of LTD) - Position peer group	8 <sup>th</sup> (no vesting)	6 <sup>th</sup> (75% vesting)	3 <sup>rd</sup> (150% vesting)	8 <sup>th</sup> (no vesting)	6 <sup>th</sup> (75% vesting)
Free cash flow (part of STI/LTD) - STI bandwidth pay-out level - LTI bandwidth pay-out level	Performance: Maximum Not applicable	Performance: Close to target Below threshold	Performance: Maximum Between on-target and maximum	Performance: Around maximum Below threshold	Performance: Maximum Slightly above threshold
EBITDA (part of STI) - Pay-out level STI bandwidth	Performance: Around maximum	Performance: Between threshold and on-target	Performance: Between threshold and on-target	Performance: Around on-target	Performance: Between on-target and maximum
Average cost per FTE (IFRS)	70,658	79,924	82,967	85,355	88,445
Pay ratio CEO (IFRS)	42	33	36	29	30

The main drivers for the fluctuation in actual pay levels during the five reference years is predominantly the result of the outcome of the STI and LTI combined with the relative high emphasis on pay for performance reflected in the short and long-term incentives. The STI pay-out (in terms of performance versus the assigned targets) was aligned with the level of pay-out to senior management and the CLA employees as the same financial and non-financial targets were applied in these variable pay plans when compared to the assigned targets of the Board of Management. The average STI pay-out over the five-year period is close to 95% of the on-target level and the LTI plans vested over the five-year period on average close to 70% of the on-target level reflecting the ambitious targets set for variable incentive plans.

Considering the five years outcome, variable pay on financial and non-financial targets is strongly linked with KPN's performance against peers (TSR) and its outcomes on key metrics FCF and EBITDA ensuring alignment with financial performance goals and long-term value creation strategy. Lower revenues were offset by ongoing savings from simplification and digitalization of services. KPN generates FCF which supports a progressive regular dividend and deleveraging and remains committed to an investment grade credit profile.

#### KPN's internal pay ratio

To ensure transparency and clarity, 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 under IFRS principles divided by the average employee compensation (total personnel expenses of KPN employees divided by the average number of KPN FTEs).

In the 5-years table the pay ratio for the years 2015-2017 relates to Eelco Blok and for the year 2018 to Maximo Ibarra. When calculating the pay ratio for 2019, the CEO compensation for 2019 was based on the total remuneration of Joost Farwerck in his position as COO and CEO during the calendar year. Consequently, KPN's calculated pay ratio in 2019 is 22 (2018: 29). The pay ratio in 2019 was 30 if Joost Farwerck had been CEO for the full 12 months of 2019. This outcome is in line with KPN's acceptable bandwidths.

For further details, see Note 5 to the Consolidated Financial Statements.

## ● Remuneration Board of Management

The table below presents the number of shares and current share plans for the current Board members.

	Grant date	Granted as of 1 January 2019	Vested	Granted or forfeited in 2019 <sup>1</sup>	As of 31 December 2019	Pre-tax fair value on grant date (EUR) <sup>3</sup>	Pre-tax market value on vesting date or end of lock-up in 2019 (EUR)	End of lock-up period
Joost Farwerck	11 April 2019	–	–	302,514	302,514	874,265	–	11 April 2025
	19 April 2018	227,733	–	–	227,733	498,735	–	19 April 2023
	13 April 2017	202,396	–	–	202,396	542,421	–	13 April 2022
	14 April 2016 <sup>4</sup>	162,938	-72,068	-90,870	–	473,674	218,693	14 April 2021
Jan Kees de Jager	11 April 2019	–	–	210,784	210,784	609,166	–	11 April 2025
	19 April 2018	245,951	–	–	245,951	538,633	–	19 April 2023
	13 April 2017	210,492	–	–	210,492	564,119	–	13 April 2022
	14 April 2016 <sup>4</sup>	177,106	-85,419	-91,687	–	514,862	237,656	14 April 2021
Jean-Pascal Van Overbeke	11 April 2019	–	–	196,732	196,732	568,555	–	11 April 2024
	19 April 2018	114,777	–	–	114,777	251,362	–	19 April 2023
Marieke Snoep	11 April 2019	–	–	156,136	156,136	451,233	–	11 April 2024
Babak Fouladi	11 April 2019	–	–	196,732	196,732	568,555	–	11 April 2024
Hilde Garssen	11 April 2019	–	–	62,454	62,454	180,492	–	11 April 2024

1 The shares granted to the Board of Management represent 34% (2018: 25%) of the total number of shares and share-based awards granted in 2019 to all employees. The 2019 grant numbers do not include any deferred dividend during the vesting period.

