



April 17, 2007

# Koninklijke KPN N.V.

(Incorporated in The Netherlands as a public limited company with its corporate seat in the Hague)

€10,000,000,000

## Global Medium Term Note Programme

Under this €10,000,000,000 Global Medium Term Note Programme (the 'Programme') Koninklijke KPN N.V. (the 'Issuer', which expression shall include any Substituted Debtor (as defined in Condition 17), the 'Company' or 'KPN') may from time to time issue notes (the 'Notes', which expression shall include Senior Notes and Subordinated Notes (each as defined below)) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively 'Bearer Notes' and 'Registered Notes'). Subject as set out herein, the Notes will not be subject to any maximum maturity but will have, in the case of Senior Notes, a minimum maturity of one month and the maximum aggregate nominal amount of all Notes from time to time outstanding will not exceed €10,000,000,000 (or its equivalent in other currencies calculated as described herein).

The Notes will be issued on a continuing basis to one or more of the Dealers specified herein and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a 'Dealer' and together the 'Dealers'). The Dealer or Dealers with whom the Issuer agrees or proposes to agree on the issue of any Notes is or are referred to as the 'relevant Dealer' in respect of those Notes.

Application has been made to Euronext Amsterdam N.V. for Notes issued under the Programme up to the expiry of 12 months from the date of this Prospectus to be admitted to trading on Eurolist by Euronext Amsterdam ('Euronext Amsterdam').

References in this Programme to Notes being 'listed' (and all related references) shall mean that such Notes have been admitted to trading and listing on Euronext Amsterdam. Euronext Amsterdam is a regulated market for the purposes of Directive 93/22/EC (Investment Services Directive). In addition, Notes issued under the Programme may be listed or admitted to trading, as the case may be, on any other stock exchange or market specified in the applicable Final Terms. Application may also be made to have certain Series of Notes accepted for trading in the Private Offerings, Resales and Trading through Automated Linkages System ('PORTAL') of the National Association of Securities Dealers, Inc. The Issuer may also issue unlisted Notes.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, (the 'Securities Act') or any U.S. state securities laws and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. See 'Form of the Notes' for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer, see 'Subscription and Sale and Transfer and Selling Restrictions'.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplementary Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

This Prospectus is issued in replacement of an earlier prospectus dated August 9, 2006.

### *Arranger*

**ABN AMRO**

### *Dealers*

**ABN AMRO**  
**BNP PARIBAS**  
**Credit Suisse**  
**Fortis Bank**  
**ING Wholesale Banking**  
**Rabobank International**

**Banc of America Securities Limited**  
**Citigroup**  
**Deutsche Bank**  
**UniCredit Group (HVB)**  
**JPMorgan**  
**The Royal Bank of Scotland**

**This Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the ‘Prospectus Directive’).**

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche of Notes will be set forth in the Final Terms which will be delivered to Euronext Amsterdam on or before the date of issue of the Notes of such Tranche.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchange or stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see ‘Documents Incorporated by Reference’). This Prospectus shall be read and construed on the basis that such documents are incorporated in and form part of this Prospectus.

No person has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.

Neither this Prospectus nor any other information supplied in connection with the Programme should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Prospectus or any other information supplied in connection with the Programme should purchase any Notes. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Dealers, in their capacity as such, as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the Programme constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

The delivery of this Prospectus does not at any time imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme. Investors should review, *inter alia*, the most recent financial statements of the Issuer when deciding whether or not to purchase any Notes.

The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which is intended to permit a public offering of any Notes outside The Netherlands or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes come must inform themselves about, and observe, any such restrictions. In particular, there are

restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including, The Netherlands and the United Kingdom) and Japan (see 'Subscription and Sale and Transfer and Selling Restrictions' below).

All references in this document to 'U.S. dollars', 'U.S.\$' and '\$' refer to the currency of the United States of America, those to 'euro', 'EUR' and '€' refer to the currency of the member states of the European Union participating in the economic and monetary union pursuant to the Treaty establishing the European Community, as amended, those to 'Japanese yen', 'yen' and '¥' refer to the currency of Japan, those to 'CHF' refer to the currency of Switzerland, and those to 'Sterling' and '£' refer to the currency of Great Britain.

Descriptions of those abbreviated terms which are related to the Issuer's business are set out in the Glossary of Terms.

## **U.S. INFORMATION**

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. tax regulations (see ‘Subscription and Sale and Transfer and Selling Restrictions’). Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and the regulations promulgated thereunder.

This Prospectus is being submitted on a confidential basis in the United States to a limited number of QIBs and Institutional Accredited Investors (each as defined under ‘Form of the Notes’) for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorised.

Registered Notes may be offered or sold within the United States only to QIBs or to Institutional Accredited Investors, in either case in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be being made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act (‘Rule 144A’).

Purchasers of Definitive IAI Registered Notes (as defined under ‘Form of the Notes’) will be required to execute and deliver an IAI Investment Letter (as defined under ‘Terms and Conditions of the Notes’). Each purchaser or holder of Definitive IAI Registered Notes, Notes represented by a Rule 144A Global Note or any Notes issued in registered form in exchange or substitution therefor (together ‘Legended Notes’) will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in ‘Subscription and Sale and Transfer and Selling Restrictions’. Unless otherwise stated, terms used in this paragraph have the meanings given to them in ‘Form of the Notes’.

## **NOTICE TO NEW HAMPSHIRE RESIDENTS**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

## **AVAILABLE INFORMATION**

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are ‘restricted securities’ within the meaning of the Securities Act, the Issuer has undertaken in an Amended and Restated Agency Agreement dated May 3, 2002, as amended and supplemented by the First Supplemental Agency Agreement (the ‘First Supplemental Agency Agreement’) dated May 8, 2003, a Second Supplemental Agency Agreement (the ‘Second Supplemental Agency Agreement’) dated April 28, 2004, a Third Supplemental Agency Agreement dated September 20, 2005, a Fourth Supplemental Agency Agreement dated August 9, 2006 and a Fifth Supplemental Agency Agreement dated April 18, 2007 (together with the Amended and Restated Agency Agreement, the First Supplemental Agency Agreement, the Second Supplemental Agency Agreement, the Third Supplemental Agency Agreement and the Fourth

Supplemental Agency Agreement, the ‘Agency Agreement’) to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes remain outstanding as ‘restricted securities’ within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the ‘Exchange Act’) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

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To the extent that the provisions of Directive 2003/6/EC of the European Parliament and of the Council (the ‘Market Abuse Directive’) are required to be observed, in connection with the issue of any Tranche of Notes, the Dealer or Dealers named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes (provided that, in the case of any Tranche of Notes to be listed or admitted to trading on Euronext Amsterdam or another regulated market, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any such stabilisation action may begin on or after the date on which adequate public disclosure of the final terms (in the case of Notes convertible or exchangeable into shares or into other securities equivalent to shares) or terms (in all other cases) of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes.

To the extent that the provisions of the Market Abuse Directive are not required to be observed in connection with the issue of any Tranche of Notes, then in connection with the issue and distribution of any Tranche of Notes, the Dealer or Dealers named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there may be no obligation on the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all relevant laws and regulations. If so required by applicable law or regulation, stabilising will in any event be brought to an end within 30 days after the Closing Date applicable to such Notes.

## SUMMARY OF THE PROGRAMME

**This summary must be read as an introduction to this Prospectus and any decision to invest in any Notes should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area no civil liability attaches to the Issuer in any such Member State in respect of this Summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in a Member State of the European Economic Area (an 'EEA State'), the plaintiff may, under the national legislation of the EEA State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.**

Words and expressions defined in 'Form of the Notes' and 'Terms and Conditions of the Notes' below shall have the same meanings in this summary.

Issuer: Koninklijke KPN N.V.

### *History and development of the Issuer*

The Issuer was incorporated as a public limited liability company under the laws of The Netherlands on January 1, 1989. On June 28, 1998 its name was changed from Koninklijke PTT Nederland N.V. to Koninklijke KPN N.V. The Issuer has its corporate seat in The Hague, The Netherlands. It is registered under number 02045200 at the Commercial Register of the Chamber of Commerce for Haaglanden, The Hague, The Netherlands, and its executive offices are located at Maanplein 55, 2516 CK The Hague, The Netherlands.

The Issuer was incorporated with two main subsidiaries: PTT Telecom B.V., offering telecommunication services, and PTT Post B.V., serving as the primary postal company in The Netherlands. In the period from incorporation until the listing of its shares on Euronext Amsterdam in June 1994, the State of The Netherlands was its sole shareholder. On June 29, 1998, PTT Post B.V. was split-off from the Issuer. At the end of 2004, the State held 20.69 per cent. of the Issuer's outstanding shares. At the end of 2006, the State held no interest in the Issuer's outstanding shares (2005: 7.76%).

Capital Group International, Inc., Capital Research and Management Company and Barclays Plc have notified The Netherlands Authority for the Financial Markets ('AFM') that they hold between 5%-10% (November 1, 2006: 7.4%), 15%-20% (January 8, 2007: 15.07%) and 5%-10% (January 5, 2007 5.38%) respectively of the ordinary shares of KPN. KPN did not enter into material agreements with any of these companies. These companies are investment companies, which may have shareholdings in other companies with which we contract in the ordinary course of business. To the best of the Issuer knowledge, such contracts, if any, were not influenced by any of these shareholders.

On April 3, 2007, Barclays Plc notified the AFM that it had reduced its interest in KPN from 5.38% to 3.91% of the ordinary shares of KPN.

### *Business overview*

The Issuer provides telephone, Internet and television services to personal customers through its fixed network in The Netherlands. For business customers, the Issuer provides a range of services, from voice, Internet and data services to fully-managed outsourced ICT solutions, in The Netherlands and internationally. For both retail and business customers, the Issuer offers mobile services in The Netherlands, Germany, Belgium and Western Europe.

### *Business segments*

The Issuer divides its business into the following segments:

- *Fixed division* – the Issuer offers voice and data services through its fixed network in The Netherlands and data services in Western Europe. It is the market leader in the major segments of the Dutch telecom market and it is actively growing its market share in the new IP-based services.
- *Mobile division* – the Issuer is active as mobile telecommunication provider in Germany, The Netherlands and Belgium serving 23.6 million customers as of December 31, 2006.
- *Other activities* – the Issuer's other activities include KPN retail, KPN.com and KPN sales (which serve as distribution channels) and the corporate centre which provides internal services for the Issuer and its subsidiaries.

New Issuer:	The Programme Agreement provides that, upon satisfaction of certain conditions precedent, a further issuer, being a subsidiary of the Issuer, may be joined as an issuer under the Programme. In such event, a new prospectus giving details of such new issuer will be prepared.
Description:	Global Medium Term Note Programme.
Arranger:	ABN AMRO Bank N.V.
Dealers:	ABN AMRO Bank N.V. Banc of America Securities Limited Bayerische Hypo- und Vereinsbank AG BNP Paribas S.A. Citigroup Global Markets Limited Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank International) Credit Suisse Securities (Europe) Limited Deutsche Bank AG, London Branch Fortis Bank nv-sa ING Bank N.V. J.P. Morgan Securities Ltd. The Royal Bank of Scotland plc
Issuing and Principal Paying	Citibank, N.A., London Office



Agent:

Registrar, Exchange Agent  
and Transfer Agent:

Citibank, N.A., London Office

Size:

Up to €10,000,000,000 (or its equivalent in other currencies calculated as described herein) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

Distribution:

Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.

Currencies:

Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed between the Issuer and the relevant Dealer, including, without limitation, Australian dollars, Canadian dollars, Danish kroner, euro, Hong Kong dollars, Japanese yen, New Zealand dollars, Sterling, Swedish kronor, Swiss francs and United States dollars.

Certain restrictions:

Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see 'Subscription and Sale and Transfer and Selling Restrictions') including the following restrictions applicable at the date of this Prospectus.

*Notes having a maturity of less than one year*

Notes having a maturity of less than one (1) year will, if the proceeds of their issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a redemption value of at least £100,000 or its equivalent, see 'Subscription and Sale and Transfer and Selling Restrictions'.

Redenomination:

The applicable Final Terms may provide that Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 4.

Maturities:

Any maturity, subject to applicable laws, regulations and restrictions and subject, in the case of Senior Notes, to a minimum maturity of one month.

Issue Price:

Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.

Form of Notes:

The Notes will be issued in bearer or registered form as described in 'Form of the Notes'. Registered Notes will not be exchangeable for Bearer Notes and vice versa.

Fixed Rate Notes:

Fixed interest will be payable on the date or dates specified in the applicable Final Terms and on redemption, and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.

Floating Rate Notes:	<p>Floating Rate Notes will bear interest either at a rate determined on the same basis as the floating rate under a notional interest-rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series) or on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service or on such other basis as may be agreed between the Issuer and the relevant Dealer (as indicated in the applicable Final Terms).</p> <p>The Margin (if any) relating to such floating rate will be specified in the applicable Final Terms.</p>
Index Linked Notes:	<p>Payments in respect of interest on Index Linked Interest Notes or in respect of principal on Index Linked Redemption Amount Notes will be calculated by reference to such index and/or formula or to such other factors as the Issuer and the relevant Dealer may agree.</p>
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	<p>Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as selected prior to issue by the Issuer and the relevant Dealer, will be payable on the Interest Payment Dates specified in, or determined pursuant to, the applicable Final Terms and will be calculated on the basis of the Day Count Fraction so specified.</p>
Dual Currency Notes:	<p>Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as may be specified in the applicable Final Terms.</p>
Zero Coupon Notes:	<p>Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.</p>
Redemption:	<p>The applicable Final Terms will indicate either that the Notes cannot be redeemed prior to their stated maturity (other than in specified instalments (see below), if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving not less than 15 nor more than 30 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Final Terms) to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Final Terms.</p> <p>The applicable Final Terms may provide that Notes may be repayable in two or more instalments in such amounts and on such dates as indicated in it.</p> <p>Notes having a maturity of less than one (1) year may be subject to restrictions on their denomination and distribution, see 'Certain restrictions – Notes having a maturity of less than one year' above.</p>

Denomination of Notes:	The Notes will be issued in such denominations as may be specified in the applicable Final Terms save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see ‘Certain restrictions – Notes having a maturity of less than one year’ above.
Taxation:	Payments in respect of the Notes will as specified in the applicable Final Terms be made either subject to withholding of applicable Dutch taxes (if any) or without withholding or deduction for or on account of taxes levied in The Netherlands, subject to certain exceptions (including the IPMA Standard EU Exception) as provided in Condition 8. If the applicable Final Terms provides that payments are to be made subject to withholding of applicable Dutch taxes (if any), it will also specify that Condition 7(b) will not apply to the Notes.
Negative Pledge:	See Condition 3.
Cross Default:	See Condition 10(iii).
Status of the Senior Notes:	The Senior Notes will constitute direct, unsecured and unsubordinated obligations of the Issuer and will rank <i>pari passu</i> without any preference among themselves and (with the exception of obligations in respect of national and local taxes and certain other statutory exceptions) equally with all other unsecured and unsubordinated obligations of the Issuer.
Status and other terms of Subordinated Notes:	The status of each Tranche of Subordinated Notes and any negative pledge and events of default applicable to Subordinated Notes will be set out in the applicable Final Terms.
Risk Factors:	<p>The Issuer believes that there are a number of factors that may affect its ability to fulfil its obligations under the Notes issued under the Programme, including: competition from a variety of competitors, rapid technological changes in the markets in which the Issuer operates (requiring it to make substantial investments in its business on an ongoing basis to grow and remain competitive) and dependence on relationships with various partners and suppliers. Potential investors should refer to ‘Risk Factors’ for a complete description of these risk factors and other risk factors which may affect the Issuer’s ability to fulfil its obligations under the Notes.</p> <p>For a description of the factors that are material for the purpose of assessing the market risks associated with Notes issued under the Programme, see ‘Risk Factors’ below.</p>
Substitution:	<p>The Issuer may substitute for itself as principal debtor under the Notes any company of which more than 90 per cent. of the shares are directly or indirectly held by the Issuer (a ‘Substituted Debtor’) on the terms and in the manner provided in Condition 17.</p> <p>If a Substituted Debtor becomes the principal debtor in respect of any of the Notes, it will publish a supplement to this Prospectus in accordance with the rules of Euronext Amsterdam and/or The Netherlands Authority for the Financial Markets (<i>Autoriteit Financiële Markten</i>), as the case may be.</p>

Listing and admission to trading:	<p>Application has been made to Euronext Amsterdam for Notes issued under the Programme up to the expiry of 12 months from the date of this Prospectus to be admitted to trading on Euronext Amsterdam.</p> <p>The Notes may be listed on such other or further stock exchange or stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer in relation to each issue. Unlisted Notes may also be issued. The applicable Final Terms will state whether or not the Notes are to be listed or admitted to trading, as the case may be, and, if so, on which stock exchange and/or markets.</p>
Governing Law:	The Notes will be governed by, and construed in accordance with, the laws of The Netherlands.
Selling Restrictions:	There are selling restrictions in relation to the United States, the European Economic Area (including The Netherlands and the United Kingdom) and Japan, and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See ‘Subscription and Sale and Transfer and Selling Restrictions’ below.

## RISK FACTORS

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.*

*All references to 'we', 'us' and 'our' under 'Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme' are references to the Issuer.*

### **Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme**

Our business is subject to various risks relating to changing competitive, economic, political, regulatory, legal, social, industrial, business and financial conditions. These conditions are described below and discussed in greater detail elsewhere in this Prospectus. The following risk factors could harm our business, financial condition and operating results, adversely affect our revenues and profitability, and lead to a drop in the trading price of our shares.

**The markets in which we operate are increasingly competitive and our principal businesses face significant competition. If we are unable to compete effectively, this could lead to loss of revenue, reduced margins and loss of market share and adversely affect our financial position.**

The competitive landscape for our Fixed division is changing rapidly and is one of the most dynamic and competitive in Europe. The traditional voice market continues to contract, while the VoIP penetration starts to accelerate as Cable and ADSL operators enter this (new) voice market, already offering multiplay solutions (Television, Internet and Telephony combined). Meanwhile, mobile operators are pushing for fixed-to-mobile substitution and non-Telco service providers (like MSN, Google, IBM) have started offering voice as an integral service. Combined with the fact that the Dutch broadband acceleration is unrivalled and the penetration of broadband in the households in The Netherlands is the highest in Europe, this changing competitive landscape for our Fixed division may result in acceleration of the decrease of fixed-line subscriptions and traditional traffic volumes and price declines of broadband and VoIP, which would adversely affect our revenues, margins and financial position.

In addition, in our business market segment, ICT has become increasingly important. There also is an increased demand for managed services and a continuing shift in focus from network technology towards functionality of applications. New communication services are IP-based and data access has become independent of hardware devices. Because of these developments, IT and system integrators (e.g. Cap Gemini, Accenture, IBM, etc.) are moving down the value chain and could gain market share at our expense. In addition, global telecommunication solution providers are increasingly penetrating our national corporate markets, as customers increasingly search for global network solutions. KPN's strategy in the business market segment is aimed at grasping the opportunity to shift from decreasing traditional communication services towards services in the larger and growing market for end-to-end ICT services. But our goals will be difficult to achieve due to the fact that we are attempting to enter new markets and face new and more (global) competitors. In addition, some of our competitors are able to charge lower prices than we do. Our

dominant position limits, in the Fixed telephony business in The Netherlands, our flexibility in terms of pricing and sales incentives and bundling. If we are not able to cope with the continuing pressure for lower prices and lower our costs, our financial results will be adversely affected.

In general, our Fixed division may not be successful in both offering resistance to the increasing competition and the need to move from our traditional services to services based on our new All-IP network, as a result of which our revenues within the Fixed business could decline more than we currently anticipate.

Because of the aforementioned developments in our competitive landscape, the Fixed business increasingly shows similarities with the Mobile business, as subscriber acquisition and retention costs and marketing expenses increase. In addition, the introduction of new products and services (e.g. TV, VoIP and ICT solutions) result in new costs and puts pressure on our existing operating structure. Our upcoming migration to an All-IP network should reduce costs in the long term, but requires additional capital expenditures in the short to mid-term. In order to cope with the anticipated pressure on our revenues and consequently, the risk of deterioration in our profitability, our Fixed division has set up an ambitious restructuring and cost saving program. While our aim is to reduce around 8,000 FTEs (starting in 2005 and expecting to be substantially completed in 2010), we may not be successful in these efforts, and as a consequence our financial position could deteriorate. Our restructuring and cost saving program also may result in one-time special charges and costs, and may have other adverse consequences on our organization and business.

Our Mobile division business faces intense competitive pressure from existing and new market participants in all our markets. In our core markets, we compete with the largest international groups and alliances of mobile operators. Competition based on price, subscription options offered, coverage and service quality remains intense and we expect ongoing pressure on calling rates as we compete with other operators for market share. Our mobile markets for voice have become increasingly saturated and the market for mobile data is picking up more slowly than expected. As a result, the focus of competition is shifting towards brand and distribution power and also from customer acquisition to customer retention and satisfaction efforts. Substantial expenses are required for customer retention and satisfaction efforts, and significant customer defections would have an adverse effect on our financial position.

We face competition from a variety of competitors, including, but not limited to, existing fixed and mobile network operators, operators offering new mobile network services such as WiFi and/or WiMAX, providers of higher speed xDSL and glass fiber services, and others. Some of these competitors are smaller and may be more flexible and responsive than we are. Other competitors may operate on a broader scale and have more financial resources and capital at their disposal, enabling them to compete more effectively than we do. For instance, many of our competitors have more aggressive pricing, and achieve better time-to-market with new products and services, network quality and network rollout, and customer care and satisfaction. Our mobile subsidiaries E-Plus in Germany and BASE in Belgium both compete in their respective market with top-two operators that have significantly higher market shares and thus an ability to exert significant influence over the market. As a result, our subsidiaries may be at a competitive disadvantage and could rapidly lose market share, which could harm our financial results.

Our public image is important to our sales, marketing and customer relations efforts. Any damage to our image, whether as a result of corporate actions, developments of particular business units or otherwise, could adversely affect our market position and ultimately harm our financial results.

***Regulatory decisions and changes in the regulatory environment could adversely affect our business.***

Most of our network activities in The Netherlands are monitored by regulatory bodies. These authorities regulate, among other things, the prices we may charge for many of our services and the extent to which we have to provide services to our competitors. In recent years, these authorities have compelled us to reduce some of our prices. Regulatory authorities may increase the severity of pricing controls, extend the range of services to which regulations apply (including any new services that we may offer in the future), and extend the services that we have to provide to our competitors. For instance, the Dutch telecommunications regulator, OPTA, has in a recent decision subjected our wholesale line rental business to regulation and

forced us to withdraw our volume discounts for transit services. Regulatory decisions could also influence the rollout planning of the All-IP network and/or the conditions under which we are allowed to migrate to an All-IP network operator such as the deferment of the dismantling of the Main Distribution Frame ('MDF') locations or the imposition of new access obligations. These and other regulatory actions may adversely impact our financial position, increase the severity of competition and decrease our profitability.

In our Mobile division, we have to comply with an extensive range of requirements regarding the licensing, construction and operation of our mobile networks and services. Decisions by regulators regarding the granting, amendment or renewal of licenses, to us or to third parties, could adversely affect our future operations. Governments in the countries in which we operate may issue telecommunications licenses to new operators whose services will compete with ours. In addition, other changes in the regulatory environment concerning the use of mobile phones may lead to a reduction in the usage of mobile phones or otherwise adversely affect us. Additionally, decisions by regulators could further adversely affect the pricing for services we offer. In the countries in which we operate, mobile terminating tariffs are either currently regulated or are expected to be in the future. Tariffs for mobile roaming services have also attracted the attention of regulators and politicians. In the coming years, we expect further obligations to be imposed by the European Union on all mobile operators to reduce wholesale and retail roaming tariffs. Such regulatory intervention will likely increase the pressure on our pricing and could negatively affect our financial position.

***The markets in which we operate undergo rapid technological changes. As a consequence, we have to make substantial investments in our business on an ongoing basis to remain competitive. New communication services are more and more IP-based and, especially in our Fixed business, services are less dependent on underlying hardware. As a consequence, new (global) competitors are entering the market and competition is increasing in all areas of our business. This may be disadvantageous for us and may lead to a decline in our operating results.***

Since our markets are undergoing rapid technological change, our future success depends, in part, on our ability to anticipate and adapt in a timely and effective manner to those technological changes. To remain competitive, we must continuously improve the speed and features of our existing products and services and develop attractive new products and services for our customers.

Technologies for mobile services include EDGE and UMTS and the enablers for data services (such as i-mode, content downloads and location based services). New licensed and unlicensed spectra may become available in the future, posing a constant threat to our mobile business based on GSM, UMTS and WiFi technologies, as the additional spectrum facilitates the entry of new competitors providing new entrants to wireless and mobile communications services.

Within our Fixed division, our strategy to migrate to an All-IP network operator and service provider is the basis for our new service portfolio and our planned cost reductions. The technical rollout of our All-IP network (currently in a piloting phase) is expected to take several years. We may not be successful in the timely rollout of such a network as a consequence of which our main competitors may successfully compete with us and gain market share at our expense. In addition, our strategy for migrating our customers towards IP-based solutions could be less effective and efficient than we anticipate. Furthermore, our investments in new IP-based services and solutions could prove to be more time consuming and more expensive than we had estimated, all of which could adversely affect our financial position.

In general, we may not succeed in developing, introducing or improving technological innovations in an economical or timely manner, or at all. Our competitors may be able to improve existing products and services or develop and introduce new products and services faster than we are able to. The changes require substantial ongoing investments in both our Mobile and our Fixed business if we are to achieve organic growth and remain competitive. We must also correctly estimate customer demand, and there is the risk that customers will prefer the new products and services introduced by competitors over our new products and services. This could adversely affect our financial position.

In the future, we may be confronted with very significant costs related to asset retirement obligations (i.e. removal of KPN cable networks) following an amendment of the Telecommunications Act, which became effective on February 1, 2007. This could negatively affect our financial position. Reference is made to the section 'Description of the Issuer – Recent developments'.

As we are drastically changing our technical infrastructure, we may not be able to succeed in meeting the high quality standards we delivered in the past with our traditional product portfolio. This may have a negative effect on the value of our brands in the various markets in which we operate and negatively affect our financial position.

***We have made substantial investments in UMTS licenses in our core markets. We may not generate a sufficient return on these investments.***

We have made substantial investments in UMTS licenses in our core markets. The size of the market for these products and services is yet unknown and may fall short of expectations as UMTS technology may prove not to be superior to existing or other future technologies. We cannot be certain that the demand for UMTS services will justify the related costs. In some locations, the investments, although required under the licenses, may not be commercially desirable or may not be justified given the level of customer demand. In addition, we have a number of significant competitors in each of our geographic markets. Our competitors may be able to build out their UMTS networks more economically or quickly than us. This could place us at a competitive disadvantage in providing UMTS services in the relevant market. Although we recently acquired the right to use 900 MHz frequencies in Germany, we could be legally forced to share these frequencies with Deutsche Bahn. Deutsche Bahn and other competitors have challenged our acquisition of the 900 MHz frequencies. For further information, refer to the 'Regulatory Developments' section of our Annual Report. If our strategy is not successful, our financial position as well as our business strategy may be adversely affected.

Based on regulatory requirements, we expect to incur additional substantial capital expenditures for the rollout of our UMTS networks. In addition, we expect to incur significant marketing and other costs in relation to the further rollout of our UMTS services. As a result, our net income can be expected to decrease, except to the extent enhanced earnings from UMTS networks offset such charges.

In Belgium, a further rollout of our UMTS network started in 2004 in order to comply with the license requirement of minimum 50% population coverage by the end of 2007. Until now, the Belgian regulator BiPT has not yet carried out any measurements. Non-compliance with the license obligations may lead to the incurrence of an administrative fine and may ultimately result in the loss or suspension of the UMTS license of BASE.

In The Netherlands we have acquired Telfort, which has its own DCS/E-GSM and UMTS licenses. We are integrating the networks of Telfort and KPN Mobile and are selling part of the licenses of Telfort EGSM to T-Mobile. Risk is withdrawal of licenses if we would not meet license requirements.

If we fail to introduce new or enhanced products and services successfully, our revenues and margins could be lower than expected.

Part of our business strategy is based on the introduction of new or enhanced products and services, including VoIP and Wholesale Line Rental (WLR), Interactive IPTV formats, integrated communication and messaging clients, content and entertainment services, new mobile data services, machine-to-machine services. Any of the new or enhanced products or services we introduce may encounter technical difficulties or fail to achieve market acceptance. Alternatively, new or enhanced products or services introduced by our competitors may be more appealing to customers. If our new and enhanced products and services are not successful or are delayed, our customers may decide to discontinue using our services and choose other telecommunication providers. In addition, newly introduced products and services may not be profitable in the short term. As a result, we may not recover the investments, such as the costs of network upgrades and marketing expenses we plan to make to launch new products and services.



***Changes in markets, our business plans and network infrastructure and the relevant valuation methodologies have resulted, and may in the future result, in substantial write-downs of the carrying value of our assets.***

Our regular review of the carrying value of our assets (including goodwill, intangibles, tangibles and financial fixed assets) has resulted in significant impairments in the past, and we may in the future be required to recognize additional impairment charges. Events in technology and telecommunications markets, including significantly reduced share prices, market capitalizations and credit ratings for other participants, as well as the ongoing review and refinement of our business plans and network infrastructure and changes in the valuation methodologies applied and the underlying assumptions, have resulted, and may in the future result, in substantial impairments of our intangible or other assets, including licenses and network equipment. In addition, we have recognized, and may be required in the future to recognize, increased depreciation and amortization charges if we deem the useful lives of our non-current assets to be shorter than originally expected.

***We depend on our relationship with various partners and suppliers and any disruption in these relationships may adversely affect our business.***

Our business depends upon our ability to obtain adequate supplies of telecommunications equipment, related software and IT services, our contractors' ability to build and rollout telecommunications networks on schedule, and our suppliers' ability to deliver dependable technical support. Due to downturns in economic conditions, some of our suppliers may cease to do business. We cannot be certain that we will be able to obtain quality telecommunications equipment and support from alternative suppliers, particularly in relation to new technologies, on a timely basis if our existing suppliers are unable to satisfy our requirements. This could lead to an interruption in the operation and build-out of our networks, which may affect our financial position and results of operations. In addition, as part of our cost reduction program we have sold a substantial part of what we considered to be our non-core assets. A significant part of the services previously rendered to us by these non-core assets are now provided to us by new owners of the assets, or other external suppliers. We depend on our relationship with these suppliers, for the continuation of these services, some of which are vital to our business.

***Network interruptions or service slowdowns caused by local or global system failures, misuse of our network and related applications as a result of inadequate security, may result in reduced user traffic, reduced revenue and harm to our reputation and business operations.***

Our ability to operate our business depends significantly upon the performance of our technical infrastructure. Failures in power supply by power companies could occur in The Netherlands and may harm our technical infrastructure. Although our critical infrastructure equipment has power interruption backup facilities, these facilities may prove not to be adequate during a prolonged interruption. Our technical infrastructure is also vulnerable to damage or interruption by floods, fires, telecommunication failures and similar events. It also may be subject to break-ins, sabotage, terrorism, vandalism and similar misconduct. Furthermore, the security of our network and related applications may be inadequate, which may result in access and misuse by hackers and other unauthorized users and may adversely affect our operations. The occurrence of a natural disaster, other unanticipated problems at our facilities or any other damage to, or misuse of or failure of our systems could result in interruptions in our service. System failures, including failure of our network and the networks used by our suppliers, and hardware or software failures or computer viruses, could also affect the quality of our services and cause temporary service interruptions, resulting in customer dissatisfaction, penalties and reduced traffic volumes and revenue. Any of these factors could affect our business and financial position.

***Our Mobile and Fixed division's business may be hampered because of more stringent regulation of the exposure of the public to electromagnetic fields of base stations.***

Our businesses may increasingly be subject to more stringent regulation of exposure to electromagnetic fields of mobile transmission equipment. Health risks perceived by public opinion may cause national and

local governments to further impose restrictions on the construction of base station towers, the upgrade of networks and the replacement of existing antennae and other related infrastructure. Partly as a result, we are experiencing difficulties and delays in obtaining building permits for our mobile transmission equipment. This may prevent us from completing the further build-out of our mobile networks, providing new services and fulfilling UMTS license terms. In addition, it may become more difficult to renew leases for existing base stations and other equipment, with the cost of such leases increasing. Any of these factors could affect our business and financial position.

Although various scientific reports have denied that certain radio frequency emissions from wireless handsets and mobile base stations pose health risks, local and national governments have begun to regulate the emission of electromagnetic fields as an environmental threat. We cannot rule out that exposure to electromagnetic fields from mobile base stations will be identified as an environmental issue and potential health risk in the future. Any perceived health risks associated with mobile communication equipment may lead to a more restrictive approach towards building permissions for base stations and could result in a radio network of insufficient quality. A reduction in network quality may result in a lower number of customers and a reduced usage per customer.

***We have liabilities with respect to our pension plans and the actual cost of our pension plan obligations could exceed current estimate. Any pension funding obligations may impact our financial position.***

As of December 31, 2006, we recognized pension provisions of EUR 1.2 billion as a result of defined benefit plans. The recognition of the pension provision is subject to actuarial and financial assumptions, which are management estimates of, among other things, future salary increases, discount rates, expected indexation of the benefits and return on assets. These determine the costs and cash flows of providing the post-employment benefits. Changes in assumptions can result in changes of the pension obligation and the related pension costs as well as the contributions to the pension funds. In that event, the adjustments required to be made to our recorded provision for these benefits may have an adverse effect on our results of operations and financial condition, and cash payments to fund these plans could have an adverse effect on our cash flows.

***Our share price has been, and may continue to be, volatile.***

World stock markets have always experienced volatility that has affected the market prices of equity securities, including those of telecommunications companies and our company. This has led to large swings in trading prices in short periods of time and has not always been related to the operating performance of the companies concerned.

The factors that have caused, and may cause in the future, fluctuations in our share price, many of which are beyond our control, include the following:

- the general state of the securities markets, with particular emphasis on the European telecommunications sector;
- competition, regulatory conditions and the status of telecommunications liberalization in Europe;
- the build-out of our networks (such as UMTS and All-IP), the development of compatible handsets, delays in the rollout of UMTS services and networks and costs relating thereto;
- competitors' positions in the market and ongoing consolidation in the telecommunications industry;
- the failure to integrate our domestic and international acquisitions into our organization;
- changes in the financial estimates by securities analysts;
- our earnings releases and the earnings releases of our competitors;

- the outcome of legal proceedings;
- fluctuations in foreign exchange rates, interest rates and property prices; and
- international political and economic conditions.

***We are involved in several legal proceedings. Such proceedings could eventually lead to payments of claims and damages or otherwise harm us.***

We are a party to several legal proceedings of a regulatory and other nature. The proceedings themselves could divert management attention and capacity from our core business and could harm our public image. If we lose our cases, we could be forced to reduce our tariffs, make payments of claims and damages and suffer other disadvantages.

For a discussion of current legal proceedings, please refer to the section titled ‘Description of the Company – Legal and Arbitration Proceedings’.

***We may be subject to additional tax liabilities in the future, including as a result of audits of our tax returns.***

The tax authorities may audit our tax returns and may disagree with the positions taken in those returns.

An adverse outcome resulting from any settlement or future examination of our tax returns may subject us to additional tax liabilities and may adversely affect our liquidity and annual effective income tax rate. In addition, any examination by the tax authorities could cause us to incur significant legal expenses and divert our management's attention from the operation of our business.

***We may need to incur additional debt or issue new equity to finance strategic and technological investments and to refinance debt.***

Financing and refinancing conditions will largely depend on future market conditions, our credit ratings, the telecommunication industry ratings, and our results of operations and future prospects, and we cannot be certain that financing will be available to us on favorable terms, or at all. Our credit rating may be impacted by the rapid technological and industry developments, our operational performance and our competitive and financial position going forward. If we cannot raise new funding, we may be unable to pursue growth opportunities or to refinance our existing indebtedness.

***If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent or detect fraud. As a result, current and potential shareholders could lose confidence in our financial reporting, which would harm our business and the trading price of our securities.***

Effective internal controls are necessary for us to provide reliable financial reports and prevent or detect significant fraud. If we cannot provide reliable financial reports or prevent fraud, our financial results could be harmed.

We devote significant attention to establishing and maintaining effective internal controls over financial reporting. Implementing any appropriate changes to our internal controls may require specific compliance training of our directors, officers and employees, entail substantial costs in order to modify our existing accounting systems, and take a significant period of time to complete.

We also depend on our control framework to abide by the rules set under the Telecommunications Act (*Telecommunicatiewet*) for KPN as a party that holds significant market power in various segments of the telecommunications market. These rules concern among others pricing, bundling and rebates.

We cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial reporting processes and related Section 404 reporting requirements. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our financial results or cause us to fail to meet our reporting obligations. Any such failure could also adversely affect our assessment of the effectiveness of our 'internal control over financial reporting'. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the market price of our securities. Non-compliance with the rules set under the Telecommunications Act may lead to the incurrence of an administrative fine, as well as claims for damage.

**Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme**

***The Notes may not be a suitable investment for all investors***

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

***Risks related to the structure of a particular issue of Notes***

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

***Notes in registered form***

Registered Notes are subject to the restrictions on transfer set out in them and will bear a legend regarding those restrictions, see further 'Subscription and Sale and Transfer and Selling Restrictions'.

### *Notes subject to optional redemption by the Issuer*

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

### *Index Linked Notes and Dual Currency Notes*

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a 'Relevant Factor'). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be very volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Additional risk factors in relation to issues of Index Linked Notes and Dual Currency Notes may be included in the applicable Final Terms or in a supplement to the Prospectus, as the case may be.

### *Partly-paid Notes*

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

### *Variable Rate Notes with a multiplier or other leverage factor*

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

### *Inverse Floating Rate Notes*

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

### *Fixed/Floating Rate Notes*

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

### *Notes issued at a substantial discount or premium*

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

### *The Issuer's obligations under Subordinated Notes are subordinated*

The Issuer's obligations under Subordinated Notes will be unsecured and subordinated and will rank junior in priority of payment to those liabilities described in full in the applicable Final Terms. Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Subordinated Notes will lose all or some of his investment should the Issuer become insolvent.

### ***Risks related to Notes generally***

Set out below is a brief description of certain risks relating to the Notes generally:

#### *Modification, waivers and substitution*

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Principal Paying Agent may, without the consent of Noteholders, agree to (i) any modification (not being a modification requiring the approval of a meeting of Noteholders) of any of the provisions of Notes which is not materially prejudicial to the interests of the Noteholders or (ii) any modification of the Notes which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law or (iii) the substitution of another

company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 17 of the Conditions of the Notes.

#### *EU Savings Directive*

If, following implementation of the Directive on the taxation of savings income (see ‘Taxation – Interest on the Notes – EU Savings Directive’ below), a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of the Directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

#### *Change of law*

The conditions of the Notes are based on Dutch law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to Dutch law or administrative practice after the date of this Prospectus.

