

# Information about the company

## History and developments

**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 telecom 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.**

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, The Hague, The Netherlands, and our executive offices are located at Maanplein 55, 2516 CK The Hague, The Netherlands. Our telephone number is +31 (0)70 4460986.

Our main objectives, as described in article 4 of our Articles of Association, are to participate in and to manage other enterprises and companies, including companies that operate in the field of the transmitting, storing and converting of information, as well as to manage and dispose of information and to let our subsidiaries carry out the concessions or licenses that are granted by the government in the field mentioned above. Our Articles of Association are accessible at the Chamber of Commerce and filed with the SEC as an exhibit to this Annual Report on Form 20-F.

KPN was incorporated with two main subsidiaries: PTT Telecom B.V., offering telecommunications 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. As of the end of 2006, the State held no interest in our outstanding shares, down from a 7.76% interest as of the end of 2005.

The demerger of our mail, express and logistics business operations to TNT Post Group 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 certain non-core assets.

In October 2005 we acquired Telfort, a Dutch mobile network operator. In March 2006, we acquired Nozema, a Dutch broadcast services company. In September 2006, KPN reached an agreement with Tiscali SpA regarding the acquisition of their Dutch operations. In June 2007 the deal was finalized for consideration of EUR 236 million.

KPN agreed to merge its international voice wholesale business into iBasis, a VoIP and international wholesale provider. In October 2007 KPN acquired 51% of iBasis, in exchange for the KPN Global Carrier Services business unit and USD 55 million in cash. In October 2007, KPN acquired Getronics, an international provider of ICT services and solutions, based in The Netherlands. Furthermore, KPN acquired Tele2/Versatel, a Belgium service provider for voice, internet and data to residential, business and carrier customers.

Over the last several years, KPN has also disposed of a number of businesses; please see 'Other Consolidated Results of Operations' for more information.

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## Organizational structure 2007

In January 2007, KPN announced a new organizational structure in The Netherlands built around customer segments rather than products, creating a customer centric organization. KPN's former Fixed division (Fixed) and KPN Mobile The Netherlands (Mobile) were reorganized into Consumer, Business and Wholesale & Operations Segments. Consequently, KPN's financial reporting changed to reflect the new organizational structure and provides the comparative financials for the years 2005 and 2006.

The organizational integration is a further evolution of KPN's strategy to increase customer focus in a telecommunications world in which distinctions between technologies are fading rapidly and in which customers increasingly are looking for integrated propositions. The new organizational structure in The Netherlands 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 will contribute to further profitable market share and revenue growth.

The acquisition of Getronics strengthens KPN's ICT strategy in the Business market. In 2007 we defined Getronics as a separate segment within The Netherlands on the same reporting level as the Business segment. Getronics has international operations which are managed from its headquarters in Amsterdam, The Netherlands. In 2008 we expect further integration between Getronics and the Business segment and the disposal of certain non-core Getronics activities.

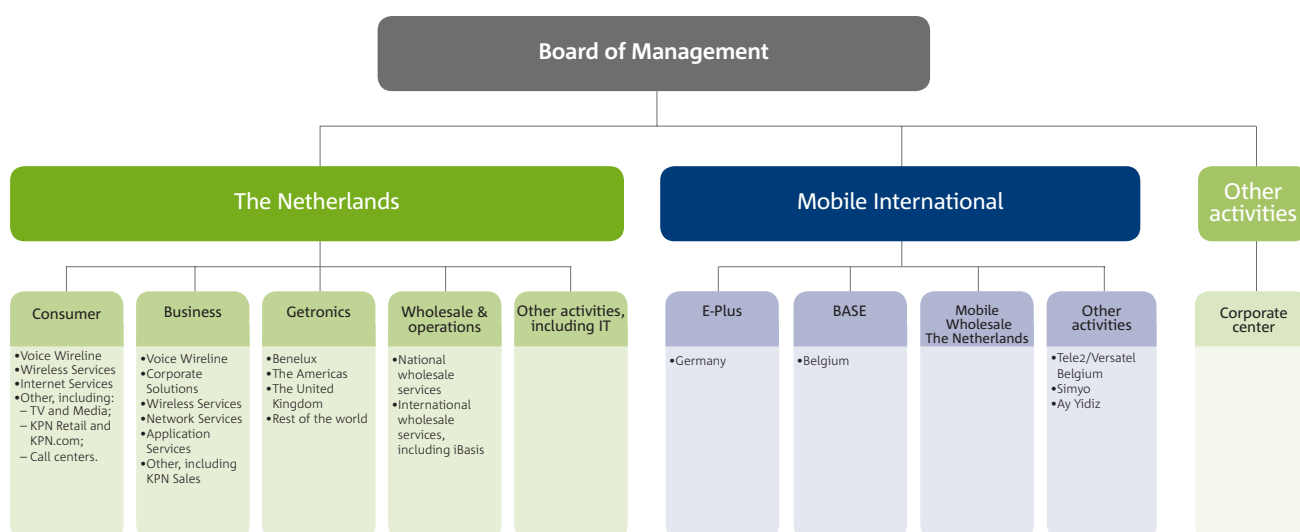
KPN's international voice wholesale business, which is included in the Wholesale & Operations segment, merged into iBasis in 2007. KPN has a 51% equity interest in iBasis. iBasis' results of operations are consolidated in the Wholesale & Operations segment.

### New organization

KPN's new integrated organization in The Netherlands consists of five segments: Consumer, Business, Getronics, Wholesale & Operations and Other activities including IT The Netherlands. The Segments for Consumer, Business and Getronics operate with a strong market and customer focus, whereas the Wholesale & Operations Segment provides network services to both internal KPN segments and external wholesale customers with a strong emphasis on operational excellence.

Outside The Netherlands, the Mobile International division contains the subsidiaries E-Plus in Germany, BASE and Tele2/Versatel in Belgium and, given the similar nature of the business, our Dutch mobile wholesale activities.

The overview below reflects our organizational structure as of December 31, 2007.



For more information, see 'Legal structure', under 'Additional information for shareholders'.

