



KPN Integrated Annual Report 2020

Accelerating digitalization of the Netherlands

● 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. Building on our strategic pillars to (i) offer the best converged smart infrastructure, (ii) focus on profitable growth segments and (iii) accelerate simplification and digitalization, our 'accelerate to growth' strategy as announced on 24 November 2020, continuously supported by the underlying principles of our remuneration policy, focusses on accelerating our fiber roll-out, growing our customer footprint, improving the digital customer experience for families and businesses and renewing our way of working.

We made good progress on the execution of our strategy in 2020 and our financial results were solid and continue to reflect a mix of an ongoing competitive environment and the impact of our strategic actions.

The remuneration policy was last amended by the General Meeting of Shareholders in April 2020 based on a 97.87% voting 'for' and 2.13% 'against' for the remuneration policy of the Board of Management and a 99.27% voting 'for' and 0.73% 'against' for the remuneration policy of the Supervisory Board. Regarding the Board of Management remuneration policy, the AGM approved the proposal to remove the discretionary factor from the Short Term Incentive (STI) plan. Regarding the Supervisory Board remuneration policy, the AGM approved the proposal that the fee for attending meetings outside the member's country of residence would no longer apply for newly appointed or re-appointed members of the Supervisory Board and that eligibility for fees for committee membership would be limited to a maximum of two committees (i.e. the two highest fees will be applicable).

This Remuneration Report was prepared in line with the requirements stemming from the implementation of the Shareholder Rights Directive in Dutch law and will consequently

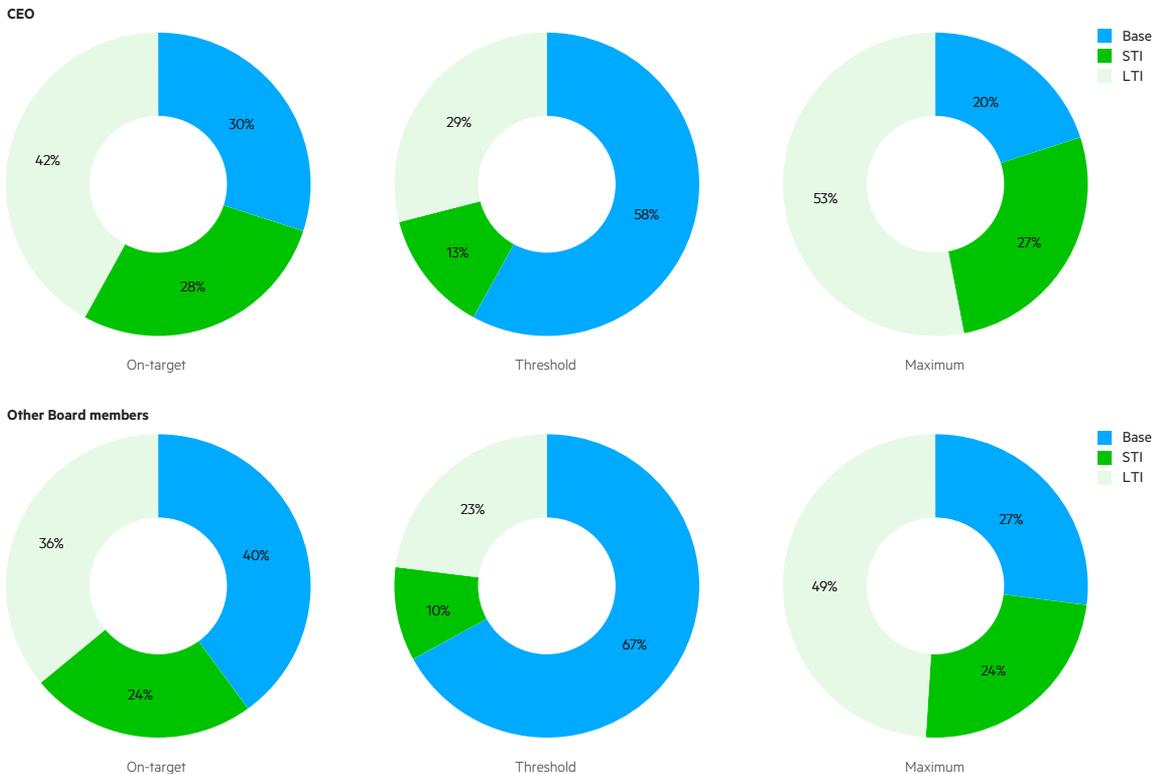
be submitted to the General Meeting of Shareholders for an advisory vote. The 2019 Remuneration Report was submitted to the AGM for an advisory vote in April 2020 and resulted in 97.17% voting "for" and 2.83% "against". Given this outcome, no material changes were considered with regard to the underlying guiding principles of the Remuneration Report.