#### *Notes where denominations involve integral multiples: definitive Notes*

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

#### ***Risks related to the market generally***

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

#### *The secondary market generally*

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

#### *Exchange rate risks and exchange controls*

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency

or currency unit (the 'Investor's Currency') other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

#### *Interest rate risks*

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

#### *Credit ratings may not reflect all risks*

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

#### ***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.



## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Prospectus and have been filed with The Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*) shall be deemed to be incorporated in, and to form part of, this Prospectus:

- (a) the Articles of Association of the Issuer;
- (b) the publicly available consolidated audited annual financial statements of the Issuer for the financial year ended December 31, 2006 including comparative figures for the financial years ended December 31, 2005 and December 31, 2004 (prepared in accordance with International Financial Reporting Standards ('IFRS')); and
- (c) the Issuer's annual report on Form 20-F (the 'Form 20-F' or 'Annual Report') for the fiscal year ended December 31, 2006 filed with the U.S. Securities and Exchange Commission and any supplements and amendments thereto published prior to the date of this Prospectus.

The Issuer will provide, without charge, upon request of such person, a copy of any or all of the documents which are incorporated herein by reference. Requests for such documents should be directed to the Issuer at its registered office set out at the end of this Prospectus. In addition, such documents will be available from the specified office in The Netherlands of ABN AMRO Bank N.V. in its capacity as Paying Agent.

The Issuer will, in connection with the listing of the Notes on Euronext Amsterdam, so long as any Note remains outstanding and listed on such exchange, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Prospectus or publish a new prospectus for use in connection with any subsequent issue of Notes to be listed on Euronext Amsterdam.

If the terms of this Programme are modified or amended in a manner which would make this Prospectus inaccurate or misleading, a new prospectus will be prepared.

This Prospectus and any supplement will only be valid for listing Notes on Euronext Amsterdam or any other exchange during the period of 12 months from the date of this Prospectus in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed €10,000,000,000 (or such increased maximum amount of the Programme, which is effected in accordance with the Programme Agreement) or its equivalent in other currencies. For the purpose of calculating the aggregate amount of Notes issued under the Programme from time to time:

- (a) the euro equivalent of Notes denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the Notes, described under 'Form of the Notes' below) shall be determined, at the discretion of the Issuer, as of the date of agreement to issue such Notes (the 'Agreement Date') or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the euro against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading bank selected by the Issuer on such date;
- (b) the amount (or, where applicable, the euro equivalent) of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Final Terms in relation to the Notes, described under 'Form of the Notes') shall be calculated (in the case of Notes not denominated in euro, in the manner specified above) by reference to the original nominal amount of such Notes (in the case of Partly Paid Notes, regardless of the subscription price paid); and

- (c) the amount (or, where applicable, the euro equivalent) of Zero Coupon Notes (as specified in the applicable Final Terms in relation to the Notes, described under 'Form of the Notes') and other Notes issued at a discount or premium shall be calculated (in the case of Notes not denominated in euro, in the manner specified above) by reference to the net proceeds received by the Issuer for the relevant issue.

## FORM OF THE NOTES

The Notes of each Series will either be in bearer form ('Bearer Notes'), with or without interest coupons ('Coupons') attached, or in registered form ('Registered Notes'), without Coupons attached. Bearer Notes will be issued outside the United States in reliance on Regulation S under the Securities Act ('Regulation S') and Registered Notes will be issued both outside the United States in reliance on Regulation S and within the United States in reliance on Rule 144A under the Securities Act or otherwise in private transactions that are exempt from the registration requirements of the Securities Act.

### **Bearer Notes**

Each Tranche of Bearer Notes will (unless otherwise indicated in the applicable Final Terms) be initially represented by a temporary bearer global Note (the 'Temporary Bearer Global Note') (or, if so specified in the applicable Final Terms, a permanent bearer global Note (the 'Permanent Bearer Global Note')), without receipts, interest coupons or talons, which will either be delivered on or prior to the original issue date of the tranche to (i) a common depositary for Euroclear Bank S.A./N.V. ('Euroclear') and Clearstream Banking, société anonyme ('Clearstream, Luxembourg') and/or any other agreed clearing system or (ii) be deposited with the Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. ('Euroclear, Nederland'). Whilst any Bearer Note is represented by a Temporary Bearer Global Note and subject to TEFRA D selling restrictions, payments of principal and interest (if any) due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of such Note are not United States persons or persons who have purchased for resale to any United States person, as required by U.S. Treasury regulations, has been received by the relevant clearing system(s) and the relevant clearing system(s) have given a like certification (based on the certifications they have received) to the Principal Paying Agent. Any reference in this section to the relevant clearing system(s) shall mean the clearance and/or settlement system(s) specified in the applicable Final Terms. On and after the date (the 'Exchange Date') which is not less than 40 days nor more than 90 days after the date on which a Temporary Bearer Global Note is issued, interests in the Temporary Bearer Global Note will be exchangeable (free of charge), upon request as described therein, either for interests in a Permanent Bearer Global Note without receipts, interest coupons or talons or for definitive Bearer Notes (as indicated in the applicable Final Terms), in each case (if the Bearer Notes are subject to TEFRA D selling restrictions) against certification of beneficial ownership as described in the second sentence of this paragraph unless such certification has already been given. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest or principal due on or after the Exchange Date, unless upon due presentation of the Temporary Bearer Global Note for exchange as aforesaid, delivery of any of the definitive Bearer Notes or Coupons is improperly withheld or refused.

Definitive Bearer Notes will be in the standard euomarket form. Definitive Bearer Notes and global Bearer Notes will be to bearer.

Payments of principal and interest (if any) on a Permanent Bearer Global Note will be made through the relevant clearing system(s) against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification. A Permanent Bearer Global Note will be exchangeable (free of charge), in whole or (subject to the Bearer Notes which continue to be represented by the Permanent Bearer Global Note being regarded by the relevant clearing system(s) as fungible with the definitive Bearer Notes issued in partial exchange for such Permanent Bearer Global Note) in part, in accordance with the applicable Final Terms for security printed definitive Bearer Notes with, where applicable, receipts, interest coupons or coupon sheets and talons attached. Such exchange may be made, as specified in the applicable Final Terms, either: (i) upon not less than 30 days' written notice being given to the Principal Paying Agent by a relevant clearing system (acting on the instructions of any of its participants) as described therein or (ii) upon the occurrence of an Exchange Event.

An 'Exchange Event' means (1) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg and/or if applicable Euroclear Nederland has been closed for business for a continuous period

of 14 days (other than by reason of holiday, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and no alternative clearing system is available or (2) the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 8 which would not be required were the Bearer Notes represented by the Permanent Bearer Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 upon the occurrence of an Exchange Event. In the event of the occurrence of an Exchange Event, a relevant clearing system acting on the instructions of any holder of an interest in the global Bearer Note may give notice to the Principal Paying Agent requesting exchange and in the event of the occurrence of an Exchange Event as described in (2) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur no later than 15 days after the date on which the relevant notice is received by the Principal Paying Agent. Global Bearer Notes and definitive Bearer Notes will be issued pursuant to the Agency Agreement (as defined under 'Terms and Conditions of the Notes' below). At the date hereof, neither Euroclear nor Clearstream, Luxembourg, as opposed to Euroclear Nederland, regard Bearer Notes in global form as fungible with Bearer Notes in definitive form.

The following legend will appear on all Bearer Notes which have an original maturity of more than one year and on all receipts and interest coupons (including talons) relating to such Notes which are subject to TEFRA D selling restrictions:

'ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.'

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of Notes, receipts or interest coupons.

The following legend will appear on all global Bearer Notes held in Euroclear Nederland:

'Notice: This Note is issued for deposit with Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. ('Euroclear Nederland') at Amsterdam, The Netherlands. Any person being offered this Note for transfer or any other purpose should be aware that theft or fraud is almost certain to be involved.

Notice: The custody of this global certificate by Euroclear Nederland shall be subject to Euroclear Nederland' conditions as in force from time to time. The Issuer hereby declares that it will abide by these conditions.'

### **Registered Notes**

Each Tranche of Registered Notes offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form ('Regulation S Global Notes'). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions (i) to 'qualified institutional buyers' within the meaning of Rule 144A under the Securities Act ('QIBs') or (ii) to 'accredited investors' (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions ('Institutional Accredited Investors') and who execute and deliver an IAI Investment Letter (as defined under 'Terms and Conditions of the Notes') in which they agree to purchase the Notes for their own account and not with a view to the distribution thereof. The Registered Notes of each

Tranche sold to QIBs will be represented by a global note in registered form ('Rule 144A Global Notes' and, together with Regulation S Global Notes, the 'Registered Global Notes').

Registered Global Notes will either (i) be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ('DTC') for its own account or for the accounts of Euroclear and Clearstream, Luxembourg or (ii) be deposited with a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, as specified in the applicable Final Terms. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

The Registered Notes of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof ('Definitive IAI Registered Notes'). Unless otherwise set forth in the applicable Final Terms, Definitive IAI Registered Notes will be issued only in minimum denominations of U.S.\$500,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under 'Subscription and Sale and Transfer and Selling Restrictions'. Institutional Accredited Investors that hold Definitive IAI Registered Notes may not elect to hold such Notes through DTC, Euroclear or Clearstream, Luxembourg, but transferees acquiring the Notes in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144A under the Securities Act (if available) may do so upon satisfaction of the requirements applicable to such transfer as described under 'Subscription and Sale and Transfer and Selling Restrictions'. The Registered Global Notes and the Definitive IAI Registered Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 6(d)) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6(d)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, 'Exchange Event' means that (1) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depositary for the Notes and no alternative clearing system is available or, DTC has ceased to constitute a clearing agency registered under the Exchange Act, or (2) in the case of Notes registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available, or (3) the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 8 which would not be required were the Registered Notes represented by the Registered Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC and/or Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (3) above, the Issuer may also give notice to the Registrar

requesting exchange. Any such exchange shall occur not later than 15 days after the date on which the relevant notice is received by the Registrar.

### Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note or in the form of a Definitive IAI Registered Note and Definitive IAI Registered Notes may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such Notes in the form of an interest in a Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. **Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see ‘Subscription and Sale and Transfer and Selling Restrictions’.**

### General

Pursuant to the Agency Agreement the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned an ISIN and a common code by Euroclear and Clearstream, Luxembourg, and where applicable, a CUSIP and CINS number by DTC and/or a Fondscore by the Listing Department of Euronext Amsterdam which are different from the ISIN, common code, CUSIP and CINS and Fondscore assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined under Regulation S) applicable to the Notes of such Tranche.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 10 of the Terms and Conditions. In such circumstances, where any Note is still represented by a global Note and a holder of such Note so represented and credited to his account with the relevant clearing system(s) (other than Euroclear Nederland) gives notice that it wishes to accelerate such Note, unless within a period of 15 days from the giving of such notice payment has been made in full of the amount due in accordance with the terms of such global Note, holders of interests in such global Note credited to their accounts with the relevant clearing system(s) (other than Euroclear Nederland) will become entitled to proceed directly against the Issuer on the basis of statements of account provided by the relevant clearing system(s) (other than Euroclear Nederland) on and subject to the terms of the relevant global Note. In the case of a global Bearer Note deposited with Euroclear Nederland, the rights of Noteholders will be exercised in accordance with the provisions of such global Bearer Note and the provisions of the Securities Giro Transfer Act (*‘Wet giraal effectenverkeer’*). In addition, holders of interests in a global Note credited to their accounts with DTC may require DTC to deliver definitive Notes in registered form in exchange for their interests in a global Note in accordance with DTC’s standard operating procedures.

For so long as any of the Notes is represented by a global Note held on behalf of Euroclear and/or Clearstream, Luxembourg each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant global Bearer Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant global Note and the expressions ‘Noteholder’ and ‘holder of Notes’ and related expressions shall be construed accordingly.

So long as DTC or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such

Registered Global Note for all purposes under the Agency Agreement and such Notes except to the extent that in accordance with DTC's published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

### **Applicable Final Terms**

*Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.*

[Date]

Koninklijke KPN N.V.

Incorporated in The Netherlands as a public limited liability company  
(*naamloze vennootschap*) with its corporate seat in the Hague

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the €10,000,000,000  
Global Medium Term Note Programme

### **PART A – CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated April 17, 2007 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the 'Prospectus Directive'). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus is available for viewing at Koninklijke KPN N.V., Maanplein 55, 2516 CK The Hague, The Netherlands and at [www.kpn.com](http://www.kpn.com) and copies may be obtained from Koninklijke KPN N.V., Maanplein 55, 2516 CK The Hague, The Netherlands.

*[The following language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus or Prospectus with an earlier date. In the event the Base Prospectus or Prospectus with an earlier date was not approved for the purpose of the Prospectus Directive (as defined below), the Issuer shall publish a supplement to the current Base Prospectus in respect of this increase and such supplement shall be approved by the relevant listing or other competent authority prior to publication.]*

Terms used herein shall be deemed to be defined as such for the purposes of the conditions as set out in Schedule [ ] to this document. This document constitutes the Final Terms of the securities described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the 'Prospectus Directive') and must be read in conjunction with the Base Prospectus dated [*current date*] which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are replaced by the conditions as set out in Schedule [ ] to this document. Full information on the Issuer and the offer of the securities is only available on the basis of the combination of these Final Terms and the Base Prospectus dated [*current date*], save for the Conditions, which are replaced by the conditions as set out in Schedule [ ] to this document. Copies of such documents are available for viewing at the registered office of the Issuer, currently at Maanplein 55, 2516 CK The Hague, The Netherlands and at [www.kpn.com](http://www.kpn.com) and copies may be obtained from Koninklijke KPN N.V., Maanplein 55, 2516 CK The Hague, The Netherlands.

*[Include whichever of the following apply or specify as 'Not Applicable' (N/A). Note that the numbering should remain as set out below, even if 'Not Applicable' is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]*

*[When adding any other final terms or information consideration should be given as to whether such terms or information constitute 'significant new factors' and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]*

*[If the Notes have a maturity of less than one (1) year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]*

1. Issuer: Koninklijke KPN N.V.
2. (i) Series Number: [ ]  
 (ii) Tranche Number: [ ]  
*(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)*
3. Specified Currency or Currencies: [ ]
4. Aggregate Nominal Amount:  
 (i) Series: [ ]  
 (ii) Tranche: [ ]
5. Issue Price of Tranche: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]*] (if applicable)
6. (a) Specified Denominations: [ ]  
*(in the case of Registered Notes this means the minimum integral amount in which transfers can be made)*  
*[Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies)]*  
*(Note – Where Bearer Notes with multiple denominations above [€50,000] or equivalent are being used the following sample wording should be followed:*  
*'[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Notes in definitive form will be issued with a denomination above [€99,000].')*  
 (b) Calculation Amount *(Applicable to Notes in definitive form)* *(If only one Specified Denomination, insert the Specified Denomination.)*



*If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*

7. (i) Issue Date and Interest Commencement Date: [     ]
- (ii) Interest Commencement Date: [     ]
8. Maturity Date: *[Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month].*
9. Interest Basis: [[     ] per cent. Fixed Rate]  
 [[LIBOR/EURIBOR] +/- [     ] per cent. Floating Rate]  
 [Zero Coupon]  
 [Index Linked Interest]  
 [Dual Currency Interest]  
 [*specify others*]  
 (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]  
 [Index Linked Redemption]  
 [Dual Currency Redemption]  
 [Partly Paid]  
 [Instalment]  
 [*specify other*]
11. Change of Interest Basis or Redemption/Payment Basis: [     ]
- (NB: If the Final Redemption Amount is other than 100% of the nominal value, the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply)*  
*[Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]*
12. Put/Call Options: [Investor Put]  
 [Issuer Call]  
 [(further particulars specified below)]
13. Status of the Notes: [Senior/Subordinated – *give details, including any variations to the Negative Pledge and Events of Default.*]
14. Method of distribution: [Syndicated/Non-syndicated]

**Provisions Relating to Interest (if any) Payable**

15. Fixed Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [     ] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]

*(If payable other than annually, consider amending Condition 5)*

- (ii) Interest Payment Date(s): [ ] in each year up to and including the Maturity Date/[specify other] *(NB: This will need to be amended in the case of long or short coupons)*
- (iii) Fixed Coupon Amount(s): [ ] per Calculation Amount  
*(Applicable to Notes in definitive form)*
- (iv) Broken Amount(s): [ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]  
*(Applicable to Notes in definitive form)*
- (v) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or specify other]
- (vi) Determination Date[s]: [ ] in each year  
*[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon (NB: This will need to be amended in the case of regular interest payments which are not of equal duration)]*  
*(NB: Only relevant where Day Count Fraction is Actual/Actual (ICMA))*
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]

16. Floating Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
- (iii) Additional Business Centre(s): [ ]
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): [ ]
- (vi) Screen Rate Determination: [Yes/No]

- Reference Rate: [     ]  
(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)
  - Determination Date(s): [     ]  
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
  - Relevant Screen Page: [     ]  
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (vii) ISDA Determination: [Yes/No]
- Floating Rate Option: [     ]
  - Designated Maturity: [     ]
  - Reset Date: [     ]
- (viii) Margin(s): [ +/- ] [     ] per cent. per annum
- (ix) Minimum Rate of Interest: [     ] per cent. per annum
- (x) Maximum Rate of Interest: [     ] per cent. per annum
- (xi) Day Count Fraction: [Actual/365 or Actual/Actual (ICMA)  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
30E/360  
Other]  
(See Condition 5 for alternatives)
- (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [     ]
17. Zero Coupon Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Accrual Yield: [     ] per cent. per annum
  - (ii) Reference Price: [     ]

- (iii) Any other formula/basis of determining amount payable: [ ]
- (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 7(e) and (j) apply/specify other]  
(Consider applicable day count fraction if not U.S. dollar denominated)
18. Index Linked Interest Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Index/Formula: [give or annex details]
- (ii) Calculation Agent responsible for calculating interest due: [ ]
- (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [ ](need to include a description of market disruption or settlement disruption events and adjustment provisions)
- (iv) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (v) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
- (vi) Additional Business Centre(s): [ ]
- (vii) Minimum Rate of Interest: [ ] per cent. per annum
- (viii) Maximum Rate of Interest: [ ] per cent. per annum
- (ix) Day Count Fraction: [ ]
19. Dual Currency Interest Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give or annex details]
- (ii) Calculation Agent, if any, responsible for calculating [ ]

the interest payable:

- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [ ] *(need to include a description of market disruption or settlement disruption events and adjustment provisions)*
- (iv) Person at whose option Specified Currency(ies) is/are payable: [ ]

### Provisions Relating to Redemption

20. Issuer Call: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [ ]
- (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [ ] per Calculation Amount
- (iii) If redeemable in part:
- (A) Minimum Redemption Amount: [ ]
- (B) Higher Redemption Amount: [ ]
- (iv) Notice period: [ ]  
*(N.B. if setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
21. Investor Put: [Applicable/Not Applicable/Applicable – Change of Control]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [ ]
- (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [ ] per Calculation Amount

(iii) Notice period: [ ]  
*(N.B. if setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*

22. Final Redemption Amount: [[ ] per Calculation Amount/specify other/see Appendix]  
*(NB: If the Final Redemption Amount is other than 100% of the nominal value, the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply).*

23. Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)): [[ ] per Calculation Amount/specify other/see Appendix]

#### **General Provisions Applicable to the Notes**

24. Form of Notes: [Bearer Notes:  
[Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Bearer Notes [on 30 days' notice given at any time/only upon an Exchange Event].]  
[Temporary Bearer Global Note exchangeable for Definitive Bearer Notes on and after the Exchange Date.]  
[Permanent Bearer Global Note exchangeable for Definitive Bearer Notes [on 30 days' notice given at any time/only upon an Exchange Event].]]

*(Ensure that this is consistent with the wording in the "Form of the Notes" section in the Prospectus and the Notes themselves. N.B. The exchange upon notice/at any time should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect:  
"[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Notes in definitive form will be issued with a denomination above [€99,000].")*

[Registered Notes:  
Regulation S Global Note (U.S.\$[ ] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg]/Rule 144A Global Note (U.S.\$[ ] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg]/Definitive IAI Registered Notes (specify

*nominal amounts).]*

25. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]  
*(Note that this item relates to the date and place of payment and not Interest Period end dates to which items 16(iii) and 18(vi) relate)*
26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. NB: new forms of Global Note may be required for Partly Paid issues]
28. Details relating to Instalment Notes:
  - (i) Instalment Amount(s): [Not Applicable/give details]
  - (ii) Instalment Date(s): [Not Applicable/give details]
29. Redenomination applicable: Redenomination [not] applicable  
*(if Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))*
30. Other terms or special conditions: [Not Applicable/give details]  
*(When adding any other final terms consideration should be given as to whether such terms constitute 'significant new factors' and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)*
31. For the purposes of Condition 14, notices to be published in the Financial Times: *(generally yes, but no for domestic issues)* [Yes/No]
32. Condition 8(a) or 8(b) of the Notes applies: [Condition 8(a) applies and Condition 7(b) does not apply/Condition 8(b) applies and Condition 7(b) applies]
33. Additional tax disclosure [Not Applicable/give details]

## Distribution

34. (i) If syndicated, names [and addresses]\*\* of Managers [and underwriting commitments]\*\*: [Not Applicable/give names [and addresses and underwriting commitments]\*\*]  
*(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a 'best efforts' basis if such entities are not the same as the Managers.)\*\**
- (ii) Date of Syndication Agreement: [ ]
- (iii) Stabilising Manager (if any):
35. If non-syndicated, name [and address]\*\* of relevant Dealer: [Name [and address]\*\*]
36. [Total commission and concession: [ ] per cent. of the Aggregate Nominal Amount]\*\*
37. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable]
38. Additional selling restrictions: [Not Applicable/give details]

## [LISTING AND ADMISSION TO TRADING APPLICATION]

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the €10,000,000,000 Global Medium Term Note Programme of Koninklijke KPN N.V.]

## [STABILISATION]

*[If the Market Abuse Directive is mandatory, use the following text:*

In connection with the issue of the Notes, [insert name of stabilising manager] (the 'Stabilising Manager') (or persons acting on behalf of the Stabilising Manager) may over-allot Notes [include if Notes being admitted to a regulated market - (provided that, in the case of any Tranche of Notes to be listed or admitted to trading on Euronext Amsterdam or another regulated market, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche)] or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms (in the case of Notes convertible or exchangeable into shares or into other securities equivalent to shares) or terms (in all other cases) of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the Notes.]



*[If the Market Abuse Directive is not mandatory, use the following text:*

In connection with this issue and distribution of Notes, [insert name of stabilising manager] (the ‘Stabilising Manager’) (or persons acting for it) may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there may be no obligation on the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all relevant laws and regulations. If so required by applicable law or regulation, stabilising will in any event be brought to an end within 30 days after the Closing Date of the Notes.]

#### RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms and to the best knowledge and belief of the Issuer the information contained in these Final Terms is in accordance with the facts and does not omit anything likely to affect the import of such information. [[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

By: .....  
*Duly authorised*

## PART B – OTHER INFORMATION

### 1. LISTING

- (i) Listing: [Euronext Amsterdam/other (specify)/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [ ] with effect from [ ].] [Not Applicable]
- (Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)\*\**
- (iii) [Estimate of total expenses related to admission to trading.\* [ ].]\*

### 2. RATINGS

- Ratings: The Notes to be issued have been rated:
- [S & P: [ ]]  
[Moody's: [ ]]  
[[Other]: [ ]]
- [Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]\*\**
- (The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

### 3. [NOTIFICATION

The Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*) [has been requested to provide/has provided – *include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues*] the [include names of competent authorities of host Member States] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

### 4. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the Managers/Dealer, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. – *Amend as appropriate if there are other interests*]

### 5. REASONS FOR THE OFFER; ESTIMATED NET PROCEEDS AND TOTAL EXPENSES\*\*

- [(i) Reasons for the offer: [ ]  
*(See 'Use of Proceeds' wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here).]*

[(ii)] Estimated net proceeds: [ ]  
*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)*

[(iii)] [Estimated total expenses:] [ ] *[Include breakdown of expenses]\*\**  
*(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies 5(i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks regardless of the minimum denomination of the Notes and where this is the case disclosure of net proceeds and total expenses at 5(ii) and 5(iii) above are also required.)*

**6. YIELD (Fixed Rate Notes only)**

Indication of yield: [ ]

*[Calculated as [include details of method of calculation in summary form] on the Issue Date.]\*\**

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

**7. HISTORIC INTEREST RATES (Floating Rate Notes Only)\*\***

*[Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].]*

**8. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (INDEX-LINKED NOTES ONLY)\*\***

*[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]*

*[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]\*\**

*[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]*

**9. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (DUAL CURRENCY NOTES ONLY)\*\***

*[Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]*

*[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]\*\**

## 10. OPERATIONAL INFORMATION

- (i) ISIN Code: [ ]
- (ii) Common Code: [ ]
- (iii) Fondscore: [ ]
- (iv) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking Societe Anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (v) Delivery: Delivery [against/free of] payment
- (vi) Names and addresses of additional Paying Agent(s) (if any): [ ]

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### Notes

\* Delete if the minimum denomination is less than EUR 50,000.

\*\* Delete if the minimum denomination is at least EUR 50,000.

#### **SCHEDULE [ ] TO THE FINAL TERMS**

*(In relation to a tranche of Notes which is being increased and was originally issued under a Base Prospectus or Prospectus with an earlier date than the current Base Prospectus, insert full terms and conditions which shall be in the form set out in the previous Base Prospectus or Prospectus which, in the case of a listed issue shall have been previously approved by the relevant competent authority)*

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of Notes to be issued by the Issuer which will be incorporated by reference into each global Note and which will be endorsed on (or, if permitted by the rules of the relevant stock exchange and agreed between the Issuer and the relevant Dealer, incorporated by reference into) each definitive Note in the standard euromarket form. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Tranche of Notes. The applicable Final Terms will be endorsed on, incorporated by reference into, or attached to, each global Note and definitive Note in the standard euromarket form. Reference should be made to 'Form of the Notes' above for a description of the content of Final Terms which includes the definition of certain terms used in the following Terms and Conditions.*

This Note is one of a series of Notes issued by Koninklijke KPN N.V. (the 'Issuer', which expression shall include any Substituted Debtor (as defined in Condition 17)) pursuant to the Agency Agreement (as defined below). References herein to the 'Notes' shall be references to the Notes of this Series (as defined below) and shall mean (i) in relation to any Notes represented by a global Note, units of each Specified Denomination in the Specified Currency, (ii) definitive Notes in bearer form ('Bearer Notes') issued in exchange (or part exchange) for a global Note in bearer form, (iii) any definitive Notes in registered form ('Registered Notes') (whether or not issued in exchange for a global Note in registered form) and (iv) any global Note. The holders of the Notes, the Receipts (as defined below) and the Coupons (as defined below) are deemed to have notice of, are entitled to the benefit of and are subject to the provisions of an Amended and Restated Agency Agreement dated May 3, 2002, as amended and supplemented by the First Supplemental Agency Agreement (the 'First Supplemental Agency Agreement') dated May 8, 2003, the Second Supplemental Agency Agreement (the 'Second Supplemental Agency Agreement') dated April 28, 2004, the Third Supplemental Agency Agreement dated September 20, 2005, the Fourth Supplemental Agency Agreement dated August 9, 2006 and the Fifth Supplemental Agency Agreement dated April 18, 2007 (together with the Amended and Restated Agency Agreement, the First Supplemental Agency Agreement, the Second Supplemental Agency Agreement, the Third Supplemental Agency Agreement and the Fourth Supplemental Agency Agreement, the 'Agency Agreement'), as further amended and/or supplemented and/or restated from time to time and made between the Issuer, Dexia Banque Internationale à Luxembourg as issuing and principal paying agent and agent bank in relation to Notes issued prior to January 26, 2001 and Citibank, N.A. as issuing and principal paying agent and agent bank in relation to Notes issued on or after January 26, 2001 (together the 'Principal Paying Agent', which expression shall include any successor principal paying agent) and the other paying agents named therein (together with the Principal Paying Agent, the 'Paying Agents', which expression shall include any additional or successor paying agents), Citibank, N.A. as exchange agent (the 'Exchange Agent', which expression shall include any successor exchange agent) and as registrar (the 'Registrar', which expression shall include any successor registrar) and as transfer agent and the other transfer agents named therein (together with the Registrar, the 'Transfer Agents' (such Agents, being together referred to as 'Agents'), which expression shall include any additional or successor transfer agents).

Interest bearing definitive Bearer Notes in the standard euromarket form (unless otherwise indicated in the applicable Final Terms) have interest coupons ('Coupons') and, if indicated in the applicable Final Terms, talons for further Coupons ('Talons') attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes in the standard euromarket form repayable in instalments have receipts ('Receipts') for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes and global Notes do not have Coupons, Talons or Receipts attached on issue. Any reference herein to 'Noteholders' shall mean (in the case of Bearer Notes) the holders of the Notes, and (in the case of Registered Notes) the persons in whose names the Notes are registered, and shall, in relation to any Notes represented by a global Note, be construed as provided below. Any reference herein to 'Receiptholders' shall mean the holders of the Receipts and any reference herein to 'Couponholders' shall mean the holders of the Coupons, and shall, unless the context otherwise requires, include the holders of the Talons. Any holders mentioned above

include those having a credit balance in the collective depots held by a participant of Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. ('Euroclear Nederland').

The Final Terms for this Note is endorsed hereon or attached hereto or applicable hereto or incorporated by reference herein and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References herein to the 'applicable Final Terms' are to the Final Terms for this Note.

As used herein, 'Tranche' means Notes which are identical in all respects (including as to listing) and 'Series' means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) from the date on which such consolidation is expressed to take effect except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the applicable Final Terms are available free of charge at the registered office of the Issuer and at the specified offices of the Paying Agents in Luxembourg and in an electronic form on the website of the Issuer ([www.kpn.com](http://www.kpn.com)). The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, are entitled to the benefit of and are subject to all the provisions of the applicable Final Terms which are binding on them.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated, and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

## **1. Form, Denomination and Title**

The Notes are in bearer form or in registered form as specified in the applicable Final Terms and, in the case of definitive Notes, serially numbered, in the Specified Currency, the Specified Denomination(s) and the Specified Form(s).

This Note is a Senior Note or a Subordinated Note as indicated in the applicable Final Terms. This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Amount Note, a Dual Currency Interest Note, an Instalment Note, a Partly Paid Note, a Dual Currency Redemption Note or a combination of any of the foregoing, depending on the Interest Basis and Redemption/Payment Basis indicated in the applicable Final Terms.

Bearer Notes in definitive form are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. For Notes held by Euroclear Nederland deliveries will be made in accordance with the Securities Giro Transfer Act ('*Wet giraal effectenverkeer*'). Except as ordered by a court of competent jurisdiction or as required by law or applicable regulations, the Issuer and the Agents may deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a global Note held on behalf of Euroclear Bank S.A./N.V. ('Euroclear') and/or Clearstream Banking, société anonyme ('Clearstream, Luxembourg'), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in

which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose the bearer of the relevant global Bearer Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and any Agent as the holder of such Notes in accordance with and subject to the terms of the relevant global Note (and the expressions ‘Noteholder’ and ‘holder of Notes’ and related expressions shall be construed accordingly). Notes which are represented by a global Note held by a common depository for Euroclear or Clearstream, Luxembourg will be transferable only in accordance with the rules and procedures for the time being of Euroclear or of Clearstream, Luxembourg, as the case may be.

For so long as the Depository Trust Company (‘DTC’) or its nominee is the registered owner or holder of a Registered Global Note (as defined in Condition 2(h)), DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

References to Euroclear and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms but shall not include Euroclear Nederland.

## **2. Transfers of Registered Notes**

### *(a) Transfers of interests in Registered Global Notes*

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor’s nominee.

### *(b) Transfers of Registered Notes in definitive form*

Subject as provided in paragraphs (e), (f) and (g) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer (i) the holder or holders must (a) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of any Transfer Agent with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (b) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (ii) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request and that the transfer is in compliance with the transfer restrictions set forth in such Registered Note. Any such transfer will be subject to such regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 9 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the



request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

*(c) Registration of transfer upon partial redemption*

In the event of a partial redemption of Notes under Condition 7, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

*(d) Costs of registration*

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

*(e) Transfers of interests in Regulation S Global Notes*

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note to a transferee in the United States or who is a U.S. person will only be made:

- (i) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a 'Transfer Certificate'), copies of which are available from the specified office of any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made:
  - (A) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or
  - (B) to a person who is an Institutional Accredited Investor, together with, in the case of (B), a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an 'IAI Investment Letter'); or
- (ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

In the case of (A) above, such transferee may take delivery through a Legended Note in global or definitive form and, in the case of (B) above, such transferee may take delivery only through a Legended Note in definitive form. After expiry of the applicable Distribution Compliance Period such certification requirements will no longer apply to such transfers.

*(f) Transfers of interests in Legended Notes*

Transfers of Legended Notes or beneficial interests therein may be made:

- (i) to a transferee who takes delivery of such interest through a Regulation S Global Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, in the case of a Regulation S Global Note registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or
- (ii) to a transferee who takes delivery of such interest through a Legended Note:
  - (A) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
  - (B) where the transferee is an Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed IAI Investment Letter from the relevant transferee; or
- (iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Notes transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non-U.S. investors through DTC, Euroclear or Clearstream, Luxembourg, as appropriate, and the Registrar will arrange for any Notes which are the subject of such a transfer to be represented by the appropriate Registered Global Note, where applicable.

Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of the Legend, the Registrar shall deliver only Legended Notes or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

*(g) Exchanges and transfers of Registered Notes generally*

Holders of Registered Notes in definitive form, other than Institutional Accredited Investors, may exchange such Notes for interests in a Registered Global Note of the same type at any time.

*(h) Definitions*

In this Condition, the following expressions shall have the following meanings:

‘Distribution Compliance Period’ means the period that ends 40 days after the completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);

‘Institutional Accredited Investor’ means ‘accredited investors’ (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act that are institutions;

‘Legended Notes’ means Registered Notes in definitive form that are issued to Institutional Accredited Investors and Registered Notes (whether in definitive form or represented by a Registered Global Note) issued to QIBs which bear certain legends regarding U.S. restrictions on transfer;

‘QIB’ means a ‘qualified institutional buyer’ within the meaning of Rule 144A;

‘Registered Global Note’ means a Regulation S Global Note or a Rule 144A Global Note;

‘Regulation S’ means Regulation S under the Securities Act;

‘Regulation S Global Note’ means a Registered Global Note representing Notes sold outside the United States in reliance on Regulation S;

‘Rule 144A’ means Rule 144A under the Securities Act;

‘Rule 144A Global Note’ means a Registered Global Note representing Notes sold in the United States to QIBs in reliance on Rule 144A or otherwise in private transactions exempt from the registration requirements of the Securities Act; and

‘Securities Act’ means the United States Securities Act of 1933, as amended.

### **3. Status of the Notes and Negative Pledge**

#### *(a) Status of the Senior Notes*

The Senior Notes and the relative Receipts and Coupons constitute direct, unsecured and unsubordinated obligations of the Issuer and rank *pari passu* without any preference among themselves and (with the exception of obligations in respect of national and local taxes and certain other statutory exceptions) equally with all other unsecured and unsubordinated obligations of the Issuer.

#### *(b) Negative Pledge relating to the Senior Notes*

So long as the Senior Notes or any relative Receipts or Coupons remain outstanding, the Issuer will not secure by lien, pledge or other charge upon the whole or part of its assets or revenues any present or future Public Debt (as defined below) of the Issuer without at the same time securing the Senior Notes equally and rateably with such Public Debt or providing such other security as the Senior Noteholders may approve by an Extraordinary Resolution (as defined in the Agency Agreement). ‘Public Debt’ means any loan, debt, guarantee or other obligation which is represented by bonds or notes or other securities which have an initial life exceeding two years and which are capable of being listed on any stock exchange or over-the-counter or other similar securities market.

#### *(c) Status and Subordination of the Subordinated Notes*

The status and subordination of the Subordinated Notes is as set out in the applicable Final Terms.

### **4. Redenomination**

#### *(a) Redenomination*

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Principal Paying Agent, Euroclear and Clearstream, Luxembourg and, if applicable, Euroclear Nederland and at least 30 days’ prior notice to the Noteholders in accordance with Condition 14, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (i) the Notes and the Receipts shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Note and Receipt equal to the principal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Principal Paying Agent, that the then market practice in respect of the redenomination into euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Paying Agents of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (iii) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Principal Paying Agent may approve) euro 0.01 and such other denominations as the Principal Paying Agent shall determine and notify to the Noteholders;
- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the 'Exchange Notice') that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (v) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (vi) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:
  - (a) in the case of the Notes represented by a Global Note, by applying the Rate of Interest to the aggregate outstanding nominal of the Notes; and
  - (b) in the case of definitive Notes, by applying the Rate of Interest to the Calculation Amount;

and in each case multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one

Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding;

- (vii) if the Notes are Floating Rate Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to interest; and
- (viii) such other changes shall be made to these Terms and Conditions as the Issuer may decide, after consultation with the Principal Paying Agent, and as may be specified in the notice, to conform them to conventions then applicable to instruments denominated in euro.

*(b) Definitions*

In these Terms and Conditions, the following expressions have the following meanings:

‘Established Rate’ means the rate for conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

‘euro’ means the currency of the member states of the European Union participating in the economic and monetary union pursuant to the Treaty;

‘Redenomination Date’ means (in the case of interest bearing Notes) a date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to paragraph (a) above which falls on or after the date on which the country of the specified currency first participates in the third stage of European economic and monetary union; and

‘Treaty’ means the Treaty establishing the European Community, as amended.

## **5. Interest**

*(a) Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest from and including the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in these Terms and Conditions, **Fixed Interest Period** means the Period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period or if, in the case of Notes in definitive form, no Fixed Coupon Amount is specified in the applicable Final Terms, such interest shall be calculated by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

‘Day Count Fraction’ means, in respect of the calculation of an amount of interest in accordance with this Condition 5(a):

- (i) if ‘Actual/Actual (ICMA)’ is specified in the applicable Final Terms:
  - (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the ‘Accrual Period’) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
    - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
- (ii) if ‘30/360’ is specified in the applicable Final Terms, the number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the relevant payment date (such number of days being calculated on the basis of 12 30-day months) divided by 360.

In these Terms and Conditions:

‘Determination Period’ means the period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

‘sub-unit’ means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) *Interest on Floating Rate Notes and Index Linked Interest Notes*

(i) **Interest Payment Dates**

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate equal to the Rate of Interest payable in arrear on either:

- (A) the Specified Interest Payment Date(s) (each an 'Interest Payment Date') in each year specified in the applicable Final Terms; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each an 'Interest Payment Date') which falls on the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 5(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, 'Business Day' means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and in any Additional Business Centre specified in the applicable Final Terms; and
  - (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London or any Additional Business Centre) or (2) in relation to any sum payable in euro, a day on which Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the 'TARGET System') is open.
- (ii) Rate of Interest

The Rate of Interest payable from time to time in respect of the Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Final Terms.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), 'ISDA Rate' for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the 'ISDA Definitions') and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is the period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate ('LIBOR') or on the Euro-zone inter-bank offered rate ('EURIBOR') for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), 'Floating Rate', 'Calculation Agent', 'Floating Rate Option', 'Designated Maturity' and 'Reset Date' have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent. If five or more such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest pursuant to this subparagraph (B) in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.