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## Business overview

Over the past five years, KPN has made significant strategic progress. Between 2002 and 2004, KPN achieved a successful turnaround of the business with strong focus on cash flow. In 2005, KPN entered its next phase with the announcement of its 'Attack-Defend-Exploit' strategy for The Netherlands and the challenger strategy at E-Plus. Since then, market shares have grown in nearly all segments and cost reductions are well on track. In addition, KPN made strategic acquisitions with significant value-creation opportunities, most notably Telfort, Getronics and iBasis.

Growth will be the result of The Netherlands reaching inflection, continued growth at Mobile International and additional growth from recent acquisitions, as will be achieved with Getronics and iBasis. Growth is set to be achieved in the face of regulatory tariff reductions and the impact of shrinking traditional wireline services in The Netherlands. Key components of the strategy are the ramping up of new services launched in recent years and cost reductions. A new incentive scheme for senior management has been implemented reflecting the objectives.

In the period to 2010 The Netherlands business will undergo a radical transformation. The All-IP network announced in March 2005 will move into its final phase with the implementation of a new access network. In addition, KPN will pursue a radical simplification of its business, both at the front-end in retail segments and at the back-end in network operations. The significant cost reductions that will be generated by this simplification will be used firstly for re-investment in revenue growth, leading to an acceleration of recent growth initiatives, such as broadband and TV in Consumer and IP-based services in Business. Secondly, cost reductions will lead to improvements of our margins. Operating profit inflection is expected to be reached after 2008, followed by revenue inflection the latest in 2010.

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## Business overview – The Netherlands

### Consumer segment

The Consumer Segment comprises the following activities: Voice Wireline, Wireless Services, Internet Services and Other, which includes TV and Media, KPN Retail, KPN.com and our Call Centers.

#### Strategy

In 2007 we continued to execute our 'attack-defend-exploit' strategy in our Consumer segment. Using our broad portfolio, strong brands and our experience in Customer Lifecycle Management techniques, we offered propositions tailored to consumer needs. In addition, we expanded the number of our retail shops to increase the possibilities of our multi-channel strategy. These important instruments helped us to 'attack' by driving new revenue streams, 'defend' by maintaining share in traditional markets and to 'exploit' by achieving a structurally lower cost base.

#### 'Attack'

With VoIP as one of the leading broadband based applications and the spread of Internet applications to mobile, the importance of maintaining high, leading market shares is crucial for our future growth. In 2007, we remained the market leader in our core markets. Our broadband market share increased to 43.9% (compared to 40.9% in 2006) and in the VoIP market to approximately 39% (compared to 36% in 2006). By acquiring Tiscali's Dutch subsidiary, we were able to strengthen our position, adding 3.8% market share.

We showed continued strength in wireless services, with growth figures in all brands and covering all key segments. We started to act with challenging fixed-mobile propositions ('*MobielThuis*').

By continuously improving our post paid offerings, we succeeded to grow our most profitable customer base. At the same time, the 'mobile web' started to surge in 2007 as could be seen in an accelerating growth of the number of active customers and traffic. Our flat fee offerings proved to be very popular. With these packages we offer our customers an easy and cost-effective entry into Internet.

We attacked on TV by reshaping our portfolio and business model, leading to an accelerated growth in subscriber numbers, market share and revenues. From August 2007 we decreased the monthly subscription fees for Digitenne, offering the customer a large discount to comparable cable packages. We extended the reach of the Digitenne service to approximately 75% of Dutch households at December 2007.

Also in August, we re-branded our IPTV service 'Mine' to 'Interactieve TV' with a new, lower price for a basic package. As a result, our market share in the Dutch digital TV market increased from approximately 13% in 2006 to approximately 18% in 2007, illustrating the rapidly growing foothold we have in this important market.

#### 'Defend'

In our traditional voice market we were operationally challenged by the trend towards VoIP and the introduction of wholesale line retail (WLR). A large decline in traffic minutes and PSTN/ISDN connection lines affected our 2007 results, however every quarter of 2007 showed a lower decline in our net line loss. In this shrinking market, we effectively defended our position by promoting attractive retention and loyalty offerings for traditional voice. In addition, we introduced a much simpler subscription portfolio with clear per minute-use propositions.

#### 'Exploit'

In 2007, we aimed our marketing activities on cross- and upselling to our large customer base through attractive TV and mobile offerings. In particular, combined mobile/ADSL-only offers and combined broadband/TV offers were successful.

In terms of profitability, wireless had one of his strongest years. This favorable development reflects in particular our success to lower SAC/SRC levels, down 19% in 2007 compared to 2006.

We decided to close the shops with the Kral and KPN Klick formulas to reduce the number of retail formulas we deploy in The Netherlands in order to better align our high street presence with our existing brands. This was done to increase our distribution power and to reduce costs.

#### Brand strategy

Backed by a complete portfolio of offerings and solutions, we launched a portfolio rationalization program whereby we focused on our key retail brands: KPN, Hi and Telfort. The KPN brand is used for our regular offerings, Telfort is our challenger brand and Hi focuses on youngsters.

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In the second half of 2007, we successfully expanded the Telfort brand as a fixed-mobile challenger brand to drive further growth. With low-cost, no-frills Telfort offerings (such as fast broadband at a competitive rate) we effectively countered competitive offerings. Starting in the fourth quarter of 2007 we rebranded our Tiscali brand and Speedliq brand to our Telfort brand.

### Strategy going forward; 2008-2010

In the Consumer Segment, KPN has the ambition to strengthen its position as a leading service provider, both in terms of market share and customer perception. We envisage that a strong customer focus will further drive subscriber and ARPU growth.

We maintain our multi-branding strategy, however, with our new approach we want to bring more focus on simplifying our brand portfolio and operations to build a better consumer business. Our new approach focuses, among others, on one innovation roadmap, one distribution management and one Customer Lifecycle Management system.

In wireless services, KPN intends to consolidate its position as 'best-in-class' mobile operator in The Netherlands. Revenue growth will come from focusing on the most profitable customers, leveraging distribution and brands, and growth in voice minutes. Wireless data will also be an important source of growth (e.g. from HSDPA offerings supporting higher bandwidths and from TV on wireless handhelds (DVB-H)). Operating profit will also grow as a result of ongoing SAC/SRC reductions, simplified processes and benefits from further Telfort network integration.

