

*Royal KPN N.V. invites its shareholders to its Annual General Meeting of Shareholders to be held at KPN Telehouse, La Gardiaweg 5 in Amsterdam, at 2.30 PM on Thursday, April 15, 2004.*

## **AGENDA**

- 1. Opening and announcements**
- 2. Report by the Board of Management for the financial year 2003**
- 3. Financial statements for the financial year 2003**
  - a. Proposal to approve the financial statements for the financial year 2003
  - b. Explanation of the dividend policy
  - c. Proposal to adopt a dividend over the financial year 2003
- 4. Discharge from liability**
  - a. Proposal to discharge the members of the Board of Management from liability
  - b. Proposal to discharge the members of the Supervisory Board from liability
- 5. Corporate Governance**
- 6. Proposal to adopt the remuneration policy**
- 7. Annual report and financial statements for the financial year 2004**
  - a. Proposal to appoint the auditor
  - b. Proposal to draw up the annual report and financial statements in English
- 8. Composition of the Supervisory Board and the Board of Management**
  - a. Opportunity to make recommendations for the appointment of a member of the Supervisory Board
  - b. Opportunity to object to the proposed appointment
  - c. Announcement concerning vacancies arising at the Annual General Meeting of Shareholders in 2005
  - d. Appointment of a new member of the Board of Management
- 9. Acquisition and issuance of shares, as well as the restriction or exclusion of pre-emptive rights**
  - a. Proposal to authorize the Board of Management to resolve for the company to acquire its own shares
  - b. Proposal to appoint the Board of Management as competent body to issue shares
  - c. Proposal to appoint the Board of Management as competent body to restrict or exclude pre-emptive rights
- 10. Proposal to reduce the capital through cancellation of own shares**
- 11. Any other business and closure of the meeting**



# Explanatory notes to the agenda

## Item 3a

It is proposed to the General Meeting of Shareholders to approve Royal KPN N.V.'s financial statements for the financial year 2003. The Board of Management, with the approval of the Supervisory Board, proposes to appropriate the complete profit over the financial year 2003 to the distributable portion of shareholders' equity. Under the agenda item 3c it is proposed to pay out a regular cash dividend of EUR 0.12 per share with an additional special cash dividend of EUR 0.13 per share. This dividend will be paid out of the distributable part of shareholders' equity.

## Item 3b

Under this agenda item the Board of Management will give an explanation of the dividend- and reservation policy of Royal KPN N.V. as outlined in the annual report over the financial year 2003.

## Item 3c

The Board of Management, with the approval of the Supervisory Board, proposes to the General Meeting of Shareholders to pay out a regular cash dividend of EUR 0.12 per share with an additional special dividend of EUR 0.13 per share over the financial year 2003. The dividend will be paid out of the distributable part of the shareholders' reserve. On April 19, 2004 the KPN shares will list ex-dividend. The dividend will be paid as from April 28, 2004.

## Item 4a

It is proposed to the General Meeting of Shareholders to discharge the members of the Board of Management from all liability in relation to the exercise of their duties in the financial year 2003, to the extent that such exercise is apparent from the financial statements or has been otherwise disclosed to the General Meeting of Shareholders prior to the approval of the financial statements.

## Item 4b

It is proposed to the General Meeting of Shareholders to discharge the members of the Supervisory Board from all liability in relation to the exercise of their duties in the financial year 2003, to the extent that such exercise is apparent from the financial statements or has been otherwise disclosed to the General Meeting of Shareholders prior to the approval of the financial statements.

## Item 5

On December 9, 2003 the Tabaksblat Committee published the Dutch Corporate Governance Code. Although public companies are required to report their compliance to the Code as from the financial year 2004, the General Meeting of Shareholders is invited to discuss the Corporate Governance chapter of the annual report over the financial year 2003.

## Item 6

In accordance with the principles formulated in the Dutch Corporate Governance Code, the remuneration policy proposed for 2004 as specified in the remuneration report, included in the annual report over the financial year 2003, is submitted to the General Meeting of Shareholders for adoption. It is proposed to the General Meeting of Shareholders to adopt this remuneration policy as well as the approval of the stock options policy. The outline below summarizes the proposed policy.