(iii) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specify a Minimum Rate of Interest for any Interest Period, then the Rate of Interest for such Interest Period shall in no event be less than such Minimum Rate of Interest and/or if it specifies a Maximum Rate of Interest for any Interest Period, then the Rate of Interest for such Interest Period shall in no event be greater than such Maximum Rate of Interest.

(iv) Determination of Rate of Interest and Calculation of Interest Amount

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (the 'Interest Amount') payable on the Floating Rate Notes or Index Linked Interest Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

'Day Count Fraction' means, in respect of the calculation of an amount of interest in accordance with this Condition 5(b):

- (1) if 'Actual/365' or 'Actual/Actual (ICMA)' is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (2) if 'Actual/365 (Fixed)' is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (3) if 'Actual/365 (Sterling)' is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (4) if 'Actual/360' is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (5) if '30/360', '360/360' or 'Bond Basis' is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of

360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));

- (6) if '30E/360' or 'Eurobond Basis' is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of an Interest Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and
- (v) Notification of Rate of Interest and Interest Amount.

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day (as defined below) following the commencement of the relevant Interest Period. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression 'London Business Day' means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

- (vi) Certificates to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this paragraph (b) by the Principal Paying Agent or, if applicable, the Calculation Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Principal Paying Agent, the Calculation Agent, if applicable, the other Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

- (c) *Interest on Dual Currency Interest Notes*

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Final Terms.

- (d) *Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

- (e) *Accrual of Interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of

principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (1) the date on which all amounts due in respect of such Note have been paid; and
- (2) five days after the date on which the full amount of the moneys payable has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 14.

## **6. Payments**

### *(a) Method of Payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency; and
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

### *(b) Presentation of definitive Notes, Receipts and Coupons*

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against surrender of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against surrender of Coupons, in each case at the specified office of any Paying Agent outside the United States.

Payments of instalments of principal (if any), other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender of the relevant Receipt. Payment of the final instalment will be made in the manner provided in paragraph (a) above against surrender of the relevant Bearer Note. Each Receipt must be presented for payment of the relevant instalment together with the definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes and Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due. Upon any

Fixed Rate Note in bearer form becoming due and repayable prior to its Maturity Date, all unmatured Receipts and Talons (if any) appertaining thereto will become void and no payments in respect of any such Receipts and no further Coupons in respect of any such Talons will be made or issued, as the case may be.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Receipts, Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. Where any such Note is presented for redemption without all unmatured Receipts, Coupons or Talons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require. A 'Long Maturity Note' is a Fixed Rate Note in bearer form (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

*(c) Payments in respect of global Bearer Notes*

Payments of principal and interest (if any) in respect of Notes represented by any global Note in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes and otherwise in the manner specified in the relevant bearer global Bearer Note against presentation or surrender, as the case may be, of such global Bearer Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of such global Bearer Note, distinguishing between any payment of principal and any payment of interest, will be made on such global Bearer Note by such Paying Agent and such record shall be *prima facie* evidence that the payment in question has been made.

*(d) Payments in respect of Registered Notes*

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the 'Register') at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, 'Designated Account' means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and 'Designated Bank' means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the

first named of joint holders) of the Registered Note appearing in the Register at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the 'Record Date') at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in registered form in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for payment in such Specified Currency for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

*(e) General provisions applicable to payments*

The holder of a global Note shall be the only person entitled to receive payments in respect of Notes represented by such global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the beneficial holder of a particular nominal amount of Notes represented by such global Note must look solely to Euroclear and/or Clearstream, Luxembourg or DTC, for his share of each payment so made by the Issuer to, or to the order of, the holder of such global Note. No person other than the holder of such global Note shall have any claim against the Issuer in respect of any payments due on that global Note.

Notwithstanding the foregoing, U.S. dollar payments of principal and interest in respect of the Notes will be made at the specified office of a Paying Agent in the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)) if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (ii) payment of the full amount of such interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

*(f) Payment Day*

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to any further interest or other payment in respect of such delay. For these purposes (unless otherwise specified in the applicable Final Terms), 'Payment Day' means any day which, subject to Condition 9, is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (A) the relevant place of presentation;
  - (B) London; and
  - (C) any Additional Financial Centre specified in the applicable Final Terms;
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation and any Additional Financial Centre) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open; and
- (iii) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Note) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

*(g) Interpretation of Principal and Interest*

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 8;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Instalment Notes, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount as defined in Condition 7; and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8.

## **7. Redemption and Purchase**

### *(a) At Maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note, including each Index Linked Redemption Note and Dual Currency Redemption Note, will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

### *(b) Redemption for Tax Reasons*

If so specified in the applicable Final Terms, Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (in the case of Notes other than Floating Rate Notes, Index Linked Interest Notes or Dual Currency Interest Notes) or on any Interest Payment Date (in the case of Floating Rate Notes, Index Linked Interest Notes or Dual Currency Interest Notes), on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable) if, on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of The Netherlands or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Notes. Notes redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

### *(c) Redemption at the Option of the Issuer (Issuer Call)*

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar,

(both of which notices shall be irrevocable), redeem all or some only of the Notes then outstanding on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date(s).

Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount or not more than a Higher Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed ('Redeemed Notes') will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear, Clearstream, Luxembourg, DTC and/or Euroclear Nederland, in the case of Redeemed Notes represented by a global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the 'Selection Date'). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least 5 days prior to the Selection Date.

*(d) Redemption of Notes at the Option of the Noteholders (Investor Put)*

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 15 nor more than 30 days' notice or such other period of notice as is specified in the applicable Final Terms, the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition 7(d) in any multiple of their lowest Specified Denomination. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

If the Notes are in definitive form and held outside Euroclear and Clearstream, Luxembourg, to exercise the right to require redemption of the Notes its holder must deliver such Notes at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (the 'Put Notice') and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2(b). If this Note is represented by a global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by a global Note, at the same time present or procure the presentation of the relevant global Note to the Principal Paying Agent for notation accordingly. If this Note is in definitive form and not held through Euroclear or Clearstream, Luxembourg, the Put Notice must be accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

If Investor Put – Change of Control is specified in the applicable Final Terms, the following provisions will apply. If there occurs a Change of Control (as defined below) and within the Change of Control Period (as defined below) a Rating Downgrade (as defined below) in respect of that Change of Control occurs (together called a '**Put Event**'), the holder of each Note will have the option (unless, prior to the giving of the Put Event Notice referred to below, the Issuer gives notice to redeem the Notes under Condition 7(b)) to require the Issuer to redeem or, at the Issuer's option, purchase (or procure the purchase of) that Note on the Optional Redemption Date (as defined below) at its principal amount together with (or, where purchased, together with an amount equal to) accrued interest to but excluding the Optional Redemption Date.

'**Rating Agency**' means Moody's Investor Service Limited or Standard and Poor's Rating Services, a division of McGraw-Hill Companies, Inc. and their respective successors or any other rating agency of equivalent international standing specified from time to time by the Issuer.

A '**Rating Downgrade**' shall be deemed to have occurred in respect of a Change of Control (i) if within the Change of Control Period any rating previously assigned to the Issuer or any Notes by any Rating Agency is (x) withdrawn or (y) changed from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or (z) (if the rating assigned to the Notes by any Rating Agency shall be below an investment grade rating (as described above)) lowered one full rating category (from BB+ to BB or such



similar lower or equivalent rating), or (ii) if at the time of the Change of Control there is no rating assigned to the Notes or the Issuer and no Rating Agency assigns during the Change of Control Period an investment grade credit rating (as described above) to the Notes (unless the Issuer is unable to obtain such a rating within such period having used all reasonable endeavours to do so and such failure is unconnected with the occurrence of the Change of Control) provided, in each case, that a Rating Downgrade otherwise arising by virtue of a particular change in rating, or failure to obtain an investment grade rating (as described above) shall be deemed not to have occurred in respect of a particular Change of Control if the Rating Agency making the change in or withdrawing the rating, or failing to award an investment grade rating (as described above), to which this definition would otherwise apply does not confirm that the withdrawal, reduction or such failure was the result, in whole or part, of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable Change of Control.

A '**Change of Control**' shall be deemed to have occurred at each time (whether or not approved by the Management Board or Supervisory Board of the Issuer) that any person or persons ('Relevant Person(s)') acting in concert or any person or persons acting on behalf of any such Relevant Person(s), at any time directly or indirectly or acquire(s) or come(s) to own (A) more than 50 per cent. of the issued ordinary share capital of the Issuer or (B) such number of the shares in the capital of the Issuer carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of shareholders of the Issuer.

'**Change of Control Period**' means the period ending 90 days after the occurrence of the Change of Control.

The '**Optional Redemption Date**' is the seventh day after the last day of the Put Period.

Promptly upon the Issuer becoming aware that a Put Event has occurred, the Issuer shall give notice (a '**Put Event Notice**') to the Noteholders in accordance with Condition 14 specifying the nature of the Put Event and the circumstances giving rise to it and the procedure for exercising the option contained in this Condition 7(d).

To exercise the option to require redemption or, as the case may be, purchase of a Note under this Condition 7(d) in relation to a Change of Control, the holder of that Note must deliver such Note, on any Business Day (as defined in Condition 5) in the city of the specified office of the relevant Paying Agent, falling within the period (the '**Put Period**') of 45 days after a Put Event Notice is given, to any Paying Agent, as well as a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a '**Put Notice**') and in which the holder may specify a bank account to which payment is to be made under this Condition 7(d). The Paying Agent to which such Note and Put Notice are delivered will issue to the Noteholder concerned a non-transferable receipt (a '**Receipt**') in respect of the Notes so delivered. Payment by the Paying Agents in respect of any Notes so delivered shall be made either to the bank account duly specified in the relevant Put Notice or, if no account was so specified, by cheque on or after the Optional Redemption Date against presentation and surrender of such Receipt at the specified office of any Paying Agent. A Put Notice once given shall be irrevocable.

*(e) Early Redemption Amount*

For the purpose of paragraph (b) above and Condition 10, the Notes will be redeemed at the Early Redemption Amount calculated as follows:

- (i) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable to a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or

- (ii) in the case of a Zero Coupon Note, at an amount (the 'Amortised Face Amount') calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

'RP' means the Reference Price; and

'AY' means the Accrual Yield; and

'y' is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for Redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

- (iii) in any other case, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at their nominal amount.

*(f) Instalments*

Instalment Notes will be repaid in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

*(g) Partly Paid Notes*

If the Notes are Partly Paid Notes, they will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

*(h) Purchases*

The Issuer or any of its subsidiaries may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, re-issued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or the Registrar for cancellation.

*(i) Cancellation*

All Notes which are redeemed will subject to paragraph (h) above forthwith be cancelled (together with all unmatured Receipts and Coupons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to paragraph (h) above (together with all unmatured Receipts and Coupons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be re-issued or resold.

*(j) Late Payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(ii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable has been received by the Principal Paying Agent or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 14.

## **8. Taxation**

All payments of principal and interest in respect of the Notes, Receipts and Coupons by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of The Netherlands or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In such event, the Issuer will, depending on which provision is specified in the applicable Final Terms either:

- (a) make the required withholding or deduction of such taxes, duties, assessments or governmental charges for the account of the holders of the Notes, Receipts or Coupons, as the case may be, and shall not pay any additional amounts to the holders of the Notes, Receipts or Coupons; or
- (b) pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:
  - (i) presented for payment by or on behalf of a Noteholder, Receiptholder or Couponholder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with The Netherlands other than the mere holding of such Note, Receipt or Coupon or the receipt of principal or interest in respect thereof; or
  - (ii) presented for payment by or on behalf of a Noteholder, Receiptholder or Couponholder who would not be liable or subject to the withholding or deduction by making a declaration of nonresidence or other similar claim for exemption to the relevant tax authority; or
  - (iii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day; or
  - (iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of November 26th-27th, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
  - (v) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein, the 'Relevant Date' means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Registrar, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

## **9. Prescription**

The Notes, Receipts and Coupons will become void unless presented for payment within a period of five years after the date on which such payment first becomes due.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6(b) or any Talon which would be void pursuant to Condition 6(b).

## **10. Events of Default**

If any one or more of the following events (each an 'Event of Default') shall have occurred and be continuing:

- (i) there is failure for more than 14 days in the payment of any principal or interest in respect of any Note when and as the same is due to be paid; or
- (ii) the Issuer fails to perform or observe any of its other obligations under the Notes and such failure continues for a period of 30 days next following the service on the Issuer of notice requiring the same to be remedied; or
- (iii) the Issuer fails in the due repayment of borrowed money in an amount which exceeds U.S.\$30,000,000 (or its equivalent in other currency or currencies) and such failure continues for a period of 14 days after notice of such failure has been received by the Issuer or the Issuer fails to honour a guarantee or indemnity in respect of an amount in excess of U.S.\$30,000,000 (or its equivalent in other currency or currencies) and such failure continues for a period of 14 days after notice of such failure has been received by the Issuer, provided however always that in each case no Event of Default shall be deemed to have occurred if the Issuer is contesting its liability in good faith or shall have been ordered not to make such payment by a competent court; or
- (iv) the Issuer becomes bankrupt or subject to a 'surséance van betaling' or an order is made or an effective resolution is passed for the winding-up or liquidation of the Issuer (except if such order or resolution is made or passed for the purposes of any merger, consolidation or reconstruction in the case where either (a) prior consent thereto has been given by Extraordinary Resolution of the Noteholders or (b) the surviving or resulting company assumes all of the rights and obligations of the Issuer with respect to the Notes); or
- (v) the Issuer ceases to carry on substantially the whole of its business except for the purposes of any merger, consolidation or reconstruction in the case where either (a) prior consent thereto has been given by Extraordinary Resolution of the Noteholders or (b) the surviving or resulting company assumes all of the rights and obligations of the Issuer with respect to the Notes;

then each Noteholder may by written notice to the Issuer, at the specified office of the Principal Paying Agent, effective upon the date of receipt thereof by the Principal Paying Agent, declare the principal of and all interest accrued on its Notes to the date of payment to be forthwith due and payable, and the same shall become immediately due and payable, unless prior to the time when such written notice is received all such defaults have been cured.

The applicable Final Terms may specify any variations to the above Events of Default in the case of an issue of Subordinated Notes.

## **11. Replacement of Notes, Receipts, Coupons and Talons**

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (in the case of Bearer Notes, Receipts or

Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## **12. Agents**

The names of the initial Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (i) so long as the Notes are listed or admitted to trading on any stock exchange, there will at all times be a Paying Agent, which may be the Principal Paying Agent, (in the case of Bearer Notes) and a Transfer Agent, which may be the Registrar, (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority);
- (ii) there will at all times be a Paying Agent with a specified office in a city in a member country of the European Union;
- (iii) there will at all times be a Principal Paying Agent and a Registrar;
- (iv) there will at all times be a Paying Agent with a specified office situated outside The Netherlands;
- (v) so long as any of the Registered Global Notes are registered in the name of a nominee for DTC, there will at all times be an Exchange Agent with a specified office in New York City; and
- (vi) the Issuer will ensure that it maintains a Paying Agent in an EU Member State that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the final paragraph of Condition 6(e). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent. In the case of a change of any of the Paying Agents, a notice will be published in accordance with Condition 14.

## **13. Exchange of Talons**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9. Each Talon shall, for the purposes of these Terms and Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

## **14. Notices**

All notices regarding the Bearer Notes shall be published (i) in at least one daily newspaper of wide circulation in The Netherlands, (ii) if so specified in the applicable Final Terms, in a leading English language daily newspaper of general circulation in London and (iii) if and for so long as the Bearer Notes are listed on Euronext Amsterdam, in the Daily Official List ('Officiële Prijscourant') of Euronext Amsterdam N.V. In the case of (ii) above, it is expected that any such publication will be made in the Financial Times in London. Any such notice will be deemed to have been given on the date of the first publication in all the newspapers in which such publication is required to be made.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange and the rules of the relevant authority of that stock exchange so require, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules and regulations of that stock exchange.

Until such time as any definitive Notes are issued, there may (provided that, in the case of any publication required by a stock exchange, that stock exchange agrees), so long as the global Note(s) is or are held in its or their entirety on behalf of Euroclear and/or Clearstream, Luxembourg and/or DTC, be substituted for publication in some or all of the newspapers referred to above, the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or DTC for communication by them to the holders of the Notes. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or DTC.

Where the identity of all the holders of the Notes is known to the Issuer, the Issuer may (provided that, in the case of any publication required by a stock exchange, that stock exchange agrees) give notices individually to such holders in lieu of publication as provided above.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together in the case of any Note in definitive form with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar via Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, in such manner as the Principal Paying Agent and Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, may approve for this purpose.

Whilst any of the Notes are represented by a global Note deposited with Euroclear Nederland, the Issuer, the Agents and Euroclear Nederland shall mutually agree on such rules for form and contents of communications between them as they may deem practical for the purpose of giving effect to these Terms and Conditions.

## **15. Meetings of Noteholders, Modification and Waiver**

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or certain provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, Receipts or Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereof, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the

currency of payment of the Notes, Receipts or Coupons), the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Principal Paying Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (i) any modification (except as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is not materially prejudicial to the interests of the Noteholders; or
- (ii) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

## **16. Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Noteholders, Receiptholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

## **17. Substitution of the Issuer**

- (a) The Issuer (which for the purpose of this Condition, save where the context requires otherwise, includes any previous substitute of the Issuer) under this Condition may and the Noteholders, the Receiptholders and the Couponholders hereby irrevocably agree in advance that the Issuer under this Condition may at any time substitute any company (incorporated in any country in the world), of which more than 90 per cent. of the shares or other equity interest carrying voting rights are directly or indirectly held by the Issuer, as the principal debtor in respect of the Notes (any such company, the 'Substituted Debtor'), provided that:
  - (i) such documents shall be executed, and notices be given, by the Substituted Debtor and the Issuer as the Principal Paying Agent may deem reasonably necessary to give full effect to the substitution and pursuant to which the Substituted Debtor shall undertake in favour of each Noteholder, Receiptholders and Couponholders to be bound by these Terms and Conditions and the provisions of the Agency Agreement as the principal debtor in respect of the Notes, Receipts and Coupons in place of the Issuer;
  - (ii) in accordance with and subject to Condition 8, no taxes or duties shall be required to be withheld or deducted at source in the territory where the Substituted Debtor is incorporated, domiciled or resident (unless the withholding or deduction would be borne by the Substituted Debtor, in which case sub-clause (b) of Condition 8 shall apply);
  - (iii) all necessary governmental and regulatory approvals and consents for such substitution and for the giving by the Issuer of the Guarantee (as defined below) in respect of the obligations of the Substituted Debtor shall have been obtained and be in full force and effect;

- (iv) Condition 10 shall be deemed to be amended so that it shall also be an Event of Default under the said Condition if the Guarantee (as defined below) shall cease to be valid or binding on or enforceable against the Issuer;

and (if the Substituted Debtor is not the Issuer) upon the Notes, Receipts and Coupons becoming valid and binding obligations of the Substituted Debtor, the Issuer undertakes that it will irrevocably and unconditionally guarantee in favour of each Noteholder, Receiptholder and Couponholder the payment of all sums payable by the Substituted Debtor as such principal debtor (such guarantee of the Issuer to be substantially in the form scheduled to the Agency Agreement and herein referred to as the 'Guarantee').

- (b) The Substituted Debtor shall forthwith give notice of the substitution to the Noteholders, the Receiptholders and the Couponholders in accordance with Condition 14.

## **18. Governing Law and Submission to Jurisdiction**

The Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, the laws of The Netherlands.

The Issuer submits to the exclusive jurisdiction of the courts of Amsterdam, The Netherlands, judging in first instance, and its appellate courts.



**USE OF PROCEEDS**

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

## DESCRIPTION OF THE COMPANY

All references to 'we', 'us' and 'our' in the description of the Company set out below on pages 73-130 of this Prospectus are references to the Company.

### 1. SELECTED FINANCIAL INFORMATION

#### 1.1 Summary of Historic Financial data

The following tables show our selected historical financial data for the years ended December 31, 2004 through 2006. Please note that the financial statements (*jaarrekening*) for the year 2006 have not yet been adopted by the general meeting of shareholders of KPN. This is expected to take place during the general meeting of shareholders on April 17, 2007.

Our Consolidated Financial Statements for the years 2006, 2005 and 2004 have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. There are no differences between IFRS applied by KPN and IFRS as issued by International Accounting Standards Board ('IASB').

You should read this table together with 'Operating results' and our Consolidated Financial Statements and the Notes thereto, which are included in our Annual Report.

Amounts in millions of euro, except for shares and per share data			
	2006	2005	2004
<b>Income Statement Data</b>			
<b>In accordance with IFRS:</b>			
Revenues	11,941	11,811	11,746
Other income	116	125	73
Operating profit	2,223	2,348	2,645
Profit before income tax	1,710	1,814	2,057
Profit attributable to equity holders	1,583	1,437	1,707
Earnings per ordinary share and per ADS (non-diluted) (1)	0.79	0.66	0.72
Earnings per ordinary share and per ADS on a fully diluted basis <sup>(1)</sup>	0.79	0.65	0.71
Weighted average number of outstanding ordinary shares	2,005,326,106	2,192,232,156	2,385,418,773
Weighted average number of outstanding ordinary shares on a fully diluted basis	2,013,328,345	2,197,620,705	2,404,343,845
<b>Balance Sheet Data</b>			
<b>In accordance with IFRS:</b>	December 31, 2006	December 31, 2005	January 1, 2005 <sup>(2)</sup>
Total assets	21,258	22,702	24,230
Non-current liabilities	13,213	12,191	12,297
Provisions	3,602	3,945	4,076
Shareholders' equity	4,195	5,076	6,266
Group Equity	4,196	5,104	6,411
Share capital (including Share premium)	12,563	14,634	15,866
Number of subscribed shares	1,928,551,326	2,151,360,369	2,329,399,969

1. Please refer to Note 8 of the Consolidated Financial Statements in our Annual Report for a discussion on the method used to calculate profit or loss per share
2. KPN applies IAS 32 Financial Instruments: Disclosure and Presentation, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations as from January 1, 2005. As a result, we report figures as of January 1, 2005

## **2. RISK FACTORS**

Please refer to the information under ‘Risk Factors’ above for a description of the principal factors that may affect the Issuer’s ability to fulfil its obligations under Notes issued under the Programme.

## **3. INFORMATION ABOUT THE ISSUER**

### **3.1 History and development of the issuer**

Koninklijke KPN N.V. was incorporated under the laws of The Netherlands on January 1, 1989. On June 28, 1998 our name was changed from Koninklijke PTT Nederland N.V. to Koninklijke KPN N.V. We have our corporate seat in The Hague, The Netherlands. We are registered under number 02045200 at the Commercial Register of the Chamber of Commerce for Haaglanden, The Hague, The Netherlands, and our executive offices are located at Maanplein 55, 2516 CK The Hague, The Netherlands. Our telephone number is (+31) 70 4460986. Our agent for service of process in the United States is KPN INS, Inc., 494 8<sup>th</sup> Avenue, 23<sup>rd</sup> floor, New York NY 10001.

We are domiciled in The Netherlands and operate under the laws of The Netherlands. Our subsidiaries, where applicable, operate under the laws of the various jurisdictions in which they carry on business.

The principal markets in which we are active are The Netherlands, Germany and Belgium.

According to Article 4 of the Issuer’s Articles of Association, our objects are:

- (a) to participate in and to manage other enterprises and companies, among such, companies that operate in the field of the transmitting, storing and converting of information, as well as to manage and dispose of information;
- (b) to manage and finance subsidiaries, group companies, dependent companies and participations, among which to guarantee the debts of those companies and participations, and further to engage in any activity which may be related or conducive to the objects set out hereinabove.

Our Articles of Association are accessible at the Chamber of Commerce and filed with the SEC as an exhibit to our Form 20-F.

KPN was incorporated with two main subsidiaries: PTT Telecom B.V., offering telecommunication services, and PTT Post B.V., serving as the primary postal company in The Netherlands. In the period from incorporation until the listing of our shares on Euronext Amsterdam in June 1994, the State of The Netherlands was our sole shareholder. At the end of 2006, the State held no interest in our outstanding shares (2005: 7.76%).

Capital Group International, Inc., Capital Research and Management Company and Barclays Plc have notified the AFM that they hold respectively between 5%-10% (November 1, 2006: 7.4%), 15%-20% (January 8, 2007: 15.07%) and 5%-10% (January 5, 2007 5.38%) of the ordinary shares of KPN. We did not enter into material agreements with any of these companies. These companies are investment companies, which may have shareholdings in other companies with which we contract in the ordinary course of business. To the best of our knowledge, such contracts, if any, were not influenced by any of these shareholders.

On April 3, 2007, Barclays Plc notified the AFM that it had reduced its interest in KPN from 5.38% to 3.91% of the ordinary shares of KPN.

The demerger of our mail, express and logistics business operations to TNT Post Group (TPG) was completed in 1998.

In November 1999, we transferred our mobile business to a separately incorporated subsidiary, KPN Mobile N.V. KPN Mobile issued new shares to NTT DoCoMo in August 2000, as a result of which NTT DoCoMo held a 15% interest in KPN Mobile. In connection with a financial restructuring of KPN Mobile in December 2002, NTT DoCoMo elected not to exercise its anti-dilution rights, resulting in a decrease of its interest to 2.16%. In October 2005, we purchased NTT DoCoMo's remaining interest in KPN Mobile N.V.

In the period from 2000 to 2002, we acquired E-Plus and BASE, mobile network operators in Germany and Belgium respectively. Following these acquisitions and the purchase of UMTS licenses, KPN initiated a refinancing program. The refinancing included share offerings in 2000 and 2001 and the sale of non-core assets.

On October 4, 2005 we acquired Telfort, a Dutch mobile network operator.

On March 24, 2006 we acquired Nozema, a Dutch broadcast services company.

In June 2006, iBasis, a global NASDAQ listed VoIP company, and KPN agreed to merge KPN's international voice wholesale business into iBasis. iBasis will acquire KPN's subsidiary Global Carrier Services and will receive USD 55 million in cash from KPN, while iBasis will issue approximately 40 million ordinary shares to KPN, representing a 51% interest in iBasis on a diluted basis. The transaction is subject to customary closing conditions, including regulatory approval and the approval of iBasis shareholders.

In September 2006 KPN reached agreement regarding the acquisition of Tiscali SpA's Dutch operations for a consideration of EUR 255 million. KPN will take over the provision of services to 276,000 broadband and 126,000 dial-up Internet customers as well as take over Tiscali's infrastructure in The Netherlands. The acquisition is subject to approval by the Dutch competition authority, 'NMa'. The data presented in the Form 20-F do not reflect such acquisition.

For the financial impact of our recent major asset disposals, please refer to the section titled 'Sale of activities and assets', under 'Other consolidated results of operations' in our Annual Report.

## **Recent developments**

On January 1, 2007, KPN has kicked off the new organizational structure built around the customer rather than around technology and products. Its former fixed and mobile divisions have now made way for business, consumer customer segments. For more information we refer to section 5: Organizational structure.

On January 9, 2007, KPN announced a reduction of its number of retail formulas it deploys in The Netherlands in order to better align its high street presence with its existing brands. As a consequence, KPN has decided to withdraw the Kral and KPN Klick formulas this year to fully focus on the KPN (Primafoon and Business Center), Hi and Telfort brands. KPN expects that approximately half of the existing 53 Kral and 4 KPN Klick shops will be able to continue operations under one of the KPN brands. The remaining locations will be closed in due course. The intention is to place as many personnel as possible in other KPN outlets.

On January 12, 2007, Michel Krammer, CEO of KPN's German mobile unit E-Plus GmbH & Co KG, announced that he was to resign from his post at the end of January 2007, citing personal reasons.

On January 23, 2007, KPN announced that it was going to sell its 23 large telecommunications towers and transfer the use of an additional one to the French transmission network services specialist TDF S.A. In doing so, KPN is meeting the condition set by the NMa when KPN acquired Nozema. At the time, KPN indicated that it does not view the ownership of these towers as core business. KPN's transmitting equipment for telephone, data, radio and television will remain in the towers, for which KPN and TDF have signed a ten-year lease. The operational management of the towers which was transferred to Novec in March 2006 will also go to TDF including five KPN employees. The NMa has yet to approve the deal, which only covers the company's large telecom towers like the ones in Lopik, Rotterdam, Smilde and The Hague.

On January 29, 2007, Thorsten Dirks, a long-standing member of the E-Plus management and previously Deputy CEO, was appointed as the new CEO of E-Plus.

On February 1, 2007, the Telecommunications Act (*Telecommunicatiewet*) was amended. The key change is that landlords (including municipalities) now have an explicit right to require the retirement of cables which have been idle for at least 10 years as from the moment the usage of these cables has been terminated. For current idle cables landlords of public grounds cannot require retirement before 2018 to the extent that these idle cables do not hinder existing other cables and other underground infrastructure. Currently the KPN network in The Netherlands comprises of approximately 350,000 kilometers of cables and ducts.

Currently KPN is investigating whether the adjustment to the Act will result in legally enforceable retirement obligations and the recognition of an obligation. When KPN concludes that the new Telecommunications Act leads to a legally enforceable retirement obligation an asset retirement obligation should be recognized if the obligation can be reliably estimated. The initial recognition of such an asset retirement obligation will then be capitalized for an equal amount under property, plant and equipment. The provision should be measured at the present value of management's best estimate of the expenditure required to settle the obligation.

Important parameters which may have an impact on a possible asset retirement obligation are:

- the total length of cables and ducts becoming idle, which is strongly related to future network strategy and innovation;
- the number of landlords requiring retirement; and
- the timing of retirement.

In case of recognition of a provision and the capitalization of an equal amount, future results will be impacted by additional depreciation on property, plant and equipment and by additional finance costs. Because the new act is effective as from February 1, 2007, it has no effect on the balance sheet at December 31, 2006.

On February 5, 2007, KPN introduced its first mobile 'home zone' tariff, MobielThuis. With MobielThuis, phone calls made at home using the mobile are just as cheap as making a call on a landline.

On February 6, 2007, KPN announced the EUR 1 bn share repurchases in the open market starting on February 7 and ending on December 31, 2007. By mandating an intermediary, KPN can execute the share repurchases during closed periods.

On February 19, 2007, KPN's European mobile service provider Sympac formed a partnership with Greece based telecom operator Tim Hellas.

On February 27, 2007, KPN's German mobile unit E-Plus signed an agreement with Alcatel-Lucent to take over a number of E-Plus' network divisions. On March 1, 2007, E-Plus transferred operational divisions that deal with the construction, operation and maintenance of its mobile network to Alcatel-Lucent.

On March 19, 2007, the Supervisory Board of KPN proposed the appointment of Mrs Dr. C.M. (Tiny) Colijn-Hooymans (55) as a member of the Supervisory Board and will put this to the Annual General Meeting of shareholders on April 17, 2007.

### 3.2 Investments

Our budgeted 2007 capital expenditures amount to approximately EUR 1.6 billion up to EUR 1.8 billion. Our capital expenditures for the All-IP migration for the period of 2007-2010 are estimated at EUR 0.9 billion per year. We expect to use significant proceeds from the sale of our technical buildings in the financing of these capital expenditures. The level and timing of capital expenditures we actually make will depend on the pace of network build-outs and upgrades, product roll-outs and acquisitions, among other things.

#### *Commitments as of December 31, 2006*

Amounts in millions of euro	Dec. 31, 2006	Dec. 31, 2005
Commitments by virtue of:		
• Capital expenditure commitments	322	374
• Rental contracts	2,365	2,288
• Operational lease contracts	122	142
• Guarantees	52	40
• Purchasing commitments	912	951
• Other commitments	-	1
<b>Total commitments</b>	<b>3,773</b>	<b>3,796</b>

Of these commitments, EUR 1,318 million are of a short term nature (2005: EUR 1,404 million). EUR 1,101 million is due after 5 years (2005: EUR 1,033 million).

#### *Capital Expenditure Commitments*

Of these commitments, EUR 320 million are of a short-term nature (2005: EUR 333 million). The remaining part has a term between 1 and 5 years.

#### *Rental And Operational Lease Contracts*

Of these commitments, EUR 366 million are of a short-term nature (2005: EUR 419 million). EUR 1031 million is due after five years (2005: EUR 961 million).

The costs of operating leases (including rental charges) totalled EUR 394 million (2005: EUR 285 million) in 2006. These operating lease and rental commitments mainly relate to property, plant and equipment.

#### *Guarantees*

The Commitments by virtue of Guarantees mainly consist of financial obligations of Group companies under certain contracts guaranteed by KPN. Particularly in the context of asset dispositions, KPN has taken on additional commitments and contingent liabilities that are discussed below.

#### *Purchase Commitments*

Of these commitments, EUR 620 million is of a short-term nature (2005: EUR 646 million). EUR 38 million is due after five years (2005: EUR 41 million).

We intend to continue to benefit from the telecommunication and technology expertise of TNO Telecom in order to support the technological innovations required for our business. Measures have been taken to obtain the critical mass for mid and long-term projects carried out by TNO Telecom. In 2006, we extended the cooperation agreement with TNO for one year until December 31, 2010. The total remaining commitments until December 31, 2010 amount to EUR 52 million. Our research and development expenditures with TNO Telecom in 2006 totaled EUR 17 million (2005: EUR 20 million).

On February 13, 2003, we transferred (through our subsidiary KPN Directory Services) all our shares in Telefoongids Media (currently known as De Telefoongids B.V.) for approximately EUR 500 million in cash to a syndicate led by 3i Group and Veronis Suhler Stevenson. The core activities of Telefoongids Media consisted of commercial phone directories in printed form as well as in electronic form (e.g., phone directories on CD-ROMS or the Internet). We have a statutory obligation in The Netherlands to make phone directories available to the public until one year after the date on which we notify the competent authority we will no longer do so. Our phone directories are in printed form and consist of a standard listing of subscribers of the various telecommunication providers in The Netherlands. We agreed that our phone directory will be printed and distributed by Telefoongids Media (now De Telefoongids B.V.). Telefoongids Media is entitled to combine its commercial telephone directory in printed form with our directory in printed form. Our total commitments amount to EUR 78 million (2005: EUR 94 million).

## **Requirements under the UMTS licenses in Germany, The Netherlands and Belgium**

### *Germany*

Under the UMTS license, operators are faced with rollout obligations for German UMTS networks. In the first quarter of 2004, Germany's telecommunications regulator Bundesnetzagentur (former RegTP) commenced administrative procedures to verify coverage obligations under the UMTS license are met. As of December 31, 2005, the final minimum coverage requirement was 50%. In November 2006 Bundesnetzagentur confirmed that E-Plus met the license requirement.

### *The Netherlands*

As of January 1, 2007, all built-up areas in municipalities with over 25,000 inhabitants, all main car, rail and water ways in between, all motorways to Germany and Belgium and the areas surrounding the Schiphol, Rotterdam and Maastricht airports should be covered at a minimum level of 144 Kb/s outdoor. The telecom agency ('*Agentschap Telecom*') of the Dutch Ministry of Economic Affairs is currently designing a control system in order to be able to check if the rollout obligations (as of January 1, 2007) of the UMTS licenses are met. First results will be available in a couple of months. Agentschap Telecom is also investigating the rollout obligations of the Public Access Mobile Radio Service (PAMR) license.

### *Belgium*

The UMTS license contains certain rollout obligations, which required a minimum of 40% population coverage by the end of 2006 and of 50% on December 31, 2007. For December 31, 2008, a target of 85% population coverage is foreseen. Until now, the Belgian regulator BIPT has not yet carried out any measurements in order to verify the operators' compliance with these coverage requirements.

## **4. BUSINESS OVERVIEW**

### **4.1 Introduction**

KPN is the leading multimedia company in The Netherlands, providing consumers and consumer households with fixed and mobile telephony, internet and TV services. To business customers, KPN delivers voice, internet and data services as well as fully-managed, outsourced ICT solutions. Both nationally and internationally, KPN provides wholesale network services to third parties, including operators and service

providers. In Germany and Belgium, KPN pursues a multi-brand strategy with its mobile operations, and serves multiple customer segments in consumer as well as business markets.

At December 31, 2006, KPN served 6.3 million wireline voice subscribers, 8.6 million mobile customers, 2.1 million Internet customers and 0.3 million TV-customers in The Netherlands as well as 15.0 million mobile customers in Germany and Belgium while we employed 28,368 individuals (25,976 FTEs).

KPN was incorporated in 1989. Its shares are listed on Euronext Amsterdam and the stock exchanges of New York, London and Frankfurt. Our credit ratings on December 31, 2006 were BBB+ with negative outlook (Standard & Poor's) and Baa2 with stable outlook (Moody's).

## **4.2 Business Segments**

### **(a) Fixed division**

KPN offers voice and data services through its fixed network in The Netherlands and data services in Western Europe. We are the leader in the traditional Dutch market segments, such as switched voice communication and leased data lines, and are actively growing our market share in the new IP-based services.

Revenue growth is a key challenge for the industry, in particular for KPN as an incumbent operator in a very competitive market. In today's dynamic market, various competitors are trying to create new positions for themselves in areas such as VoIP and multiplay (combinations of voice, Internet, VoIP and television). These new services are generally rendered at lower tariffs and the revenues from these new growth areas do not entirely compensate for the decline of revenue in the traditional services.

In order to counter these developments, our strategy in the Dutch fixed-line market is threefold:

1. attacking the market with new communication, information and entertainment services (and migrating our network to complete IP in the next 4 years to enable us to deliver them), aimed at establishing leading positions that deliver attractive long-term financial returns;
2. defending traditional services to maintain our leading market share in declining markets, including leveraging our scale advantage through wholesale offers; and
3. exploiting our leadership of both traditional and new services markets in order to achieve a cost structure that is unrivaled by our competitors and which will represent a significant sustainable competitive advantage.

To fulfil our ambitions, the Fixed division is improving its position in the broadband market through intensive subscriber acquisition programs and by developing new, attractive, customer-focused broadband communication services (like ADSL, VoIP, IP-VPN, and Digital TV), as well as by offering improved bundled packages and services.

### **(a1) Segment Consumer**

#### *Dutch Dynamics*

More rapidly than other European countries the Dutch communication market is moving towards broadband-centric customers wanting to enjoy the advantages of 'digital communications' such as low cost calling, flat-rate pricing and digital entertainment. Dutch consumers are rapidly adopting new technologies. Impressive are the extremely high broadband penetration rate (increased from approximately 58% in December 2005 to approximately 69% in December 2006\*) and the rapid adoption of VoIP (VoIP penetration rate increased

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\* Broadband penetration rate is defined as the number of broadband connections as a % of households.



from approximately 9% in December 2005 to approximately 28% in December 2006<sup>†</sup>). In addition, the take-up of digital TV accelerated over the year; by December 2006 approximately 2.1 million Dutch homes have digital TV services.