The focus in wireline is on stopping line loss and enhancing KPN's leading position in the voice and broadband segments. KPN will have a strong focus on dual play offerings. KPN will upsell PSTN customers with broadband to retain customer value and cross-sell to KPN VoIP as a retention offer. The Telfort brand is used to address the value-for-money market segment in broadband and VoIP, in addition to the premium KPN brand.

In the TV segment, KPN will further step up its efforts for its value-for-money DVB-T product Digitenne. IPTV is positioned as a premium TV proposition and the IPTV platform is the stepping stone for TV in the fiber rollout as of 2008.

KPN will start the mass roll-out for its All-IP access network in early 2008. In this rollout, KPN will deploy a mix of Fiber-to-the-Curb (FttC, based on VDSL) and Fiber-to-the-Home (FttH). FttC provides a superior offer compared to offers currently available in the market and offers full triple play capabilities with bandwidths of up to 50 Mb/s. KPN also engages in selected FttH initiatives partnering with building corporations and municipalities, like in Almere en Enschede. FttH offers up to 100 Mb/s with voice, broadband, multiroom TV and HDTV.

At the same time, the Consumer Segment will improve customer services by radically simplifying operations and improving the percentage of 'First time right'. For example, the Consumer Segment plans to cut back from ten brands to three (KPN, Hi and Telfort), from eight portfolios to one and from eight helpdesks to one. This will also result in substantial cost reductions which will be partly reinvested in revenue growth and partly allocated for improving margins to 'best-in-class'.

### Products and services, tariffs and competition

#### Voice wireline

##### Products and services

Our Voice Wireline portfolio is based on telephony access services over PSTN and ISDN lines. The revenues from this access portfolio consist of subscription fees charged to our residential customers on a bimonthly basis.

The traffic portfolio consists of local, national long-distance and international call services as well as calls to mobiles and internet service providers (dial-up access). The revenues from these traffic services consist of minute-based fees, also charged bimonthly. Flat fee based offerings have become more important.

During 2007, we put more emphasize on retention and loyalty offerings for minimizing churn and traditional line loss.

##### Tariffs

Our tariffs for national voice telephony are subject to regulatory approval.

Since January 2007, our traditional voice portfolio has been considerably simplified from over 100 tariff schemes down to three tariff schemes. Our customers can choose among three simple subscription plans. Weekend calls to fixed numbers are free. At attractive rates this offering can be extended to evening hours or to a complete flat fee package.

##### Competition

We are the largest provider in the traditional voice wireline market. In particular, the wide scale move to VoIP enables a large shrink of the traditional voice market in terms of connections, traffic and turnover. In this shrinking market, we effectively defended our

position against cable and other operators and CPS providers. The result was an increase in our traditional voice market share from over 65% in December 2006 to approximately 75% in December 2007.

## Wireless services

### Products and services

Our regular product portfolio consists of a variety of call bundles (traditional subscriptions, voice and/or voice-data bundles), SIM-only subscriptions, prepay products, SMS/MMS offerings and a range of value added services such as voice mail and call waiting. With mobile penetration already high we continued to focus on attempting to increase revenue per user and reduce churn, effectively using our three brands KPN, Hi and Telfort.

In the first quarter of 2007 we launched our first combined fixed-mobile proposition, *'MobielThuis'*. In this home-zoning product, mobile calls around customer's home are billed at attractive fixed-line rates. *'MobielThuis'* proved to be a valuable extension of our portfolio.

The customer base for our Telfort brand continued to show healthy growth figures. Telfort proves to be more and more attractive for cost conscious customers. Through our promotions we focused on the low minute price (such as with *'Telfort unlimited'*) compared to offerings from competitors.

We promoted wireless Internet by introducing new flat fee offerings: *'KPN Surf & Mail Totaal'*, *'Hi Eindeloos Online'*, *'Surf & Mail Unlimited'* (from Telfort) and *'Telfort Mobiel Internet Unlimited'* (a service tailored to laptop users).

In the second half of 2007 we launched *'MobielTV'* (Mobile TV) a new value added service. Subscribers to this new KPN service can receive up to 11 TV channels on their mobile phone using our 3G network.

### Tariffs

Tariffs and conditions vary by brand; the higher the bundle, the cheaper the calling and the SMS tariffs. Discounts are given when people subscribe via Internet.

In August 2007 we lowered our MTA rates followed by a cut in roaming rates in September 2007. The new prices for calls while travelling in the EU are in line with the regulatory price caps. See 'Regulatory Developments'.

In all our brands we introduced and extended the possibilities for an easy and cost-effective entry into Internet. In particular, the flat fee offerings are popular.

### Competition

Our wireless services market is characterized by strong competition, helped by the existence of numerous mobile virtual network operators which provide significant competition to the existing mobile network operators. With the acquisition of the telecommunications company Orange The Netherlands ('Orange') by T-Mobile The Netherlands ('T-Mobile'), only three operators are left in the Dutch market: KPN, T-Mobile by Deutsche Telekom and Vodafone.

## Internet wireline

### Products and Services

Our VoIP portfolio consists of a limited number of products, offering broadband Internet access at different speeds combined with attractively priced telephone facilities. Our InternetPlusBellen offering, one bundle for VoIP and broadband Internet, led the market. As of December 2007, approximately 0.85 million customers subscribed to one of our regular dual-play VoIP offerings or to one of the VoIP products of our newly acquired ISP's Speedlinq and Tiscali.

In addition to these dual-play options, we continued to promote our single play broadband portfolio, supplemented by a variety of value added services such as virus scanners and firewalls.

We offer customers broadband access through our KPN Internet organization, 'KPN Direct ADSL', which offers a direct ADSL connection without using an ISP. Planet, Het Net, Speedlinq, Tiscali and XS4ALL are the brands under which we sell our range of broadband products. In the second half of 2007, we expanded the Telfort brand from just mobile to include broadband and VoIP as well.