Remuneration policy 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 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 (including dialogue with the 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 fixed/variable pay mix for both the CEO and other board members in the case of an on-target, threshold and maximum composite performance of the assigned financial- and non-financial targets.



KPN uses this employment market peer group that consists of Dutch-listed and European sector-specific companies:

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

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.

● Remuneration Board of Management

Main features of the short-term and long-term incentive plans:

Short-term incentive (STI) plan

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

Long-term incentive (LTI) plan

Component	Long-term incentives
Form of compensation	Shares
Value determination (on-target level)	CEO: 135% of base salary and other members 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 of the Board of Management in 2020

The actual remuneration of the members of the Board of Management was determined by the Supervisory Board

according to the remuneration policy as approved by the AGM, also considering scenario analyses related to variable pay.

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

Member	Position	Base salary (EUR)	On-target STI (% base salary)	On-target LTI (% base salary)
Joost Farwerck	Chief Executive Officer	875,000	90%	135%
Chris Figee	Chief Financial Officer	675,000	60%	90%
Jean-Pascal Van Overbeke	Chief Consumer Market	650,000	60%	90%
Marieke Snoep	Chief Business Market	650,000	60%	90%
Babak Fouladi	Chief Technology & Digital Officer	650,000	60%	90%
Hilde Garssen	Chief People Officer	500,000	60%	90%

Annual base salary

The annual base salaries of the individual members of the Board of Management were not adjusted in 2020.

Details actual pay-out level STI

Plan	Target	Weight	Bandwidth pay-out level			Outcome	Actual pay-out %	Outcome percentage		
			Minimum	On-target	Maximum			Minimum	On-target	Maximum
STI 2020 Financials (70% weighting):										
- Adjusted EBITDA-AL		20%	25%	100%	150%	108%	22%			
- Service Revenue		25%	25%	100%	150%	61%	15%			
- FCF		25%	25%	100%	150%	122%	31%			
Non-financials (30% weighting):										
- NPS NL		15%	25%	100%	150%	0%	0%			
- Employee engagement		15%	25%	100%	150%	123%	18%			
Total pay-out level		100%					86%			

The STI 2020 outcome reflects the fact that we delivered on our financial guidance aspects for 2020, supported by our continuing solid progress on simplification and digitalization. KPN remains fully on track with the execution of its strategy while maintaining a robust liquidity position. We continued to execute disciplined cost control, resulting in solid growth in adjusted EBITDA after leases and FCF. Engagement scores based on the employees' views about the future of the company and their individual contribution rose considerably in 2020. The engagement score for process improvement fell short of expectations and therefore emphasizes the continuing need to improve our processes as part of a more simplified operating model. The KPN NL NPS fell below the threshold level for pay-out as it was impacted by the migrated Telfort customer base, the pressure on our operations from changing customer behaviour due to COVID-19 and the changed IPTV interface. The lower NPS is an important point of attention for both the Board of Management and the Supervisory Board, and a key area for improvement, also in 2021.

The committee considered whether the COVID-19 pandemic would be a reason to take specific measures related to the remuneration of the members of the Board of Management. It noted that, so far, the impact of the crisis on the company's financial results, although present, had been relatively limited. The company has not made use of government support (NOW-program) and has met its remuneration commitments to employees, as well as its commitments to shareholder remuneration with a growing regular dividend to be paid over 2020. As such, the committee concluded that there were no reasons to deviate from the agreed executive STI remuneration schemes.

It is assumed that members of the Board of Management will obtain 50% of the STI pay-out in shares to further stimulate reaching the anticipated share ownership levels.