An additional dimension to our home market is the cable penetration, an exception in Europe. Almost all Dutch homes are connected to cable, offered by regional operating cable operators. In 2006, three major operators, Multikabel, Essent Kabelcom and Casema, agreed to merge. The merged group had a combined customer base of approximately 4.9 million at the end of 2006, representing more than half of the total cable footprint in the country. As a provider of broadband services this 'new' cable company already sold approximately 1 million broadband lines.

At the same time, several municipalities started Fiber-to-the-Home (FttH) projects, of which Amsterdam's Citynet is one of the biggest. In addition private FttH initiatives colored the Dutch access market in 2006.

In 2006 we launched several trials of VDSL-2, as a cornerstone of our foreseen All-IP network. Our All-IP plans include reducing the number of telephone exchange buildings (Central Offices) from 1,350 to 200, rolling out fiber to 28,000 street cabinets and deploying VDSL2 or fiber in the last mile. We believe that All-IP will lead to better and more services, lower costs, and continuing investment in innovative technologies by us and by competitors.

Meanwhile international Internet players such as Google and Microsoft continue to offer similar services as we are offering in The Netherlands. We believe that our home market is one of the most competitive markets in Europe.

In this dynamic market setting we are proud to state that we have strengthened our position as the leading provider of voice and broadband services and that we continue to be a fast growing provider of digital TV. Our market share in traditional voice increased to more than 65%<sup>‡</sup> in 2006. Our share in VoIP gross additions steadily increased during the course of 2006, exceeding 40%<sup>‡</sup> in the second half of 2006. As a result, we proved to be the fastest growing VoIP player in 2006. In the broadband market we grew more than all cable companies combined, as reflected in our fast growing retail market share, which increased from 36%<sup>‡</sup> in 2005 to approximately 41%<sup>‡</sup> in 2006. And last but not least, with our KPN TV offerings we created a solid platform in the cable-dominated TV market. By doing so, we are prepared in time for the increasingly integrated telephony, Internet and television markets.

### *Competition heats up*

The most profound change taking place in the consumer segment today is the recognition that the Internet (and other technological developments that rely on IP) is providing highly functional, new and efficient ways to transmit all forms of telecommunications, from voice to video. The shift to IP removes barriers to entry and allows us and competitors to offer voice, television and Internet on a single IP platform. This promotes multiplay offerings from just one broadband connection, forcing the customer to choose between either a (KPN-based) DSL solution or a package from a cable operator.

With the availability of broadband in The Netherlands more widespread than anywhere else in Europe, it is attractive for both us and competitors to market the advantages of VoIP over traditional voice telephony and digital TV over analog television. An increasing number of competitors focus these days especially on gaining market share apart from focussing on revenue and profit-diminishing risks. As a consequence, during 2006 the migration to VoIP and digital TV accelerated.

In this highly competitive climate our fixed line operations experienced pressure on various levels. In the consumer segment we successfully relied on our marketing strength to gain (broadband) subscribers and

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<sup>†</sup> VoIP penetration rate defined as the number of VoIP connections (excluding peer-to-peer and 2<sup>nd</sup> line VoIP) as a % of broadband lines

<sup>‡</sup> Management estimate based on information published by competitors

(broadband) market share. We are also continuing implementing our plan to acquire additional ISPs. The most notable transaction has been the announced acquisition of Tiscali's Dutch subsidiary. This acquisition is still subject to regulatory approval by the NMa.

However, we continue to face significant challenges from cable VoIP and product bundles. Telephone line loss in our segment increased considerably. We intensified our marketing efforts in selling our VoIP solutions (*InternetPlusBellen* and *Slim*), resulting in a fast rising share in VoIP adds. We are satisfied with this result, taking into account that in 2006 all relevant cable operators were offering VoIP solutions.

Digital TV use accelerated in 2006, partly due to our new KPN TV offerings. We acquired Nozema, through which we were able to extend our DVB-T network to almost all Dutch regions. National in-house coverage will be completed in 2007. With '*Digitenne*' we successfully made inroads in the Dutch TV market.

### *Implementing our strategy*

Given the market environment, in 2006 we reinforced our '**attack-defend-exploit**' strategy. We attacked on broadband by acquiring ISP market share, we were aggressive on VoIP to counter line loss and we delivered consistent growth in digital TV. Our multi-branding and multi-channel strategy helped us to support our business. We successfully exploited the revenue potential of our customers by using database driven quantitative marketing techniques (known as Customer Lifecycle Management). As a result, we are now able to market a diverse portfolio providing attractive bundles and value added services under our multiple brands and reducing our network related cost-base.

**Attacking the market for new communications, information and entertainment services aimed at establishing leading positions that deliver attractive long-term financial returns (attacking the market for broadband, TV and new IP-based services).**

In 2006, we took full advantage of the VoIP opportunity. Our *InternetPlusBellen* proposition, one bundle for VoIP and broadband Internet with attractive flat fee calling add-ons, conquered the market. Our multi-brand and multi-distribution approach contributed to this market success. All our prominent brands (besides KPN also Planet, Het Net and XS4ALL) were used for different market segments. Under the brand *Slim* we marketed VoIP as a no-frills, voice-only product especially aimed at cable TV customers with a high churn risk.

With the acquisition of 99,000 broadband customers from two ISPs (Speedlinq and Demon), we remain committed to continuing selective acquisitions to enhance our strategic position. As a result of these acquisitions and autonomous growth, our retail market share increased from 36.1%<sup>‡</sup> as of December 31, 2005 to approximately 40.9%<sup>‡</sup> of December 31, 2006.

Using our brands Planet and Het Net, we intensified during 2006 our marketing activities for naked ADSL. We mainly used this product line as a powerful customer retention tool.

We have further extended the range of options on offer to Internet customers. We moved away from offering just bandwidth by adding services that bring us closer to our customers. Examples are the extending functionality of our WiFi service *HotSpots*, our music downloading service *MusicStream* and our in-home maintenance service '*ServiceThuis*'.

Another important element in our strategy is to move into consumer applications. A first milestone we reached in 2006 is our participation in '*Klasse TV*'. In this TV portal for primary schools a variety of media content is delivered which can be easily integrated in regular school material. In addition to revenues derived from schools themselves, we expect revenues from spin-off effects to teachers and parents. We also foresee additional revenue opportunities when the reach of this e-learning initiative extends to other education institutions, to other applications such as e-gaming ('learning by gaming') and when advertising models will be introduced.

The introduction of KPN TV services in October 2004 (from October 2006 branded as '*Digitenne by KPN*') forms part of our multiplay strategy to create a level playing field against cable operators and to offer our customers a combination of TV, Internet and voice services. '*Digitenne by KPN*' is a value for money proposition, offering 23 TV channels and 17 radio channels for only EUR 7.95 per month in 2006. Selling points are a plug & play technology, a personal recorder with hard disk offering TV entertainment whenever you want, and outdoor and car watching possibilities. As of December 31, 2006, we had approximately 265,000 KPN TV subscribers. In only two years we have reached a market share on digital TV of almost 12%<sup>‡</sup> (in 2005: 3%<sup>‡</sup>). Strategically important is that '*Digitenne by KPN*' brings additional value to KPN by reducing customer churn in our Voice and Internet business lines.

In September 2006 we announced a distribution agreement with Tele2 to expand offerings from both parties for digital TV. The agreement allows us to expand our offering to '*Digitenne by KPN*' and '*Mine*' customers with Tele2's Dutch premier league football channels. We consider this as an excellent supplement to the PSV, Ajax and Feyenoord football club channels we introduced earlier in 2006.

In addition to our '*Digitenne by KPN*' service, we intensified our efforts to complete our interactive TV offer '*Mine*', our second brand in the TV market. Providing choice in TV channels, video-on-demand and unique content we want to reach a competitive positioning for this new IPTV product. A limited customer-friendly trial started in the second half of 2006. A full commercial launch is now planned for the first quarter of 2007.

*MediaMall* is another example of how we are developing new business areas. *MediaMall* provides a revolutionary, interactive television experience by offering the customer the possibility to start his own television channel. Anyone can take part, irrespective of whether it is an individual, a club or a content provider. All can actively contribute and create programs themselves, reporting on sports, hobbies or other (local) topics resulting in personalized television. Branded as '*MediaMall*', pilots for this personal TV service are now underway in Sittard, Geleen and Roermond, towns in the southern part of The Netherlands.

#### **Defending traditional services to maintain our leading share in declining markets (defending our leading market share in the traditional voice market).**

In 2006, we noticed an accelerating shift in communications consumption patterns away from conventional telephony towards VoIP. This evolution was driven by a number of factors, most importantly the greater overall consumer awareness of VoIP.

In 2005, we launched an innovative mobile-like handset program, called '*Telefoon met Belminuten*'. With modern designs and equipped with functions and navigation menus familiar from mobile handsets, this new line of DECT handsets converts the old fixed-line telephone into a terminal with a color display, icon-based menus, a wide range of ring tones and text messaging. We combine these phones with minute bundles for a monthly fee with a three year contract. Due to this business model churn reduced significantly in 2006, while fixed-to-mobile calling proved to be a main driver of ARPU increase. At December 31, 2006, our base of bundled DECT handsets grew to almost 250,000.

During 2006, we introduced new flat fee bundles for fixed-to-mobile and international calling, expanding our regular *BelPlus* packages that capture the opportunities of the new regulatory framework. At December 31, 2006, approximately 29% of our telephony customers subscribed to one of these packages.

An accelerating decline in traffic minutes and PSTN/ISDN connection lines marked our 2006 results. This negative trend reflects in particular technological and behavioural changes that drive customers away from traditional telephony services towards IP-based communication solutions. In one year we lost more than 1 million PSTN and ISDN connections. On the other hand, the turnaround in market share development, which became visible in 2005, continued. KPN's market share in traditional minutes was approximately 3.5%<sup>‡</sup> higher in 2006 than in 2005. This trend towards higher voice market shares reflects our policy that the market for fixed telephony remains fundamental for us in terms of customers, revenues and profits. In 2006, we made a number of enhancements in our fixed telephony portfolio such as:

- ‘BelVrij’, ‘BelNaarMobiel’ and ‘BelBuitenland’ minutes packages; and
- continuously adding new lines of DECT phones to our innovative handset portfolio.

We intend to simplify our telephony offerings in the course of 2007.

## **Products, Tariffs, Competition and Distribution**

The Consumer segment primarily generates revenues from our Voice business line (including VoIP), our Internet business line and from our TV/Media business. Our products and services can be grouped in products and services relating to access, traffic, equipment, supplementary services and digital TV.

We are continuously expanding the range and functionality of our supplementary services and equipment portfolio. We are now offering cordless handsets with voice bundles, as well as WiFi (HotSpot) services and Shoobidoo services (video uploading service). MusicStream (our music downloading service), ServiceThuis (subscription for at home maintenance of Internet equipment) and PC Veilig (Internet security package) are other examples of KPN initiatives to enhance the digital services for our customers.

## **Voice and VoIP**

### *Access*

KPN offers fixed-line telephony access services through analog (PSTN) and digital lines (ISDN). Each PSTN line provides a single telecommunication channel, whereas ISDN access lines offers either one or two channels. Using ISDN, a single line can be used for a number of purposes at the same time, including voice, data, Internet and fax.

The revenues from these access services consist principally of subscription fees charged bi-monthly to customers and one-time connection fees. Total net sales from connections depend on the number of new connections and customer lines, the mix of the customer base (fees for digital lines are higher than for analog lines) and fees charged for our services.

We are the largest provider in the traditional voice access market, but experience continued competitive pressure. In the consumer market there is competition from mobile-only solutions and increasingly from VoIP solutions. As of December 31, 2006, approximately 18% of Dutch households have only mobile phones (compared to 16% as of December 31, 2005). Broadband penetration (the number of households with a broadband connection) increased significantly, from approximately 58% in 2005 to approximately 69% in 2006. These high broadband penetration rates make it attractive for cable operators and alternative DSL providers to introduce a low-priced VoIP service to compete with us. Most of these VoIP lines have replaced a PSTN or ISDN connection from KPN.

Under the name ‘InternetPlusBellen’ we introduced our own VoIP product in 2005. After an initial limited rollout to reach the necessary quality standard, we began a full commercial rollout in 2006 of VoIP, using our multibrands. Very successful was the launch of ‘Surfen en Bellen’, our VoIP offer from ‘Het Net’. We also launched a new brand, *Slim*, by which we especially focus on churn-sensitive cable TV customers.

At the end of 2006, more than approximately 1.4 million households were using VoIP products, and many of them had disconnected their traditional phone line. With a market share of approximately 49%<sup>‡</sup>, the cable operators provide most of these VoIP lines. In the second half of 2006 our market share in net VoIP adds increased to more than 40%<sup>‡</sup>, resulting in a fast rising market share from approximately 3%<sup>‡</sup> in December 2005 to approximately 36%<sup>‡</sup> in December 2006. This market share corresponds to approximately 0.5 million KPN VoIP customers which makes us the largest VoIP operator in The Netherlands<sup>‡</sup>.

Overall, the number of PSTN and ISDN lines declined sharply during 2006. As of December 31, 2006, we supplied approximately 3.9 million PSTN and ISDN connections to residential customers (compared to 5.0 million as of December 31, 2005).

As stated above, we believe that our home market is one of the most competitive telecommunication markets in Europe. Carrier Pre Select (CPS) operators always had a significant presence in The Netherlands. Due to the advance of broadband and VoIP, infrastructure ownership has become more important for competitors to maintain strong and profitable customer relationships. Combined with our more aggressive marketing approach, this has led to a gradual decline in importance of CPS. This was reflected in an increase of our traditional voice market share from approximately 65%<sup>‡</sup> as per December 31, 2005 to a market share between 65% - 70%<sup>‡</sup> per December 31, 2006.

Cable operators - positioning themselves as an alternative to KPN - increased their efforts to cash in on their broadband-enabled networks in 2006. During the year they focused their activities on rolling out VoIP and on intensifying their marketing efforts on digital TV as a cornerstone of their strategy to increase market share.

### *Voice traffic*

In the voice market, we offer services in different segments:

1. local telephony traffic: call minutes from calls within a call area or to an adjacent area;
2. national long-distance traffic: call minutes from calls between customers in different local call areas in The Netherlands;
3. fixed-to-mobile traffic: call minutes from one of our fixed lines to a mobile telephone; and
4. outbound international traffic: call minutes from international calls by direct dialing.

In order to maintain our market share, we increasingly focus on providing more value to our voice customers through an extended range of voice bundle discount packages. In addition, we combined the benefits of our portfolio of flat fee packages with the advanced capabilities of the new DECT handsets.

Since its introduction in the second quarter of 2003, approximately 1.1 million consumers have opted for one of our minute packages, representing a penetration rate of approximately 29% of our total residential telephony customer base. Since their introduction in 2005 approximately 250,000 bundled handset packages (*'Telefoon met Belminuten'*) have been sold.

Through these activities in the traditional voice market, we have been able to increase our market share in traditional voice calls for the second successive year. At the end of 2006, our market shares were: between 70% - 75% (for local calls)<sup>‡</sup>, approximately 65% (national)<sup>‡</sup>, approximately 70% (fixed-to-mobile)<sup>‡</sup> and between 40% - 45% (international - excluding international traffic from telephone cards)<sup>‡</sup>.

### *Tariffs Voice*

Our tariffs for fixed-line voice telephony services are subject to regulatory approval, except for international voice services. Under the regulatory framework applicable to the Dutch telecommunication sector, these tariffs will continue to be subject to regulation for as long as the Dutch regulator designates us as having significant market power. During 2006, our traffic tariffs remained unchanged.

The level of monthly subscription fees is higher for ISDN access lines than for standard PSTN access lines. During 2006, our subscription fees for PSTN and ISDN lines remained unchanged.

### *Internet*

In The Netherlands, approximately 80% of the households have Internet access, while penetration of broadband is one of the highest in the world. As a consequence of this high broadband penetration, dial-up

Internet services rapidly decreased in significance. Many providers operate in this mature broadband market, including cable operators, alternative DSL operators and other service providers.

As part of our strategy to increase our broadband market share, the aggressive rollout of *InternetPlusBellen*, our bundle for VoIP and ADSL, was very important. A large part of the *InternetPlusBellen* contracts are for either new KPN customers or KPN customers that did not yet have an ADSL connection.

Equally important as part of this strategy are executing smart acquisitions. In 2006 we acquired Speedling and Demon.

The total number of KPN ADSL connections increased by 23%, from 1.7 million at the end of 2005 to more than 2.1 million ADSL lines at the end of 2006, representing 43%<sup>‡</sup> of the total broadband market in The Netherlands (including broadband offered by cable operators).

We offer customers broadband access through our KPN Internet organization. 'Direct ADSL' (which offers a direct ADSL connection without using an ISP), Planet, Het Net and XS4ALL are the brands under which we sell our range of broadband products. Our ISPs plus Direct ADSL increased their number of broadband subscribers from 1,485,000 as of December 31, 2005 to 2,044,000 as of December 31, 2006.

Subscribers using ADSL by KPN receive additional savings on premium services (such as 'Service at home' and 'PC-safety') and have access to specific broadband services. Subscriptions at (introductory) discounts are offered in order to gain market share. During 2006, we increased the ADSL transmission rate, while keeping prices stable in order to attract new customers. Competition in the ISP market remains strong. Our main competitors in the ISP market are cable operators (such as @home and Chello) and DSL operators (such as Tele2 and Orange).

We are building on our existing customer base and on the strength of our brand names in The Netherlands. We charge our ADSL Internet customers monthly subscription fees that are comprised of two parts: the ISP charges the customer the fee for Internet use, while the use of the infrastructure is charged directly to the customer. Additional services are charged per service through the ISP. All customers of our ISPs pay a monthly subscription fee.

Apart from broadband ADSL services, we offer narrowband Internet dial-up services: Internet dial-up both to customers of our own ISPs as well as to customers of third party ISPs (via so-called 0676 numbers). As a result of the migration of dial-up customers to broadband offerings, our Internet dial-up access minutes are rapidly decreasing.

#### *Internet traffic*

We offer Internet dial-up minutes to our own and other ISPs. Due to the increasing penetration of broadband and the migration of dial-up customers to broadband, our Internet dial-up customers (338,000 as of December 31, 2006 compared to 564,000 as of December 31, 2005) and minutes (1.1 billion minutes as of December 31, 2006 compared to 2.6 billion minutes as of December 31, 2005) continued to decrease rapidly during 2006.

#### *Tariffs internet*

Given technological developments and competition, which result in pressure on ADSL subscription fees, we are offering higher transmission speeds while maintaining our ADSL tariffs. The highly competitive environment, however, is forcing us to discount our modem prices and to offer (partly) free installation.

Tariffs for dial-up subscriptions and connection fees remained unchanged in 2006.

## *Digital TV*

We have offered wireless digital broadcast TV and radio (based on DVB-T) since October 18, 2004, as part of our multiplay strategy to become an all-round provider of voice, broadband Internet and TV services. We were one of the first telecom operators to venture into the TV market. At the end of 2006, *'Digitenne by KPN'* could be received in the main metropolitan areas in which approximately 3 million (or approximately 45%) of the Dutch households reside. National in-house coverage will be completed in 2007.

The offering is comparable to standard cable, but at lower subscription prices per month (multiplay price) and lower set-top box prices. Our additional football package is offered for an additional price per month.

During 2006, we experienced an increasing market growth for digital TV, due to our own efforts and as a result of marketing actions from cable operators.

As of December 31, 2006, we had approximately 265,000 KPN TV subscribers, of which the majority chose packages in combination with Voice and ADSL.

## *Our Brands and Marketing*

For the consumer market the main objectives are the alignment of products, market concepts and brands to a number of homogeneous market groups. For each of these groups we have tailored multiplay packages aimed at increasing overall customer satisfaction. As a consequence, we put less emphasis on nationwide promotion campaigns on TV and concentrate more on regional and personal marketing.

Our products and services are sold under various brands. We aim to reach specific customer groups with segmented brands. Our Enhanced Customer Lifecycle Management tools support this approach.

We have a number of so-called value brands. *'Het Net'* is positioned as a 'no frills, no nonsense Internet' brand. *'Digitenne by KPN'* is our brand for Digital TV at low costs. Both *'Het Net'* and *'Digitenne by KPN'* focus on price sensitive customers. In 2006 we introduced *'Slim'*, our no-frills voice-only brand especially aimed on cable TV and mobile only customers.

We also support a number of so-called premium brands. The *'KPN'* brand is our primary brand and intends to convey reliability and high quality. *'XS4ALL'* stands for top quality and innovative Internet. Our brand *'Planet'* refers to Internet, content and market leadership. Our new *'Mine'* brand is used as a symbol for premium interactive television.

We believe consumers broadly consider our brands to represent reliable and competitively priced services. *'XS4ALL'* has repeatedly been named in independent tests as the preferred brand for its reliability and high-service quality. Our other brands are scoring in the top range of these polls as well.

As a multi-channel approach is important, we continuously focus on widespread distribution and an excellent level of service. Different store outlet chains support our marketing philosophy with *'Primafoon'* as our main stream outlet and *'Hi'* retail stores aimed at the youth market. During 2006 we have started several trials with new distribution concepts, extending our experience in the multimedia business.

With this policy, we anticipated the more individual approach the market is increasingly requiring from us. This has contributed to the developments reported above: attack with VoIP, continuous increase of market share in the traditional voice market, continued strong growth of ADSL sales and the successful extension of *Digitenne by KPN*.

## **(a2) Segment Business**

### *Implementing our Strategy*

Competition in the Dutch business market remains fierce. Major demographic trends force businesses to innovate processes, services and business models. Fast, secure access to information is becoming increasingly important. ICT is vital in this process. New communication services are IP-based and access to data is possible through various kinds of hardware devices. This enables companies to develop more efficient working practices. Employees can access information through various devices, at any place and any time. Communication with and between machines provides additional information sources and reduces human intervention.

While using ICT becomes easier, the management of it is getting increasingly complex. This results in steadily growing demand for end-to-end managed ICT services, as well as an ongoing demand for unmanaged services.

In the traditional telecom market, our main competitors are national and international telecommunication providers as well as cable companies. Price competition continues, since basic telecom services have become commodity services.

Global software and Internet players (e.g. Microsoft, Google, eBay) integrate (free) communication services into their offer, which leads to additional competitive pressure in the small and medium enterprises market.

In the large enterprise market, we face competition from international companies offering managed ICT services (e.g. system integrators), as well as from niche players in specific (vertical) market segments. The integration of IT and telecommunications in many cases motivates (large) companies to buy IT and telecommunications services from a single provider. It is therefore important to be able to provide customers with the services they require, both managed and unmanaged, in order to remain as their (primary) business partner.

### **Attacking the market for new communications, information and entertainment services aimed at establishing leading positions that deliver attractive long-term financial returns**

KPN's strategy in the business market is aimed at grasping the opportunity to shift from decreasing traditional communication services towards services in the larger and growing market for end-to-end ICT Services. We are the preferred supplier for IP-VPN, Ethernet VPN (E-VPN), IP-PBX, DSL Access services and POTS (traditional telephony services) in The Netherlands. This is an excellent basis for our ambition to establish a leading position in the markets for communication, information and business media services, delivering attractive long-term financial returns.

#### *- Applications online*

In 2006, KPN introduced a range of online application services for small and medium enterprises. Applications online enable companies to access software and content via Internet. The applications are hosted in KPN cyber centres, safe and secure, relieving companies from the installation and management of applications on servers on their premises. Employees can log on to the applications from any location through for example a PDA, a private PC or a laptop, enabling them to work anytime, anyplace. KPN's strategy is to continuously expand the application portfolio, which currently consists of Exact Online, Exchange Online, Back-up online, CRM Online and Werkplek Online.

#### *- Contact centre solutions*

In July 2006, KPN acquired NewTel Essence, a Dutch company specialised in the provision of IT solutions, including contact centre solutions and customer relationship management. NewTel Essence has 110 employees and generated a turnover of EUR 25 million in 2005. The acquisition is in line with KPN's stated



aim of strengthening its position in fast-growing new communication markets. KPN Contact Centre Solutions enables companies to improve their customer facing processes, resulting in higher customer satisfaction and loyalty, by integrating mail, web, phone and messaging communication streams.

#### *- Public sector solutions*

In October 2006, KPN acquired 100% of the shares of Gemnet. Gemnet offers a range of ICT services to municipalities, waterboards and provinces in The Netherlands. The vast majority of Dutch municipalities have a Gemnet connection to access crucial government registers, most importantly the GBA (Municipal Register for their citizens or '*Gemeentelijke Basis Administratie*'). This acquisition is a stepping stone for KPN to strengthen our position as a provider of managed ICT services in the public sector.

#### *- Narrowcasting*

In 2006, KPN acquired three innovative and successful organizations in the field of Narrowcasting: NN Solutions, QBIX and eYe-display offering end-to-end narrowcasting services, including content exploitation.

It is increasingly difficult to reach consumers through traditional (mass) media. According to research carried out by the Dutch Association of Advertisers, retail outlets will play an increasingly important role in interactions between manufacturers and consumers. On average 75% of decisions to buy are made at the actual place of purchase. Narrowcasting – marketing to targeted groups using television screens placed in retail outlets - offers companies the ideal solution. Companies can inform, influence, and entertain specific targeted groups while they are making their decision whether or not to buy. Companies and organizations can use this innovative form of communication in their internal and external communications and it also works to strengthen the brand name and the feeling for the product.

In 2006 KPN formed a strategic partnership (joint venture) with Heineken in ON B.V. ON is a narrowcasting platform targeting the Dutch entertainment audience. ON provides the leisure industry with LCD-screens including the transportation of high-quality video (moodfilms, clips, live concerts etc.) over a broadband connection. This partnership is in line with KPN's ambition to be the market leader for narrowcasting total solutions and to become a multimedia company.

After a successful joint pilot project during the first half of 2006 testing internet and narrowcasting in moving trains, KPN and NS (Dutch Railways) agreed upon a partnership for the roll-out and exploitation of connectivity to moving trains, WiFi HotSpots and Narrowcasting in trains. The narrowcasting services are expected to grow to a gross reach of 240 million travellers per year.

#### *- Radio Frequency Identification ('RFID')*

KPN signed a contract to provide narrowcasting and RFID services to Dutch Water Dreams, the new Olympic based wild watercourse in The Netherlands (Zoetermeer). Visitors can watch the adventures of other visitors live on narrowcasting screens, along with commercial messages and other content. The experience of each participant is audiovisually recorded, using RFID to keep track of individual participants.

#### *- Healthcare solutions*

In March 2006, KPN introduced 'ZorgConnect', a nationwide highly secure fiber optic network for the health care sector, providing hospitals with access to and sharing of relevant information to improve their efficiency and effectiveness.

KPN acquired E-Zorg, a company which offers sector specific applications, with high value for general practitioners, pharmacists and hospitals, based on a secure, reliable communications platform between organizations in the health care sector. We have connected this E-Zorg network with KPN's ZorgConnect network, thereby creating a national communications platform for the health care sector.

KPN has acquired from Siemens Nederland part of their activities in the field of Large Enterprise Sales and Service Corporate Networks (Enterprise Networks). Enterprise Networks supplies, implements and maintains corporate communication systems for the large enterprise ('LE') market. The strong position Enterprise Networks holds in the LE-market fits well with KPN's ambition to offer integrated solutions for (IP) communication. The focus of Enterprise Networks on the healthcare sector is in line with earlier initiatives in health care, such as E-Zorg and '*Zorg op Afstand*'.

The combination of the acquisitions of NewTel Essence, CSS Telecom and Enterprise Networks, further strengthens KPN's position in the field of business communication solutions.

Epacity is KPN's brand name for IP-VPN services. Epacity is a value added business package for multi-site companies in The Netherlands. It integrates IP-VPN functionality (such as any-to-any IP-based connectivity, quality of service, security), several access options (such as ADSL, SDSL, Leased Lines, Ethernet) and managed customer premises routers into a single business offer. Epacity IP-VPN is still growing above expectations, with most of the growth coming from existing customers. The number of customers that have KPN manage their routers as a value added service to Epacity IP-VPN also continues to grow. As a result KPN is able to expand its existing customer relationships leading to higher revenues per customer. We believe that we are the preferred supplier for IP-VPN services in The Netherlands, providing us with an excellent basis to sell services and applications that are based on IP-VPN to our customers.

The demand for dedicated high bandwidth solutions is moving from the higher SDH bandwidth ranges (34, 155Mb) towards the Gigabit range and beyond. These private line solutions are especially used in LAN and Storage Area Networks (SAN's) that require high resilience, security, guarantee relay and dedication. Sarbanes-Oxley, EU storage requirements in regard to telephony and Internet traffic and local data storage for municipalities and other legislative initiatives are helping to increase the demand for more bandwidth and highly secured storage. With these (backbone) services, in combination with KPN's highly secured Cyber Centers and network services like Epacity and E-VPN, KPN can offer customers integrated network solutions.

Private Lines are offered with a wide range of interfaces for all major storage systems (such as Gigabit Ethernet, Escon (IBM) and Fiberchannel) and providers.

#### *- International activities*

A national product portfolio is not sufficient to be successful in the top end of the business market. Corporate customers increasingly require international solutions for their international and national business. To meet those shifting requirements, KPN has developed an international proposition based on a smart combination of its own European data network and various partner networks. With this low cost infrastructure KPN is able to deliver advanced seamless data and voice services to global customers under one contract, one helpdesk and one invoice.

#### **Defending traditional services to maintain our leading share in declining markets**

The business market aims to defend market shares in its hyper-competitive traditional markets. Our proven traditional services are a vital part of the solution for current communication needs of our customers. They are also the stepping stone for migration to IP. We defend our market share by improving customer focus throughout the organization and cross and upselling new and existing services to our existing customers. The combination of telephony, internet, mobile and content services provides excellent opportunities to exploit our reputation as a reliable and innovative partner for telecommunication services.

Discussions with our customers are leading to the creation of tailor-made packages and an agreement upon optimal migration timing. This approach has reduced churn for traditional services.

KPN will continue to introduce new services that will both increase customer satisfaction and exploit traditional voice. Packages will be designed that attract specific target groups. Packages that will not meet the planned penetration will be phased-out immediately to sustain operational excellence.

This portfolio management process, in addition to other critical business processes, will be further improved and accelerated. KPN plans for a re-branding and remodeling of its traditional voice portfolio to further align it with customer needs. Additional online services such as rate plan advisory service and migration will be created to fulfil customer satisfaction.

Since January 1, 2006, OPTA regulation has been more favorable to KPN. Free competition on international telephony has been established and KPN has been given more room to maneuver on national telephony. New packages and discount offerings have been developed (e.g. '*Zakelijk Belvrij*', Worldline XL remodeled, Corporate Voice National, Corporate Voice International, '*Zakelijk InternetPlusBellen*'), giving KPN an opportunity to stabilize market share decline or even increase market share.

We further reduce churn by building customer-focused program teams for our largest accounts. This results in improved responsiveness to customer demands, for both new and existing customers. Where relevant we advise and help our customers to migrate from traditional to new technologies to better support their business processes and reduce the total cost of ownership.

A strategic partnership with MKB-Nederland (an organization representing the interests of Small and Medium Enterprises) should further stimulate ICT within the SME market segment. Through several activities, including an Internet site ([www.mkbenict.nl](http://www.mkbenict.nl)) and specific events, companies are informed about the way ICT could assist them in seizing commercial opportunities.

We continue to expect a further decrease in the number of leased lines. Since leased lines have a high penetration in the business market, migration to IP-VPN type connectivity will negatively affect the number of leased lines. Competition on the 2 MB market for leased lines and alternatives remains severe.

#### *Products, Tariffs, Competition and Distribution*

The Business segment primarily generates revenues from our Voice business line, our Data business line, (international) Managed Services, our Equipment (solutions) business line and Customer Interaction Solutions.

We offer telecommunication solutions for the large, small and medium markets through a variety of sales and distribution channels. The small and medium market is serviced by KPN Personal Sales (approximately 1,200 sales employees), KPN Sales stores (KPN Business Centers), Value Added Resellers, call centers (in- and outbound) and online sales via KPN.com.

Large corporate customers are serviced by dedicated (strategic) account management, supported by consultants offering integrated solutions. We have improved our distribution capabilities for this market by differentiating our sales approach and implementing multi-channel initiatives in alignment with the customer profile and value.

### **Voice Services**

#### *Products*

KPN offers fixed-line telephony access services through analog (PSTN) and digital lines (ISDN) and new fixed-line telephony through VoIP.

The revenues from traditional access services consist principally of subscription fees charged bi-monthly to our customers. Total net sales from connections, for which we charge a one-off connection fee and

subscriptions, depend on the number of new connections and customer lines, the mix of the customer base (fees for digital lines are higher than for analog lines) and fees charged for our services.

In 2006, KPN has started to offer various VoIP services in the business market, including

- ‘*Zakelijk InternetPlusBellen*’ (Voice over IP-solution for the small and medium enterprise market); and
- VoIP Connect (Voice over IP-solution for large enterprises).

KPN offers national and international calls. The revenues from these traditional traffic services consist of minute-based fees charged bi-monthly. The minute-based fees range from our standard BelBasis offering to discount packages such as: ‘*BelZakelijk*’ (prepaid call allowances with reduced tariffs), ‘*Zakelijk Belvrij*’ (flat fee package on national telephony), Wordline XL (a volume based discount arrangement) and Corporate Voice National (a volume-based discount arrangement for our corporate clients). As from January 1, 2006 international calls are no longer subject to OPTA regulation. In the beginning of 2006 we introduced special discount offerings for our medium sized business clients (Business Voice International) and corporate clients (Corporate Voice International).

### *Tariffs*

Our tariffs for fixed-line national voice telephony services are subject to regulatory approval. Under the regulatory framework that applies to the Dutch telecommunication sector, these tariffs will continue to be subject to regulation for as long as the Dutch regulator designates us as having significant market power. The level of monthly subscription fees for ISDN access lines is higher than for standard PSTN access lines.

Our VoIP tariffs are also subject to OPTA regulation. The tariffs components of ‘*Zakelijk InternetPlusBellen*’ consists of a DSL subscription and voice subscription fee. International and fixed-to-mobile calls are charged per minute and are equal to the traffic fees of the consumer proposition ‘*InternetPlusBellen*’. Our VoIP Connect offering is based on a license fee per user combined with an IP solution of the customer. Traffic fees are charged per minute.

### *Competition*

We face aggressive competition in a declining traditional voice market due to the high pace substitution from fixed to mobile and data (VoIP) together with a high penetration of broadband connections.

In the corporate market traditional voice telephony is increasingly being replaced by broadband and IP-VPN solutions. This trend is also increasing now that IP-VPNs are being equipped to provide intercompany voice traffic (for free).

In the small business market we experience heavy access competition from cable operators, which are now offering VoIP solutions bundled with broadband Internet. Increasing broadband penetration in the business market enables competitors to offer more business services at lower costs, e.g. electronic payments, and poses a high risk for our traditional voice access services.

In the traditional voice access market we are the largest provider<sup>†</sup>, but experience continuing competitive pressure from direct access and Carrier Select and Carrier Pre Select competition. Our main competitors are Tele2/Versatel, BT Ignite, Verizon, TTG, Colt, Essent and Priority.

## **Data and Internet access services**

### *Products*

We offer a range of data communication services for business customers. We are the leading provider of these services in the Dutch business market both in terms of revenues and in terms of number of connections.

In addition, we offer data services in Europe through our KPN EuroRings network and worldwide with our partners. The telecommunication solutions based on data/IP services we offer include:

*- National data services*

KPN offers an extensive portfolio of data services ranging from Traditional Transmission Services such as Leased lines and broadband services to Network Services such as IP-VPN, Ethernet VPN services and Internet Access Services. KPN is the leading provider of Internet Access Services in The Netherlands. Both xDSL (e.g. ADSL, SDSL) access technology and optical fiber access technology are supported. These services are targeted at business Customers and at ISPs.

*- International data services*

Through our KPN EuroRings network we provide international connectivity services in Europe. The international services also vary from Transmission Services such as international leased lines to Network Services such as IP-VPN and E-VPN-Services. Furthermore, for worldwide solutions we work with partners like SingTel, Telefónica and Sprint. This is complemented with substantial participations in various sea cables.

*- Integrated & Managed Solutions*

KPN provides Managed Network Services, Managed IT Services and Mobile Data Solutions to customers who are outsourcing parts of their ICT-infrastructure and management to KPN. KPN aims to provide one seamless, end-to-end solution tailored to each customer's specific ICT requirements.

*Tariffs*

The pricing of KPN's data services, Internet access services and integrated & managed solutions is largely based on recurring monthly subscription fees. The pricing depends on the bandwidth, the quality level and the functionality provided. The pricing of leased lines also depends on the geographical distance. Some services have an additional volume-based pricing component. Customers are typically billed on a monthly basis. Data services are partly regulated. The service fees of regulated services are therefore based on prescribed cost-based calculations as stipulated by the Dutch telecommunication regulator, OPTA.

The price levels of data and Internet access services are declining. This is the result of a combination of intense competition, overcapacity of bandwidth and the migration from traditional services with higher prices to next generation services with lower prices.

*Competition*

We have many competitors in the data communications services market, such as BT Global Services, MCI, IBM, Colt, Essent, Enertel, Versatel, Global Switch, TNF Network Factory and BBNed. Our competitors invest in the construction of backbone infrastructures in The Netherlands and in local networks in large Dutch cities, comparable to our CityRings network. Local government fiber initiatives also increased the competitive pressure within The Netherlands and introduced new competitors.

**Equipment, voice and data solutions (EnterCom)**

*Products*

KPN designs, delivers, integrates and services voice and data communication solutions (such as PBX installations and Local Area Networks) and offers communication solutions for special events, call centers and dealing and trading. Anticipating Fixed and Mobile convergence, we offer combined solutions to meet customer demand in new areas like video surveillance, security, Dynamic Instore Marketing (narrow casting)

and healthcare. We use high-quality partners to enable us to acquire specialist knowledge in new areas. Increasingly customers require managed solutions.

KPN provides outsourcing solutions for all or part of the telecom operations and infrastructure of companies, increasingly focusing on the integration of fixed, mobile and data communication. We offer the know-how of our consultants, project and implementation managers and specialists in management and technology.

In 2006, KPN acquired two companies, CSS Telecom and Siemens Enterprise Networks, in order to further strengthen our position in the field of enterprise communications in general and healthcare solutions in particular.

CSS Telecom provides advice on, supplies, implements and maintains business integrated communication solutions for spoken, visual and data communication. CSS Telecom targets small and medium businesses and has a special focus on the health care sector. The company has 191 employees. Their 2006 revenues amounted to EUR 33 million.

Siemens Enterprise Networks supplies, implements and maintains corporate communication systems for the Large Enterprise market. Annual turnover is approximately EUR 10 million. Enterprise Networks has 44 employees.

### *Tariffs*

We believe we are able to offer competitive prices for our products, service contracts and other services due to our excellent supplier relations, extensive knowledge of communication solutions and the use of technology (such as service on line) for servicing the products.