### Tariffs

Internet customer growth was driven by the increasing popularity of bundled packages (VoIP in particular) and supported by our different product combinations, each with varying features at different price points. Our broadband services are delivered at different speeds and are offered at lower prices to customers willing to accept longer contract periods. In addition, customer acquisition is boosted by supplementary promotions such as free wireless routers with certain packages. KPN broadband subscribers receive additional savings on premium services, such as 'Service at home', web hosting and PC-safety, and have access to specific broadband services or packages such as the combination of broadband/VoIP and Digitenne or broadband/VoIP and Interactieive TV. These additional services and

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promotions differ by brand. Subscriptions at introductory discounts are offered in order to gain market share. Our ADSL-only offerings (sometimes packaged with a mobile subscription) have shown a steady increase in popularity.

### Competition

We faced strong competition in the market for Internet services especially with respect to prices, and more specifically in the market for broadband internet access, reflecting the development of cable operators, of unbundling, and the emergence of FttH offerings. In the Internet wireline segment, we noticed a trend of consolidation in the market around a few major players that offer multiplay (Internet, VoIP, TV).

In 2007, we took full advantage of the shift towards broadband-centric services, such as VoIP. The VoIP issues encountered in the first half of 2007 were solved fully by the third quarter, after which VoIP advertising and order intake resumed. As a result, we strengthened our position as VoIP market leader, targeting effectively specific segments through our strong brands. Also our broadband market share increased, mainly as a result of the acquisition of Tiscali.

### Other

#### Products and services

A large part of our remaining business consists of TV offerings. Other business entities are Media, KPN Contact and KPN Retail. Media is responsible for our media related business activities. KPN Contact is the in-house call center of KPN. In addition to The Netherlands, KPN Contact also exploits its call center business in Belgium and Germany. KPN Retail manages our retail formulas.

Our TV product Digitenne (DVB-T based) offers access to popular digital terrestrial TV and radio channels. Our new IPTV offer 'Interactieve TV' (previously called 'Mine') is positioned as a premium offer compared to our Digitenne product and has the option to add supplementary services and packages (such as video on demand). The TV customer can subscribe to several additional packages, such as the 'Planet Pluspakket' with various theme channels and the 'Tele2 Eredivisie' football package with access to dedicated football channels.

### Tariffs

In the course of 2007, we improved the business model and pricing schemes for TV to create a solid foothold in the Dutch TV market.

With the newly priced Digitenne package we are substantially lower in price than the average cable offer. We have priced our new 'Interactieve TV' offer at a highly competitive rate in order to grow more rapidly in the emerging Dutch IPTV market.

### Competition

Our TV offers compete with the offerings from cable operators, from suppliers of satellite TV and from the IPTV services from DSL operators.

As mentioned above, we have reinforced our efforts in the TV market. We want to gain a significant part of the Dutch TV market from the cable operators and the price decreases are part of this strategy. On the one hand we want to be prepared for the increasingly integrated voice, Internet and television markets (to a greater extent serviced by multi-play offerings), on the other hand, we want to strengthen our portfolio to effectively compete against the integrating Dutch cable sector.

In 2007, The Netherlands Competition Authority (NMa) cleared the proposed merger of the cable operators Casema and Essent Kabelcom. The two companies were acquired by the same private equity investors and will be merged with the smaller rival Multikabel. We estimate that together the three operators serve between 45% and 50% of all Dutch TV connections, and between 20% and 25% of all broadband internet connections in The Netherlands.

### Distribution

Different retail store outlet chains support our marketing philosophy with 'Primafoon' and 'KPN.com' as our mainstream outlets, with 'Hi' retail stores aimed at the youth market and our new 'Telfort' stores supporting our challenging role in the market. During 2007, we discontinued several trials with other distribution concepts (such as the Kral and KPN Klick formulas) and instead focused on a limited number of outlet brands serving target groups with a distinctive marketing philosophy. The shops sell a wide variety of communication, information and entertainment solutions, fixed and mobile, and include a wide variety of devices. For more information on Business Centers, we refer to 'Distribution and Seasonality' of the Business Segment.

Besides our own channel retail stores, we make use of several independent retail mobile stores as a distribution and sales point, such as 'T for Telecom', 'The Phone House' and 'Debitel'. To increase revenues and to strengthen customer relations, we continue to look for new initiatives and partnerships. A successful example is Telfort's initiative to team with 'The Phone House' to sell its mobile internet product. At the same time, Telfort also expanded its sales channels with mobile booths that set up in markets and fairs in larger Dutch cities.

To promote our TV portfolio we also used several well known retail chains, such as BCC, Expert and MediaMarkt.

## Business Segment

The Business Segment comprises the following activities: Voice Wireline, Network Services, Wireless Services, Application Services and Corporate Solutions.

### Strategy

The Dutch ICT market is benefiting from economic growth and major demographic trends. Businesses innovate processes, services and business models, in which fast, secure access to information is becoming more important. ICT is vital in this process and as a result, ICT budgets are increasing.

In the corporate market segment, we see a growing amount of converged IT/Telecom deals with a clear trend towards outsourced service provisioning. There are market opportunities for workspace and application outsourcing in particular, traditionally the domain of large outsourcers and system integrators.

The markets for application management and hosting are growing fastest. Business continuity regulation (SOx, Basel II) and digital processes and information drive the demand for storage capacity. Software as a Service (software hosted in cyber centers, accessible via internet) is still a relatively small business, but growing at high speed and expected to fundamentally change the software industry.

The infrastructure market is still characterized by fierce competition of national and international telecommunications providers as well as cable companies. Price competition continues, since basic telecommunications services have become commodity services. Decline in the fixed voice market continues, mainly driven by the uptake of IP voice and substitution by mobile and data.

Major providers are moving towards next generation networks and services. New communication services are IP-based and access to information is possible through various kinds of hardware devices. Fixed and mobile services are being increasingly packaged and/or converged. This is also reflected in the continuing consolidation of fixed and mobile communication providers.