2 The deferred dividend during the vesting period will be additionally granted in shares.

3 Value is calculated by multiplying the number of share awards by the fair value at grant date.

4 Final TSR measurement for the 2016 share grant was conducted in February 2019, which resulted in 42.5% vesting in April 2019.

See page 78 for stock ownership of members of the Board of Management and Supervisory Board and see Note 5 to the Consolidated Financial Statements for a further description and valuation of the share plans.

### Claw-back clause

The claw-back clause was not applied in 2019.

### Developments for 2020

The integral remuneration policy for 2020 onwards 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 and will be submitted for approval by the AGM in April 2020 in line with the implementation of the Shareholders Rights Directive in Dutch law per 1 December 2019.

The Supervisory Board proposes to remove the discretionary factor as part of the Short Term Incentive (i.e. STI) plan design.

The reason for the proposed forfeiture of the STI discretionary factor lies in the fact that 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. This conclusion is also supported by the collected input and views from the stakeholder engagement process.

No other adjustments to the current remuneration policy of the Board of Management are proposed in 2020, also considering the recent adjustments proposed to and approved by the AGM in April 2019.

## ● Remuneration Supervisory Board

The objective of the remuneration policy for the Supervisory Board is to reward the members appropriately for their work based on market-competitive fee levels. Members are appointed for a four-year term. To the extent applicable, the same principles of 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. Members receive an additional fee of EUR 1,500 per meeting, if a meeting is held in a country other than the member's country of residence.

AEX-listed companies with a two-tier board serve as a reference to determine market-competitive fee levels. Supervisory Board members do not receive any variable compensation and are not granted any shares as a form of pay.

As a policy, the company does not provide loans or guarantees to its Supervisory Board members.

The table below shows the annual fixed fee structure for the members of the Supervisory Board and the members of the committees, which did not change in the last 5 years.

Position	Annual fee in EUR
Chairman Supervisory Board	100,000
Vice-chairman 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

## ● Remuneration Supervisory Board

### Supervisory Board

The table below shows the actual fee each current member of the Supervisory Board received in 2015-2019.

Amounts in €	Membership fee 2019	Committee and international meeting fee 2019	Total 2019	Total 2018 <sup>1</sup>	Total 2017 <sup>1</sup>	Total 2016 <sup>1</sup>	Total 2015 <sup>1</sup>
D.W. Sickinghe Chairman	100,000	15,000	115,000	116,875	122,500	123,929	112,916
D.J. Haank Vice-chairman	70,000	17,500	87,500	86,250	82,500	84,643	100,417
P.A.M. van Bommel Member	60,000	20,000	80,000	80,000	80,000	77,143	70,000
C.J. Garcia Moreno Elizondo Member	60,000	13,000	73,000	73,000	73,000	73,000	73,000
C.J.G. Zuiderwijk Member	60,000	10,000	70,000	71,875	77,500	77,500	75,313
P.F. Hartman Member	60,000	15,000	75,000	76,875	82,500	80,357	53,125
J.C.M. Sap Member	60,000	10,000	70,000	70,000	70,000	70,000	49,583
E. Overbeek Member	60,000	12,500	72,500	71,250	16,875	–	–
<b>Total</b>	<b>530,000</b>	<b>113,000</b>	<b>643,000</b>	<b>646,125</b>	<b>604,875</b>	<b>586,572</b>	<b>534,354</b>

1 Restated for international meeting fees

### Developments for 2020

The eligibility for committee fees will be limited to two committees. If a member of the Supervisory Board is a member of more than two committees, such member will be entitled to two membership fees of the committees attended. The international meeting fee of EUR 1,500 will no longer be applicable for new appointments or re-appointments to the Supervisory Board.

The integral remuneration policy for the Supervisory Board will be submitted for approval by the AGM in April 2020 in line with the implementation of the Shareholders Rights Directive in Dutch law per 1 December 2019.