By offering ongoing support and other services, revenues from equipment and voice and data solutions move increasingly from one-off revenues to recurring revenues (for example Managed Solutions 'tariff per minute' in a managed call center environment and Managed ICT solutions).

### *Competition*

Our competitors are numerous and vary in size, depending on the product/service we sell in the ICT market space. Our main competitors are Imtech, Getronics and Dimension Data.

We maintain our leading position with high success rates and high customer satisfaction. Clients have chosen KPN increasingly for our end-to-end full service provisioning and Fixed and Mobile convergence as well as our innovative solutions.

## **Customer Interaction Services (CIS)**

### *Products*

The Business to Business ('B2B') portfolio of SNT combined with KPN's already existing 'interaction portfolio' created the new Customer Interaction Services unit which is fully equipped for a new growing market of 'interaction services' between businesses and their customers. Through this business unit, KPN provides a wide range of corporate-voice-inbound and interaction services varying from conferencing services and 0800/0900 service numbers to new services like CRM software applications.

### *Tariffs*

Under the new Telecommunications Act the 0800/0900 service numbers market prices have been deregulated in 2006. This development has improved our competitive position.

## *Competition*

The competition for interaction services varies from operators (0800/0900) to software companies (CRM software) such as BT, Priority, Versatel and Colt. We believe the ability to offer a combination of traditional routing facilities and CRM applications gives KPN a competitive advantage. To exploit this competitive advantage, KPN has established a number of selected partnerships with companies like RightNow Technologies and Epiphany.

## *Our Brands and Marketing*

For business customers in The Netherlands, KPN is the primary brand for both fixed telephony, Internet/broadband and data network services. KPN also owns Infonet Netherlands, which offers data networking services, as an exclusive distributor of Infonet Inc. in the Dutch Market. In 2006, KPN's marketing further refocused from a product to a market orientation for both consumer and business customers. For Small and Medium Enterprises as well as Large Enterprises, our major goal has been to offer our customers a range of services and easy-to-use solutions based on their business needs. To meet this goal we often successfully play the role of ICT advisor. Advising the customer is also a part of the continuous improvement in our customer service and satisfaction. Examples of advising the customer are 'ZekerWeten' (a fixed-mobile campaign emphasizing our advisory capabilities based on innovative advisory tools), 'Telecomscan' (an online advisory tool for SMEs to identify the best possible communications mix, taking into account a company's mobile and fixed telephony usage) and the Business Continuity Quick Scan, a tool which supports large enterprises to gain insight in the continuity of their business processes in case of a crisis.

We have both increased our sales of broadband (Office DSL), IP-VPN and E-VPN network solutions, nationally as well as internationally. During 2006 we continued offering managed services that optimize business processes and contribute to business continuity and ultimately cost savings. In the SME market KPN has strengthened its position with intensified marketing campaigns for KPN's DSL offering and KPN's new product line up.

## **(a3) Segment Wholesale and Operations**

Within the Wholesale and Operations segment our main external activities are:

- (1) national wholesale and local-loop services;
- (2) international wholesale voice and wholesale data services; and
- (3) customer relations management activities.

## *Implementing our strategy*

In the wholesale market there is a growing demand for higher bandwidth and new broadband services, while revenues from traditional voice and switched internet services are decreasing. As a consequence of this shift we see increases in (external) wholesale volumes as Cable and ADSL operators are entering the retail voice market via Voice over IP. The transit volumes we handle for other operators tend to decrease in the future given that direct-interconnection initiatives are surfacing more and more. Internationally, there is a trend towards international consolidation and strategic alliances, as a consequence of which the downward pressure on tariffs increases, only partly offset by increasing volumes.

## **Attacking the market for new communications, information and entertainment services aimed at establishing leading positions that deliver attractive long-term financial returns**

In our wholesale market we continue to search for new opportunities. In 2005 we introduced Wholesale ADSL. This service is a value-added service in addition to local loop unbundling, which enables ISPs and

other operators to add ISP-specific value, such as e-mail services, spam- or virusfilters and firewalls, without the need to invest in the construction of their own DSL network. Interconnection services based on IP, white label VoIP Services and wholesale fiber to the home were developed in 2006 and will be commercially launched in 2007.

### **Defending traditional services to maintain our leading share in declining markets**

We continue to search for possibilities to maintain or increase our (traditional) revenues by leveraging our scale advantages and responding to consumer desire for choice through wholesale offerings in addition to KPN-branded retail offers.

### **Exploit to achieve a structurally lower cost base and improved customer satisfaction**

In March 2005 we announced our Exploit initiative to achieve a structurally lower cost base. We launched several cost savings programs, mainly concentrated in the categories of personnel, traditional IT systems and infrastructure.

The IT Transformation Program announced is now fully operational and has delivered its first benefits in 2005. Agreements were made with KPN's main IT suppliers and the first cost savings have been realized. Best-practice processes were implemented in the IT organization, rationalizing IT applications and leading to a 20% reduction of IT applications in 2005.

### **National Services**

The national services we offer can be divided in national wholesale services and national local-loop services.

Within the national wholesale services we offer a comprehensive range of services that give other telecommunication companies access to our fixed telephony network. These services include:

- terminating services: we offer terminating access to end users connected to our network, allowing customers from other operators to reach our customers;
- voice-originating services: we offer Carrier (Pre)Select operators access to calls originating on our network and we offer customers of our network interconnection with so-called premium numbers (with prefixes of 0800 or 0900), pagers and virtual private networks;
- Internet-originating services: we offer ISPs the possibility to bill their customers directly for their Internet traffic volume usage through the use of special dial-up numbers (with 0676 prefix); and
- transit services: we offer other telecommunication operators the routing of incoming and outgoing national and international calls between other operators' networks through our network.

The services are offered on the traditional switched network and VoIP platforms. Interconnection services based on IP and white labeled VoIP services were developed and tested in 2006 and will be commercially launched in 2007.

In 2006 traffic volumes decreased for originating and terminating voice services due to strong competition in the national voice market by competitors like Versatel/Tele 2, Verizon and BT for traditional switched voice traffic as well as for voice over IP. Also competition from cable operators with their VoIP offerings increased significantly over the course of 2006. In addition, fixed mobile substitution contributed to further decreases. As a result of the substitution from Internet dial-up access to broadband Internet access services, the volume of Internet-originating services declined substantially during 2006.

Due to the migration of the end customer from fixed to mobile and the growing market of VoIP, the transit market is increasing. KPN faces continuing strong competition in this market from direct interconnection as



well as competitors such as Orange and BT. Despite strong competition KPN has been successful in defending market share, resulting in increasing traffic volumes for transit voice services. The main driver behind this growth remains the continuing growth in mobile-to-mobile voice traffic.

Within the national local-loop services, we offer access services to 'the last mile' of our network. These services include:

1. Main Distribution Frame (MDF) access: this service physically connects networks of other operators to the local loop network of KPN. With this service we offer operators direct access to homes and offices of their customers;
2. MDF co-location: we offer other operators the possibility to install their equipment in or alongside KPN buildings, towers and masts to connect their systems and networks to our network. This service offers operators direct access to the local loop network of KPN;
3. Wholesale Line Rental (WLR): KPN introduced on December 29, 2006 the service wholesale line rental which enables other operators to sell PSTN/ISDN connections. WLR is mainly for those operators who already offer Carrier (Pre)Select. Together with WLR they can offer subscription and traffic services to the end user;
4. Subloop Distribution Frame (SDF) access: since the beginning of October 2006 SDF collocation and SDF line services have been available as part of the All-IP program.
5. Wholesale broadband Access (WBA): consisting of bitstream access, wholesale ADSL and wholesale Fiber to the Homes. Bitstream offers operators and ISPs the possibility to develop individual DSL-based services. Wholesale ADSL is an added value service on top of local loop unbundling, which enables ISPs and other operators to add ISP-specific value, without the need to invest in the construction of an own ADSL network. In 2007 wholesale Fiber to the Home will be introduced; and
6. Interconnect Leased Lines services: we offer a unique connection between an end-user location and the transmission network of an operator.

The decrease in PSTN and ISDN connections continued in 2006. MDF access increased due to the introduction of end-user services like VoIP, Tele2complete of Tele2 and Livebox of Wanadoo. Due to the developments in the broadband market, there was an increase in Wholesale ADSL for 2006.

#### *International Services*

The international wholesale services we offer can be divided into voice services and data services. Data services are primarily handled by Segment Business, for example KPN EuroRings. The international voice services transport international voice traffic originating outside and inside The Netherlands to any place in the world and includes:

1. Premium Voice Services: offers worldwide access through KPN's high quality voice network in Europe and our international access points in Hong Kong, Miami, New York and Singapore;
2. Wholesale Voice Services: offers worldwide voice termination at competitive prices;
3. Solutions for mobile operators: offers services for voice traffic and SMS-, MMS- and UMTS related services; and
4. Solutions for ISPs: offers voice access services connecting VoIP traffic to switched networks internationally.

In 2006, volumes further increased in a growing market for international voice traffic. Our main competitors in this area are the major telecommunication companies.

### *Tariffs*

Our national wholesale tariffs for fixed telephony and for wholesale unbundled local loop services are subject to regulatory approval. As a result of the market analysis performed in 2005 by the Dutch telecom regulator OPTA, our transit services have been subject to regulation since January 1, 2006. Therefore regulatory obligations like non-discrimination apply, which could lead us to change our tariffs for these services which would impact our business results. We believe our wholesale tariffs for terminating services and originating services approximate the average tariffs of an EU benchmark. Our tariffs for transit, originating and terminating services are composed of a call set-up fee and a charge per minute. For Local Loop Services we charge a one-off connection fee and a monthly subscription fee. The ongoing liberalization and increased international competition as a result of European regulation puts continuing pressure on international tariffs. In September 2006, OPTA published the directive on wholesale price caps for a three-year period beginning April 1, 2006. Wholesale regulated voice tariffs remain unchanged and other wholesale tariffs for regulated services have been lowered.

### *Customer Relationship Management*

KPN Contact is the in-house call center of KPN. Consumers and business customers call KPN with questions about a variety of matters, including Internet services, interferences, invoices, mobile phone purchases, maintenance and service migration. There are four sites with approximately 4,500 employees (3,100 FTE's) handling approximately 100,000 calls per day.

The main objectives of our in-house call center are to resolve all questions of our clients during one call and reduce client waiting time. Our call centers are also anchored by the COPC quality program, a specific quality certification program for contact center businesses.

SNT Nederland is the call center for external Dutch clients as well as for certain KPN services, such as number information services and outbound calling. SNT Nederland is the market leader, a position gained through high quality customer services.

SNT Belgium is a call center for clients in Belgium, including BASE mobile customers.

SNT Germany is a call center for German clients, including E-Plus mobile customers. Handling 1.5 million calls per week, with 3,200 employees on 7 sites, SNT Germany is one of the major participants in the German call center market. SNT Germany is focused on providing first-rate services.

### **(b) Mobile division**

KPN is a provider of mobile telecommunications services in Western Europe with a particular focus on Germany, The Netherlands and Belgium, serving 23.6 million customers as of December 31, 2006. KPN delivers mobile telecommunications services ranging from standard voice and value-added services (call waiting, call forwarding, voicemail and message services like text messages and MMS) to advanced data services (i-mode, video telephony and mobile broadband Internet). KPN expects person-to-person communication services (voice, text messaging, e-mail) to remain the main source of revenues for mobile operators in the coming years, with advanced data services becoming increasingly important. In addition, the increasing number of mobile-only users reflects the trend towards growing use of mobile networks at the expense of fixed networks.

Pursuant to license agreements with NTT DoCoMo, KPN has offered i-mode services in our three main markets since 2002. i-mode services comprise communication (including e-mail), information, entertainment and transaction services via so-called content sites.

UMTS was introduced in Germany and The Netherlands in 2004. UMTS enhances the functionality of mobile data services (e.g., i-mode services and mobile Internet) by adding video and increased transmission speeds. KPN is continuously investing in its UMTS networks to follow market demands driven by the increased availability of UMTS-enabled handsets. In 2006, KPN Mobile The Netherlands upgraded its entire UMTS network to HSDPA, thereby offering the most extensive coverage in The Netherlands. At year-end, around 90% of the Dutch population could use the mobile broadband Internet services. KPN expects the introduction of UMTS-based services to accelerate the use of advanced data services in the coming years.

In October 2005, KPN acquired Telfort, until then the only independent mobile network operator in The Netherlands. Also in 2005, KPN incorporated Sympac, a European mobile communication services provider that renders mobile voice, Internet and data services to multinational companies.

The strategic goals of the Mobile division are summarized below:

- in The Netherlands, to further strengthen our market leadership position and profitability; and
- in Germany and Belgium, to establish growing profitable businesses by challenging the competition, while further improving network quality.

For details on how customer data are calculated, please refer to 'Presentation of Financial and Other Information' in our Annual Report.

## Germany

We are active in the German mobile telecommunications market through our mobile network operator E-Plus. During 2006, E-Plus' customer base increased to 12.7 million customers, reflecting the growth of the German mobile market. In an enlarged German mobile market, we succeeded in expanding our service revenue market share by over a full percentage point to 12.9%<sup>‡</sup> (2005: 11.7%<sup>‡</sup>).

In the middle of 2005, we changed our strategy. The strategy revision was aimed at accelerating growth and to put E-Plus on a solid path to profitability. The new strategy centered on a number of initiatives:

- E-Plus moved away from a 'push' (reliance on handset and dealer subsidies) to a 'pull' strategy (attractive and simple tariffs inciting the prospective customer to ask for our products rather than rely on the reseller's advice). E-Plus' new brands '*BASE*' (flat fee), '*Simyo*' (Internet only) and '*Ay Yildiz*' (Turkish community) are delivering significantly improved AMPUs and ARPUs in comparison to the E-Plus brand. Also for the '*E-Plus*' brand, handset subsidies were tightened;
- MVNO-type contracts were signed and implemented with well-known German partners such as Medion (Aldi Talk), Freenet and Conrad; and
- we began expanding our captive distribution, with 197 stores at the end of 2006 compared to 171 at the end of 2005. E-Plus also has tested a regional marketing approach with very encouraging results.

Our growth strategy focuses on increasing our customer base, revenues and market share on the one hand and profitability on the other. We succeeded in 2006 in attracting more than 1.9 million new customers. Our focus on partnerships such as with Aldi meant that a large share of this growth was with prepaid customers. The number of postpaid customers as of December 31, 2006 amounted to 6.0 million – representing a 47% share of our customer base (2005: 52%) – whereas we served 6.6 million prepaid customers.

## Products and services

Under the '*E-Plus*' brand, we offer a range of propositions to the business and consumer markets, with an increasing focus on postpaid customers. These propositions include bundled packages, such as '*Time & More*' for consumers, '*Professional*' (S, M, L, XL) for the business market and '*Free & Easy*' prepaid packages. In the second half of 2006, we introduced '*CleverOne*', the first postpaid proposition in Germany

without a monthly subscription fee. In addition to standard mobile services, we also offer under the 'E-Plus' brand a wide range of value-added voice and data services.

In 2005, E-Plus embarked on its multi-brand strategy with the launch of new brands featuring innovative tariff structures: 'BASE' offered the first flat-fee package on the German mobile market, 'Simyo' was the first web-only prepaid mobile operator and 'Ay Yildiz' the first tailor-made offering for Turkish-speaking people.

We offer wholesale solutions for an increasing number of partners which act as branded resellers, including Debitel and MTV.

In 2002, E-Plus became the first operator to introduce i-mode services in Europe. In April 2004, we launched WiFi services based on a service provider model. In June 2004, we took the first step in delivering UMTS services through UMTS data cards for laptop users. The first UMTS-enabled handsets were launched in August 2005. Our UMTS network currently covers over 50% of the German population.

As of December 31, 2006, we offered customers the possibility to use mobile telecommunications services outside Germany in 172 countries through international roaming agreements.

### *Tariffs*

We offer a variety of tariff structures for postpaid and prepaid customers. We have different tariffs per minute – depending on the time of the day and day of the week – to stimulate off-peak calls. Under the postpaid propositions, bundled minutes at discounted rates per minute are being offered. For postpaid and prepaid offers, we provide a special tariff option for calls to fixed-line numbers. These offers aim at capturing a larger share of the total voice market.

The 'BASE' brand offers a flat fee for on-net and fixed network calls and a simple tariff structure for all other calls. 'Simyo' also offers a simple tariff structure with one tariff for every call regardless of the time of the day. 'Ay Yildiz' in its turn offers a simple tariff structure for Turkish-speaking people.

We structure i-mode pricing either in a fixed fee per data volume used or in four packages (S, M, L and XL) based on a flat fee for a certain threshold; if a customer exceeds this threshold, charges are invoiced by data volume used. For UMTS data cards, our customers can choose between time and data volume packages.

As a reaction to E-Plus' challenge, our competitors have also introduced a variety of new tariffs.

The German regulator Bundesnetzagentur (BnetzA, the former RegTP) ordered the German mobile network operators to reduce their MTA tariffs in three steps, the first two steps became effective on December 15, 2004 and 2005, respectively. The third consecutive reduction was announced on August 30, 2006 and became effective as of November 23, 2006.

### *Competition*

Four mobile network operators, all holding UMTS licenses, are currently active in the German mobile telecommunications market: T-Mobile, Vodafone, E-Plus and O<sub>2</sub>. The two largest mobile telecommunications providers – T-Mobile and Vodafone – hold an estimated combined service revenue market share of 73%<sup>‡</sup> (2005: 75%<sup>‡</sup>). In the past years, E-Plus and O<sub>2</sub> have been successful in growing their respective service revenue market shares.

In addition, numerous independent service providers in Germany package and sell products and services from various network operators under either the network operators' brand or private labels. Some of these service providers operate exclusively with one network operator, while others offer competing products and services. In all cases, service providers sell to both business and private customers. The main German service

providers are Debitel, Talkline, Victor Vox and MobilCom. Service provider customers form for approximately 18% part of our total customer base.

#### *Brand strategy*

During 2006, E-Plus continued to pursue its multi-brand strategy with tailor-made offers to well-defined customer groups concentrating on customer needs, like voice telephony and simple services.

#### *Distribution and sales*

We offer our products and services through our own chain of 197 shops as well as E-Plus' website. Apart from these channels, we offer our services through resellers and service providers that may repackage our offers, tailoring them to their customers' needs. Resellers include Debitel, MobilCom, Talkline and Aldi through their Medion brand. For the business market segment, we also use these sales channels in addition to a direct sales force.

#### *Licenses and coverage ratios*

Our 2.5G-enabled network currently covers over 99% of the German population (2005: 99%). We improved our indoor coverage during 2006 to approximately 78%, an increase by some 7 percentage points compared to the end of 2005. This is mainly due to the rollout of E-GSM base stations that provide better indoor coverage than 1800 MHz base stations. Our 3G network had over 50% outdoor population coverage by the end of 2006, exceeding the applicable 50% minimum rollout requirement under our UMTS license.

As of January 2006, BnetzA granted us the right to use frequencies in the 900 MHz E-GSM band. In order to obtain these frequencies, we had to return some of our unused 1800 MHz spectrum to BnetzA for redistribution. During 2006, we invested in 900 MHz equipment, thereby improving our coverage.

### **The Netherlands**

In October 2005, KPN acquired Telfort, until then the only independent mobile operator in The Netherlands. As a consequence of this acquisition, KPN currently owns two mobile operators in The Netherlands. Telfort provides a range of mobile telecommunications services based on its own mobile network – covering over 99% of the Dutch population – to consumer and business customers in the Dutch market. Telfort's products and services are marketed branded as well as non-branded (wholesale white label). Telfort is consolidated as from October 4, 2005. The 2005 figures for The Netherlands include therefore Telfort for the consolidation period, unless otherwise indicated.

As a result, KPN is present in the Dutch mobile telecommunications market via its operators KPN Mobile The Netherlands and Telfort. With 8.6 million customers and an estimated 46.9%<sup>‡</sup> share of total market service revenues in 2006 (2005: 39.9%<sup>‡</sup>), KPN is the largest mobile telecommunications provider in The Netherlands.

During 2006, KPN continued to focus on customer value, being defined as customer margin over lifetime. This became most evident in the ongoing growth of its contract subscriber base. At year-end 2006, the number of postpaid customers amounted to 3.9 million, representing 44.6% of our total customer base (2005: 3.3 million, or 40.4% of the total customer base), while KPN served 4.8 million prepaid customers. KPN Mobile also has lowered its postpaid subscriber acquisition and retention costs by lowering handset subsidies and shifting sales to less expensive channels such as Internet.

The Telfort network integration project – which started in 2006 – with respect to the radio network (the first phase) is expected to be finalized at July 1, 2007, whereas the core networks are expected to be integrated in 2008. On November 21, 2006, we reached an agreement with T-Mobile to transfer E-GSM frequencies currently used by Telfort. The transfer is expected to be effective as of September 1, 2007 and concerns 5 MHz of bandwidth.

KPN believes its leading role in all segments – customer, business and wholesale – of the Dutch mobile telecommunications market is the result of its well-known brands ('KPN', 'Telfort', 'Hi', 'Simyo' and 'Ay Yildiz'), quality of its mobile networks, its extensive distribution network, its commitment to customer care and its innovative products and services.

#### *Products and services*

KPN offers a range of standard and value-added mobile voice and data services. KPN continues to pursue a multi-brand strategy to effectively appeal to different target markets. The 'Hi' brand focuses on the young consumer and heavy text message users, while the 'KPN' brand is dedicated to other segments of both the consumer and business markets. With the introduction of the web-only 'Simyo' brand, we also serve cost-conscious consumers who prefer basic mobile services (only voice and text messages) at low tariffs and with low distribution costs. A new brand named 'Ay Yildiz', is the tailor-made offering for Turkish-speaking people. Telfort successfully offers branded prepaid and postpaid propositions under its 'Telfort' brand to consumer and business clients. Furthermore, KPN Mobile The Netherlands makes its network available to other organizations that wish to offer mobile telecommunications under private label; currently 18 wholesale customers are being served.

KPN expects the growing demand for mobile data services – particularly those based on the latest Internet technologies – to lead to increased usage of its mobile networks. Furthermore, KPN supplies data and fax transmission services, VPNs for business customers as well as multimedia services and WiFi as part of its mobile data services portfolio. The 'Internet Everywhere' product is being offered in combination with WiFi access.

In July 2004, KPN started rendering UMTS services via UMTS data cards, the first UMTS-enabled handsets being launched in October 2004. The UMTS network covers currently 87% of the Dutch population, with the network and handset portfolio expanding continuously. In October 2006, KPN Mobile successfully introduced HSDPA. Since May 2005, Telfort has offered data services based on EDGE technology.

As of December 31, 2006, KPN's customers could use mobile telecommunications services outside The Netherlands in 204 countries (341 network operators) via international roaming agreements.

#### *Tariffs*

KPN provides its mobile services through either a postpaid or prepaid proposition. The postpaid structure combines a monthly subscription fee and traffic-based pricing for business market customers. Under the postpaid consumer offerings, KPN offers bundled minutes at discounted rates per minute, committing the customer to a minimum fee per month. The prepaid proposition is mainly based on traffic-based pricing. Data services like text and multimedia messages are charged on an-event basis, whereas other data services like i-mode and UMTS services are based on flat fees, traffic bundles or usage in Mb.

In response to regulatory requirements, KPN reduced its MTA tariffs in January 2004, December 2004 and December 2005. In 2005, we introduced the new web-only 'Simyo' brand, targeting customers preferring limited mobile services at low tariffs and with low distribution costs. In 2006, OPTA intended to oblige all Dutch mobile operators to further lower their MTA tariffs. But the tariff reduction obligation had to be based on a decision by OPTA whether or not the mobile operators exert significant market power ('SMP') on their respective networks. That decision by OPTA was rejected by the Trade and Industry Appeals Tribunal ('CBb', *College van Beroep voor het bedrijfsleven*), which ordered OPTA to prepare a new SMP decision.

#### *Competition*

KPN's competitors in the Dutch mobile market are Vodafone, T-Mobile and Orange. During the last two years, a growing number of MVNOs and service providers entered the Dutch market; most of these resellers offer private-label mobile services. Some of these resellers have a direct contractual relationship with the

customer, while other resellers act as an intermediary for KPN and Telfort. As a result of the Telfort acquisition, KPN's revenue share generated through MVNOs and service providers increased.

### *Brand strategy*

KPN offers customers the possibility to choose between different propositions under separate brands – 'KPN', 'Telfort', 'Hi', 'Simyo' and 'Ay Yildiz' – tailored to the needs of different customer segments. During the sales process, special attention is paid to explaining the relevance of services to each individual customer.

- The 'KPN' brand targets both consumer and business markets with a premium value brand. KPN believes it is offering best-in-class mobile services and – according to quality perception research – the best mobile network quality.
- 'Telfort' provides a branded portfolio as well as an extensive wholesale white label portfolio, offering mobile products in specific niche segments of the Dutch mobile market. The wholesale portfolio enables KPN to operate in market segments that cannot be reached through branded propositions or are uneconomical to reach on a branded basis.
- 'Hi' targets the more cost-conscious youth segment, an important growth market especially for data services. i-mode users are continuously encouraged to try new services, through a hardware upgrade program for handsets with increased capabilities.
- The 'Simyo' brand is directed at customers preferring limited mobile services (voice and text messages only) at low tariffs and low distribution costs; Simyo is only available via the Internet and is positioned as a smart and simple alternative to other mobile services.
- 'Ay Yildiz' is a recently launched brand targeting the Turkish community in The Netherlands. The essence of the brand is that by attractive prepaid tariffs for calls to Belgium, Germany and Turkey, it provides the target group with the opportunity to stay in contact with Turkish friends and family, no matter where they are, for low costs.

### *Distribution and sales*

In The Netherlands, we offer subscriptions through third-party channels (e.g., T for Telecom and The Phone House), KPN-owned outlets (with 'Primafoon' as our mainstream outlet and 'Hi' retail stores aimed at the youth market) and our direct-sales force, while wholesale services are provided to external service providers. Non-store channels, such as the Internet, are gaining in popularity and sales volumes.

### *Licenses and coverage ratios*

Our 2.5 G-enabled networks currently covers over 99% of the Dutch population (2005: >99%). Indoor coverage at year-end was 98% (2005: 98%). Under our UMTS licenses, we are obliged to cover all large municipalities (over 25,000 inhabitants) plus all highways and major connecting roads by January 1, 2007.

## **Belgium**

In Belgium, BASE is the number-three mobile telecommunications provider - serving 2.4 million customers as of December 31, 2006 (2005: 2.0 million) - with an estimated service revenue market share of around 15%<sup>‡</sup> (2005: over 13%<sup>‡</sup>). Through our policy of combining distinctive and simple offers with tailor-made propositions for specific market niches, we have achieved a solid growth in our customer base, revenues and market share since the fourth quarter of 2003.

### *Products and services*

We offer a portfolio of voice and data products and services directed at ease of use and supported by a clear tariff structure. We also offer products and services focused on specific market segments. Examples thereof are the 'Ay Yildiz' proposition (targeted at the Turkish community), and our low-cost 'Simyo' brand.

As of December 31, 2006, our customers could use mobile telecommunications services outside Belgium in 204 countries via international roaming agreements.

### *Tariffs*

We offer a range of prepaid and postpaid propositions, including various plans tailored for the SoHo/SME market. Our plans are characterized by simple tariff structures and bundles of free minutes. The majority of our postpaid propositions contain a fixed fee for a package with bundled minutes and no monthly subscription fee. i-mode customers pay fixed monthly fees excluding the subscription fees for specific content sites. We also introduced the web-only 'Simyo' brand to Belgium, targeting customers who prefer basic mobile services at low tariffs and low distribution costs.

### *Competition*

The other mobile operators in Belgium are Proximus and Mobistar. Proximus is a wholly-owned mobile subsidiary of Belgacom, the incumbent telecommunications provider in Belgium. Orange holds a 50.37% equity interest in Mobistar. Proximus is the obvious market leader in Belgium – having over half of the market's revenues – with Mobistar as the runner-up at a clear distance. BASE, the third-largest provider, is the challenger in the Belgian mobile market.

### *Brand strategy*

We have positioned BASE as our network operator, distinguishing ourselves from the competition by 'doing things differently'. To this end, we introduced a multi-brand strategy to better tailor our services to specific customer segments. For certain segments, we have teamed up with partners and branded resellers.

### *Distribution and sales*

Our products and services are available at well-known nation-wide retail chains as well as at our 45 BASE shops and via the internet. We also offer our services through branded-resellers, service providers, and MVNO's that may repackage our offers and tailor them to their customers' needs.

### *Licenses and coverage ratios*

Our 2.5G-enabled network currently covers over 99% of the Belgian population (2005: 99%). The indoor coverage at the end of the year was 98%, a slight improvement over 97% at the end of 2005. During 2006, we decided to further enhance our 2.5G-enabled network by installing EDGE technology, a technology that provides high-speed bandwidth based on the GSM infrastructure, enabling features formerly only available based on UMTS technology. In November 2006, we were able to launch EDGE-based data services. The minimum UMTS rollout requirement under our UMTS license was 40% by the end of 2006 (2005: 30%). During 2006 we invested in our UMTS network to meet this requirement. BiPT may measure the actual UMTS coverage of BASE during 2007.

## **(c) Other activities**

During the year under review, our other activities included our international participation Xantic, KPN Retail (Primafoon stores and Business Centers), KPN Sales (KPN's own personal sales force) and Corporate Center (support functions). Our Corporate Center mainly provides group internal services.

### **KPN Retail**

Different retail store outlet chains support our marketing philosophy with 'Primafoon' and Business Centers as our main stream outlet and 'Hi' retail stores aimed at the youth market. During 2006 we have started several trials with new distribution concepts, extending our experience in the multimedia business. The shops



sell telephones, mobile and fixed communication solutions as well as KPN TV and for example personal computers.

#### Xantic

As per February 14, 2006, KPN and Telstra sold their total holdings in Xantic B.V. (a satellite communications provider) to the Canadian Stratos Global Corporation.

### **Research and development**

On January 1, 2003, the Dutch Organization for Applied Scientific Research (TNO) acquired the research and development activities of KPN and placed it with TNO Telecom. TNO Telecom and KPN entered into a cooperation agreement, under which we have agreed to annual purchase commitments.

We intend to continue to benefit from the telecommunication and technology expertise of TNO Telecom in order to support the technological innovations required for our business. Measures have been taken to obtain the critical mass for mid- and long-term projects carried out by TNO Telecom. In 2006, we extended the cooperation agreement with TNO for one year until December 31, 2010. As at December 31, 2006, the total remaining commitments until December 31, 2010 amount to EUR 52 million.

Our research and development expenditures with TNO Telecom in 2006 totalled EUR 17 million (2005: EUR 20 million).

### **Intellectual property**

Our current portfolio of intellectual property rights consists of approximately 25 registered core trademarks and 370 patent families. We continue to invest in the growth of our intellectual property rights portfolio, among others through our targeted long term research and development (R&D) program. This R&D program runs as from 2006 in close cooperation with TNO Telecom and augments to about 5% of our research spending.

We take the necessary steps to protect the intellectual property rights which we create and we generate value from these rights where appropriate. In order to protect these rights, we currently rely on a combination of patents, trademarks, service marks, trade secrets, copyrights, database protection, confidentiality agreements with our employees and third parties and protective contractual provisions. Approximately 15 of the patents which we own are essential for the commercial exploitation of telecommunication technology and services. A number of suppliers have entered into license agreements with us related to these and other of our patents.

### **Regulatory highlights 2006**

#### **All-IP**

In November 2005, we launched our All-IP strategy, which offers our customers numerous attractive opportunities such as video communications and collaborative working. In an All-IP environment, our network management becomes much more efficient. The rollout of our All-IP network has an impact on the business of our wholesale customers who use unbundled access to our main distribution frames (MDF) to provide broadband services to their customers. The dismantling of our local exchanges requires that wholesale customers move over to an alternative access point. The alternatives offered by us are wholesale broadband access and unbundled access to the local sub loop. On October 3, 2006, OPTA published its position paper on All-IP. In this position paper, OPTA accepts the rollout of a new All-IP network but requires conditions and guarantees such that other DSL operators will not be forced out of the market as a direct consequence of the wholesale portfolio changes by us. We are to announce the dismantling of buildings beforehand and have to put a reference offer for sub loop unbundling in the market. OPTA will perform a new market analysis on local loop unbundling and wholesale broadband access and will also publish rules on the dismantling of co-locations. We already have a reference offer for sub loop unbundling

in the market. On January 24, 2007, OPTA published a letter on the guidelines of our All-IP plan, in which OPTA announced the results of an investigation carried out by analysis into the migration of the co locators from the MDF locations to the street cabinets. Analysis concluded that the viability of the business case for access to the street cabinet is limited. In the eyes of OPTA this could mean that DSL operators do not have a full alternative for the dismantling of the MDF locations. OPTA therefore decided that it will investigate other alternatives. The decision of OPTA does not affect the start of the rollout of the new street cabinets in June 2007. We will discuss the outcome of the Analysis report with OPTA. Today the wholesale broadband access service is already in use by DSL operators and this service will also be delivered on our new All-IP infrastructure. We will also explore other possible alternatives for access to our All-IP network in order to be able to dismantle the MDF locations according to our original plans. The first dismantling of MDF locations is expected to take place in 2008. At that time we expect to have developed alternatives that are compliant with views of OPTA.

#### **Market analysis decisions fixed markets (The Netherlands)**

The implementation of the new regulatory framework was finalized on January 1, 2006, the day on which OPTA's December 21, 2005 decisions for the markets for fixed telephony, leased lines and broadband entered into force. From the market analysis procedures carried out by OPTA it was concluded that KPN had 'significant market power' in a number of wholesale and retail markets and that OPTA would impose several obligations on KPN in order to remedy the competition problem identified. The decisions on the cable TV markets were published on March 17, 2006. These decisions will also be of relevance to KPN. The following table provides a list of all markets on which KPN was found to have significant market power and the obligations imposed on KPN on each of these markets.

Fixed telephony	Retail markets	<p><i>Low and high capacity access; local and national calls, fixed-to-mobile calls, dial-up Internet calls, calls to services numbers (0800/090x; 084/087)</i></p> <p>Obligations: non-discrimination, transparency, price control by way of both a price cap (initially set at the then current level) and a price floor. From the moment our wholesale line rental (WLR) offer is accepted by OPTA, we will be allowed to raise our access tariffs in line with inflation correction.</p> <p>OPTA has ruled that price floor regulation should also apply to KPN's retail Voice over Broadband, but no price cap regulation.</p>
	Wholesale markets	<p><i>Low capacity access</i></p> <p>OPTA requires KPN to allow Carrier Pre-Select (CPS) providers to rent telephone access lines (PSTN and ISDN-2) on wholesale terms from KPN and resell the lines to customers, providing a single bill that covers both line rental and telephone calls. This is also known as wholesale line rental (WLR). The WLR tariff is to be based on a retail minus rule meaning that the tariff of WLR will be based on the retail tariffs of KPN's PSTN and ISDN1 and -2 service minus certain retail marketing costs of KPN. OPTA intends to set the minus at 15.6% for PSTN services and 14.4 % for ISDN services. The WLR service has been developed in an industry group.</p> <p><i>Call origination for Carrier (Pre)Selection and for calls to 067(60), 0800/090x and 082 numbers</i></p> <p>Obligations: access, price regulation by way of a wholesale price cap, non-discrimination, reference offer, accounting separation. According to OPTA's decision, we are not required to provide Carrier (Pre)Selection call origination for calls based on Voice over Broadband.</p> <p><i>Local-tandem transit</i></p> <p>Obligations: access, price regulation by way of a wholesale price cap, non-discrimination, reference offer, accounting separation.</p> <p><i>Inter-tandem transit</i></p> <p>Obligation: price control by way of a price floor.</p> <p><i>Transit services</i></p> <p>Obligations: prohibition to charge discriminatory rates (such as volume discounts), non- discrimination, reference offer.</p> <p><i>Call termination for calls to geographic numbers, 084/087 and 088 numbers and 112</i></p> <p>Obligations: access, price regulation by way of a wholesale price cap, non-discrimination, reference offer, accounting separation.</p>
Leased lines	Retail markets	<p><i>Analog Leased Lines (national)</i></p> <p>Obligation: to supply on reasonable request on non-discriminatory and transparent terms; price regulation by way of a price cap (the prices are allowed to raise only by the rate of inflation subject to a carry-over of one year), a prohibition to give long-term discounts.</p> <p><i>Leased Lines &lt; 2 Mbs (national)</i></p> <p>Obligation: to supply on reasonable request on non-discriminatory and transparent terms; price regulation by way of a price cap (the prices are allowed to raise only by the rate of inflation subject to a carry-over of one year), a prohibition to give long-term discounts.</p>

All of the above market review decisions will be reviewed no more than three years from their effective date, unless the development of market conditions give reason for an earlier review.

Compared to the regime which was in force prior to the implementation of the new regulatory framework, OPTA's decision to discontinue the regulation of international calls, retail leased lines of 2 Mbs bandwidth and interconnecting leased lines of bandwidths above 2 Mbs stand out. Furthermore, the new price floor regime developed by OPTA for the retail call charges (the so-called combinatorial price squeeze test) will give us more flexibility to respond to competitive developments. A retail tariff package should recover its incremental costs based on the tariffs of the required wholesale inputs plus the relevant incremental costs. In addition, retail revenues should cover the total integral costs on each of the relevant markets on a yearly basis, while the resulting retail return on sales in each market is required to be at least 5%. OPTA has introduced a new procedural system ('traffic light model') where new tariffs do not need to be approved *ex ante* by OPTA but will remain subject to *ex post* price control. Flat fee offers will be possible in the new system. OPTA also introduced a specific price floor regime for bundles of fixed telephony services with unregulated services.

We have appealed to all of the above market review decisions of OPTA (except for the decision on the Wholesale Broadband Access market), as have other market parties. We have put forward grounds of appeal against OPTA's market definitions, OPTA's conclusion that we have significant market power, and/or the remedies imposed on us. On November 30, 2006, the Trade and Industry Appeals Tribunal (*College van Beroep voor het bedrijfsleven* or *CBb*) allowed our appeal against the decision on Wholesale Line Rental, but only in respect of some minor aspects (such as the obligation to publish financial reports related to accounting separation and the obligation to report annually on the application of the cost allocation system). All major remedies remain in force. The other appeal cases are still pending.

On March 20, 2007, the CBb published its decisions on the appeals submitted by us and other market parties against OPTA's market review decisions concerning the fixed wholesale call origination and transit markets. Pursuant to OPTA's decision on the wholesale market for call origination for Carrier (Pre)Selection and for calls to 067(60), 0800/090x and 082 numbers, we were not required to provide C(P)S call origination for calls based on Voice over Broadband (VoB). According to the CBb, however, the Telecommunications Act does not afford OPTA the possibility of excluding VoB connections from our C(P)S commitments in general. It is very likely that one or more C(P)S providers will now submit a request with us and – as soon as it becomes clear that they will not come to terms with us – file a dispute with OPTA. If OPTA finds the request reasonable under the circumstances, then we may be required to provide C(P)S call origination on VoB connections.