An important business trend is mobility: working any time any place is important for employers as well as employees, as it improves productivity as well as work-life balance. Adoption of mobile data services is still relatively small, but is expected to increase rapidly, both as a result of technological development (of devices and networks) and targeted marketing activities.

### 'Attack'

Implementing KPN's strategy in the business market was aimed at grasping the opportunity to shift from decreasing traditional communication services towards services in the larger and growing market for end-to-end managed 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.

Implementing our strategy, we have taken a number of initiatives to establish KPN as a provider of managed ICT services, both through autonomous growth as well as through acquisitions and partnerships.

- **Creation of the business unit 'ICT Services'**

In September 2007, KPN started with the new Business Unit 'KPN ICT Services'. All KPN ICT services related activities and acquisitions are grouped together in this new business unit (including Software Online, Cyber Center services and Enterprise Solutions). With the creation of this unit KPN aims to meet the growing need in the business market for integrated, managed ICT solutions. Combined with the acquisition of Getronics in 2007, KPN has the requisite skills and the portfolio of products (both online and on site) to become the prime contractor for ICT services in The Benelux.

- **Expansion of the Software Online portfolio (formerly 'Applications Online')**

In 2007 KPN established a footprint in the small and medium sized segment of the Dutch market for online applications, backed-up by marketing campaigns centered around online applications for internet security and mobile e-mail. We have also initiated sales of prepackaged versions of Software Online through large retail outlets, (including KPN's own business outlets) as well as through other third parties (e.g. Sony). In addition, we have started a pilot for remote and on-site IT support in order to establish more revenue

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streams from service and support to small and medium enterprises and to improve customer satisfaction. By taking the lead in the Dutch market, KPN is, as one of the first operators in the world, able to sell managed online ICT services in the business market.

- **Consolidation of Narrowcasting services**

In 2007 we merged NN Solutions, QBIX and eYe-display (all acquired in 2006) into KPN Narrowcasting, a company with the trade name QYN, in which KPN holds a majority stake. QYN provides end-to-end managed narrowcasting solutions towards an increasing number of customers. Additionally, in 2007, ON (KPN's joint venture with Heineken) has become the largest narrowcasting network by number of sites in The Netherlands. ON has evolved towards a cross media company using narrowcasting, internet and mobile to target the age group of 18-35 for its customers like KLM, Nationale Nederlanden and Seat.

- **Expansion of Healthcare solutions**

In 2007, KPN initiated the largest remote E-Healthcare pilot ever held in The Netherlands. In the pilot, a group of up to 1000 people are being monitored with telemedicine solutions, via a cooperation among hospitals, a large homecare organization and a number of general practitioners. It enables patients to talk to a medical call center or to consult their doctor via video, using their TV set in combination with a DSL connection. Being able to see and speak with patients remotely and monitor their physical condition, healthcare professionals save travel time and avoid spending additional time on patients who do not require an in-person consultation. This increases the time they can spend with other patients, thereby increasing their efficiency. E-health envisages to make healthcare in The Netherlands more affordable and to keep it accessible to everybody. The pilot will continue to be evaluated in 2008. Furthermore, KPN has actively extended its ZorgConnect network (initially between hospitals, pharmacists and general practitioners) with connections to homecare organizations, nursing homes and mental institutions. With ZorgConnect, KPN provides a secure backbone for the entire healthcare chain, over which healthcare providers can securely share patient information. KPN ZorgConnect was the first network in The Netherlands to be certified by the government as a secure Healthcare Service Provider.

- **Successful introduction of ICT services for education**

KPN is continuously expanding its School Online portfolio (consisting of free internet, managed ICT services and digital educational content). KPN acquired a minority stake in Station to Station in 2007, which provides desktop management services to more than 800 primary schools in The Netherlands. Additionally, KPN has developed ROCTv, an integrated narrowcasting solution for the ROCs (Regionale Opleidings Centra). ROCTv is a co-production of a group of 5 five ROCs, NCRV (a Dutch broadcasting company) and KPN. After a successful pilot in June 2007, KPN and NCRV are further investigating commercial introduction of this new service.

### 'Defend'

KPN Business Segment defended market shares in its very competitive telecommunications market. Our proven services are a vital part of the solution for current communication needs of our business customers. They are also the stepping stone for migration to IP based and ICT services. The combination of telephony, internet, mobile and content services provides excellent opportunities to exploit our reputation as a reliable and innovative partner for telecommunications services.

In 2007, we combined the business customer activities of KPN's former KPN Mobile The Netherlands and Fixed division resulting in one single new segment, serving all business customers in The Netherlands, with both fixed and mobile services. With this integration, we have been able to enrich our position with packaged offerings, exploit cross and upsell opportunities and to pursue selected cost synergies. KPN Business Segment aims for 'best-in-class' customer services, around customer focused processes, systems and employees.

### Our brands and marketing

For business customers in The Netherlands, KPN is the primary brand for both voice wireline, 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. Providing advice to the customers is also a part of the continuous improvement in our customer service and satisfaction. Examples of advising customers 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 voice wireline usage) and the Business Continuity Quick Scan, a tool which enables large enterprises to gain insight in the continuity of their business processes in case of a crisis.

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We have increased our sales of broadband (Office DSL), IP-VPN and E-VPN network solutions, nationally as well as internationally. During 2007 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.

### Strategy going forward; 2008-2010

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KPN will continue to move up the value chain towards managed ICT services. Based on a strong customer focus, KPN intends to be the preferred supplier for business customers. KPN has the ambition to be the leading end-to-end ICT service provider in The Netherlands by 2010 and have strong market positions in Infrastructure Services, Application Management and Outsourcing.

In Infrastructure Services, Wireless Services will continue to be a growth business, despite regulatory tariff cuts in MTA and roaming. More specifically, further revenue growth will come from data services, such as laptop data cards, Blackberry, PDA and Machine to Machine. Furthermore, KPN operates a superior 3G network based on HSDPA, offering higher bandwidths and higher population coverage than its competitors.

In Wireline Services KPN is pro actively migrating its business customers to IP-based services. In 2007, the Frame Relay and FlexiStream platforms were switched off, while other legacy services are gradually phased out. The move towards a narrower range of IP-based platforms allows a radical simplification of the business and substantial cost reductions.

