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KPN is the leading telecommunications and ICT service provider in The Netherlands, offering wireline and wireless telephony, internet and TV to consumers and end-to-end telecommunications and ICT services to business customers. KPN's subsidiary Getronics operates a global ICT services company with a market leading position in the Benelux, offering end-to-end solutions in infrastructure and network-related IT. In Germany and Belgium, KPN pursues a multi-brand strategy in its mobile operations and holds number three market positions through E-Plus and BASE. KPN provides wholesale network services to third parties and operates an efficient IP-based infrastructure with global scale in international wholesale through iBasis.

27 million
wireless customers

5.4 million
wireline voice customers

2.4 million
internet customers

0.5 million
TV customers

43,531
FTEs

At December 31, 2007, KPN served over 35 million customers, of which 27 million in wireless services, 5.4 million in wireline voice, 2.4 million in broadband Internet and 0.5 million in TV. With 25,500 FTEs (43,531 FTEs including Getronics), KPN posted revenues of EUR 12.6 billion in 2007, with an operating profit of EUR 2.5 billion.

KPN was incorporated in 1989 and is listed on the Amsterdam, New York, London and Frankfurt stock exchanges.

Mission statement

Our customers trust us to provide them with high-quality, reliable services to help them achieve their business and personal goals, and to enrich their work and leisure time. We offer them a range of innovative products which enable them to access information and entertainment, anytime, anywhere, and let them choose how to do that, from, for example, a phone, a computer, a PDA or a television set. We also let them choose from a range of brands which we have designed to suit different needs and niches – from the reliable, high-quality KPN brand, to youth brands such as Hi, or the no-frills brand Simyo.

We believe that satisfied customers form the basis for profitable growth and, as a result, create value for our shareholders. Equally, we believe that our commitment to quality and customer satisfaction can be realized only if our employees are motivated to provide the best possible products and services.

We are equally conscious of our responsibilities to the wider community: it is our policy to use our knowledge and technology to contribute to the well being of all our stakeholders, and take steps to account to them for our environmental performance.

Foreword by the Chairman and CEO



Progress in the world of Telecommunications and Information & Communication Technology is relentless. The customer is continuously barraged with new developments. Competition is strong and the battle for the customers' favor is fiercer than ever. Understandably, we at KPN want to win this battle. In order to maintain our leading position in The Netherlands as well as be the best challenger abroad, we have to keep evolving and embrace market dynamics. At any given moment we must be able to measure up to the best in the market.

Given the various challenges we face in our industry, I am delighted to report that our company had a solid performance in 2007, coming another step closer to our ideal of being a company that can offer customers excellent products and services, one that has the fundamentals and potential to realize profitable growth and be an attractive employer. In the dynamic market in which we operate, shareholder value has been a prime focus of our Board and I am proud that the redevelopment of our company has created such significant value. Since 2001 our net debt has decreased by EUR 13 billion, our equity value has increased tenfold and we have returned nearly EUR 10 billion to shareholders in the form of dividends and share buybacks.

The year started with the integration of our Fixed and Mobile operations in The Netherlands, a change driven by customer's evolving needs in the business market as they asked for integrated solutions.

Our VoIP product (InternetPlusBellen) proved to be an enormous success at its introduction. Unfortunately though, the success also had a downside and, due to overwhelming initial sales, we were not able to provide the level of customer service we are accustomed to providing. This was a valuable lesson, because it reminded us of the importance of getting the basics right. With the operational issues successfully resolved and behind us, we can fully appreciate that VoIP is an ongoing success, having reached a milestone of 850,000 customers by the end of December 2007.

The agreement that we signed with alternative DSL operators in 2007 to open up our future fiber network to competitors was widely regarded in our industry as groundbreaking and even brave. But we believe that our differentiator will be the quality of our customer focus and service. KPN strongly believes in an open network in order to make The Netherlands ready for the future of communication. Another aim of the new network rollout is to achieve a structurally lower cost base and therefore we are committed to an All-IP rollout in the coming years.