As regards the wholesale market for local-tandem transit, the CBb dismissed the appeals submitted by Tele2 and others claiming that OPTA had failed to impose obligations on us enabling them to obtain access for call origination and termination at local switches at local charges (rather than access at tandem switches at regional charges) without incurring the one-off cost for converting our local switches.

In respect of the wholesale market for inter-tandem transits, the CBb upheld the appeal submitted by us claiming that OPTA had insufficiently motivated why we, in spite of a rapidly declining market share and a growing number of competitors, were found to have significant market power on this market. Therefore, the CBb annulled OPTA's decision, without maintaining the obligations imposed on us pending OPTA's new decision.

All of the appeals submitted against OPTA's decision concerning the transit market have been dismissed by the CBb, thereby maintaining the prohibition imposed on us to charge discriminatory rates (such as volume discounts).

The other appeal cases are still pending.

In the market review decisions OPTA announced that it would take a separate decision on the wholesale price cap, distinguishing four alternatives depending on the specific market conditions. Alternative 1 will be

applied to our call termination services (where no competition is foreseen at all), alternative 4 will be applied to inter-tandem transit services (where competition exists but needs to be protected), and alternative 2 will be applied to most of our other wholesale services (where sustainable competition is expected for the medium term). Alternative 3 (meant for services where sustainable competition is expected for the short term) will not be applied to any of our services at present. The difference between alternatives 1 and 2 would be expressed in an adjustment factor setting an efficiency objective based on a benchmark of our costs and the costs of the ten most efficient local exchange carriers in the USA. It was established however, that we are more efficient than that. Therefore, the adjustment factor has been set at 0.0% for both alternatives. In its wholesale price cap decision of September 27, 2006, OPTA set the price cap for our wholesale services on the basis of our EDC cost allocation reporting. The price caps for our call origination and call termination services show a rise as a result of the increasing underutilization of our switched telephone network. However, we have undertaken vis-à-vis OPTA and the market parties to keep these rates at the current level. We have not appealed to this decision, nor have any of the other market parties.

### **Market analysis decisions mobile markets**

In The Netherlands, the regulator OPTA decided on November 14, 2005, to designate all mobile operators as having 'significant market power' on the markets for call termination on their mobile networks. As a result all operators would have to decrease termination rates in three equal steps, starting July 2006, towards fully cost oriented tariffs by July 2008. On August 29, 2006, however the Trade and Industry Appeals Tribunal (in first and highest instance) annulled these decisions of OPTA, based on an insufficient analysis of the relevant markets. As a result OPTA has to re-decide on these markets. OPTA announced it expects a new decision by July 1, 2007. Until such decision no specific regulation applies for mobile call termination services. Also on November 14, 2005, OPTA decided not to designate any mobile operator on the market for call origination and access, thereby deciding that KPN was no longer required to offer special access to other service providers. In an appeal by Orange and Venus & Mercury (both claiming that KPN/Telfort should have been designated), the Trade and Industry Appeals Tribunal upheld OPTA's decision.

On August 11, 2006, the Belgian regulator ('BiPT') issued its final decision in relation to the termination on mobile networks. As in earlier proposals, BiPT maintained its position that all three mobile operators are considered dominant and that they should be subject to gradual MTA tariff reductions to approximately 50% of the current level between November 2006 and July 2008. In relation to the August announcement both the Belgian Competition Council and the European Commission advised BiPT that the proposed asymmetry between the MTA tariffs of Proximus, Mobistar and BASE is too large. In its final decision, BiPT indicated that it will review the proposed 2008 MTA tariff reductions in the course of 2007 in order to create symmetry between Proximus and Mobistar as well as to reduce the asymmetry between BASE and its competitors. In September 2006, all three mobile operators launched suspension and annulment proceedings against BiPT's decision on call termination on individual mobile networks. On October 27, 2006, the Court dismissed the operators' claim for the suspension of BiPT's decision. The annulment procedure is ongoing.

### **Fixed telecommunications - The Netherlands**

#### **Legal proceedings**

##### *Unequal regulatory treatment*

In July 2006, we started summary injunction proceedings against the State, claiming that the State should forthwith cease unequal regulatory treatment between the cable operators and the telecom operators. Both cable and telecom offer television, Internet and telephony services. Whilst the telecom sector is subject to stringent regulation, the cable sector is hardly regulated. In our opinion the multiple administrative proceedings with NMa, OPTA and the administrative courts do not offer an opportunity to submit the inequality issue to one single court, so that is why we started summary injunction proceedings against the State. The president of the Hague District Court has partly declared our claims inadmissible and has rejected our other claims. An appeal is pending.

### *WPS Number Information Service fine*

On July 16, 2004, OPTA imposed a EUR 225,000 fine on us for knowingly violating the non-discrimination principle by allowing CPS providers access to less telephone number information and at a higher price than our own retail organisation. This decision was quashed by the Rotterdam District Court on July 8, 2005, whereupon OPTA brought an appeal to the CBb. The CBb has dismissed the appeal on April 19, 2006. The CBb confirmed the Court's judgment that KPN's WPS Number Information Service cannot be considered as special access within the meaning of article 6.9 of the (old) Telecommunications Act, nor as an associated facility. Therefore, the prohibition on discrimination contained in article 6.5 of the old Telecommunications Act is not applicable to the WPS Number Information Service and OPTA had no power to impose the fine on KPN.

### *Transit tariffs*

On April 6, 2006, the CBb decided on the appeals against the Rotterdam District Court decision of December 23, 2004 regarding the cost allocation systems for our wholesale tariffs for the periods 1999/2000, 2000/2001, 2001/2002 and 2002/2003. The CBb upheld the Court's decision that, although OPTA has discretionary power to distinguish between different cost allocation systems tailored to certain market characteristics, OPTA had no power to exempt us from the obligation to submit for approval a cost allocation system for transit and inter-region connect services given the fact that these services are to be regarded as interconnection within the meaning of article 6.6 of the old Telecommunications Act. The CBb referred this matter back to OPTA for further judgment within ten weeks of the decision. As a result of this, it became inevitable that our transit tariffs need to be reviewed with retrospective effect from 1999 on the basis of a cost allocation methodology yet to be decided by OPTA. However, all of the market parties that had objected to the non-regulation of our transit tariffs at the time have withdrawn their objections after we concluded settlement agreements with each of them, so we expect there will be no further OPTA decision.

### *Wholesale tariffs 2003-2006*

As regards the wholesale tariffs that apply for the period starting on July 1, 2003, OPTA decided on a transitional regime based on the cost allocation systems (EDC VI en BU-LRIC III) approved by OPTA. This transitional regime was in force until the new legal framework took effect. The outcome of this transitional regime was acceptable to us, but not to Tele2 and ACT who have filed objections. Most of their arguments, such as the non-regulation of our tariffs for transit services, had been put forward on earlier occasions (and dismissed by OPTA), but new objections have been raised against the fact that OPTA has not distinguished between terminating/originating access to/from PSTN/ISDN connections and terminating/originating access to/from VoDSL connections, as well as against the fact that OPTA has not applied cost orientation to the tariffs for Bitstream access. All of these objections have been dismissed by OPTA. Tele2 and ACT have appealed this decision. On November 28, 2006, the Rotterdam District Court allowed the claims regarding VoDSL connections and the non-regulation of our tariffs for transit services, and ordered OPTA to take a new decision. Now that Tele2 has withdrawn its objections against the non-regulation of our transit tariffs, there will be no further OPTA judgement on that issue. OPTA's judgment on the other issues will be deferred pending the outcome of the appeal that we and OPTA have submitted to the CBb against the Court's decision.

### *Unbundled access co-location*

We are required to provide our competitors (on the same basis as our own services and our associated companies) with full and shared unbundled access to our local copper loops on fair, transparent and non-discriminatory terms and at cost-oriented prices. We must also allow a new entrant to co-locate its own network equipment. We are engaged in legal proceedings against OPTA's interventions in our recurring co-location charges (rent and electricity). In August 2005, the Rotterdam District Court dismissed our appeal that argued that tariffs determined by OPTA are not cost-oriented because they are not based on a cost allocation system. As regards the rent per square meter the Court decided, however, that OPTA had wrongfully failed to distinguish between industrial premises in business and residential areas. KPN

successfully appealed the decision on the role of cost allocation systems to the CBb. On July 13, 2006 the CBb decided that OPTA should have observed our cost accounting system rather than use its own criterion in the form of a benchmark, and ordered OPTA to take a new decision. OPTA has not taken a new decision yet.

#### *Unbundled access fine (1)*

In its December 2003 decision, OPTA imposed a EUR 90,000 and a EUR 180,000 fine on us for allegedly violating the obligation to charge cost-oriented prices and the prohibition on discrimination in providing unbundled access to competing providers of DSL services, respectively. We have appealed this decision before the Rotterdam District Court, but without success. We brought appeal proceedings to the CBb. The CBb dismissed our appeal, however, on May 17, 2006.

#### *Unbundled access fine (2)*

In July 2005, the Rotterdam District Court reversed OPTA's March 2003 decision to impose a EUR 375,000 fine on us for allegedly violating the prohibition on discrimination in providing unbundled access to our business unit that offers DSL services and to competing providers of DSL services. The business unit allegedly had access to information on our subscribers that allowed it to place orders for unbundled access lines easier and more accurately. OPTA held this to be at the disadvantage of competing operators because they lacked the same details. According to the Court, however, the helpdesk facilities offered by us to our competitors to help them to 'clean' rejected orders is sufficiently equivalent to the facilities used internally, provided the information is made available within a reasonable period of time. If the required information is made available within one day – as we stated during the court session – then there is no undue advantage for our internal business units. The Court referred the case back to OPTA, instructing OPTA to investigate the helpdesk facilities offer by us and to take a new decision taking the court's judgment into account. OPTA has lodged an appeal with the CBb. The hearing took place on October 16, 2006. The CBb decision is still pending. OPTA informed us that it will defer a new decision on this matter pending the outcome of the appeal proceedings.

### **Mobile telecommunications – international roaming**

The market for international roaming has been under investigation by the European Commission since 1999 with an initial sector inquiry resulting in a working document in December 2000 and unannounced inspections of the offices of mobile network operators in the United Kingdom and Germany, including E-Plus, in July 2001. The Commission said it was seeking evidence of collusion and/or excessive prices in relation to both retail and wholesale roaming charges, and the Commission has subsequently sought, or been provided with, additional information about roaming charges.

In September 2005, BASE and E-Plus joined the roaming complaint of Bouygues Telecom before the European Commission against Vodafone group and Freemove Alliance, alleging that both entities engage in anti-competitive practices in the international wholesale roaming market.

One of the markets defined in the Recommendation under the new European regulatory framework to be investigated by NRAs is the wholesale international roaming market. The NRAs of Member States will evaluate the national markets based on this common position, but it is still very uncertain if any of the NRAs will impose obligations upon their national operators.

At the beginning of 2006 the European Commission announced that it would investigate the possibility of directly regulating the international roaming tariffs. A draft regulation, directly binding in member states, was published on July 12, 2006. It is the intention to let the regulation come into effect by the summer of 2007. Under the proposed regulation wholesale roaming charges would be capped. The caps would be set by defining an EU averaged mobile termination tariff, with a multiplier of two or three depending on the destination of the traffic (same country traffic or international traffic). For retail tariffs, including calls received abroad, a cap would be set a mark-up of up to 30% on the wholesale rates. The European

Commission finally proposed to enhance the transparency of roaming charges for consumers, by requiring operators to provide customers with full information on applicable roaming charges when subscriptions are taken out and to update consumers regularly about these charges. The draft regulation has to be approved by the EU Counsel and the EU Parliament before it can become effective.

### **Mobile telecommunications – Germany**

On May 19, 2004, 01081 Telecom AG submitted a formal request to the telecommunications regulator for interconnection with E-Plus' GSM network, because it was not prepared to accept the MTA tariffs offered by E-Plus (EUR 0.149 as of December 15, 2004 and EUR 0.124 as of December 15, 2005). On September 20, 2004, the regulator decided that E-Plus is obliged to interconnect 01081 Telecom AG's network. On December 28, 2004, the regulator determined in a separate procedure the 2005 MTA tariffs to be EUR 0.149 in line with E-Plus' tariffs, which decision is being challenged by 01081 Telecom AG. On September 21, 2005, the administrative court in Cologne dismissed the action of 01081 Telecom AG. 01081 Telecom AG appealed before the Federal Administrative Court which suspended the procedure and at the same time initiated a procedure at the European Court of Justice.

In the spring of 2005, the German telecommunications regulator Bundesnetzagentur (BNetzA) started a consultation on E-GSM frequencies. Until the end of 2004, military services had exclusive use of those frequencies. E-Plus was involved in the consultation procedure. On November 30, 2005, the Bundesnetzagentur published its adopted GSM concept. The concept foresees that E-Plus and O<sub>2</sub> should be allocated E-GSM frequencies (of 5 MHz each). Furthermore, in exchange for these E-GSM frequencies, E-Plus and O<sub>2</sub> will be required to return 5 MHz of the already allocated 1800 MHz spectrum. In addition, T-Mobile, Vodafone and E-Plus will in 2007 have the option to request an extension of their GSM licenses. There is no legal appeals process against this GSM concept. The GSM concept has been politically challenged by Deutsche Bahn. Deutsche Bahn requests the frequencies to deploy its GSM-R network. On December 21, 2005, a high-level meeting with the Bundesnetzagentur, Deutsche Bahn, the Ministry of Economic Affairs, the German railways regulator Eisenbahnbundesamt, O<sub>2</sub> and E-Plus took place. The regulator urged all interested parties to seek for a compromise in order to avoid court proceedings. E-Plus stated that according to the information provided by Deutsche Bahn, an additional demand for frequencies could not be justified. Bundesnetzagentur informed all parties that it would allocate the frequencies in early 2006. On February 3, 2006, Bundesnetzagentur allocated 5 MHz bandwidth of the E-GSM band to E-Plus. The assignment is linked to a provision to reallocate these frequencies to Deutsche Bahn, if the latter can prove the need for those frequencies. The provision expires by the end of 2009. As a result, E-Plus is now able to deploy a GSM 900 network and enhance the quality of its GSM network. Deutsche Bahn and some other companies (e.g. Netcologne, Airdata, Inquam and O<sub>2</sub>) have challenged the assignment. E-Plus is going to challenge the provision which gives Deutsche Bahn the right to ask under strict conditions for frequencies. The appeal has no suspensive effect. Meanwhile the protests of Deutsche Bahn and Airdata were rejected by BNetzA. Both Deutsche Bahn and Airdata sued BNetzA and brought an action to the Administrative Court of Cologne. Decisions are expected at the end of 2007 or beginning 2008.

The German regulator has completed its analysis of the termination market. According to the decision, all four GSM mobile operators are considered to have significant market power (SMP) on the call termination market. On August 30, 2006, the German regulator published its regulatory order on mobile termination. According to the regulatory order the mobile termination rates will be set by the regulator (ex-ante regulation). All four MNOs filed lawsuits against the respective regulatory orders. On August 30, 2006, the procedure started to set the MTA tariffs. According to the German telecommunications act, cost information to be provided by the operators must be the primary source for price regulation. Although the regulator is legally obliged to take utmost account of what the European Commission is proposing (e.g. the Commission recommended to base the regulation on a cost model), the German regulator based its decision on an international benchmark. The cost information which was provided by E-Plus was considered to be insufficient. On November 8, 2006, the German regulator ordered to lower the MTA tariffs of all four mobile operators. E-Plus and O<sub>2</sub> had to reduce the MTA tariffs from EUR 0.124 to EUR 0.0994 per minute by November 23, 2006 and T-Mobile and Vodafone were forced to lower their MTA tariff from EUR 0.11 to



EUR 0.0878 per minute. All four mobile operators started proceedings against the respective MTA tariff decisions.

## **Mobile telecommunications – The Netherlands**

### *Licenses*

With the acquisition of Telfort, KPN now holds licenses for KPN Mobile The Netherlands (GSM 900, DCS 1800 and UMTS) and Telfort (DCS/ E-GSM and UMTS). The GSM 900 licenses of KPN Mobile The Netherlands and Vodafone will expire on April 1, 2010, unless extended by the Minister of Economic Affairs. In December 2006, the Minister announced its intention to extend the license of KPN until February 13, 2013 against a yearly payment of EUR 6,356,822. The DCS 1800 licenses of KPN and Telfort will expire on February 26, 2013. Following a potential integration of the networks of KPN Mobile and Telfort, KPN may potentially sell and transfer licenses with the consent of the Minister or return them. Meanwhile, the licenses are available to KPN Mobile and Telfort. On November 21, 2006, KPN announced an agreement in principle with T-Mobile to transfer the E-GSM frequencies that are part of Telfort's license to T-Mobile as of September 2007, which was finalized on January 29, 2007. The transfer requires approval of the Minister of Economic Affairs.

Orange instituted civil proceedings against the State of The Netherlands claiming damages in relation to the DCS 1800 licensing, for which Orange paid approximately EUR 270 million in an auction. According to Orange, the State allowed the creation of an uneven playing field in the Dutch mobile market, because KPN Mobile and Vodafone were not required to pay fees for their GSM 900 frequencies. These claims were rejected in the first instance in 2001, but Orange has lodged an appeal, which is still pending.

### *Mobile terminating access*

On January 1, 2004, the mobile operators in The Netherlands voluntarily reduced their MTA tariffs, upon which the NMa halted its investigation into a potential abuse of dominant positions in relation to these tariffs. In the many disputes between operators at that time, OPTA decided that the reduced tariffs were reasonable. As from December 1, 2005, these tariffs are EUR 0.11 for KPN Mobile The Netherlands and Vodafone and EUR 0.124 for all the other operators (Orange, Telfort, T-Mobile and the MVNO Tele2).

Versatel, MCI and KPN appealed OPTA's decisions in pending MTA tariff-related disputes, in which OPTA ruled not to intervene for periods prior to January 1, 2004 and to apply the agreed tariffs as of that date. On September 27, 2006, the Trade and Industries Appeals Tribunal (CBb) annulled the earlier judgment of the Court of Rotterdam that OPTA should re-decide, and judged that OPTA had no jurisdiction if no direct interconnection agreement existed and that in cases where such agreement existed OPTA was not allowed to judge whether (initially) agreed tariffs were reasonable. All outstanding disputes are thereby terminated without any obligation for repayment by mobile operators.

OPTA decided on November 14, 2005, to designate all mobile operators as having 'significant market power' on the markets for call termination on their mobile networks. As a result OPTA decided that operators as of July 1, 2008, would have to charge call termination tariffs not higher than tariffs that OPTA would decide, based on a LRIC (Long Run Incremental Costs) cost allocation system, to be developed by OPTA. On August 29, 2006, however, the Trade and Industry Appeals Tribunal (in first and highest instance) annulled these decisions of OPTA, based on an insufficient analysis of the relevant markets. As a result OPTA has to re-decide on these markets, which decision OPTA announced to render by July 2007. Until such decision no specific regulation applies for mobile call termination services.

## Mobile telecommunications – Belgium

### *Peak/off-peak litigation against Proximus*

As from October 2003, BASE changed its peak hours for interconnections from 8-19 to 10-22 hours and abolished its low weekend interconnect tariff. BiPT confirmed the reasonableness of BASE's interconnection request in a decision dated August 29, 2003. Proximus appealed this decision before the Brussels Court of Appeals and BASE intervened in this procedure. In two decisions dated June 18, 2004 and September 15, 2005, the Court annulled the BiPT decision and, consequently, overruled BiPT's decision to impose an amended interconnection agreement with BASE on Proximus. BiPT and BASE have lodged an appeal with the Supreme Court (*Hof van Cassatie*) in order to overturn the first judgment by the Court of Appeals. As a result of the appeal decisions, the Court also ruled in 2006 that BASE is not entitled to claim the interconnect fees that were withheld by Proximus following a refusal of the latter to accept BASE's new peak/off-peak structure. Due to Proximus' continuous refusal to accept BASE's new peak/off-peak structure, BASE was forced to terminate its direct interconnection agreement with Proximus as from the end of October 2005, as far as the termination of Proximus' voice traffic on BASE's network is concerned. This traffic is now routed via Belgacom's network.

### *Abuse of dominant market position: litigation against Proximus (1)*

On June 25, 2003, BASE initiated court proceedings against Proximus for the alleged abuse of its dominant market position. BASE seeks a reduction in Proximus' interconnection rates as well as a compensation for damages suffered due to this anti-competitive behavior (tentatively estimated at EUR 560 million). On March 1, 2004, Mobistar voluntarily intervened in this procedure, estimating its claim against Proximus to amount to EUR 106 million. The parties are currently exchanging written arguments. Pleadings took place in January 2007. A decision is expected in the course of 2007.

### *Abuse of dominant market position: litigation against Proximus (2)*

On February 18, 2005, BASE launched an additional procedure against Proximus for the latter's alleged abuse of its dominant position on the Belgian mobile market. This procedure is based on the argument of discrimination and aims at obtaining a 'cease and desist' order against the disadvantageous on-net tariffs applied by Proximus. In December 2005, the Commercial Court dismissed BASE's claim. BASE will appeal this decision.

### *Abuse of dominant market position: litigation against Belgacom*

By not accepting the *MTA tariffs* set by BASE, Belgacom has in BASE's view abused its dominant position on the transit market of international incoming traffic over the past several years. Because negotiations to reach an amicable settlement failed, BASE lodged a complaint against Belgacom before the Belgian Competition Council on June 2, 2004. This procedure is currently pending.

### *Number portability – porting costs: annulment procedure*

A specific clause of the royal decree of September 23, 2004 on number portability authorizes BiPT to determine the costs that mobile operators may charge one another for performing the porting-out of a customer to a competitor. The basis for these charges should be the costs 'of an efficient operator'. Specifically against this clause, BASE has launched an annulment procedure before the State Council. This procedure is currently pending.

### *Number portability – porting costs: appeal procedure*

In a decision of September 16, 2003, BiPT determined the costs that mobile operators may charge one another for performing the porting-out of a customer to a competitor. Following an appeal by Mobistar, the Court of Appeals, by judgment of October 14, 2004, suspended the decision of BiPT, and has asked a

number of ‘prejudicial’ questions to the European Court of Justice in relation to the directives 2002/22 (universal service) and 2002/21 (framework directive). This procedure is currently pending.

## 5. LEGAL AND ORGANIZATIONAL STRUCTURE

The following table sets forth the name and jurisdiction of incorporation of, and our ownership and voting interest (if different) in, our principal operating subsidiaries and other principal interests as of February 28, 2007.

Name of Subsidiaries and other principal interests	Country of incorporation	Percentage ownership/ voting interest
KPN B.V.:	The Netherlands	100.0
• KPN EuroRings B.V.	The Netherlands	100.0
• Infonet Nederland B.V.	The Netherlands	100.0
• XS4ALL Holding B.V.	The Netherlands	100.0
• KPN Telecom Retail B.V.	The Netherlands	100.0
• KPN HotSpots B.V.	The Netherlands	100.0
• Telfort B.V.	The Netherlands	100.0
• Sympac B.V.	The Netherlands	100.0
KPN Telecommerce B.V.:	The Netherlands	100.0
• KPN Consumer Internet and Media Services B.V.	The Netherlands	100.0
KPN Mobile Holding B.V.:	The Netherlands	100.0
• E-Plus Mobilfunk GmbH & Co.KG	Germany	22.5
• KPN Mobile N.V.:	The Netherlands	100.0
- KPN Mobile International B.V.	The Netherlands	100.0
- BASE N.V./S.A.	Belgium	100.0
- E-Plus Mobilfunk GmbH & Co.KG	Germany	77.5

### Organizational structure

The overview below reflects our organizational structure as per December 31, 2006.

Board of Management

Support

Corporate Center

Divisions

### Fixed division

Segment Consumer

- Voice Consumer
- Consumer Marketing & Sales
- KPN HotSpots
- KPN TV
- KPN Internet

## Segment Business

- Voice Business
- Business Marketing
- Connectivity
- KPN EnterCom
- Customer Interaction Services
- Integrated & Managed Solutions

## Segment Wholesale and Operations

- Wholesale, Services & Operations (1)
- SNT

## Mobile division

E-Plus

KPN Mobile The Netherlands (including Telfort)

BASE

Sympac

## Other activities

KPN Sales (including External Distribution) (2)

KPN Retail (2)

KPN.com (2)

EuroWeb (3)

(1) As per January 1, 2006 Carrier Services and Operations Fixed Networks merged into Wholesale, Services & Operations

(2) Distribution channel

(3) In the process of being sold

Our main joint ventures include Esprit Telecom (formerly known as Zeus Telecom), Tetraned, Mobirail, Pluk and Nostalgienet. Schiphol Telematics has been dismantled during 2006.

## New organizational structure 2007

KPN has embarked on a comprehensive program to achieve a structurally lower cost base. KPN is in the process of changing its organizational structure, which has become effective as from January 1, 2007. With a new organization along the segments Consumer and Business, we have changed from a product-oriented company to a service-oriented company. In the new structure, the distinction between Fixed and Mobile ceases to exist in The Netherlands. As of January 1, 2007, KPN in The Netherlands consists of:

- o Consumer
- o Business
- o Wholesale & Operations
- o IT Netherlands
- o Corporate Center

The new organizational structure provides us with the opportunity for an integrated customer approach. We can offer integrated services, both as a multimedia company in the Consumer market (fixed, mobile, TV and Internet) and as a managed ICT company in the Business market. KPN is one of the first in the market with such an integrated approach. We expect this to contribute to further profitable market share and revenue growth.

The integration of our Fixed and Mobile divisions might have major implications for the way we report our financial results, which we are currently finalizing.

## 6. TREND INFORMATION

There are significant challenges in the fixed division notably line loss experienced in the Consumer market as a result of rapid take up of new technologies such as VoIP, and increasing mobile-only use, continued growth in broadband and TV, exacerbated by asymmetric regulation between telephony and cable sector in The Netherlands. In business market KPN strengthened its position with acquisitions and contract wins. KPN is addressing these challenges on several fronts with the implementation of its Attack-Defend-exploit strategy, with the All-IP transformation, FTE reduction and cost savings on track.

## 7. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

### 7.1 Board of Management

The Board of Management, supervised and advised by the Supervisory Board, manages our strategic, financial and organizational matters and appoints senior managers. The Supervisory Board appoints and discharges members of the Board of Management and establishes their individual remuneration within the boundaries of the remuneration policies approved by the Annual General Meeting (see the ‘Remuneration report’ in our Annual Report for more detailed information on remuneration) and the recommendations by the Remuneration & Organization Development Committee. On the basis of the Dutch Civil Code, our articles of association and the by-laws of the Board of Management, certain decisions of the Board of Management require the approval of the Supervisory Board. These decisions include approval of the annual plan and budget, approval of resolutions that exceed certain thresholds, expanding the business materially affecting the existing business and the closing of any business if this results in a material change for a considerable number of employees. A complete overview of such decisions is included in the by-laws of both our Supervisory Board and Board of Management which are available on our website [www.KPN-corporate.com](http://www.KPN-corporate.com) under the section Investor Relations, Corporate Governance. The by-laws of the Board of Management were most recently updated in 2005.

Our Board of Management consists of five members: the Chairman of the Board, the Chief Financial Officer, and the Managing Directors of the Fixed and Mobile divisions and Consumer Market.

The current members of our Board of Management are:

Name	Date of birth	Position	Appointed on
A.J. Scheepbouwer	July 22, 1944	Chairman of the Board and Chief Executive Officer	November 1, 2001
M.H.M. Smits	September 14, 1961	Member of the Board and Chief Financial Officer	August 9, 2004, respectively September 11, 2004
E. Blok	August 3, 1957	Member of the Board and Managing Director Business Market	June 1, 2006
S.P. Miller	September 6, 1958	Member of the Board and Managing Director International Mobile	June 1, 2006
J.B.P. Coopmans	February 9, 1965	Member of the Board and Managing Director Consumer Market	September 11, 2006

**Mr. A.J. Scheepbouwer** was appointed Chairman of our Board of Management and Chief Executive Officer on November 1, 2001. His employment contract terminates on July 1, 2009. From 1976 to 1988, Mr. Scheepbouwer was President of the Airfreight division of Pakhoed Holding N.V. (Pandair Group). In 1988, he was appointed as Managing Director of PTT Post, then part of the Dutch national post and

telecommunications operator, Koninklijke PTT Nederland N.V. In 1992, Mr. Scheepbouwer joined the Board of Management of Koninklijke PTT Nederland N.V. In June 1998, the mail, express and logistics activities were demerged from Koninklijke PTT Nederland N.V. and incorporated as a separate company, TPG N.V., of which Mr. Scheepbouwer became Chief Executive Officer. From June 1998 until September 9, 2001, he was a member of our Supervisory Board. He is currently chairman of the Supervisory Board of Havenbedrijf Rotterdam N.V., chairman of the Supervisory Board of Medisch Centrum Rijnmond-Zuid, and a member of the Supervisory Board of, and an investor in, RFS Holland Holding B.V.

**Mr. M.H.M. Smits** was appointed member of the Board of Management on August 9, 2004 and has been the Chief Financial Officer since September 11, 2004. He is former member of the Board of Management and Chief Financial Officer of Vendex KBB N.V. Before that he had held various (financial) management positions at Unilever. He is currently a member of the Supervisory Board of Delta Lloyd N.V.

**Mr. E. Blok** was appointed as a member of the Board of Management on June 1, 2006 and was responsible for our Fixed division until January 1, 2007. Since that date he has been responsible for our Business Market in The Netherlands. Mr. Blok joined KPN in 1983 and had held various management positions, including positions as director of KPN's departments Carrier Services, Corporate Networks and Fixed Net Operator, and he was responsible for Corporate Strategy & Innovation. Most recently he was Chief Operating Officer for our Fixed division. He was previously, from April until December 2004, a member of our Board of Management. Mr. Blok is a member of the Advisory Board of New Venture and a member of the Board of ICT-Office.

**Mr. S.P. Miller** was appointed as a member of the Board of Management on June 1, 2006. Until January 1, 2007, he was (as managing director of our Mobile division) responsible for all our mobile activities in The Netherlands, Germany, Belgium and abroad. Since that date he has been responsible for all our international mobile activities (outside The Netherlands), as well as all our mobile wholesale activities. Mr. Miller held various senior management and positions in the (pay)television, media and IT industry in South Africa and Europe, including M-Net (South-Africa), MIH (Netherlands / South-Africa), Nethold (Netherlands), Vesta (South-Africa) and Leaderman (Belgium / Luxembourg). In November 1998, he was appointed CEO of KPN Orange, now BASE. Since then he has held various positions in KPN's mobile activities, including those of CEO of KPN Mobile The Netherlands and KPN Mobile International, and member of the Board of Management of KPN Mobile N.V. and Hutchison 3G UK Ltd. In May 2005 he was appointed CEO of KPN's international mobile activities, E-Plus and BASE. He currently is chairman of the Supervisory Board of E-Plus and chairman of the Board of BASE.

**Mr. J.B.P. Coopmans** was appointed as a member of the Board of Management on September 11, 2006. As of January 1, 2007, he is responsible for our Consumer Market in The Netherlands. Mr. Coopmans has held various (commercial) management positions at Unilever. In 1998 he was appointed Managing Director of DiverseyLever. In September 2000 he was appointed chairman of the Board of IgloMora and as of 2004 he was chairman of the Board of Unilever de Mexico.

The business address of each of the members of the Board of Management is Maanplein 55, 2516 CK, The Hague, The Netherlands.

## **7.2 Supervisory Board**

In 2006, the composition of the Supervisory Board did not change. At the Annual General Meeting of Shareholders in April 2006, Mr. Jager stepped down, as he had reached the end of his four-year term of office. Upon nomination by the Supervisory Board, the General Meeting of Shareholders reappointed Mr. Jager for a second term of four years.

<b>Composition of the Supervisory Board in 2006</b>				
<b>Name</b>	<b>Date of birth</b>	<b>Start of term</b>	<b>End of term</b>	<b>Committees</b>
A.H.J. Risseeuw (Chairman)	November 9, 1936	May 2, 2001, April 12, 2005*	2009	Chairman Remuneration & Organization Development Committee Nominating & Corporate Governance Committee
D.G. Eustace (Vice- chairman)	July 3, 1936	April 27, 2000, April 15, 2004*	2008	Chairman Audit Committee
M. Bischoff	April 22, 1942	May 12, 2003	2007	Audit Committee
V. Halberstadt	June 16, 1939	May 11, 1995, April 29, 1999*, May 12, 2003*	2007	Remuneration & Organization Development Committee Nominating & Corporate Governance Committee
D.I. Jager	April 30, 1943	April 25, 2002, April 11, 2006*	2010	Chairman Remuneration & Organization Development Committee Nominating & Corporate Governance Committee
M.E. Van Lier- Lels	October 19, 1959	May 2, 2001, April 12, 2005*	2009	Remuneration & Organization Development Committee Nominating & Corporate Governance Committee
J.B.M. Streppel	October 11, 1949	May 12, 2003	2007	Audit Committee

\* *reappointment*

#### **A.H.J. Risseeuw (1936)**

Mr. Risseeuw was first appointed as member of the Supervisory Board on May 2, 2001, and he has been the Chairman of the Supervisory Board since September 10, 2001. His current (second) term expires in 2009. Mr. Risseeuw chairs the Nominating & Corporate Governance Committee and is a member of the Remuneration & Organization Development Committee. He has held various management positions with Dutch international companies and is the former President of Getronics N.V. He is Chairman of the Supervisory Boards of Groeneveld Groep B.V. and Intergamma B.V., a member of the Supervisory Boards of Heineken N.V. and Blokker Holding B.V. and a member of the Advisory Council of Deloitte Netherlands. Mr. Risseeuw is a Dutch citizen.

#### **D.G. Eustace (1936)**

Mr. Eustace was first appointed as member of the Supervisory Board on April 27, 2000, and he has been the Vice Chairman of the Supervisory Board since September 10, 2001. His current (second) term expires in 2008. Mr. Eustace is the Chairman of the Audit Committee. Mr. Eustace is the former Vice Chairman of the Board of Management and Chief Financial Officer of Royal Philips Electronics N.V. He is currently the Chairman of the Supervisory Board of AEGON N.V. and VNU Group B.V. (until recent VNU N.V.), Vice Chairman of the Supervisory Board of Hagemeyer N.V. and a member of the Advisory Council of Rothschild. In 2006 he stepped down as Chairman of the Board of Smith & Nephew Plc. Mr. Eustace is a British and Canadian citizen. In January 2007, Mr. Eustace was appointed member of the Supervisory Board of Stork N.V.

**M. Bischoff (1942)**

Mr. Bischoff was appointed as member of the Supervisory Board on May 12, 2003 and his current (first) term expires in 2007. He is a member of the Audit Committee. Mr. Bischoff, a former member of the Management Board of DaimlerChrysler, is currently Chairman of the Board of Directors of the European Aeronautic Defence and Space Company (EADS) N.V. Furthermore, he is Chairman of the Supervisory Board of DaimlerChrysler Luft- und Raumfahrt Holding A.G., a member of the Supervisory Boards of DaimlerChrysler AG, Fraport AG, SMS GmbH and Voith AG and a non-executive member of the Board of Directors of Nortel Networks Corp., Nortel Networks Ltd. and Unicredit. Mr. Bischoff is a German citizen.

**V. Halberstadt (1939)**

Mr. Halberstadt was reappointed as member of the Supervisory Board on May 12, 2003 and his term expires in 2007. He is a member of the Remuneration & Organization Development Committee, as well as the Nominating & Corporate Governance Committee. Mr. Halberstadt is a professor of Economics at Leiden University. He is a member of the Supervisory Boards of TNT N.V. and Het Concertgebouw N.V., International Advisor of Goldman Sachs Group Inc. and non-executive director of PA Holdings Ltd and RHJ International S.A. Mr. Halberstadt previously served amongst others as President of the International Institute of Public Finance, Crown-member of the Social and Economic Council and chairman of the DaimlerChrysler International Advisory Board. Mr. Halberstadt is a Dutch citizen.

**D.I. Jager (1943)**

Mr. Jager has been a member of the Supervisory Board since April 25, 2002 and his current (second) term expires in 2010. Mr. Jager is the Chairman of the Remuneration & Organization Development Committee, and a member of the Nominating & Corporate Governance Committee. He held various management positions at Procter & Gamble in Europe, Asia and the United States and was Chairman of the Board, President and/or Chief Executive Officer from January 1995 through June 2000. He currently is an independent consultant and private investor. He is Chairman of the Supervisory Board of Royal Wessanen N.V. and serves on the Boards of Eastman Kodak Inc., Chiquita Brands International Inc. and Polycom Inc. as a non-executive board member. Mr. Jager is both a US and Dutch citizen and resides in the United States.

**M.E. van Lier Lels (1959)**

Ms. Van Lier Lels was first appointed as member of the Supervisory Board on May 2, 2001 and her current (second) term expires in 2009. She is a member of the Remuneration & Organization Development Committee, as well as the Nominating & Corporate Governance Committee. Ms. Van Lier Lels has held various management positions with Dutch international companies and is the former Chief Operating Officer of Schiphol Group. She is a member of the Supervisory Boards of USG People N.V., Connexxion Holding N.V., TKH Group N.V., Nedlloyd N.V. (Maersk Netherlands) and Slavenburg Holdings B.V. She is a member of the Audit Committee of the Algemene Rekenkamer, a member of the Raad voor Verkeer en Waterstaat and a member of the Innovation Platform. Ms. Van Lier Lels is a Dutch citizen.

**J.B.M. Streppel (1949)**

Mr. Streppel was appointed as member of the Supervisory Board on May 12, 2003 and his current (first) term expires in 2007. He is a member of the Audit Committee. Mr. Streppel is a member of the Board of Management and Chief Financial Officer of AEGON N.V. and a member of the Supervisory Board of Van Lanschot N.V. He is a member of the Committee of Listed Companies of Euronext (Amsterdam), Chairman of the Shareholders Communication Channel and a member of the Monitoring Committee Corporate Governance Code. Mr. Streppel is a Dutch citizen.

In 2007, Mr. Halberstadt, Mr. Bischoff and Mr. Streppel are due to step down from the Supervisory Board, as they will reach the end of their four-year term of office. Mr. Halberstadt has served three consecutive terms of four years, and will therefore, in accordance with best practice provision III.3.5 of the Dutch



Corporate Governance Code, not be available for re-appointment. The Supervisory Board expresses its warm gratitude for the contribution that Mr. Halberstadt has given to the Supervisory Board and to the company in general, over the past 12 years.

Mr. Bischoff and Mr. Streppel have indicated their availability for reappointment. The vacancy that has arisen following the resignation of Mr. Halberstadt is subject to the enhanced right of recommendation of the Central Works Council. The Central Works Council has informed the Supervisory Board that it will abstain from making such recommendation.