● Remuneration Board of Management

Details actual pay-out (vesting) level LTI 2018: vesting period 2018-2020

Plan	Target	Weight	Bandwidth vesting level			Outcome	Actual vesting %	Outcome percentage		
			Minimum	On-target	Maximum			Minimum	On-target	Maximum
LTI 2018 Financials (75% weighting):										
- TSR versus peer group		25%	75% 6th position	100% 5th position	200% 1st position	75%	19%		●	
- Free cash flow		25%	25%	100%	200%	32%	8%	●		
- Earnings per share (EPS)		25%	25%	100%	200%	0%	0%	●		
Non-financials (25% weighting):										
- Reputation target		12.5%	25%	100%	200%	200%	25%			●
- Energy reduction target		12.5%	25%	100%	200%	200%	25%			●
Vesting %		100%					77%		●	

The LTI plan 2018 vests in April 2021 and final TSR was measured in mid-February 2021. The plan vested based on the TSR performance that put KPN in sixth position in the applicable peer group, supported by KPN's progressive dividend policy. During the vesting period 2018-2020, KPN's results on cumulative free cash flow performed, supported by a strong cost savings discipline, slightly above the ambitious threshold level of the bandwidth which contributed to a robust liquidity position covering debt maturities until 2023. Earnings per share (EPS) was below the ambitious threshold and so 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 bonds in 2019, a transaction that lowers KPN's interest expense, delivering significant value going forward.

The reputation target is based on external data, which are measured and conducted by the RepTrak Company, the leading international organization devoted to advancing knowledge about corporate reputations. The external data are independently collected by the RepTrak Company 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 RepTrak Company prior to the vesting period. The reputation target for the LTI plan 2018 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 73.0 and outperformed the maximum level of the bandwidth set at 70.7, indicating a significant growth as part of the continuous improvement in KPN's reputation during the vesting period 2018-2020.

The energy reduction target was aligned with a reduction of KPN's energy consumption during the vesting period compared to the baseline in 2017. Energy reduction (compared to the baseline in 2017) during the vesting period was equal to -11.5% and resulted in a vesting above the maximum level of the bandwidth, which was set at -5.5%. 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 key savings came from our network rationalization programme to replace our network equipment with more energy efficient settings and reducing our energy footprint via network virtualization (and so reduce the need for additional equipment). The energy figures are based on external sources and validated by both our internal and external auditors. The outcome on energy reduction during the vesting period 2018-2020 was partly influenced by COVID-19 due to limited travel (i.e. less fuel consumption lease cars) and limited use of office buildings in 2020. Corrected for the impact of COVID-19 the outcome on energy reduction would be -5.9% which would also result in a vesting at the maximum level of the bandwidth.

The committee considered whether the COVID-19 pandemic would be a reason to take specific measures related to the remuneration of the members of the Board of Management. It noted that the impact of the crisis on the company's financial results, although present, had been relatively limited. The company has not made use of government support (NOW-program) and has met its remuneration commitments to employees, as well as its commitments to shareholder remuneration with a growing regular dividend to be paid over 2020. For this reason, the committee concluded that there were no reasons to deviate from the agreed executive LTI remuneration schemes.

Targets LTI 2020, vesting period 2020-2022

For the LTI plan issued in 2020, the financial targets are based on relative TSR with a 25% weighting and free cash flow with a 45% weighting. Under the LTI plan, the Supervisory Board selects each year two non-financial targets based on a predetermined set of 5 strategic categories. The non-financial targets for the LTI plan 2020 have been determined based on circularity and reputation, each with a weighting of 15%.

Circularity was selected as a non-financial target to reflect our long-term sustainability ambitions. We have drawn up a roadmap 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 reuse and recycling (i.e. outflow of materials and waste) by 2025. The on-target ambition for 2022 on reuse and recycling was set at 84% versus a baseline of approximately 78% in 2019. As part of our close to 100%

circular ambition we collaborate with our partners to optimize our value chain towards our ambition of zero waste by 2025. The measurement and conduct of the sustainability KPIs have 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 two 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 69.5 by the end of 2022.