In 2007 overall growth in The Netherlands was flat. Nevertheless, we continued to achieve customer and revenue growth in the Business market, driven especially by an increased usage of data communication services and outsourcing. In the TV market we also showed a growing customer base and by year end we had approximately half a million

10 billion

Shareholder return in the form of dividends and share buybacks since 2001

850,000

VoIP customers by December 2007

The acquisition of Getronics will allow us to serve our business customers with fully-managed outsourced IT solutions.

The principal goal for KPN is to go back to growth.

KPN has over 125 years of experience in establishing contact between people.

customers. This means that our TV customer base almost doubled in one year, a strong improvement in our position as a multiplayer. Combined with a stabilization in the Consumer net line loss, we maintained our position as market leader in The Netherlands.

Another milestone this year was our acquisition of Getronics. This acquisition will allow us to provide our business customers with fully-managed outsourced ICT solutions in The Netherlands and internationally. We believe that, in general, telecommunications companies are beginning to take necessary steps to become fully integrated ICT-companies and through our acquisition of Getronics we have taken a lead in that market. We have also merged our international wholesale voice business into iBasis, creating one of the three largest carriers of international phone calls in the world.

In our Mobile International business, we delivered solid performance in challenging markets, and enjoyed continued profitable growth despite regulatory tariff cuts. E-Plus is delivering on its service revenue growth and margin objectives and, as a challenger in Germany, has been gaining market share for over two years due to the continued attractiveness of its multi brand offering and the resulting usage growth. In Belgium, the Tele2/Versatel Belgium and Allo Telecom acquisitions were completed, providing a platform for further growth.

For the years ahead, the principal goal for KPN is to 'go back to growth', which we believe is an achievable goal. In order to deliver this growth we have to continue growth in our Mobile International business. In The Netherlands we want to make sure our revenue curve reaches inflection, by becoming a leading service provider based on wireless and broadband growth while at the same time, putting a halt to net line loss in the Consumer market. Additionally, we want to acquire sustainable market shares in selected high-value business markets. Last but not least, we intend to create additional growth from recent acquisitions such as Getronics and iBasis.

As I have said, customer focus is key, and therefore ease of use, simplicity and personal service are most essential. We want to connect everyone to the future with straightforward offers, from private individuals to multinationals. A transparent brand portfolio will make this easier and therefore we plan to focus on three key consumer brands in The Netherlands: KPN, Hi and Telfort. This brand strategy will continue to evolve throughout 2008. It will also be important to ensure network transformation, quality improvement and cost reduction within our Dutch business.

Achieving all of the above would not be possible without talented staff, therefore our senior management has been incentivized to achieve this growth plan. KPN faces a huge challenge, needing to restructure itself again to best address today's market, as we have successfully done, before and at the same time attract and retain top quality professionals. Accordingly, we have decided to engage in multiple collective labor agreements, a decision that makes sense in a large company with many different skill-sets and job requirements such as ours. Despite this diversity, we are still one company and together we can make a real difference and be successful. I truly believe this. KPN has over 125 years of experience in establishing contact between people. That is still our strongest asset and where our heart is.

Given this background and these facts, I furthermore believe KPN owes it to society to address problems where we, as a telecommunications company, can be of added value. With the start of a new Corporate Social Responsibility program in which we initially focus on offering assistance to chronically sick children and the elderly, we can provide this value and play a positive role in society.

Our prospects for the future are promising and though our plans are challenging in a volatile market, we believe that we can achieve the return to growth because of our staff, our strategy and our track record. I look towards the future with confidence and excitement to ensure our strategy is fully understood, committed to by all and executed. It was when faced with these challenges and opportunities and the attraction of an exciting future that I accepted the Supervisory Board's request for me to stay on as CEO of KPN for the next four years.

Ad Scheepbouwer

Chairman of the Board of Management and CEO