The three vacancies in the Supervisory Board must be filled in line with the Profile of the Supervisory Board. Based on an evaluation of its composition, the Supervisory Board, in consultation with the Board of Management and the Central Works Council, will nominate Mr. Bischoff and Mr. Streppel for reappointment at the Annual General Meeting of Shareholders on April 17, 2007. The nomination of a further candidate will be considered.

The business address of each of the members of the Supervisory Board is Maanplein 55, 2516 CK, The Hague, The Netherlands.

The Supervisory Board oversees strategic and organizational policymaking by the Board of Management and the way in which it manages and directs our operations and affiliated/associated companies. It oversees and supervises the Board of Management. Members of the Supervisory Board are appointed by the Annual General Meeting of Shareholders upon binding nomination by the Supervisory Board. The Central Works Council has an enhanced right of recommendation with respect to one third of the Supervisory Board, meaning that the Supervisory Board must nominate those recommended unless it is of the opinion that 1) any such person would be unsuitable to fulfil the duties of a Supervisory Board member; or 2) such appointment would cause the Supervisory Board to be improperly constituted.

According to our Articles of Association, our Supervisory Board must consist of at least five and not more than nine members. Our Supervisory Board currently consists of seven members. Members of the Supervisory Board resign according to a schedule set by the Supervisory Board. They step down at the first General Meeting of Shareholders following their four-year term of office. Under the by-laws of the Supervisory Board, they can be reappointed twice, leading to a maximum term of office of twelve years. See the 'Report by the Supervisory Board' in our Annual Report for the rotation schedule.

The Supervisory Board has determined its 'profile', defining the basic principles for the composition of the Supervisory Board. All nominees for the election to the Supervisory Board must fit within this profile. According to this profile, the Supervisory Board must be composed in such a way that members of the Supervisory Board are able to operate independently of each other and of the Board of Management.

The by-laws of the Supervisory Board contain, among other things, rules regarding the members' duties, powers, working methods and decision-making, what decisions by the Board of Management it must approve, training and conflict handling. The by-laws of the Supervisory Board were most recently updated in 2005. The by-laws are available on our website [www.KPN.com](http://www.KPN.com) under the section Investor Relations, Corporate Governance.

### **Committees of the Supervisory Board**

In 2006, three committees assist the Supervisory Board: an Audit Committee, a Remuneration & Organization Development Committee and a Nominating & Corporate Governance Committee. The committees, which consist of members of the Supervisory Board, report their findings to the Supervisory Board, which is finally responsible for all decision making. The committees themselves are not empowered to make decisions. The activities of the committees are governed by written charters, available on our website [www.kpn.com](http://www.kpn.com) under the section Investor Relations, Corporate Governance.

### ***Audit Committee***

The Audit Committee consists of three Supervisory Board Members, Mr. Eustace (Chairman), Mr. Streppel and Mr. Bischoff.

The Audit Committee's task is to supervise in particular the (quality of the) accounting and financial reporting practices, including quarterly and annual reporting, accounting and financial reporting policies and procedures, the (quality of the) internal control system and internal audit function, the independent external audit of the Financial Statements, the performance and evaluation of the external auditor and the compliance with relevant legislation and regulations. The task of the Audit Committee in the area of financial reporting and accounting practices is to provide reasonable assurance that the financial disclosures prepared by management adequately reflect KPN's financial condition, results of operations, cash flows and long-term commitments. We consider Mr. Eustace and Mr. Streppel to be our financial experts within the meaning of the Dutch Corporate Governance Code and Rule 10 A-3 under the Securities Exchange Act of 1934, as amended. All members of the Audit Committee are independent within the meaning of Rule 10A-3 and for purposes of the listing standards of the NYSE as they are applicable to KPN.

### ***Remuneration & Organization Development Committee***

The Remuneration & Organization Development Committee consists of four Supervisory Board members, Mr. Jager (Chairman), Mr. Halberstadt, Ms. Van Lier Lels and Mr. Risseuw.

The task of the Remuneration & Organization Development Committee is to assist the Supervisory Board regarding the development and appropriate application of remuneration policies for our Board of management, including the remuneration of the members of the Board of Management for the coming year; the individual bonuses of members of the Board of Management on the basis of the policy framework for performance related pay, achieved targets and goals; allocation policies for options and shares (to members of the Board of Management and to other KPN senior management) and the conditions under which options and shares are granted; and the remuneration of members of the Supervisory Board for submission to the Supervisory Board and to the General Meeting of Shareholders.

### ***Nominating & Corporate Governance Committee***

The Nominating & Corporate Governance Committee consists of four Supervisory Board Members, Mr. Risseuw (Chairman), Mr. Halberstadt, Mr. Jager and Ms. Van Lier Lels.

The task of the Nominating & Corporate Governance Committee is to assist the Supervisory Board with respect to the nomination of the Board of Management and the Supervisory Board and the oversight of development policies for senior management, as well as the Company's corporate governance policies.

## **7.3 Potential conflicts of interest**

No member of the Board of Management or Supervisory Board has any actual or potential conflict of interest that is material in the context of an issue of Notes under the Programme. For the sake of completeness, refer to 'Transactions with directors and related parties' on page 156 of the 2006 20-F for details of the material transactions between the issuer and members of the Board of Management or the Supervisory Board.

## **8. BOARD PRACTICES**

### **8.1 Corporate governance: Compliance with the Dutch Corporate Governance Code**

We have pursued a consistent policy of compliance with the Dutch Corporate Governance Code (the 'Dutch Corporate Governance Code') that was published by the Tabaksblat Committee on December 9, 2003.

The Dutch Corporate Governance Code has its statutory basis in Book 2 of the Dutch Civil Code and applies to companies with their registered office in The Netherlands whose shares are listed on a stock exchange either domestically or abroad. The Dutch Corporate Governance Code is based on the apply-or-explain principle and is a considerable step forward for Dutch standards on corporate governance. The Dutch Corporate Governance Code defines a company as a long-term form of collaboration between the various parties involved. The Board of Management and the Supervisory Board have overall responsibility for considering the interests, generally with a view to ensure the continuity of the enterprise. In doing so, the Company endeavors to create long-term shareholder value and the Board of Management and Supervisory Board should take account of the interests of the different stakeholders.

We support the principles of the Dutch Corporate Governance Code and we are almost fully compliant with its best practice provisions. It should be noted that we do not fully apply provisions II.1.1 (*a management board member is appointed for a maximum period of four years. A member may be reappointed for a term of not more than four years at a time*), II.2.2 (*if the Company, notwithstanding best practice provision II.2.1, grants unconditional options to management board members, it shall apply performance criteria when doing so and the options should, in any event, not be exercised in the first three years after they have been granted*), II.2.6 (*a management board member shall give periodic notice, but in any event at least once a quarter, of any changes in his holding of securities in Dutch listed companies to the compliance officer or, if the Company has not appointed a compliance officer, to the chairman of the supervisory board*), III.7.3 containing a similar rule for Supervisory Board members and II.2.7 (*the maximum remuneration in the event of dismissal is one year's salary (the 'fixed' remuneration component)*).

We apply provision II.1.1 as of 2004 meaning that Mr. Smits, Mr. Blok, Mr. Miller and Mr. Coopmans were appointed as members of the Board of Management for a term of four years. We endorse the premise that existing agreements should be respected. We respect however the indefinite appointment term of Mr. Scheepbouwer, which is also set forth in his employment agreement. Also due to this premise, we do not apply provision II.2.2 in full on the options we grant to Mr. Scheepbouwer. We agreed with him, at the time of his appointment, that our Supervisory Board could annually grant him unconditional options. As contractually agreed at the time of appointment, these stock options are not linked to performance. We do however apply provision II.2.1 (*options to acquire shares are a conditional remuneration component, and become unconditional only when the management board members have fulfilled predetermined performance criteria after a period of at least three years from the grant date*) to our other members of the Board of Management. Furthermore, under the same premise that existing rights should be respected, Mr. Blok and Mr. Miller will receive more than one year's ('fixed') salary, contrary to provision II.2.7. Mr. Blok will receive one year's full salary (including short term bonus), whereas Mr. Miller will receive two year's fixed salary, including insurance and pension allowances. Both agreements correspond to the arrangements that were in place before they joined the Board of Management.

Under provisions II.2.6 and III.7.3, we require our members of the Supervisory Board and Board of Management to inform the compliance officer only once every year of their shareholdings in Dutch listed companies (other than KPN) rather than every quarter. We do not believe that there is any merit in informing the compliance officer on a more regular basis, as it does not address the real issue at stake, being that the members of these boards should dedicate sufficient time to their primary function and should not have conflicting interests. Besides, it only increases the administrative burden on both the members of these boards as well as on the compliance officer. Our position vis-à-vis all best practice provisions is available on our website [www.KPN.com](http://www.KPN.com) under the section Investor Relations, Corporate Governance and Risk Management and Internal Control.

We remain of the opinion that a governance regime should strike the right balance between transparency of rules and avoidance of bureaucracy caused by excessive detail in order for Dutch companies to remain internationally competitive. Application of sound corporate governance principles is important for a company but it should not be an end in itself. The true aim is to achieve and maintain a culture of honesty and integrity. This aim can, ultimately, be achieved only if the culture and behavior in a company are in all respects positive and transparent.

## **Other corporate governance requirements**

We are listed on the New York Stock Exchange ('NYSE') and qualify as a foreign private issuer under the NYSE stock exchange rules. As such we need to disclose significant differences between NYSE's corporate governance requirements for U.S. issuers and our corporate governance practices in The Netherlands. An overview disclosing these differences is available on our website [www.KPN.com](http://www.KPN.com) under the section Investor Relations, Corporate Governance and Risk Management and Internal Control. In addition, on April 5, 2006, we affirmed to the NYSE without qualification that we have an Audit Committee meeting the requirements of SEC rule 10A-3 under the Securities Exchange Act of 1934, as amended.

We are also listed on Euronext Amsterdam, the London Stock Exchange and the Frankfurt Stock Exchange.

## **Legal structure of the Company**

Under Section 6, Part 4 of Book 2 of the Dutch Civil Code, the rules for large companies are mandatory for us. As such, we have a two-tier management structure with a Board of Management and a Supervisory Board. Among the powers vested in the Supervisory Board is the power to appoint and remove members of the Board of Management. Some of the resolutions of our Board of Management are also subject to the approval of the Supervisory Board. Furthermore, shareholders are entitled to approve decisions of the Board of Management that have a company transforming effect, to approve the remuneration policy and share (option) plans for members of the Board of Management, to appoint members of the Supervisory Board upon proposal by the Supervisory Board, and to dismiss the Supervisory Board.

As of December 31, 2006, listed companies are obliged to incorporate information about the corporate structure of the company. None of our shareholders possess special rights and there are no restrictions applicable to the exercise of voting rights. For further information, please see 'Shareholders' rights, share capital and restrictions on non-Dutch shareholders' rights' in our Annual Report.

Our existing capital resources contain covenants, such as change of control clauses or covenants prohibiting us from entering into any amalgamation, demerger, merger, corporate restructuring or reorganization. This could trigger additional financial obligations or early redemption of outstanding indebtedness. For details of our capital resources covenants, please refer to the section entitled 'Liquidity and capital resources – Capital resources covenants' in our Annual Report.

Currently legislation is pending on the improvement of the processes surrounding shareholders' meetings, such as through electronic voting. Other pending legislation will cover protection mechanisms. KPN closely monitors these developments. Where relevant, changes in legislation are implemented in our Articles of Association. The Articles were last amended on April 19, 2006. Among others, the reference to the special share was deleted.

## **8.2 Controls and procedures statement under the Sarbanes-Oxley Act**

Given our listing on the New York Stock Exchange, we have to comply with certain requirements of the U.S. Sarbanes-Oxley Act.

### *Evaluation of disclosure controls and procedures*

As of the end of the period covered by this report, the Company's management (with the participation of its Chief Executive Officer and Chief Financial Officer) conducted an evaluation pursuant to Rule 13a-15 promulgated under the US Securities Exchange Act of 1934, as amended of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report, such disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in reports it files or submits under the US Securities

Exchange Act of 1934, as amended is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

### *Management's Report on Internal Control Over Financial Reporting*

As of the end of 2006, the Company must comply with the requirements of Section 404 of the Sarbanes-Oxley Act. Section 404 requires the Company to include in the annual report an internal control report, containing management's assessment on the effectiveness of the internal controls over financial reporting.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f)).

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria for effective internal control over financial reporting set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2006.

## **9. MAJOR SHAREHOLDERS**

### **9.1 General**

The table below sets forth, as of the period indicated, the number of shares of each class of our voting shares held by anyone who owns 5% or more of these shares. The table also sets out the number of shares of each class beneficially owned by the members of our Supervisory Board and our Board of Management.

Title of class	Identity of person/group	At February 27, 2007	At December 31, 2006	At December 31, 2005	At December 31, 2004
Ordinary shares	State of The Netherlands	0%	0%	166,966,893 (7.8%)	481,966,893 (20.7%)
Ordinary shares	Current members of Management Board and our Supervisory Board	Less than 0.01%	Less than 0.01%	Less than 0.01%	Less than 0.01%
Special share	The State of The Netherlands	-	-	-	1

Furthermore Capital Group International, Inc., Capital Research and Management Company and Barclays Plc have notified the AFM that they hold respectively between 5%-10% (November 1, 2006: 7.4%), 15%-20% (January 8, 2007: 15.07%) and 5%-10% (January 5, 2007: 5.38%) of the ordinary shares of KPN.

On April 3, 2007, Barclays Plc notified the AFM that it had reduced its interest in KPN from 5.38% to 3.91% of the ordinary shares of KPN.

As of December 31, 2006, 51 ADR record holders held 14,591,771 ordinary shares in the form of American Depositary Shares, representing 0.76% of our outstanding ordinary shares.

As of December 31, 2006, approximately 13% of our outstanding ordinary shares was held by Dutch investors.

## **9.2 The State of The Netherlands**

Until September 22, 2006, the State of The Netherlands, referred to hereinafter as the State, represented by the Ministry of Finance, was a large shareholder in our Company. On that date the State sold the remainder of its shareholding in KPN, bringing an end to its long standing relationship with KPN as a shareholder.

The State is a major customer and purchases our services on normal market terms and conditions. The State may further require us by law to provide certain services in connection with national security or the investigation of criminal offences. The services include tapping telephone lines and providing and maintaining a special secure network for emergencies.

## **9.3 The Foundation Preference Shares B KPN (Stichting Preferente Aandelen B KPN)**

According to its Articles of Association, the statutory goal of the Foundation Preference Shares B KPN (the 'Foundation') is to protect our interests (which includes the interests of our stakeholders, such as customers, shareholders and employees), by, among other things, protecting us from influences that may threaten our continuity, independence and identity. Consequently, in the event of any circumstances where the company is subject to influences as described above, the call option (as described below) will be exercised in the company's interest and where relevant taking public security considerations into account, with a view to enabling the company to determine its position in relation to the circumstances as referred to above, and seek alternatives. The Board of the Foundation is of the opinion that under normal circumstances it should not exercise its voting rights for longer than a limited period. The Board of the Foundation considers it undesirable for the Board of Management to ignore a shift in the balance of power in the general meeting of shareholders over an extended period of time per event. It is furthermore undesirable that the Board of Management should (be able to) use anti-takeover measures to further the personal interests of individuals involved with the company.

The members of the Board of the Foundation are Professor S.C.J.J. Kortmann, Mr. J. den Hoed RA (vice-Chairman), Mr. P. Bouw, Mr. H. Zwarts and Mr. J.H. Schraven. In due course, Mr. Schraven will succeed Professor Kortmann as Chairman. Our Board of Management and the members of the Board of the Foundation share the view that the Foundation is independent from us in accordance with Appendix X to the Listing and Issuing Rules of the Stock Exchange of Amsterdam (Euronext).

The views of the Board of the Foundation, summarised above, have been published at the Foundation's own web-site ([www.prefs-kpn.nl](http://www.prefs-kpn.nl)).

We have a put option to place with the Foundation a number of our Class B preference shares, which have the same voting rights as ordinary shares, not exceeding the total issued share capital before such issue, or, subject to prior approval by the General Meeting of Shareholders, such larger number as the parties may agree. In addition, the Foundation has a call option, which is not limited in time, to acquire a number of Class B preference shares from us not exceeding the total issued amount of ordinary shares, minus one share and minus any shares already issued to the Foundation.

Since October 12, 2006, the authority of the Board of Management to issue Class B preference shares under the put option expired. This expiration does not affect the obligation to issue Class B preference shares upon exercise of the call option by the Foundation.

Upon exercise of the call option, 25% of the nominal value of EUR 0.24 per Class B preference share needs to be paid by the Foundation. Our Board of Management can decide to request the Foundation to pay the remainder. Such decision is subject to the approval of the Supervisory Board.

## **10. FINANCIAL INFORMATION UPDATE FROM NOTES**

### **10.1 Historical Financial Information**

This Prospectus incorporates by reference the publicly available consolidated audited financial statements of the Issuer for the year ended December 31, 2006, including comparative figures for the financial year ended December 31, 2005 and December 31, 2004 (prepared in accordance with IFRS).

### **10.2 Financial Statements**

The Issuer has prepared both statutory and consolidated financial statements in respect of the 2006 financial year.

### **10.3 Auditing of Historical Annual Financial Information**

As described under 'General Information – Auditors' the auditors of the Issuer have audited the financial statements of the Issuer in accordance with IFRS for the financial year ended December 31, 2006 (including comparative figures as at December 31, 2005 and December 31, 2004 under IFRS) and have issued reports without qualification for each of these years.

### **10.4 Age of Latest Financial Information**

The most recent audited financial information is as of December 31, 2006.

### **10.5 Legal and Arbitration Proceedings**

We are involved in several legal proceedings, most of which are primarily related to regulatory or other ordinary course of business issues. We do not expect these proceedings to result in liabilities that have a material effect on our financial position. Where it is probable that the outcome of the legal proceedings will be unfavorable for us, and the financial outcome of these proceedings can be reliably estimated, a provision has been accounted for in the consolidated financial statements. This provision is included in Note 23 to the financial statements, titled "Provisions for other liabilities and charges". In the following paragraphs we describe our main pending proceedings.

#### **SOBI**

On July 10, 2001, a writ of summons was served upon us by one of our shareholders SOBI (*Stichting Onderzoek Bedrijfsinformatie*, or Foundation for the Research of Business Information). SOBI filed a claim with the Enterprise Chamber (*Ondernemingskamer*) of the Amsterdam Court of Appeal that seeks the annulment of our annual financial statements for 2000.

On February 10, 2006, the Supreme Court judgment overturned the ruling made by the Enterprise Section of the Amsterdam Court of Appeal. The Supreme Court concluded that the Court of Appeal issued rulings on questions that had not been tabled (such as the classification of the gain related to NTT DoCoMo in the Consolidated Income Statement) and arguments that KPN had put forward had unjustly been ignored. With regard to the explanatory notes on the valuation of goodwill and licenses and the valuation of financial instruments issued to BellSouth, the Supreme Court ordered the Court of Appeal to reconsider and remotivate their verdict.

#### **KPNQwest**

We are involved in several legal proceedings related to the bankruptcy of KPNQwest.

On October 15, 2002, Citibank International Plc., acting as agent of a syndicate of banks that provided a EUR 525 million syndicated loan to KPNQwest in 2002, served us with a writ of summons claiming an

amount of approximately EUR 19 million from us. As a condition to the syndicated loan, KPNQwest had pledged all its existing and future claims on third parties, including us. KPNQwest drew down EUR 300 million under the syndicated loan. We argued that the claim is largely based on incorrect invoices of KPNQwest and furthermore that we have the right to off set the claim against our counter claims on KPNQwest. The District Court of The Hague agreed with our argument and rejected Citibank's claim nearly in full in July 2004. Citibank appealed the decision while extending the original claim with two additional claims: an amount of approximately EUR 20 million on the basis that we fraudulently ('Paulianeus') extorted rebates from KPNQwest and unspecified damages on the basis we unlawfully extorted rebates from KPNQwest. On February 6, 2007, the Court of Appeal granted EUR 14.1 million (excluding interest) of the EUR 19 million claim to Citibank and rejected the additional claims in full.

On September 13, 2006, we were served with a writ of summons by Citibank N.A. and Cargill Financial Markets Plc claiming EUR 218.9 million, excluding interest and costs, from various former officers and former shareholders, including us, of KPNQwest. Citibank and Cargill claim compensation for damages on a EUR 525 million syndicated loan provided to KPNQwest in 2002 (see also previous paragraph) on the basis of misrepresentation and concealment by former management and former shareholders when the loan was provided to KPNQwest. Citibank acted as agent of the syndicate and as a 14.7% principal lender of the syndicated loan. Cargill claims that it acquired 85.3% of the claim by assignments of their part in the syndicated loan by other original lenders. A decision by the District Court is not expected before year end 2007.

In February 2004, we were served with an amended class action complaint by former shareholders of KPNQwest. The complaint is pending in the US District Court for the Southern District of New York. The complaint was originally filed against a former officer of KPNQwest. The amended complaint added several additional defendants, including us and three of our current and former officers who had served on the Supervisory Board of KPNQwest. The amended complaint alleges that, from the time of its initial public offering in November 1999 through April 24, 2002, KPNQwest overstated its reported revenues and profits by entering into capacity swap transactions with third parties and improperly accounted for those transactions. In June 2006, we reached agreement with the lead plaintiffs to settle the class action complaint for an amount of USD 4.2 million. The settlement covers our company, our subsidiaries and affiliates and certain individual defendants. The settlement is worldwide and applies to all those who purchased KPNQwest securities between November 9, 1999 and May 31, 2002. The settlement was approved by the US District Court for the Southern District of New York on January 31, 2007.

Appaloosa Investment Ltd. Partnership I, Palomino Fund Ltd., Appaloosa Management LP filed in June 2005 a complaint against several parties including us in an action to recover unspecified damages for KPNQwest securities purchased outside the class action period (see previous paragraph). The complaint is based on similar allegations as the class action described above. The complaint was temporarily suspended awaiting the outcome of the class action complaint (see previous paragraph). We expect Appaloosa to file an amended complaint shortly.

The VEB ('*Vereniging van Effectenbezitters*' or Dutch Investors' Association') a private organization for retail investors in The Netherlands requested the Enterprise Chamber of the Amsterdam Court of Appeal to conduct an enquiry into the policy making and the affairs of KPNQwest (in particular the relationship between KPNQwest on the one hand and Qwest and KPN on the other hand) in the period from August 30, 1999 until May 31, 2002. Various parties, including us, filed a defense against the request. The Enterprise Chamber granted the request and ordered an enquiry over the period from January 1, 2002 until May 23, 2002. It is expected that one or more investigators will be appointed shortly to look into the affairs of KPNQwest and to produce a report. The Enterprise Chamber may authorize the investigators to inspect relevant books, records and other sources of information and to request the production of evidence of any company 'closely connected' with KPNQwest. After completion of the report, the Enterprise Chamber may be asked to issue a judgment whether there has been mismanagement ('*wanbeleid*') and, if so, it can take one or more further measures.



## 10.6 Significant change in financial or trading position

There has been no significant change in the financial or trading position of the Issuer or the Issuer and its subsidiaries, taken as a whole, and there has been no material adverse change in the financial position or prospects of the Issuer, or the Issuer and its subsidiaries taken as a whole, since December 31, 2006.

## 11. ADDITIONAL INFORMATION

### 11.1 Equity movement schedule

Amounts in millions of euro	Number of subscribed shares	Share capital [19]	Share premium [19]	Other reserves [19]	Retained earnings	Attribu- table to equity holders	Minority interests [20]	Total Group equity
Balance as of Jan. 1, 2004	2,490,996,877	598	16,268	-123	-10,208	6,535	185	6,720
- Profit for the year	-	-	-	-	1,707	1,707	50	1,757
- Currency translation and other adjustments	-	-	-	-1	-1	-2		-2
Total recognized income 2004	-	-	-	-1	1,706	1,705	50	1,755
Share-based compensation	-	-	-	-	31	31	-	31
Exercise of options	-	-	-	28	-	28	-	28
Shares repurchased (including for option plans)	-	-	-	-1,042	-	-1,042	-	-1,042
Shares cancelled	-161,596,876	-39	-961	1,000	-	-	-	-
Dividends paid	-	-	-	-	-796	-796	-	-796
Dividend tax	-	-	-	-	-52	-52		-52
Acquisition of minority interests (SNT)	-	-	-	-	-	-	-90	-90
Other changes	-32	-	-	-	2	2	-	2
Total changes	-161,596,908	-39	-961	-14	-815	-1,829	-90	-1,919
Balance as of Dec. 31, 2004	2,329,399,969	559	15,307	-138	-9,317	6,411	145	6,556
Change of accounting policies:								
- First-time adoption IAS 39	-	-	-	-213	-3	-216	-	-216
- Tax effect	-	-	-	71	-	71	-	71
Balance as of Jan. 1, 2005	2,329,399,969	559	15,307	-280	-9,320	6,266	145	6,411
- Cash flow hedges, net of taxes	-	-	-	11	-	11	-	11
- Realized profit on available-for- sale financial assets	-	-	-	-23	-	-23	-	-23
- Currency translation and other adjustments	-	-	-	9	2	11	-	11
- Net income recognized directly in equity	-	-	-	-3	2	-1	-	-1

- Profit for the year	-	-	-	-	1,437	1,437	17	1,454
Total recognized income 2005	-	-	-	-3	1,439	1,436	17	1,453
Share-based compensation	-	-	-	-	9	9	-	9
Exercise of options	-	-	-	28	3	31	-	31
Shares repurchased (including for option plans and repurchase costs)	-	-	-1,784	-	-	-	-	-1,784
Shares cancelled	-181,039,631	-43	-1,209	1,252	-	-	-	-
Shares issued (acquisition SNT)	3,000,031	1	19	-	-	20	-	20
Dividends paid	-	-	-	-	-890	-890	-	-890
Dividend tax	-	-	-	-	-12	-12	-	-12
Acquisition of minority interests (KPN Mobile NV/SNT)	-	-	-	-	-	-	-134	-134
Total changes	-178,039,600	-42	-1,190	-504	-890	-2,626	-134	-2,760
Balance as of Dec. 31, 2005	2,151,360,369	517	14,117	-787	-8,771	5,076	28	5,104
- Cash flow hedges, net of taxes	-	-	-	58	-	58	-	58
- Currency translation and other adjustments	-	-	-	-8	-	-8	-	-8
- Net income recognized directly in equity	-	-	-	50	-	50	-	50
- Profit for the year	-	-	-	-	1,583	1,583	0	1,583
Total recognized income 2006	-	-	-	50	1,583	1,633	0	1,633
Share-based compensation	-	-	-	-	11	11	-	11
Exercise of options	-	-	-	32	6	38	-	38
Shares repurchased (including for option plans and repurchase costs)	-	-	-1,581	-	-	-1,581	-	-1,581
Shares cancelled	-222,809,044	-54	-2,017	2,071	-	-	-	-
Shares issued	1	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-982	-982	-11	-993
Acquisition (Sale) of minority interests	-	-	-	-	-	-	-16	-16
Total changes	-222,809,043	-54	-2,017	522	-965	-2,514	-27	-2,541
Balance as of December 31, 2006	1,928,551,326	463	12,100	-215	-8,153	4,195	1	4,196

## 11.2 Rights attaching to the Issuer's shares

Our authorized capital stock totals EUR 1,920,000,000, divided into 4 billion ordinary shares of EUR 0.24 each and 4 billion Class B preferred shares of EUR 0.24 each. During 2006, all repurchased shares (222,809,044) under the share repurchase program announced in 2006 including the repurchases from the State of The Netherlands (60,000,000 and the special share in December 2005 and 80,000,000 in September 2006) were cancelled. As of December 31, 2006 a total of 1,928,551,326 ordinary shares are outstanding and fully paid-in.

In September 2006, the State of The Netherlands sold its remaining 167 million ordinary shares, of which 80 million was sold to KPN. Consequently, the State of The Netherlands holds no ordinary shares as of December 31, 2006 (2005: 7.8%).

### **11.3 Articles of Association**

Pursuant to Article 4 of the Issuer's Articles of Association, its objects and purposes are:

- (a) to participate in and to manage other enterprises and companies, among such, companies that operate in the field of the transmitting, storing and converting of information, as well as to manage and dispose of information;
- (b) to manage and finance subsidiaries, group companies, dependent companies and participations, among which to guarantee the debts of those companies and participations, and further to engage in any activity which may be related or conducive to the objects set out hereinabove.

## **12. MATERIAL CONTRACTS**

As of the date of this Prospectus, we are not party to any contracts (not entered into in the ordinary course of business) that are considered material to our results, financial condition or operations.

## **13. THIRD PARTY INFORMATION**

### **13.1 Statement of Expert**

The auditor's opinion is included on page 177 of the 2006 Annual Report on Form 20-F which is incorporated by reference.

## BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the 'Clearing Systems') currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuer nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

### Book-entry Systems

#### DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a 'banking organisation' within the meaning of the New York Banking Law, a 'clearing corporation' within the meaning of the New York Uniform Commercial Code and a 'clearing agency' registered pursuant to Section 17A of the Exchange Act. The offices of DTC are situated at 25<sup>th</sup> Floor 55 Water Street, New York, New York, 10041, United States of America. DTC holds securities that its participants ('Participants') deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ('Indirect Participants').

Under the rules, regulations and procedures creating and affecting DTC and its operations (the 'Rules'), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system ('DTC Notes') as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ('Owners') have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ('Beneficial Owner') is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in 'street name', and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under 'Subscription and Sale and Transfer and Selling Restrictions'.

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

#### *Euroclear and Clearstream, Luxembourg*

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Euroclear's offices are situated at 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. Clearstream, Luxembourg's offices are situated at 42 Avenue J.F. Kennedy, 1855 Luxembourg.

### **Book-entry Ownership of and Payments in respect of DTC Notes**

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in such a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

### **Transfers of Notes Represented by Registered Global Notes**

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under 'Subscription and Sale and Transfer Selling Restrictions', cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian ('Custodian') with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## **TAXATION**

### **United Kingdom taxation**

*The following applies only to persons who are the beneficial owners of Notes, is of a general nature based on current United Kingdom law and HM Revenue and Customs ('HMRC') practice and is not intended to be exhaustive, dealing only with withholding tax and information reporting regarding interest. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.*

#### **Interest on the Notes**

##### *Payment of interest on the Notes*

Payments of interest on the Notes may be made without withholding on account of United Kingdom income tax.

However, Noteholders who are individuals may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays (or credits) interest to or receives interest for the benefit of an individual, or who either pays amounts payable on the redemption of Notes that constitute deeply discounted securities for the purposes of the Income Tax (Trading and Other Income) Act 2005 to or receives such amounts for the benefit of an individual, although HMRC published practice indicates that HMRC will not exercise the power referred to above to require this information in respect of amounts payable on the redemption of deeply discounted securities where such amounts are paid on or before 5th April 2007. Such information may include the name and address of the beneficial owner of the amount payable on redemption. Any information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the individual is resident.

##### *EU Savings Directive*

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

#### **A. Netherlands taxation**

##### **General**

*The following summary describes the principal Dutch tax consequences of the acquisition, holding, redemption and disposal of the Notes, which term, for the purpose of this summary, includes Coupons, Receipts and Talons, but does not purport to be a comprehensive description of all Dutch tax considerations thereof. This summary is intended as general information only and each prospective investor should consult a professional tax adviser with respect to the tax consequences of an investment in the Notes.*



*This summary is based on the Dutch tax legislation, published case law, treaties, regulations and published policy, in force as of the date of this Prospectus, though it does not take into account any developments or amendments thereof after that date whether or not such developments or amendments have retroactive effect.*

*This summary does not address the Dutch tax consequences for:*

- (i) holders of Notes holding a substantial interest (aanmerkelijk belang) in the Issuer. Generally speaking, a holder of Notes holds a substantial interest in the Issuer, if such holder of Securities, alone or, where such holder is an individual, together with his or her partner (statutory defined term) or certain other related persons, directly or indirectly, holds (i) an interest of 5 percent or more of the total issued capital of the Issuer or of 5 percent or more of the issued capital of a certain class of shares of the Issuer, (ii) rights to acquire, directly or indirectly, such interest or (iii) certain profit sharing rights in the Issuer;*
- (ii) pension funds or other entities that are exempt from Dutch corporate income tax;*
- (iii) investment institutions (fiscale beleggingsinstellingen).*

*For the purpose of this summary, the term Issuer includes the Substituted Debtor. The tax consequences of a possible exchange or conversion of the Notes into shares or other equity instruments issued by the Issuer, the Substituted Debtor or an entity related to the Issuer are not discussed in this summary.*

## **Withholding tax**

All payments made by the Issuer under the Notes may be made free of withholding or deduction for any taxes of whatsoever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein, provided that the Notes are considered debt for Netherlands tax purposes and do not in fact function as equity of the Issuer within the meaning of article 10, paragraph 1, under d of the Netherlands corporate income tax act 1969 (*Wet op de vennootschapsbelasting 1969*).

## **Corporate and individual income tax**

### **Residents of the Netherlands**

If a holder is resident or deemed to be resident of the Netherlands for Dutch tax purposes and is fully subject to Dutch corporate income tax or is only subject to Dutch corporate income tax in respect of its enterprise to which the Notes are attributable, income derived from the Notes and gains realised upon the redemption or disposal of the Notes are generally taxable in the Netherlands.

If an individual holder is resident or deemed to be resident of the Netherlands for Dutch tax purposes (including the individual holder who has opted to be taxed as a resident of the Netherlands), income derived from the Notes and gains realised upon the redemption or disposal of the Notes are taxable at the progressive rates of the Dutch Income Tax Act 2001, if:

- (i) the holder has an enterprise or an interest in an enterprise, to which enterprise the Notes are attributable; or*
- (ii) such income or gains qualify as income from miscellaneous activities (resultaat uit overige werkzaamheden), which include the performance of activities with respect to the Notes that exceed regular, active portfolio management (normaal, actief vermogensbeheer).*

If neither condition (i) nor condition (ii) applies to the holder of the Notes, taxable income with regard to the Notes must be determined on the basis of a deemed return on income from savings and investments (*sparen en beleggen*), rather than on the basis of income actually received or gains actually realised. At present, this

deemed return on income from savings and investments has been fixed at a rate of 4% of the average of the individual's yield basis (*rendementsgrondslag*) at the beginning of the calendar year and the individual's yield basis at the end of the calendar year, insofar as the average exceeds a certain threshold. The average of the individual's yield basis is determined as the fair market value of certain qualifying assets held by the holder of the Notes less the fair market value of certain qualifying liabilities on January 1 and December 31, divided by two. The fair market value of the Notes will be included as an asset in the individual's yield basis. The deemed return on income from savings and investments of 4% will be taxed at a rate of 30 per cent.

#### Non-residents of the Netherlands

If a holder is not a resident nor deemed to be a resident of the Netherlands for Dutch tax purposes (nor has opted to be taxed as a resident of the Netherlands), such holder is not taxable in respect of income derived from the Notes and gains realised upon the redemption or disposal of the Notes, unless:

- (i) the holder has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which permanent establishment or a permanent representative the Notes are attributable; or
- (ii) the holder is entitled to a share in the profits of an enterprise that is effectively managed in the Netherlands, other than by way of securities or through an employment contract, and to which enterprise the Notes are attributable; or
- (iii) the holder is an individual and such income or gains qualify as income from miscellaneous activities in the Netherlands, which includes the performance of activities in the Netherlands with respect to the Notes that exceed regular, active portfolio management.

#### Gift and Inheritance taxes

##### Residents of the Netherlands

Generally, gift and inheritance taxes will be due in the Netherlands in respect of the acquisition of the Notes by way of a gift by, or on the death of, a holder that is a resident or deemed to be a resident of the Netherlands for the purposes of Dutch gift and inheritance tax at the time of the gift or his or her death.

A holder of Dutch nationality is deemed to be a resident of the Netherlands for the purposes of the Dutch gift and inheritance tax, if he or she has been resident in the Netherlands during the ten years preceding the gift or his or her death. A holder of any other nationality is deemed to be a resident of the Netherlands for the purposes of the Dutch gift and inheritance tax if he or she has been resident in the Netherlands at any time during the twelve months proceeding the time of the gift. The same twelve-month rule may apply to entities that have transferred their seat of residence out of the Netherlands.

##### Non-residents of the Netherlands

No gift or inheritance taxes will arise in the Netherlands in respect of the acquisition of the Notes by way of gift by, or as a result of the death of, a holder that is neither a resident nor deemed to be a resident of the Netherlands for the purposes of the Dutch gift and inheritance tax, unless:

- (i) such holder at the time of the gift has, or at the time of his or her death had, an enterprise or an interest in an enterprise that is or was, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands and to which permanent establishment or a permanent representative, the Notes are or were attributable; or
- (ii) the Notes are or were attributable to the assets of an enterprise that is effectively managed in the Netherlands and the donor is or the deceased was entitled, other than by way of securities or through

an employment contract, to a share in the profits of that enterprise, at the time of the gift or at the time of his or her death; or

- (iii) in the case of a gift of the Notes by a holder that at the date of the gift was neither a resident nor deemed to be a resident of the Netherlands, such holder dies within 180 days after the date of the gift, while at the time of his or her death being a resident or deemed to be a resident of the Netherlands.

#### *Treaties*

Treaties may limit the Dutch sovereignty to levy gift and inheritance tax.

#### **Value added tax**

In general, no value added tax will arise in respect of payments in consideration for the issue of the Notes or in respect of the cash payment made under the Notes, or in respect of a transfer of Notes.

#### **Other taxes and duties**

No registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty, will be payable in the Netherlands by a holder in respect of or in connection with the subscription, issue, placement, allotment, delivery or transfer of the Notes.

#### **EU Savings Directive**

Please refer to the equivalent section under “*United Kingdom Taxation*” above, which is also applicable to the Netherlands.