### 1. General remuneration policy

- 1.1 The purpose of KPN's remuneration policy is to establish remuneration levels and set forth a remuneration structure that is appropriate to:
  - ♦ attract, retain and motivate top managers as members of the Board of Management of an international telecommunications company;
  - ♦ emphasize pay for performance on both short and long-term results; and
  - ♦ allow for differentiation between the members of the Board of Management based on their experience and performance as well as the relative size and complexity of their position.
- 1.2 The remuneration policy, as proposed by the Supervisory Board, will be submitted to the general meeting of shareholders for approval. In proposing the remuneration policy, the Supervisory Board has obtained recommendations from the Remuneration and Nominating Committee <sup>1)</sup>. External advisors have been consulted to assist the Remuneration and Nominating Committee in developing the remuneration policy recommendations to the Supervisory Board.
- 1.3 The remuneration level and structure for individual members of the Board of Management will be determined by the Supervisory Board within the limits of the remuneration policy as approved by the General Meeting of Shareholders.

### 2. Remuneration structure

- 2.1 The Remuneration and Nominating Committee reviews the remuneration structure regularly to ensure it is aligned with the remuneration policy and prepares recommendations to the Supervisory Board if deemed necessary.
- 2.2 To make certain that the overall remuneration provided to members of the Board of Management is competitive, the remuneration levels are benchmarked regularly against the relevant labor market where KPN expects to recruit members of the Board of Management.
- 2.3 The relevant labor market is defined as the European Telecommunications- and/or Information Technology sector. As KPN is a Dutch multinational, the remuneration levels are determined also taking into account Dutch AEX-listed companies, excluding companies active in the Financial Services sector. For a complete list of KPN's peer companies, please refer to the remuneration section of the 2003 annual report.
- 2.4 KPN's remuneration policy is targeted at market median levels of the aforementioned reference markets, or just below that over the future years. In line with the remuneration policy, the overall remuneration structure will be highly performance-related.

1) The Remuneration and Nominating Committee was restructured effective January 2004 into a Remuneration and Management Development Committee and a Nominating and Corporate Governance Committee. The Chairman of the Supervisory Board is no longer Chairman of the Remuneration and Organization Development Committee.

### 3. Base salary

- 3.1 Base salaries should be at levels sufficient to attract and retain top managers as members of the Board of Management of KPN.
- 3.2 Due to a variety of internal and external factors, base salary levels for members of the Board of Management will not be adjusted in 2004. However, 2004 levels do reflect a reversal of the 15% reduction of the base salary levels taken in 2002. Notwithstanding this reversal, base salary levels will be below the median levels of the aforementioned reference markets.

### 4. Short term incentive

- 4.1 The short term incentive is intended to help achieve the goals outlined in the Company's annual performance plan.
- 4.2 There will be no changes in the target and maximum bonus opportunity for the CEO. The target bonus levels for the members of the Board of Management will decrease from 100% to 60% of base salary. The maximum bonus opportunity will be decreased from 150% to 100% of base salary.
- 4.3 To ensure the financial health of the Company and a strong business foundation, the measures used are a combination of financial performance parameters, customer satisfaction (Fixed division) and mobile subscribers (Mobile division).

### 5. Long term incentives

- 5.1 The long term incentive plan is designed to ensure long term value creation by aligning the interests of our top management to those of our shareholders.
- 5.2 To enhance a focus on long term value creation, the current unconditional stock option plan will be replaced by a performance related stock option plan. The number of stock options that will vest depends on the achievement of certain levels of Total Shareholder Return (TSR) after a vesting period of three years relative to a peer group of telecommunication companies in which KPN competes for shareholder preference.
- 5.3 The following fifteen companies are included in the performance peer group:
 

♦ BT Group	♦ Mobistar	♦ Telecom Italia
♦ Carso Global Telecom	♦ NTT DoCoMo	♦ Telefónica
♦ Deutsche Telekom	♦ Portugal Telecom	♦ Telenor
♦ France Télécom	♦ Swisscom	♦ Teliasonera
♦ mmO2	♦ TDC	♦ Vodafone Group
- 5.4 The Supervisory Board may decide to change this peer group if circumstances deem the individual companies no longer relevant for an adequate comparison in terms of TSR. Under no circumstances will this result in making targets easier to achieve.
- 5.5 At the end of the performance period, all companies (sixteen including KPN) will be ranked on their TSR. The stock options vest according to the following schedule:
 

♦ Position 16 to 13	–	no stock options will vest
♦ Position 12 to 9	–	50% of the stock options conditionally granted will vest
♦ Position 8 to 5	–	100% of the stock options conditionally granted will vest
♦ Position 4 to 1	–	200% of the stock options conditionally granted will vest