The demand for higher bandwidths is addressed with a step up in Fiber-to-the-Office (FtO) initiatives started in 2007. These initiatives will continue in the coming years.

Fixed-Mobile Integration opportunities will be stepped up in coming years, following successful introduction of for example 'ONE', a fully integrated Fixed-Mobile offer with a continuously expanding range of services.

In 2007, KPN set a major step in moving up the ICT value chain through the Getronics acquisition. It provided KPN with a leading position in Workspace and related IT-services. Next steps in unfolding its online applications portfolio and housing and hosting initiatives lie ahead.

### Products and services, tariffs and competition

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The Business segment primarily generates revenues from the following portfolio clusters: Voice wireline, Network services, Wireless services, Application services and Corporate Solutions.

#### Voice wireline

##### Products

KPN offers fixed-line telephony access services over analog lines (PSTN), digital lines (ISDN) and increasingly over IP-based connectivity (VoIP). The revenues from traditional access services consist principally of subscription fees charged to our customers on a bimonthly basis. 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.

KPN offers national and international access through a number of different offerings. The revenues from these traditional traffic services consist of minute-based fees charged bimonthly. The minute-based fee differs per proposition.

By designing smart migration plans in cooperation with our customers, we strive for an optimal balance between traditional voice wireline services and new IP-based voice services in our service offering. Additional online services such as product or rate plan advisory have been implemented to increase customer satisfaction.

##### Tariffs

Our tariffs for fixed-line national voice telephony services are subject to regulatory approval. Under the regulatory framework that applies to the Dutch telecommunications sector, these tariffs will continue to be subject to regulation for as long as the Dutch regulator designates us as having significant market power. However, since January 1, 2006, we were granted more flexibility to maneuver in our pricing strategy, leading to a number of new tariff differentiated propositions for specific customer groups, such as Corporate Voice XL (introduced in 2007).

With the additional pricing strategy flexibility and the tariff differentiated propositions we were able to stabilize our market share in the fixed-line voice telephony market.

As of January 1, 2006, international calls are no longer subject to OPTA regulation. As a result, we are free to compete on international calls.

The tariff of 'Zakelijk InternetPlusBellen' consists of a DSL subscription fee and a voice subscription fee. Voice calls over the DSL connection are included in the subscription fee, except for international and fixed-to-mobile calls (which are charged per minute). Our VoIP Connect offering is based on a license fee per user combined with an IP solution of

# Information about the company

## Business overview – The Netherlands

the customer. Traffic fees are charged per minute. Our VoIP tariffs are also subject to OPTA regulation.

### Competition

In the traditional voice access market we are the largest provider. We experience continued competitive pressure from Direct Access and Carrier Select and Carrier Pre Select competitors, including Tele2/Versatel The Netherlands, BT Worldwide, Verizon, Esprit Telecom, Colt, Essent and Priority. Additionally, traditional voice services are threatened when migrated to another provider. Another threat is substitution by mobile telephony as well as the migration to VoIP services.

In the corporate market traditional voice telephony is being replaced by broadband and IP-VPN solutions, which increasingly are being equipped to provide inter-company voice traffic (without call charges).

Increasing broadband penetration in the small business market threatens our traditional voice access services (PSTN and ISDN), where we encounter competition from cable operators offering VoIP solutions bundled with broadband Internet.

### Network services

#### Products

We offer a range of data communication services for our 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 as well as worldwide through our partners. The telecommunications 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.

In 2007 we emphasized the migration of customers from traditional to IP based services as well as the upgrade from unmanaged to managed solutions. In addition, Economy IP-VPN was introduced in the SME market and we addressed the rollout of Fiber To The Office more intensely in order to meet customer demand. We have been able to significantly increase the number of connections by the migration of customers, the introduction of new services and the autonomous growth of our DSL and Ethernet portfolio.

### Tariffs

Pricing of KPN data services, Internet access services and integrated and 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 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, Tele2/Versatel The Netherlands, 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.

## **Wireless services**

### **Products and services**

KPN offers a wide range of mobile communications solutions to our customers. Under the KPN brand we provide mobile voice, data and internet services. KPN's international mobile service provider, Sympac, offers customized mobile communication solutions for multinational companies.

Demand for mobile data services continues to grow strongly. Customers are especially interested in wireless e-mail solutions (Blackberry, Windows Mobile) and in Mobile Internet Cards.

In 2007, KPN introduced the Push to Talk service. With this service customers can use their mobile telephone as a walkie-talkie and can make group calls from a phone or a central dispatcher through the push of a button.

Furthermore, KPN improved the performance of its data network, both in terms of coverage and capacity. We have also improved our online customer self care service environment, providing customers with improved transparency to their mobile phone expenses.

### **Tariffs**

The services KPN offers in the business market mainly have a postpaid structure, combining monthly subscription fees with traffic-based pricing. In response to regulatory requirements, KPN reduced its MTA tariffs in July 2007 and its international roaming tariffs in September 2007. For further information see 'Regulatory Developments'.

### **Competition**

The main competitors of KPN in the business market are Vodafone and T-Mobile (including Orange which was acquired by T-Mobile in September 2007).

## **Application Services – Enterprise Communications Solutions**

### **Products**

KPN designs, delivers, integrates, services and manages unified, voice and data communication solutions at customer premises, such as PBX and Local Area Networks. Anticipating fixed and mobile communication convergence, we offer combined solutions to meet customer demand in new areas and for selected market segments, such as:

- high end communication solutions, on demand IVR integration between Contact Center applications, CRM application and Voice Response Applications;
- high end communication solutions for trading rooms; and
- video surveillance, internet security and healthcare solutions. We work closely with high-quality partners to enable us to acquire specialist knowledge in these areas.

Customers are increasingly demanding managed or outsourced solutions. KPN provides outsourcing solutions for all or part of the telecommunications 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 telecommunications management and technology. Forrester research shows that KPN is the number three managed services provider of all managed service providers in the EMEA region (source: Forrester, European Telecom Operator Managed Services Deals Survey 2006).

