

Remuneration and Organizational Development Report

employment market peer group, which is used to determine remuneration levels for the CEO and members of the Board of Management. The reference groups may change if an individual company no longer qualifies to be taken into account.

The following vesting schedule is applied to performance options and performance shares for the Performance Stock Option Plan (PSOP) 2005 and the PSP 2006:

Position	Vesting %
Position 16 to 13	No vesting takes place
Position 12 to 9	50% of the options/shares vest
Position 8 to 5	100% of the options/shares vest
Position 4 to 1	200% of the options/shares vest

As of the end of 2007, KPN held the third position with respect to the 2005 option grant, which leads to a vesting percentage of 200% of the options that vest in April 2008. As of the end of 2007, KPN holds the fifth position concerning the 2006 share grant. This position is not an indication of KPN's final ranking after the three-years performance period (2006-2008).

As a result of the review of the TSR peer group, the number of companies in the peer group decreased from 16 to 14. Subsequently, the vesting schedule changed for 2007 and onwards. The following vesting schedule is applied to performance shares for the PSP 2007:

Position	Vesting %
Position 11 to 14	No vesting takes place
Position 10	50% of the shares vest
Position 9	66% of the shares vest
Position 8	83% of the shares vest
Position 7	100% of the shares vest
Position 6	117% of the shares vest
Position 5	133% of the shares vest
Position 4	150% of the shares vest
Position 3	166% of the shares vest
Position 2	183% of the shares vest
Position 1	200% of the shares vest

At the end of 2007, KPN held the fifth position with respect to the 2007 share-based grant. This position is no indication of KPN's final ranking after the three-years performance period (2007-2009).

In addition to the PSP award, for Mr. Miller, a separate long-term incentive arrangement applies as agreed in his previous position before joining the Board of Management. The arrangement is based on E-Plus and BASE EBITDA for the years 2005 through 2008. Mr. Miller would be entitled to a pay-out after three years up to a maximum of EUR 5 million.

The incentive scheme will run until the end of 2008. In the event of reaching maximum performance earlier, the maximum bonus will be payable after the year end closing and sign off on the accounts by the auditors.

Benefits

Pensions

The CEO receives a defined benefit pension based on a final pay structure with a retirement age of 65 and an attainable pension equals to 70% of his last fixed salary. The defined benefit pension of the CEO was fully funded at the start of his employment in 2001. No service charges to the pension provision are allocated because the fixed salary remains unchanged.

A new defined contribution pension plan was introduced for the Board of Management in 2006 effective January 1, 2006. Future Board of Management members will be eligible for this defined contribution pension plan with a contribution based on the fiscal defined contribution table that corresponds with a retirement age of 65 and an annual accrual rate of 2.25%.

Those members that were already on the Board of Management prior to January 1, 2006 will continue to participate in the previous pension plan. This was a hybrid pension plan, which combined a base defined benefit career-average component with a supplementary defined contribution component. This plan has a defined benefit indexed career-average module up to a maximum salary level of EUR 45,378 and an age-related defined contribution module for salary levels above EUR 45,378. The annual accrual rate in the career average module equals 2% with a normal retirement age of 62. A temporary defined benefit career-average pension between retirement age 62 and age 65 is applicable with an annual accrual rate of 2%. As a transitional arrangement, an adjustment was made to the retirement age, from age 62 to age 65, and the annual accrual rates (assumptions) were adjusted accordingly from 2% to 2.25%.

Mr. Miller's pension entitlement is insured in Belgium (retirement age 60 and defined contribution based).

Additional arrangements

In addition to the aforementioned remuneration, a number of additional fringe benefit arrangements apply to members of the Board of Management. These additional arrangements, such as expense allowances, use of mobile phones and company car provisions needed for the execution of their role, are broadly in line with other companies of similar size and complexity as well as market norms.

Loans

Company policy does not permit loans to members of the Board of Management.

Terms of employment

On September 27, 2007 KPN announced that Mr. Scheepbouwer had agreed to stay on as CEO of KPN for the next four years. The current employment contract, which was set to end on July 1, 2009, will be extended until July 1, 2011. The terms of Mr. Scheepbouwer's extended contract have only changed for a limited set of elements which were approved by the EGM on November 6, 2007. On signing the extended contract Mr. Scheepbouwer received an upfront payment of EUR 2.5 million, replacing his entitlement to receiving this amount on the date of actual termination of his contract. Mr. Scheepbouwer invested the total net proceeds of his EUR 2.5 million retirement bonus in KPN shares.

Mr. Scheepbouwer is from 2008 and onwards, entitled to an equity-settled long-term incentive package equal to 150% of his base salary, replacing all his annual long-term incentive entitlements from 2008 and onwards. The value of the share package increases if KPN holds a higher position on the TSR-ranking, up to a maximum of 200% of the target level at a first position. If KPN holds a position on the TSR-ranking lower than the tenth position, no shares will be granted. The performance period of the shares is one year and Mr. Scheepbouwer cannot sell the shares until July, 2011.

All members of the Board of Management have entered into an employment contract for an indefinite period of time, except for the CEO. Members of the Board are appointed for a period of four years, which is consistent with the Dutch Corporate Governance Code.

Notice periods

Current members of the Board of Management must provide a three-months' notice if they choose to leave the Company. KPN must provide six-months' notice when terminating a Board of Management member's employment.

Severance arrangements

Severance payments for the CEO and members of the Board of Management are aligned with the Dutch Corporate Governance Code, with the exception of Mr. Miller and Mr. Blok. A severance arrangement of two years base salary (plus pension contribution and medical expenses) was contractually agreed with Mr. Miller. A severance arrangement of one year base salary plus 100% bonus was contractually agreed with Mr. Blok. For the other Board Members, the severance arrangement is one year base salary.

Outlook 2008

The Committee will consider returning to an equity-settled Performance Share Plan and adjusting the vesting table such that no longer pay outs will be made on a TSR ranking below the median of the peer group. Any change to the long-term incentive plan will be in line with the company's remuneration policy, or will be put before the AGM for adoption, pursuant to what is required based on the Dutch Corporate Governance Code and legislation.

The Committee will also review the employment market peer groups for the Board of Management that currently acts as a reference for the remuneration levels of the Board of Management (not only limited to Dutch listed companies) to ensure an adequate alignment with relevant market competitive standards as adopted by companies of a similar size and complexity as KPN. Next to that, the Committee will review the market standards for remuneration of members of the Supervisory Board, also taking into account the frequency of meetings outside the home country of the individual members. The Committee will also review the outcome of recommendations of the Corporate Governance Code Monitoring Committee and discuss any potential implications with regard to the existing remuneration policy as adopted by the AGM.