

## **Further explanation to Item 17 ('Proposal to amend the remuneration policy for the Board of Management')**

Due to changes in Dutch corporate tax law, the net cost for the company to award shares and/or option rights to employees, including the members of the Board of Management, have substantially increased. The company's current long term incentive plan is based on such share awards.

Agenda item 17 ('Proposal to amend the remuneration policy for the Board of Management') proposes a comprehensive alternative to the current deferred share plan. The goal of this alternative long-term incentive plan remains the same: rewarding the Board of Management based on the creation of shareholder value. The alternative share plan keeps the current tax deduction, the savings of which are eventually beneficial to shareholders.

The alternative share plan is based on the use of Phantom Stock. This will comprise a cash incentive, based on the value of underlying KPN shares. The number of share equivalents awarded will be based on KPN's relative TSR position in the peer group, just as in the current deferred share plan. The cash incentive will be conditional during the first three years, and becomes unconditional after three years. After three years, the cash incentive will be paid to the members of the Board of Management, based on the relative TSR position and the value of the underlying shares.

In the current long-term incentive plan, the members of the Board of Management are obliged to keep their shares for an additional two years after the shares have been awarded. This lock-up ceases to exist in the alternative incentive plan based on Phantom Stock, because under Dutch law KPN cannot oblige members of the Board of Management to invest in KPN shares after three years. KPN will of course offer the opportunity to buy KPN shares when paying the cash incentive. Members of the Board of Management are entitled shares or share equivalents each year, so the long-term relationship between Board remuneration and relative TSR position continues to exist.