In order to further strengthen our position in the field of enterprise communications in general, we acquired three companies in 2006: Newtel Essence, CSS Telecom and Siemens Enterprise Networks. During 2007, we integrated these companies into our business in order to create synergies:

- Siemens Enterprise Networks was integrated with CSS Telecom; and
- Newtel Essence combined with the former KPN on site call center business and online 0800/0900 business and is now able to offer businesses a full range of solutions for interaction between businesses and their customers.

The three acquired companies performed according to expectations in 2007 and their 2007 results were comparable to the original business estimates made prior to their acquisition.

In 2007, we were one of the first worldwide operators to participate in the Microsoft Voice Partner Programme. We are also actively working with other leading vendors to develop innovative propositions in the field of unified communications.

# Information about the company

## Business overview – The Netherlands

### Tariffs

We offer competitive tariffs for our products, service contracts, managed services and other services due to our supplier relations, scale, knowledge of communication solutions and the use of technology (such as service on line) for servicing and managing the products. Revenues from equipment and voice and data solutions are moving from one-off revenues to recurring revenues (for example Managed IP Telephony 'tariff per seat' and 'tariff per functionality').

### Competition

Our competitors are numerous and vary in size and expertise. Our main competitors are Imtech and Dimension Data. Increasingly we encounter other international operators like BT and Colt, mainly in the area of managed services. 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, our large and highly skilled field force (local presence) and fixed and mobile convergence as well as our innovative solutions.

### Software Online

#### Products

Software Online consists of a range of online application services for small and medium enterprises, introduced by KPN in 2006. Software Online enables companies to access software and content via the Internet. The applications are hosted in KPN cyber centers, 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 a PDA, a private PC or a laptop, enabling them to work anytime, anyplace.

In 2007, KPN continued to expand the portfolio of online application services, which currently includes, among others, Exchange Online, Back-up Online, CRM Online, Workspace Online, Extra Harde Schijf Online and Document Sharing Online and 'Internet Safety Pack'. At the end of 2007, we had approximately 23,000 users for Software Online. In order to handle the large number of orders, we have implemented an automated order, delivery and invoicing process, fully managed and monitored to ensure quick and smooth access to the service.

#### Tariffs

For Software Online, we follow a premium pricing strategy, based on fixed price per month per user. In 2007, we won several 'best value' awards, for services such as 'Backup Online' and 'Exchange Online', demonstrating that KPN is able to lead the market with a good balance between functionality and price.

#### Competition

We currently encounter competition from small, niche and/or start-up companies. Customers are particularly attracted by KPN's offerings based on brand perception and secure and high quality service. We foresee intensive competition from large companies like Microsoft and Google in the future, but expect to be able to leverage our sound position in the Dutch market and small and medium sized Dutch companies' preference for providers with local Dutch support.

### Application Management Systems

#### Products

KPN's offering of Application Management Systems ranges from relatively basic housing services to state-of-the art business continuity and SAP hosting services.

Demand for housing and hosting services is fuelled by online applications and large enterprises' need for data storage. In 2007, we expanded our capacity for housing services by approximately 40% through a partnership with Siennax for sharing infrastructure in cyber centers. We established contracts with numerous large customers to deliver SAP hosting, storage and backup services and application hosting. In order to improve our SAP offerings, we introduced Remote SAP management, where customers have the ability to make use of our intensive knowledge on SAP and business continuity without making instantly drastic changes in their infrastructure. We also provide messaging services to retail and governmental organisations.

#### Tariffs

With our state-of-the art Application Management services we are able to maintain a premium price strategy, although we encounter strong price competition in the market. By innovating and improving our operational efficiency we expect to maintain our margins.

#### Competition

Our competitors are numerous and vary in size. For SAP hosting, we mainly encounter SAP specialist companies like Ctac. In order to maintain our market position we have established strong partnerships with other ICT providers and with business consultancy firms, leading to a number of successful deals in 2007. For our SAP hosting and business continuity solutions we maintain high customer satisfaction levels. Our customers choose us for our

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excellent cyber centers, which provide customers the ability to tailor solutions based on their specific needs.

#### **Corporate Solutions**

In the corporate 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 convergence of IT and telecommunications is increasingly reflected in requests for end-to-end ICT service delivery. In many cases, large companies contract one single provider for the overall integration of all (own or third party) underlying services.

#### **Corporate Solutions – Integration and Outsourcing services**

In 2007 Corporate Solutions further transformed from a telecommunications provider to an ICT solutions provider. We deliver managed services up to fully outsourced solutions for integrated data, voice and mobile as well as workspace management.

#### **Outsourced solutions**

KPN designs, delivers, integrates and insources ICT solutions. In addition, we offer communication solutions for special events, call centers, video surveillance, security, dynamic instore marketing (narrow casting) and healthcare in close cooperation with partners that are specialized in the respective subject. We also offer the know-how of our consultants, project and implementation managers and specialists in ICT management and technology.

#### **Workspace management**

In 2007, KPN started the desktop outsourcing activities which resulted in obtaining new customers representing 1500 workspaces. The desktop proposition is offered in three varieties:

- online takeover of an existing desktop/PC environment based on ASP tooling;
- new online technology: virtual online desktop including all ICT infrastructure and full virtualization of ICT applications (including Voice IPBX); and
- ICT outsourcing based on third generation modelling, an end-to-end managerial approach based on subcontracting or outsourcing of existing contracts/parties/solutions.

KPN intends to expand and differentiate its capabilities in terms of online workspace environment solutions towards a market-driven set of solutions which will meet the demands of different customers.

#### **Business Mobile Solutions**

In 2007 the Private Mobile Radio organization was transformed into a knowledge driven company, BMS, which offers mission critical communication and mobile solutions. BMS offers communication solutions at airports, in harbours and on trains, but also personal mission critical communication for police forces, fire brigades and ambulance personnel. Also a new portfolio for fleet management was introduced with functionalities like tracking, tracing, navigation and order dispatch. BMS is focused on selling, marketing and managing the projects to implement the solution we design and finally service and manage it for our customers.