- 5.6 The initial stock option grant will be based on a target equivalent to 60% of base salary, using the Black-Scholes valuation method and an estimate of the historical likelihood that KPN will reach target performance levels. External consultants are being used to design and help monitor this program.
- 5.7 The stock option term will be increased from five to eight years to be more in line with international and domestic practice.
- 5.8 The specific circumstances for the CEO have not changed and the contractually agreed-upon stock option plan will apply.
- 5.9 In 2004, as part of the remuneration policy to encourage pay for performance, the Supervisory Board will consider a performance related stock plan in addition to or in replacement of the current stock option plan to be introduced in 2005 or thereafter. The overall value of KPN's long term incentive programs will stay within the policies outlined.

#### **6. Other changes**

- 6.1 The current exit arrangements for the members of the Board of Management have been brought in line with the requirements of the Dutch Corporate Governance Code and therefore limited to one times base salary.
- 6.2 The Supervisory Board will consider in 2004 whether an appointment period of four years for the Board of Management is feasible.

### **Item 7a**

With the approval of the Supervisory Board, the Board of Management proposes to instruct PricewaterhouseCoopers Accountants N.V. to audit the financial statements for the financial year 2004. The General Meeting of Shareholders is informed that the lead partner of PricewaterhouseCoopers Accountants N.V. will rotate as from the closing of the General Meeting of Shareholders.

### **Item 7b**

Articles 391 (1) and 362 (7) of Book 2 of the Dutch Civil Code require the annual report and items in the financial statements to be in Dutch. The Board of Management and Supervisory Board are of the opinion that the quality of KPN's external disclosures will benefit from reporting in English from now on. KPN already publishes each year an annual report in the English language ('Annual Report on Form 20-F') because of the listing of its shares on the New York Stock Exchange. KPN has also major operations in Germany and Belgium and, by consequence, does a substantial proportion of internal financial reporting in English. Furthermore it is noted that the Board of Management and Supervisory Board are becoming more international in composition resulting in English to be the working language at Supervisory Board meetings.

The Board of Management, with the approval of the Supervisory Board, proposes to the General Meeting of Shareholders to adopt a resolution for the annual report and financial statements for the financial year 2004 and subsequent years to be drawn up in English. Since Dutch shareholders hold a substantial proportion of the issued share capital KPN will publish Dutch translations, together with the English versions of the annual report and financial statements.

### Item 8a

Mr. D.G. Eustace is due to step down from the Supervisory Board as he has reached the end of his four year term of office. He has, however, indicated his availability for reappointment. The General Meeting of Shareholders has the opportunity to put forward nominations for the vacancy.

### Item 8b

If no other nominations are made, the Supervisory Board intends to reappoint Mr. Eustace. The General Meeting of Shareholders has the right to object to the proposed appointment. The Board of Management supports the proposed appointment and the Central Works Council has stated that it has no objection to the proposed appointment. The details required under article 142 (3) of Book 2 of the Dutch Civil Code are attached to these notes.

### Item 8c

Mr. A.H.J. Risseeuw and Ms. M.E. van Lier Lels will step down at the closure of the Annual General Meeting of Shareholders in 2005 as they then reach the end of their four-year term of office.

### Item 8d

The Supervisory Board announces its intention to appoint Mr. E. Blok as member of the Board of Management with effect from the close of the Annual General Meeting of Shareholders. Mr. Blok will fill in the vacancy in the Board of Management resulting from the stepping down in November 2003 of Mr. L. Roobol due to health reasons. Mr. Blok's details are attached to these notes.

### Item 9a

The General Meeting of Shareholders held on May 12, 2003 extended the Board of Management's authorization to acquire the company's own shares, as well as the designation of the Board of Management as the competent body authorized to issue shares, to grant rights to shares and to restrict/exclude shareholders' pre-emptive rights on the issue of ordinary shares for 18 months to November 12, 2004.

In accordance with article 98 (4) of Book 2 of the Dutch Civil Code (and article 15 of the articles of association), it is proposed under agenda item 9a to extend the Board of Management's authorization for 18 months until October 15, 2005 to acquire on the stock exchange or through other means the company's own shares, subject to the limits imposed by law. Ordinary shares will be acquired at a share price of no less than EUR 0.01 and no more than the quoted share price plus 10%. A price equal to par value will apply to acquisition of the special share. The quoted share price is defined as the average of the closing prices on the official price list of Euronext Amsterdam N.V. over the five trading days prior to the acquisition date. Resolutions to acquire the company's own shares are subject to the approval of the Supervisory Board. If the transaction concerns more than 1% of the issued share capital, the approval of the holder of the special share is also required.