#### **Certain U.S. Federal Income Tax Considerations**

*The following is a general summary of certain United States Federal income tax consequences of the purchase, ownership and disposition of the Notes. This summary is based upon the Internal Revenue Code of 1986, applicable income tax regulations, published rulings, administrative pronouncements and court decisions, as of the date hereof, all of which are subject to change or differing interpretations at any time and possibly with retroactive effect. This summary does not discuss all aspects of United States Federal income taxation that may be relevant to a particular investor in light of the investor's particular circumstances. In particular, this summary does not apply to investors who own, directly or through attribution, 10 per cent. or more of the Company's outstanding voting share capital, or to certain types of investors subject to special treatment under the United States Federal income tax laws (such as tax-exempt organisations (including qualified pension plans), banks, insurance companies, regulated investment companies, brokers, dealers, foreign persons and entities, persons holding Notes as part of a 'hedging' or 'conversion' transaction or as a position in a 'straddle', or persons whose functional currency is not the United States dollar). In addition, this summary does not consider the effect of any foreign, state, local or other tax laws, or any other United States tax consequences other than income tax consequences, that may be applicable to particular investors. This summary does not address any tax consequences applicable to holders of equity interests in a holder of the Notes. This summary also assumes that the Notes are held as capital assets and that there will be no substitution of another entity in place of the Issuer as principal debtor in respect of the Notes.*

**EACH PROSPECTIVE PURCHASER OF THE NOTES SHOULD CONSULT ITS OWN TAX ADVISORS CONCERNING THE APPLICATION OF UNITED STATES FEDERAL INCOME TAX LAWS TO ITS PARTICULAR SITUATION AS WELL AS ANY CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES ARISING UNDER THE LAWS OF ANY OTHER TAXING JURISDICTION.**

To ensure compliance with U.S. Treasury Department regulations, we advise you that any tax discussion herein was not written and is not intended to be used and cannot be used by any taxpayer for purposes of avoiding U.S. Federal income tax penalties that may be imposed on the taxpayer. Any such tax discussion was written to support the promotion or marketing of the Notes to be issued pursuant to this Prospectus. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Notwithstanding any provision herein and the otherwise confidential nature of this Prospectus and its contents, and effective from the date of commencement of discussions concerning any offering of Notes under this Programme, each party hereto (and each employee, representative, or other agent of such party) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described and contemplated herein (the 'Transactions') and all materials of any kind (including opinions or other tax analyses) that are provided to it relating to such tax treatment and tax structure, except to the extent that any such disclosure could reasonably be expected to cause Notes offered under this Programme not to be in compliance with securities laws. In addition, no person may disclose the name of or identifying information with respect to any party identified herein or other non-public business or financial information that is unrelated to the tax treatment or tax structure of the Transactions without the prior consent of the Issuers. For purposes of this paragraph, the tax treatment of the Transactions is the purported or claimed U.S. Federal income tax treatment of the Transactions, and the tax structure of the Transactions is any fact that may be relevant to understanding the purported or claimed U.S. Federal income tax treatment of the Transactions.

The following summary deals only with holders who purchase Notes at original issuance and is limited to a general discussion of the tax consequences of the purchase, ownership and disposition of Notes. The Final Terms for each series of Notes may describe additional tax consequences, if any, that relate to the specific Notes to be issued. Accordingly, this discussion should be read only in connection with the discussion, if any, of U.S. Federal income tax considerations contained in the Final Terms to which investors are referred and does not, by itself, necessarily discuss all of the material U.S. Federal income tax issues of a particular series of Notes.

This summary deals only with holders who purchase Notes in this offering at the 'issue price' (which will be the price at which a substantial amount of the Notes is sold to persons other than bond houses, brokers or similar persons acting in the capacity of underwriters, agents or shareholders). In addition, this summary assumes the Notes are treated as debt for U.S. Federal income tax purposes.

As used herein, the term 'U.S. Holder' means a beneficial owner of a Note that is for U.S. Federal income tax purposes: (i) a citizen or resident of the United States; (ii) a corporation created or organised in or under the laws of the United States or any state thereof (including the District of Columbia); (iii) an estate the income of which is subject to U.S. Federal income taxation regardless of its source; or (iv) a trust the administration of which is subject to the primary supervision of a court in the United States and with respect to which one or more U.S. persons have the authority to control all substantial decisions. If a partnership holds Notes, the consequences to a partner will generally depend upon the status of the partner and upon the activities of the partnership. A partner in a partnership holding Notes should consult its own tax advisor.

A 'Non-U.S. Holder' means a beneficial owner other than a U.S. Holder.

## **Payments of Interest and Discount on the Notes**

### *Stated Interest*

Except as described below, the amount of any stated interest payments on a Note will be taxable to a U.S. Holder as ordinary interest income in accordance with such U.S. Holder's method of accounting for U.S. Federal income tax purposes. If an interest payment is denominated in or determined by reference to a 'Foreign Currency' (a currency other than the U.S. dollar), then special rules, described below under 'Foreign Currency Notes' apply.

## Original Issue Discount

If a U.S. Holder holds Notes which have original issue discount ('OID') and which have a maturity of more than one year from their date of issue, such U.S. Holder will generally be required to recognise such OID as ordinary interest income under a constant yield method in advance of the receipt of cash payments to which such income is attributable, regardless of the U.S. Holder's method of accounting. Special rules apply to OID on a Note that is denominated in Foreign Currency. See 'Foreign Currency Notes'.

A Note has OID to the extent that the Note's 'stated redemption price at maturity' exceeds its 'issue price,' but only if such excess equals or exceeds a specified minimum amount (generally, an amount equal to one quarter of one per cent. of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity). The stated redemption price at maturity of a Note generally is the sum of all payments provided by the Note other than payments of 'qualified stated interest'. The term 'qualified stated interest' generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate (or at certain floating rates) that appropriately takes into account the length of the interval between stated interest payments. The issue price of a Note is the first price at which a substantial amount of such issue of Notes has been sold (ignoring sales to bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, agents, or wholesalers).

In general, if the excess of a Note's stated redemption price at maturity over its issue price is less than the specified minimum amount, then such excess constitutes '*de minimis* OID'. Unless the election described below under 'Election to Treat All Interest as OID' is made, such a Note will not be treated as issued with OID (in which case the following paragraphs under 'Original Issue Discount' will not apply) and a U.S. Holder of such a Note must include such *de minimis* amount of income as stated principal payments on the Note are made. The amount includible with respect to each such payment will equal the product of the total amount of the Note's *de minimis* OID and a fraction, the numerator of which is the amount of the principal payment and the denominator of which is the stated principal amount of the Note.

Except as described below with respect to Short Term Notes (defined herein), the amount of OID that a U.S. Holder will be required to include in income in a taxable year will be determined by allocating to each day of the taxable year for which the U.S. Holder holds the Note the pro rata daily portions of OID attributable to the 'accrual period.' An accrual period may be of any length selected by the U.S. Holder and the accrual periods may vary in length over the term of the Note as long as (i) each accrual period is no longer than one year, and (ii) each scheduled payment of principal or interest occurs either on the final day of an accrual period or on the first day of an accrual period. The amount of OID allocable to each accrual period generally will equal the product of (i) the Note's 'adjusted issue price' at the beginning of such accrual period and (ii) its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period), less the amount of any qualified stated interest payments allocable to such accrual period. The adjusted issue price of a Note at the beginning of the first accrual period is the issue price. Thereafter, the adjusted issue price of a Note is the sum of the issue price plus the amount of OID previously includable in the gross income of the holder reduced by the amount of any payment previously made on the Note, other than payments of 'qualified stated interest'. Thus, under these rules, a U.S. Holder will generally have to include in income increasingly greater amounts of OID over the life of the Note. Special rules apply for calculating OID in short initial or final accrual periods.

If the Issuer has an unconditional option to redeem or prepay a Note before the Note's stated maturity, such option will be presumed to be exercised if, by utilising any date on which such Note may be redeemed or repurchased as the maturity date and the amount payable on such date in accordance with the terms of the Note (the 'redemption price') as the stated redemption price at maturity, the yield on the Note would be lower than its yield to stated maturity and the yield to maturity of the Note will be determined based on this earlier maturity date. If such option is in fact exercised or not exercised contrary to the presumption made (*i.e.*, there is a 'change in circumstances'), then the Note would be treated, solely for OID purposes, as if it were retired and reissued on the date of the change in circumstances for an amount equal to the Note's adjusted issue price on that date.

### *Floating Rate Notes*

Floating Rate Notes will be subject to special rules. Generally, if a Floating Rate Note qualifies as a ‘variable rate debt instrument’ (as defined in applicable Treasury Regulations) then (i) all stated interest with respect to such Floating Rate Note will be qualified stated interest and hence included in a U.S. Holder’s income in accordance with such U.S. Holder’s normal method of accounting for U.S. Federal income tax purposes, and (ii) the amount of OID, if any, will be determined under the general OID rules (as described above under ‘Original Issue Discount’) by assuming that the variable rate is a fixed rate equal, in general, to the value, as of the issue date, of the floating rate.

If any of the Floating Rate Notes do not qualify as ‘variable rate debt instruments,’ such Floating Rate Notes will be classified as contingent payment debt instruments and will be subject to special rules for calculating the accrual of stated interest and OID.

Any special considerations with respect to the tax consequences of holding a Floating Rate Note will be provided in the applicable Final Terms.

### *Index Linked Notes*

Special U.S. Federal income tax rules apply with respect to Index Linked Notes. If any Index Linked Notes are issued, information concerning the United States Federal income tax consequences of such Notes to U.S. Holders will be provided in the applicable Final Terms.

### *Short Term Notes*

Generally, an accrual basis U.S. Holder of ‘Short Term Notes’ (*i.e.*, Notes having a fixed maturity date not more than one year from the date of issue) is required to accrue OID on Short Term Notes on either a straight-line basis or, at the election of the U.S. Holder, under the constant yield method (based on daily compounding). An individual or other cash basis U.S. Holder of a Short Term Note is generally not required to accrue OID for U.S. Federal income tax purposes unless it elects to do so.

For purposes of determining the amount of OID subject to these rules, applicable Treasury Regulations provide that, unlike the rules applicable to the determination of OID with respect to Notes which are not Short Term Notes, no interest payments on a Short Term Note will be qualified stated interest. Consequently, such interest payments are included in the Short Term Note’s stated redemption price at maturity and therefore may give rise to OID (or acquisition discount) even if the Short Term Notes are not actually issued at a discount. U.S. Holders should consult their own tax advisors as to the application of these rules.

### *Amortisable Bond Premium*

A U.S. Holder that purchases a Note for an amount in excess of the sum of all amounts, other than qualified stated interest, payable on the Note after the purchase date will be considered to have purchased the Note at a premium (‘bond premium’) and will not be required to include any OID in income with respect to such Note. A U.S. Holder generally may elect to amortise the premium over the remaining term of the Note under a constant yield method. For any Floating Rate Note or Index Linked Note that is a ‘variable rate debt instrument’ under applicable income tax regulations, that method is implemented by constructing an ‘equivalent fixed rate instrument’, as provided in applicable Treasury Regulations. The amount amortised in any year reduces both the U.S. Holder’s adjusted basis in the Note and interest income from the Note. Any excess bond premium allocable to an accrual period is deductible by the holder for that accrual period. The amount deductible, however, is limited by the amount of the holder’s prior income inclusions on the instrument, and any excess is carried forward to the next accrual period. In addition, in the case of instruments that have alternative payment schedules that are predicated on the unilateral exercise of an option by the issuer or the holder, the amount of bond premium that is amortisable in an accrual period is calculated by assuming that both the issuer and the holder will exercise or not exercise options in a manner

that maximises the holder's yield. Thus, a holder may be required to amortise bond premium by reference to the stated maturity, even if it appears likely that the Note will be called. The Treasury Regulations also contain rules applicable if such contingency occurs or fails to occur contrary to the assumption utilised.

U.S. Holders not making an election to amortise bond premium are not required to reduce the adjusted basis of their Notes and consequently may recognise less gain or more loss upon their disposition. The election to amortise bond premium, once made, applies to all debt instruments held or subsequently acquired by the electing U.S. Holder on or after the first day of the taxable year to which the election applies and may not be revoked without the consent of the IRS. Holders should consult their own tax advisors concerning the consequences, means and advisability of making this election.

#### *Election to Treat All Interest as OID*

Subject to certain limitations, a U.S. Holder of a debt instrument generally may elect to treat all interest that accrues on the instrument as OID. Interest for this purpose includes stated interest not previously included in income, OID (including any *de minimis* OID), and acquisition discount, adjusted for amortisable bond premium and acquisition premium. If a U.S. Holder makes this election for a Note with amortisable bond premium, the election is treated also as an election under the amortisable bond premium provisions, described above, and the electing U.S. Holder will be required to amortise bond premium currently for all of the U.S. Holder's other debt instruments with amortisable bond premium. U.S. Holders of Notes should consult their own tax advisors concerning the consequences, means and advisability of making such an election.

#### *Non-U.S. Holders*

Non-U.S. Holders will generally not be subject to U.S. Federal income tax on payments of principal, interest (including OID) and premium (if any) on any Note unless such principal, interest or premium payment is effectively connected with the conduct of a trade or business by the Non-U.S. Holder within the United States.

### **Disposition of a Note**

#### *U.S. Holders*

Except as discussed above, upon the sale, exchange or retirement of a Note, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement (other than amounts representing accrued and unpaid interest not previously included in income, which will be taxable as such) and such U.S. Holder's adjusted tax basis in such Note. A U.S. Holder's adjusted tax basis in a Note generally will equal such U.S. Holder's initial investment in such Note increased by any OID included in income and any accrued market discount included in income and decreased by the amount of any payments that are not deemed qualified stated interest payments and amortisable bond premium applied to reduce interest with respect to such Note. Such gain or loss generally will be long-term capital gain or loss if the Note was held for more than one year. Deduction of capital losses for U.S. Federal income tax purposes is subject to limitations.

#### *Non-U.S. Holders*

Non-U.S. Holders generally will not be subject to U.S. Federal income taxation on gain or income unless (a) such Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year and has certain other connections with the United States or (b) such gain is effectively connected with the conduct of a trade or business by the Non-U.S. Holder within the United States.

## **Foreign Tax Credit Sourcing Rules**

Interest and OID on the Notes should be treated as income from sources outside the United States for purposes of the foreign tax credit limitation.

Gain or loss recognised on the sale, exchange or retirement of a Note by a U.S. Holder generally will constitute income from sources within the United States.

U.S. Holders of Notes should consult their own tax advisors concerning the source of income or loss with respect to the Notes and the application of the foreign tax credit limitation generally.

## **Foreign Currency Notes**

The following summary relates to Notes that are denominated in a currency or basket of currencies other than the U.S. dollar ('Foreign Currency Notes').

### *Payments of Interest in a Foreign Currency*

A U.S. Holder will be required to include in income the U.S. dollar value of the amount of interest income (including OID or market discount and reduced by amortisable bond premium to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a Note during an accrual period. The U.S. dollar value of such accrued income will be determined by translating such income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. A U.S. Holder may elect, however, to translate such accrued interest income using the spot rate on the last day of the accrual period or, with respect to an accrual period that spans two taxable years, using the spot rate on the last day of the taxable year. If the last day of an accrual period is within five business days of the date of receipt of the accrued interest, a U.S. Holder may translate such interest using the spot rate on the date of receipt. U.S. Holders should consult their own tax advisors concerning the consequences, means and advisability of making such an election.

A U.S. Holder who receives a payment of interest in Foreign Currency may recognise exchange gain or loss (which will be treated as ordinary income or loss) with respect to accrued interest income on the date such income is received. The amount of ordinary income or loss recognised will equal the difference, if any, between the U.S. dollar value of the Foreign Currency payment received (determined using the spot rate on the date such payment is received) in respect of such accrued interest and the U.S. dollar value of the income inclusion with respect to such accrued interest (as determined above).

Special rules apply to market discount and bond premium received on Foreign Currency Notes. U.S. Holders of Notes should consult their own tax advisors regarding such special rules.

### *Foreign Currency Discount Notes*

OID for any accrual period on a Note that is denominated in a Foreign Currency will be determined in the Foreign Currency and then translated into U.S. dollars in the same manner as stated interest accrued before receipt, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale or retirement of a Note), a U.S. Holder may recognise exchange gain or loss (which will be treated as ordinary gain or loss) measured by the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued.

### *Foreign Currency Gain or Loss on Sale, Exchange or Retirement*

If a U.S. Holder receives Foreign Currency on a sale, exchange or retirement of a Note, the amount realised will be based on the U.S. dollar value of the Foreign Currency on the date the payment is received or the instrument is disposed of (or deemed disposed of). Gain or loss realised upon the sale, exchange or



retirement of a Note that is attributable to fluctuations in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between the U.S. dollar value of the Foreign Currency principal amount of a Note, determined using the spot rate on the date such payment is received or such Note is disposed of, and the U.S. dollar value of the Foreign Currency principal amount of such Note, determined using the spot rate on the date the U.S. Holder acquired such Note. Such Foreign Currency gain or loss will be recognised only to the extent of the total gain or loss realised by the U.S. Holder on the sale, exchange or retirement of such Note.

#### *Payment of Interest or Principal in Dollars*

If a U.S. Holder receives such payment in U.S. dollars, the receipt of payment should be treated as though payment were made in the Foreign Currency and such Foreign Currency immediately exchanged for U.S. dollars. With respect to the deemed payment in Foreign Currency, the rules described above should apply. With respect to the deemed exchange of Foreign Currency for U.S. dollars, additional currency exchange gain or loss would be realised to reflect the difference between (i) the U.S. dollar value of the Foreign Currency at the spot rate in effect on the payment date, and (ii) the actual amount of U.S. dollars received.

### **Backup Withholding and Information Reporting**

#### *U.S. Holders*

In general, information reporting and ‘backup withholding’ may be required with respect to principal and interest payments, and proceeds from certain sales of an obligation prior to maturity, made within the United States and the accrual of OID to a non-corporate U.S. Holder if such holder fails to (i) furnish a taxpayer identification number, (ii) certify that such holder is not subject to backup withholding or (iii) otherwise comply with applicable requirements of the backup withholding rules.

#### *Non U.S. Holders*

Information reporting and backup withholding generally will not apply to payments made to a Non-U.S. Holder made outside the United States unless the Issuer or the relevant paying agent has reason to know that such holder is a United States person. Principal and interest on a Note paid by the U.S. office of a custodian, nominee or agent of the beneficial owner, or the payment by the U.S. office of a broker of the proceeds of a sale or exchange of a Note will be subject to backup withholding and information reporting unless the beneficial owner complies with the certification procedures for non-United States persons, or otherwise establishes an exemption from information reporting.

If interest payments are collected outside of the United States by a foreign office of a custodian, nominee or other agent on behalf of a beneficial owner of a Note, backup withholding or information reporting by such custodian, nominee or other agent generally will not be required with respect to interest payments made to such owner. However, if such custodian, nominee or other agent is a United States person or a U.S. controlled person (as herein defined), information reporting and, in certain cases, backup withholding will be required with respect to interest payments made to such owner unless such custodian, nominee or other agent has documentary evidence in its records that such owner is not a United States person and does not have reason to know that such evidence is false, or the beneficial owner otherwise establishes an exemption from information reporting and backup withholding.

Payment of the proceeds on the retirement or sale of a Note outside the United States or to or through a foreign office of a broker generally will not be subject to information reporting and backup withholding. However, if such broker is a United States person or a U.S. controlled person information reporting and, in certain cases, backup withholding will apply to such payment unless, in general, such broker has documentary evidence in its records that the owner is not a United States person and does not have reason to

know that such evidence is false or the beneficial owner otherwise establishes an exemption from such reporting.

For purposes of the above, 'U.S. controlled person' means: (i) a controlled foreign corporation for U.S. Federal income tax purposes; (ii) a foreign person 50 per cent. or more of whose gross income for the three year period ending with the close of its taxable year preceding the year of payment is effectively connected with a U.S. trade or business; or (iii) a foreign partnership if, at any time during its tax years, one or more of its partners are U.S. persons who in the aggregate hold more than 50 per cent. of the income or capital interest of the partnership or if, at any time during its taxable year, it is engaged in the conduct of a trade or business within the United States.

## **SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS**

The Dealers have in an Amended and Restated Programme Agreement (the 'Programme Agreement') dated September 20, 2005 as supplemented by a Supplemental Programme Agreement dated August 9, 2006 and a Second Supplemental Programme Agreement dated April 18, 2007, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under 'Form of the Notes' and 'Terms and Conditions of the Notes' above. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection herewith.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions with a view to supporting the market price of the relevant Notes during and after the offering of the Tranche at a level higher than that which might otherwise prevail. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may support the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to support the market price of the Notes at a level higher than that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof.

To the extent that the provisions of Directive 2003/6/EC of the European Parliament and of the Council (the 'Market Abuse Directive') are required to be observed, in connection with the issue of any Tranche of Notes, the Dealer or Dealers named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes (provided that, in the case of any Tranche of Notes to be listed or admitted to trading on Euronext Amsterdam or another regulated market, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any such stabilisation action may begin on or after the date on which adequate public disclosure of the final terms (in the case of Notes convertible or exchangeable into shares or into other securities equivalent to shares) or terms (in all other cases) of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes.

To the extent that the provisions of the Market Abuse Directive are not required to be observed in connection with the issue of any Tranche of Notes, then in connection with the issue and distribution of any Tranche of Notes, the Dealer or Dealers named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there may be no obligation on the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all relevant laws and regulations. If so required by applicable law or regulation, stabilising will in any event be brought to an end within 30 days after the Closing Date applicable to such Notes.

### **Transfer Restrictions**

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Registered Notes (other than a person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note) or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree, and each person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note will be deemed to have acknowledged, represented and agreed, as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (i) that either: (a) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (b) it is an Institutional Accredited Investor which has delivered an IAI Investment Letter or (c) it is outside the United States and is not a U.S. person;
- (ii) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any U.S. state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (iii) that, unless it holds an interest in a Regulation S Global Note and either is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so, prior to the date which is two years after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only (a) to the Issuer or any affiliate thereof, (b) to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. state securities laws;
- (iv) that it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;
- (v) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes, that Notes offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;
- (vi) that the Notes, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

‘THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE ‘SECURITIES ACT’), OR ANY U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A ‘QUALIFIED INSTITUTIONAL BUYER’ (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING (OR HOLDING) THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL ‘ACCREDITED INVESTOR’ (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN ‘INSTITUTIONAL ACCREDITED INVESTOR’); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS TWO YEARS AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES

AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).’;

- (vii) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (a)(i) in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

‘THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE ‘SECURITIES ACT’), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART.’; and

- (viii) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Notes in definitive form offered and sold in the United States in private transactions that are exempt from registration under the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Notes will be issued in definitive registered form, see 'Form of the Notes'.

The IAI Investment Letter will state, among other things, the following:

- (i) that the Institutional Accredited Investor has received a copy of the Prospectus and such other information as it deems necessary in order to make its investment decision;
- (ii) that the Institutional Accredited Investor understands that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in the Prospectus and the Notes (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act;
- (iii) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;
- (iv) that the Institutional Accredited Investor is an 'Accredited Investor' within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;
- (v) that the Institutional Accredited Investor is acquiring the Notes purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and
- (vi) that, in the event that the Institutional Accredited Investor purchases Notes, it will acquire Notes having a minimum purchase price of at least U.S.\$500,000 (or the approximate equivalent in another Specified Currency).

No sale of Legended Notes in the United States to any one purchaser will be for less than U.S.\$100,000 (or its foreign currency equivalent) principal amount or, in the case of sales to Institutional Accredited Investors, U.S.\$500,000 (or its foreign currency equivalent) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$100,000 (or its foreign currency equivalent) or, in the case of sales to Institutional Accredited Investors, U.S.\$500,000 (or its foreign currency equivalent) principal amount of Registered Notes.

### **United States**

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S ('Regulation S Notes'), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is U.S.\$100,000 (or the approximate equivalent thereof in any other currency). The Issuer has agreed that, for so long as any of the Notes are 'restricted securities' within the meaning of Rule 144(a)(3) under the Securities Act, to the extent that the Issuer is not subject to or does not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, it will furnish to holders of Notes and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

Each issue of Index Linked Notes and Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree, as indicated in the applicable Final Terms.

### **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a '**Relevant Member State**'), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the '**Relevant Implementation Date**') it has not made and will not make an offer of Notes to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an ‘offer of Notes to the public’ in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression ‘Prospectus Directive’ means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **The Netherlands**

Bearer Zero Coupon Notes and other Notes which qualify as savings certificates as defined in the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) may only be transferred or accepted through the mediation of either the Issuer or a Member of Euronext Amsterdam N.V. with due observance of the Savings Certificates Act and its implementing regulations (including registration requirements), provided that no mediation is required in respect of (i) the initial issue of those Notes to the first holders thereof, (ii) any transfer and delivery by individuals who do not act in the conduct of a profession or trade, and (iii) the issue and trading of those Notes, if they are physically issued outside The Netherlands and are not distributed in The Netherlands in the course of primary trading or immediately thereafter.

Each Dealer has represented and agreed that any Notes with a maturity of less than 12 months and a denomination of less than EUR 50,000 will only be offered in or outside The Netherlands to professional market parties as defined in the Financial Supervision Act (*Wet op het financieel toezicht*) and the decrees issued pursuant thereto.

### **Japan**

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the ‘**Securities and Exchange Law**’). Accordingly each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan



(which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to or for the benefit of a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

## **General**

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers or sells Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any Dealer shall have any responsibility therefor.

Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with any other additional restrictions set out in the applicable Final Terms.

## **GENERAL INFORMATION**

### **Authorisation**

The establishment of the Programme and the issue of Notes under the Programme have been duly authorised by a resolution of the Board of Management of the Issuer dated August 24, 1998. This resolution was lawfully approved by the Supervisory Board on September 1, 1998. An increase of the maximum aggregate nominal amount of the Programme from U.S.\$5,000,000,000 to U.S.\$10,000,000,000 was duly authorised by a resolution of the Board of Management of the Issuer dated June 19, 2000. The resolution was lawfully approved by the Supervisory Board on June 26, 2000. The renewal of the Programme (including changing the maximum aggregate nominal amount from U.S.\$10,000,000,000 to €10,000,000,000) and the issue of the Notes have been duly authorised by a resolution of the Board of Management of the Issuer dated March 1, 2007. The resolution was lawfully approved by the Supervisory Board on April 3, 2007. All consents, approvals, authorisations or other orders of all regulatory authorities required by the Issuer under the laws of The Netherlands have been given for the issue of Notes and for the Issuer to undertake and perform its obligations under the Programme Agreement, the Agency Agreement and the Notes.

### **Listing and admission to trading**

Application has been made to Euronext Amsterdam for Notes issued under the Programme and up to the expiry of 12 months from the date of this Prospectus to be admitted to trading on Euronext Amsterdam.

### **Documents Available**

So long as Notes are capable of being issued under the Programme for the period of 12 months following the date of this Prospectus, copies of the following documents will, when published, be available free of charge in English from the registered office of the Issuer and from the specified offices of the Principal Paying Agent:

- (i) an English translation of the most recent Articles of Association of the Issuer;
- (ii) the annual reports of the Issuer for the years ended 2005 and 2006 (containing the audited financial statements of the Issuer, which include the consolidated financial statements), in each case together with the audit reports prepared in connection therewith;
- (iii) the Issuer's unaudited consolidated balance sheet as at January 1, 2006, unaudited consolidated balance sheet as at December 31, 2006, unaudited consolidated balance sheet as at January 1, 2007, unaudited consolidated income statement and cash flow statements for the first, second, third and fourth quarter of 2006 for the full year, each prepared in accordance with IFRS;
- (iv) the Programme Agreement and the Agency Agreement (which contains the forms of the global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons);
- (v) a copy of the 2006 Form 20-F;
- (vi) a copy of this Prospectus;
- (vii) each set of Final Terms in respect of Notes which are listed or admitted to trading on any market; and
- (viii) in the case of each issue of listed Notes subscribed pursuant to a syndication agreement, the syndication agreement (or equivalent document).

## **Clearing and Settlement Systems**

The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and the Securities Clearing Corporation of Euronext Amsterdam. The appropriate Common Code, ISIN and Fondscode for each Tranche of Notes allocated by Euroclear, Clearstream, Luxembourg and the Securities Clearing Corporation of Euronext Amsterdam, and any other relevant security code, will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

## **Conditions for determining price**

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

## **Significant or Material Change**

There has been no significant change in the financial or trading position of the Issuer or the Issuer and its subsidiaries, taken as a whole, and there has been no material adverse change in the financial position or prospects of the Issuer, or the Issuer and its subsidiaries taken as a whole, since December 31, 2006.

## **Litigation**

There are no, nor has there been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the twelve months preceding the date of this document which may have or have had in such period a significant effect on the financial position or profitability of the Issuer or the Issuer and its subsidiaries taken as a whole. See 'Description of the Company – Legal and Arbitration Proceedings' for a description of the main legal proceedings pending which concern the Issuer.

## **Auditors**

The auditors of the Issuer are PricewaterhouseCoopers Accountants N.V. ('PWC'). The individual auditors of PWC are members of The Netherlands Institute for Registeraccountants ('NIVRA'). PWC have audited the financial statements of the Issuer, prepared in accordance with IFRS for the financial years ended December 31, 2006 and December 31, 2005 and issued reports without qualification for each of these years. The auditors of the Issuer have no material interest in the Issuer. The business address of PWC is P.O. Box 30715, 2500 GS The Hague, The Netherlands.

The reports of the auditors of the Issuer are included or incorporated in the form and context in which they are included or incorporated, with the consent of the auditors who have authorised the contents of that part of this Prospectus.

## **Post-issuance information**

The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

## **Commercial Register**

The Issuer is registered in the Commercial Register of Haaglanden under No. 02045200.

## **Issuer's Website**

The Issuer's website address is [www.kpn.com](http://www.kpn.com). Information on the Issuer's website does not form part of this Prospectus and may not be relied upon in connection with any decision to invest in any Notes.

**Dealers transacting with the Issuer**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

## **GLOSSARY OF TERMS**

### ***ADR***

American Depository Receipt

### ***ADS***

American Depository Share

### ***ADSL***

Asymmetric Digital Subscriber Line

With ADSL, transmissions from provider to user take place at a higher speed than from user to provider. ADSL allows high-speed digital communication, including video signals, across an ordinary twisted-pair copper phone line. An ADSL modem is required.

### ***ARPU***

Average Revenue Per User

ARPU is the sum of connection fees, monthly fixed subscription revenues, traffic revenues and gross service provider revenues less related discounts during a one-month period, divided by the average number of customers during that month. Gross service provider revenues represent revenues generated by third-party providers. We account for the net part as gross service provider revenues. Gross service provider revenue is mainly generated by E-Plus.

### ***ATM***

Asynchronous Transfer Mode

ATM is a transfer mode in which the information is organized into cells. It is asynchronous in the sense that the recurrence of cells containing information from an individual user is not necessarily periodic.

### ***Backbone***

Central processing point.

### ***BiPT***

Belgisch instituut voor Postdiensten en Telecommunicatie

The Belgian Institute for Postal Services and Telecommunications is active as the telecommunications regulator in Belgium.

### ***Bitstream access***

Unbundled access to KPN's metallic local loops using DSL and ATM technology over KPN's copper infrastructure. A BitStream access connection consists of an xDSL broadband connection combined with an ATM Permanent Virtual Circuit.

### ***Broadband***

Broadband refers to telecommunication that provides multiple channels of data over a single communications medium, typically using some form of frequency or wave division multiplexing.

### ***Bundesnetzagentur (former RegTP)***

The Federal Network Agency is active as the telecommunications regulator in Germany.

### ***Carrier Select***

Method to opt for a different operator by entering an access code.

### ***Churn***

The number of mobile customers no longer connected to a mobile operator's network divided by the operator's customer base.

**CityRing**

Fiber optic access network for data and Internet traffic in and across several Dutch cities.

**Co-location**

The provision of space and technical facilities (such as power supply and air-conditioning) for a customer's telecommunications equipment on the service provider's premises, in the framework of interconnection or special access.

**Content**

The information presented on Internet sites, including its structure.

**CPS**

Carrier (Pre)Selection

With CPS, a customer is no longer required to dial the Carrier Select Code. The end user can dial the Carrier Select Code via an interactive Voice Response System.

**Customer base**

Customer base figures of our mobile operators consist of the number of end users as of the end of a period. The figures include data-only and PC connections, but exclude connections suitable for machine-base traffic. The customer base also comprises inactive prepaid users, who have had neither incoming nor outgoing traffic for three months, but have not met disconnection criteria.

**DCS**

Digital Cellular System

Mobile telephone network based on the GSM standard.

**DSL**

Digital Subscriber Line

DSL is a technology for bringing high-bandwidth information to homes and small businesses over ordinary copper PSTN lines. The widely used term xDSL refers to different variations of DSL, such as ADSL, HDSL, VDSL and SDSL.

**DVB-T**

Digital Video Broadcasting – Terrestrial

DVB-T constitutes a transparent transmission channel, via which all types of digital signal can be broadcast. In addition to digitalized video and audio data, multimedia and computer data can be broadcast as well.

**EDGE**

Enhanced Data rates for GSM Evolution

Enhanced data rates for GSM evolution. EDGE is a behind-the-scenes technology, pushing GPRS download speeds to above 100 kbps.

**Capacity-VPN (E-VPN) or IP-VPN**

Connects two or more offices using IP-VPN.

**GPRS**

General Packet Radio Service

Particularly suited for voice, text and images. GPRS is an application that enables data packet switching via the GSM network as well as via the existing voice communication. GPRS will complement the existing CSD (Circuit Switched Data) of the GSM system. GPRS is based on the Global System for Mobile communications.

**GSM**

Global System for Mobile communications

GSM is a second generation, digital mobile telephone system that is widely used in Europe and other parts of the world to send and receive voice and data.

**HSDPA**

High-Speed Downlink Packet Access

HSDPA is a new mobile telephony protocol that, as an evolution of UMTS, is designed to increase the available data rate by a factor 5 or more.

**ICT**

Information, Communication and Technology

**i-mode**

Mobile data services originally developed and launched by NTT DoCoMo.

**IP-VPN**

Internet Protocol – Virtual Private Network

Offers a secured and private network using IP-based infrastructure.

**ISDN**

Integrated Services Digital Network

A worldwide digital communications network evolving from existing telephone services. A standard ISDN connection consists of three channels, i.e. two B channels to carry data and voice at a speed of 64 Kbps and one D channel to carry control information at a speed of 16 Kbps.

**ISP**

Internet Service Provider

A company that provides individuals and companies access to the Internet. Therefore, ISP maintains one or more connection points to the Internet for ISP subscribers. An ISP itself can be a subcontractor of an ISP that is connected with an Internet backbone.

**LAN**

Local Area Network

A LAN is a network designed to move data between stations within a campus.

**Local Loop**

The system, being a wired connection from a telephone company's central office in a locality to its customers' telephones at homes and businesses, was originally designed for voice transmission only using analog transmission technology on a single voice channel. Today, a computer modem converts analog signals and digital signals. With ISDN or DSL, Local Loop can carry digital signals directly and at a much higher bandwidth than for voice only.

**Market share**

The operator's share in the total industry revenues in a country.

**MDF**

Main Distribution Frame

Allows other telecommunications companies to access the local network, enabling them to connect with their customers through our main distribution frame.

**MMS**

Multimedia Message Service

MMS is the ability to send messages comprising a combination of text, sounds, images and video to MMS capable handsets.

**MTA tariff**

Mobile Terminating Access tariff

The tariff, charged by mobile operators for the termination of incoming telephone traffic (originating from either a fixed or a mobile network) on their network.

***MVNO***

Mobile Virtual Network Operator

A mobile operator that does not have its own spectrum, nor its own network infrastructure. Instead, MVNOs have business arrangements with traditional mobile operators to buy minutes of use to sell to their own customers.

***NMa***

Nederlandse Mededingingsautoriteit

The Dutch Anti-trust Authority is the Dutch authority responsible for monitoring compliance with anti-trust rules.

***OPTA***

Onafhankelijke Post en Telecommunicatie Autoriteit

The Independent Post and Telecommunications Authority operates as the telecommunications regulator in The Netherlands.

***Portal***

Platform offering service providers and their customers access to fixed or mobile data services.

***PSTN***

Public Switched Telephone Network

Traditional telephone system that runs through copper cables (voice up to 64 Kbps, data up to 56 Kbps).

***SDH***

Synchronous Digital Hierarchy

A digital technology for synchronous data transmission on optical media at very high speeds (155 Kbps and higher).

***SDSL***

Symmetrical Digital Subscriber Line

SDSL transports only data and no traditional voice. SDSL uses similar speeds for up and download.

***SMS***

Short Message Service

SMS is a service for sending messages of up to 160 characters to mobile phones that use GSM communications.

***Spam***

Unsolicited emails, usually to many recipients. Nor a message written for and mailed to one individual known to the sender neither a reply to an email is spam, unless that 'reply' is resent endlessly.

***UMTS***

Universal Mobile Telecommunications System

One of the major third generation mobile communications systems being developed. UMTS is suited to deliver voice, text, music and animated images. Data can be sent via UMTS at approximately 6 times the speed of ISDN.

***VPN***

Virtual Private Network

A virtual network constructed from logic connections that are separated from other users.

***VoDSL***

Voice over DSL

Voice telephony and broadband Internet together.



***VoIP***

Voice over IP

Voice traffic is transported over an IP-based data network. It enables new ways of communicating, such as combinations of telephony, messaging and videoconferencing.

***WiFi***

Wireless Fidelity

For an explanation, reference is made to WiMax and WLAN.

***WiMax***

Worldwide Interoperability for Microwave Access

WiMax is a standards-based wireless technology providing high-throughput broadband connections over long distances that can be used for a number of applications, including "last-mile" broadband connections, hotspots and high-speed enterprise connectivity for business. It is conceptually similar to WiFi, but has certain improvements aimed at a better performance and permitting usage over much greater distances.

***WLAN***

Wireless Local Area Network

Through this wireless connection, Internet access is provided at the speed of broadband.

***WLR***

Wholesale Line Rental

This system enables telecommunications providers to invoice customers for line rental and phone charges on the same bill, as opposed to having to pay for calls and line rental separately. With WLR, one can rationalize his organization's invoicing with one bill for line rental and call charges.

## REGISTERED OFFICE OF THE ISSUER

### Koninklijke KPN N.V.

Maanplein 55  
2516 CK The Hague  
The Netherlands

## DEALERS

### ABN AMRO Bank N.V.

250 Bishopsgate  
London EC2M 4AA  
United Kingdom

### Banc of America Securities Limited

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United Kingdom

### Bayerische Hypo- und Vereinsbank AG

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Germany

### BNP Paribas

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United Kingdom

### Citigroup Global Markets Limited

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United Kingdom

### Coöperatieve Centrale Raiffeisen- Boerenleenbank B.A. (Rabobank International)

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### Credit Suisse Securities (Europe) Limited

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### Deutsche Bank AG, London Branch

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United Kingdom

### Fortis Bank nv-sa

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1000 Brussels  
Belgium

### ING Bank N.V.

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1102 BD Amsterdam  
The Netherlands

### J.P. Morgan Securities Ltd.

125 London Wall  
London EC2Y 5AJ  
United Kingdom

### The Royal Bank of Scotland plc

135 Bishopsgate  
London EC2M 3UR  
United Kingdom

## PRINCIPAL PAYING AGENT

*For all Notes (other than Notes deposited with  
Euroclear Nederland):*

### Citibank, N.A., London Office

21st Floor, Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

*For Notes deposited with Euroclear Nederland:*

### ABN AMRO Bank N.V.

Kemelstede 2  
4817 ST Breda  
The Netherlands

**REGISTRAR**

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United Kingdom

**PAYING AND TRANSFER AGENT**

**ABN AMRO Bank N.V.**

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The Netherlands

**LEGAL ADVISERS**

*To the Issuer in respect of the Programme and as to English, U.S. and Dutch law*

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**AUDITOR**

**PriceWaterhouseCoopers**

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*To the Arranger and Dealers as to Dutch and English law*

**Linklaters**

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