Actual received remuneration of the Board of Management (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	Actual vested LTI ¹	Pension cost	Social security/ other compensation ²	Total ³	% Fixed ⁴	% Variable ⁴
Joost Farwerck	CEO	2020	875	676	600	185	20	2,356	41%	59%
	COO/CEO ⁵	2019	688	497	316	152	16	1,669	46%	54%
Chris Figee	CFO ⁶	2020	619	319	-	100	34	1,072	66%	34%
Jean-Pascal Van Overbeke	CCM	2020	650	335	250	124	15	1,374	53%	47%
		2019 ⁷	54	34	-	9	1	98	61%	39%
Marieke Snoep	CBM	2020	650	335	-	106	30	1,121	66%	34%
		2019 ⁷	54	34	-	8	3	99	61%	39%
Babak Fouladi	CTDO	2020	650	335	-	124	14	1,123	66%	34%
		2019 ⁷	54	34	-	9	1	98	61%	39%
Hilde Garssen	CPO	2020	500	257	-	82	15	854	66%	34%
		2019 ⁷	42	26	-	6	1	75	62%	38%

1 Final measurement of the LTI 2018 was conducted in February 2021, which leads to 77% vesting of the shares in April 2021. The amounts give an indication of the value of the shares that will vest based on the closing share price of KPN at 15 February 2021 (EUR 2.85). The LTI 2017 is paid in April 2020 based on the share price on the actual vesting date.

2 In addition to social security, the stated amounts include allowances that can be considered as indirect remuneration and relates to the value for the private use of the company car.

3 All remuneration was borne by KPN B.V, please see Note 5 to the Consolidated Financial Statements for the individual pension benefits, on cost and social security.

4 Excluding pension cost, social security and other compensation.

5 Actual total remuneration as COO and CEO.

6 Actual remuneration since appointment to the Board of Management with an effective date of 1 February 2020.

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

Remuneration Board of Management

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

	2016	2017	2018	2019	2020
Remuneration Joost Farwerck (EUR) ¹	1,418,000	1,904,000	1,384,000	1,669,000	2,356,000
Position	COO	COO	COO	COO/CEO	CEO
-Year-on-year difference (EUR)	158,000	486,000	-520,000	285,000	687,000
-Year-on-year difference (%)	+13%	+34%	-27%	+21%	+41%
Remuneration CFO (EUR) ²	1,490,000	2,022,000	1,419,000	1,555,000	1,169,000
-Year on Year difference (EUR)	220,000	532,000	-603,000	136,000	-386,000
-Year on year difference (%)	+17%	+36%	-30%	+10%	-25%
Remuneration other current members on average (EUR) ³				92,500	1,118,000
-Year on Year difference (EUR)					1,025,500
-Year on year difference (%)					n/m
TSR position (part of LTI)					
-Position peer group	6th (75% vesting)	3rd (150% vesting)	8th (no vesting)	6th (75% vesting)	6th (75% vesting)
Free cash flow (part of STI/LTI)	Performance:	Performance:	Performance:	Performance:	Performance:
-STI bandwidth pay-out level	Close to target	Maximum	Around maximum	Maximum	Between on- target and maximum
-LTI bandwidth pay-out level	Below threshold	Between on- target and maximum	Below threshold	Slightly above threshold	Slightly above threshold
EBITDA (part of STI)	Performance:	Performance:	Performance:	Performance:	Performance:
-Pay-out level STI bandwidth	Between threshold and on-target	Between threshold and on-target	Around on-target	Between on-target and maximum	Above on-target
Average cost per FTE (IFRS, EUR) ⁴	79,924	82,967	85,355	88,445	84,306
Pay ratio CEO (IFRS) ⁵	33	36	29	30	30

1 Remuneration as of 1 October 2019 as CEO. Prior to that the remuneration relates to his COO position.

2 The years 2016-2019 refer to the remuneration of Jan Kees de Jager. The 2020 amount is the remuneration of Chris Figee recalculated on a full year basis considering his appointment on 1 February 2020.

3 Since appointment in the Board of Management with an effective date of 1 December 2019

4 Based on KPN CLA agreement, base salaries for the CLA population increased by 2.5% in 2020. Average cost per FTE (IFRS) in 2020 was impacted by the divestment of KPN Consulting and annual differences in incentive plans.

5 The pay ratio for the years 2016-2017 relates to Eelco Blok and for the year 2018 to Maximo Ibarra.

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-term and long-term incentive plans. 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 in general 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 86% of the on-target level and the LTI plans vested over the five-year period on average close to 85% of the on-target level reflecting the ambitious targets set for variable incentive plans.