In order to facilitate the acquisition of shares the Board of Management proposes under agenda item 10 to cancel the acquired shares.

### Item 9b

In accordance with article 96 of Book 2 of the Dutch Civil Code, it is proposed to extend the Board of Management's designation as the competent body authorized to issue shares and grant rights to shares for 18 months until October 15, 2005. In line with current corporate governance practices, the proposal limits the Board of Management's authorization to 10% of the issued share capital at the time of issue, plus an additional 10% in the event of a merger or takeover, with the proviso that the authorization covers all un-issued Class B preference shares. Resolutions to issue shares or grant rights to shares are subject to the approval of the Supervisory Board and the holder of the special share.

### Item 9c

In accordance with article 96a of Book 2 of the Dutch Civil Code, it is proposed to extend the Board of Management's designation as the competent body authorized to restrict or exclude shareholders' pre-emptive rights on the issue of ordinary shares for a period of 18 months, expiring on October 15, 2005. This authorization will also be restricted to 10% of the issued share capital, plus an additional 10% in the event of a merger or takeover. Resolutions to restrict or exclude the pre-emptive rights on the issue of shares are subject to the approval of the Supervisory Board and the holder of the special share.

### Item 10

In accordance with article 16 of the articles of association, the Board of Management proposes, with the approval of the Supervisory Board, that the General Meeting of Shareholders resolves to reduce the issued capital through cancellation of shares held by the company not exceeding the number of shares it acquired. The number of shares that will be cancelled based on this resolution, will be determined by the Board of Management and is restricted to a maximum of 10% of the issued capital as shown in the annual accounts for the financial year 2003. Each time the amount of the capital reduction will be stated in the resolution of the Board of Management that shall be filed at the Chamber of Commerce in The Hague. Furthermore the reduction of the issued capital shall be carried out in accordance with applicable regulation as stipulated by law and articles of association.

## Information required under article 142 (3) of Book 2 of the Dutch Civil Code

### MR. D.G. EUSTACE

<i>Year of birth:</i>	1936
<i>Current positions:</i>	Retired
<i>Previous positions:</i>	Former Vice-Chairman of the Board of Management and Chief Financial Officer of Royal Philips Electronics N.V.
<i>Nationality:</i>	British
<i>KPN shares:</i>	None
<i>Supervisory directorships and other positions:</i>	He is the Chairman of the Board of Smith & Nephew plc and of Sendo Holding plc and a member of the Supervisory Boards of Aegon N.V., KLM N.V. and Hagemeyer N.V.
<i>Reason for nomination:</i>	Mr. Eustace joined KPN's Supervisory Board in 2000. He is Chairman of KPN's Audit Committee. He has acquired considerable knowledge of the telecommunications business of KPN. Since his appointment Mr. Eustace was closely involved in assisting management in financially restructuring the company. He has extensive experience and expertise in financial matters and financial policy at multinational companies. His expertise in these areas is of great value to KPN and makes him ideally suited for a position on the Supervisory Board. Mr. Eustace qualifies as a financial expert within the meaning of the Sarbanes-Oxley Act of 2002.

### MR. E. BLOK

<i>Year of birth:</i>	1957
<i>Present position:</i>	Director of the Fixed Division of KPN
<i>Previous positions:</i>	From 2000-2003 Mr. Blok held the position of Senior Vice President of KPN Fixed Network Operations. Before that (1998-2000) he was Senior Vice President of KPN Corporate Networks and was responsible for KPN's Benelux data communication activities. During this period he was also a member of the Supervisory Boards of Infonet Nederland B.V., KPN Belgium B.V., KPNQwest N.V., PanTel Rt. and Proclare B.V. From 1996-1998 he was Senior Vice-President of KPN Carrier Services and responsible for shaping KPN's wholesale activities. From 1994-1996 he was Vice-President Marketing & Sales of KPN Carrier Services. After his start as a young academic with KPN in 1983 he held several positions in the KPN Finance organisation.
<i>KPN shares:</i>	287
<i>General information:</i>	Mr. Blok took his Bachelors in Business Administration at the Erasmus University of Rotterdam and his Masters at the Graduate School of Management of the University of Technology Delft and the Erasmus University of Rotterdam. Mr. Blok has the Dutch nationality and lives with his family in Rotterdam.