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

KPN's internal pay ratio

To ensure transparency and clarity, KPN applies an IFRS-driven methodology to calculate the internal pay ratio. KPN's internal

pay ratio compares the total CEO compensation under IFRS principles with the average compensation of employees with a labour agreement with KPN (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 2016-2017 relates to Eelco Blok and for 2018 to Maximo Ibarra. KPN's calculated pay

ratio in 2020 is 30 (2019: 30, considering Joost Farwerck was 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.

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

	Grant date	Granted as of 1 January 2020	Vested	Granted or forfeited in 2020 ¹	As of 31 December 2020	Pre-tax fair value on grant date (EUR) ²	Pre-tax market value on vesting date or end of lock-up in 2020 (EUR)	End of lock-up period
Joost Farwerck	16 April 2020		-	535,132	535,132	1,091,669	-	16 April 2026
	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 ³	202,396	-152,541	-49,855	-	542,421	337,646	13 April 2022
Chris Figee	16 April 2020		-	275,211	275,211	561,430	-	16 April 2026
Jean-Pascal Van Overbeke	16 April 2020		-	265,018	265,018	540,637	-	16 April 2026
	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	16 April 2020		-	265,018	265,018	540,637	-	16 April 2026
	11 April 2019	156,136	-	-	156,136	451,233	-	11 April 2024
Babak Fouladi	16 April 2020		-	265,018	265,018	540,637	-	16 April 2026
	11 April 2019	196,732	-	-	196,732	568,555	-	11 April 2024
Hilde Garssen	16 April 2020		-	203,860	203,860	415,874	-	16 April 2026
	11 April 2019	62,454	-	-	62,454	180,492	-	11 April 2024

¹ The shares granted to the Board of Management represent 38% (2019: 34%) of the total number of shares and share-based awards granted in 2020 to all employees. The grant numbers do not include any deferred dividend during the vesting period. The deferred dividend during the vesting period will be additionally granted in shares.

² Value is calculated by multiplying the number of share awards by the fair value at grant date.

³ Final TSR measurement for the 2017 share grant was conducted in February 2020, which resulted in 63.78% vesting in April 2020.

See the Insider transactions section for stock ownership of the 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 2020.

Developments for 2021

No adjustments to the remuneration policy of the Board of Management are foreseen in 2021, also considering the recent adjustments proposed to and approved by the AGM in April 2020.

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

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.

● Remuneration Board of Management

The following table shows the annual fixed fee structure for the members of the Supervisory Board and the members of the committees, which have not changed in the last five 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

The following table shows the actual fee each current member of the Supervisory Board received in 2016-2020.

Amounts in €		Membership fee 2020	Committee fees 2020	Total 2020	Total 2019	Total 2018	Total 2017	Total 2016
D.W. Sickinghe	Chairman	100,000	16,771	116,771	115,000	116,875	122,500	123,929
D.J. Haank	Vice-chairman	70,000	22,813	92,813	87,500	86,250	82,500	84,643
P.A.M. van Bommel ¹	Member	17,500	5,833	23,333	80,000	80,000	80,000	77,143
C.J. García Moreno Elizondo ²	Member	41,667	9,966	51,633	73,000	73,000	73,000	73,000
A.D. Plater ³	Member	18,333	5,347	23,680	-	-	-	-
C.J.G. Zuiderwijk	Member	60,000	10,000	70,000	70,000	71,875	77,500	77,500
P.F. Hartman	Member	60,000	15,000	75,000	75,000	76,875	82,500	80,357
J.C.M. Sap	Member	60,000	15,000	75,000	70,000	70,000	70,000	70,000
E.J.C. Overbeek	Member	60,000	12,500	72,500	72,500	71,250	16,875	-
C.R.A. Guillouard ⁴	Member	42,500	12,396	54,896	-	-	-	-
Total		530,000	125,626	655,626	643,000	646,125	604,875	586,572

1 up to 15 April 2020

2 up to 10 September 2020

3 Since appointment in the Supervisory Board with an effective date of 10 September 2020.

4 Since appointment in the Supervisory Board with an effective date of 15 April 2020.

Developments for 2021

No adjustments to the remuneration policy of the Supervisory Board are foreseen in 2021, also considering the recent adjustments proposed to and approved by the AGM in April 2020.