#### **Public Sector Solutions**

In 2007, we completed the integration of Gemnet (acquired in 2006) and successfully started to implement our strategy of providing value added ICT services to municipalities, waterboards and provinces in The Netherlands. In 2007, Gemnet expanded its position as a provider of managed ICT services in the local public sector. Almost all municipalities have signed a multi year contract for broadband connectivity over the Gemnet platform, a secure data network between municipalities and major central governmental departments. In addition to connectivity, Gemnet started to sell value added services to municipalities and third parties.

#### **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 more and more end-to-end services to our customers, revenues from equipment and voice and data solutions move increasingly from one-off revenues to recurring revenues (for example from 'price per minute' in managed voice solutions to 'price per seat' for desktop management services).

# Information about the company

## Business overview – The Netherlands

### Competition

Our competitors are numerous and vary in size, depending on the type of required solution as well as the branches in which we are acting. Our main competitors are BT Global Services, Verizon, Orange Business, AT&T and Colt (international managed data networks), Vodafone (international mobile phone services), Imtech and Dimension Data (managed ICT services).

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

### Distribution and seasonality

KPN has a wide range of channels available for its business customers.

Small and medium-sized businesses can reach us for sales and service by phone, they can visit a shop (e.g. Business Center) or by logging on to [www.kpn.com](http://www.kpn.com), the internet channel of KPN. In addition, KPN works, in this part of the market, with a nationwide network of ICT and telecommunications resellers who sell KPN portfolio and complement this with value added services such as consultancy. This allows our customers to buy turn-key ICT solutions at a familiar address, whilst KPN takes care of the ICT network facilities.

In 2008, KPN will start a new channel formula for small and medium-sized businesses. New business shops will open to replace the former 17 Business Centers. These new shops will offer custom made ICT solutions.

For enterprise customers ICT is strongly linked with the strategic business processes of our customers. Therefore KPN serves these customers with strategic account managers who work closely with portfolio consultants and with other channels for an optimal service-delivery and customer experience.

In the case of integrated managed solutions KPN works in accordance with the Service Management method, using its own service components or components purchased from third parties. A program manager is, for a specific customer, responsible for the optimal performance of the KPN integrated solution and can rely on a team of permanent staff and a pro-active service organization.

### Seasonality

Seasonality in revenue-streams is mainly caused by holidays in the third quarter. Holidays have a slightly negative effect on the project-driven part of total revenues of Corporate Solutions and Application Services. Furthermore, traffic revenues of Voice Services and Wireless Services are somewhat lower during holidays. This effect is partly offset by higher Wireless Services revenues from roaming.

## Getronics Segment

KPN completed the acquisition of Getronics in October 2007. Integration of Getronics with KPN commenced immediately. KPN will integrate its ICT Services and Corporate Solutions businesses into Getronics and will continue to run the Getronics business as a separate IT company, given the fact that dynamics of this market are different from the telecommunications business.

### Strategy

Getronics has strong competencies in workspace management and application services. Therefore, the acquisition of Getronics reinforced the ICT strategy of KPN and further transforms KPN from a communication service provider to provider of ICT services. More and more companies are recognizing the continued convergence of telecommunications and IT, achieving significant benefits by sourcing all related services from a single vendor. Combining Getronics' business with KPN will transform our existing ICT business by giving us critical mass and expertise and enhancing our opportunity to become the ICT partner for our widened client base in our key territories. Some key benefits of combining Getronics with KPN are:

- the combined business becomes the prime contractor to provide integrated ICT services, with enhanced time-to-market and product development capabilities;
- cross and upselling opportunities to one another's client bases; and
- platform to benefit from the relatively untapped and fast growing small and medium enterprises' market segment, leveraging the KPN sales force.

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## Strategy going forward; 2008-2010

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In the Benelux region, Getronics is strengthening its market leadership position in infrastructure and network-related IT services and consulting. Getronics will offer end-to-end solutions with workspace management at the center, which is one of the key strengths of the Getronics business. Other services offered are data center and hosting services, connectivity solutions and Software as a Service. The services are complemented by independent consulting and professional services through the separate label Getronics Consulting.

In the global workspace management business, Getronics intends to expand and strengthen its global delivery capability. This delivery capability is based on own operations in countries with sufficient scale and on partnerships in other countries.

The launch of a new workspace management solution 'Future Ready Workspace 2.0' in the second quarter of 2008 will support the global delivery capability for serving international clients and drive profitability. Future Ready Workspace 2.0 is an integrated solution covering a large part of our service portfolio.

Going forward, Getronics will focus on its core operations, where Getronics will continue to operate the activities in network-related IT services and connectivity. Activities further up the value chain such as Business Process Outsourcing and Business Applications are considered to be non-core.

Accordingly, Getronics is considering the divestment of a number of strong businesses, either in part or in full in the Benelux and globally. In the Netherlands in particular, Getronics is considering the divestment of several non-core businesses with strong operating profit margins, being Business Applications Services and Business Solutions for local governments and healthcare. A final decision will be made depending on interest from potential buyers and the detailed carve-out plan. The divestment of these non-core assets will allow KPN to recoup part of the acquisition consideration.

## Brand strategy

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The Getronics' brand is promoted in over 25 countries as part of the Getronics' brand strategy. In addition, Getronics' strategic partners, alliances and service partners also help to support the Getronics' brand on a global scale. In 2007, Getronics' brand strategy was focused on increasing industry recognition as the workspace management company with global delivery capabilities. Getronics go-to-market model is centered around the following proposition: 'Enabling the High- Performance Workforce'. Getronics fulfils this proposition by providing its clients' end-users high quality services, real-time infrastructures, optimized business applications and collaborative people. The Future-Ready Workspace is one of Getronics' most important products and combines in a modular and standardized approach with components of the whole Getronics portfolio. This has significantly increased the brand recognition of Getronics and has improved the visibility of Getronics amongst industry analysts, consultants and clients.

## Products and services, tariffs and competition

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### Products and services

We define this business into three main areas: Workspace Management (exemplified by the Future-Ready Workspace), Application and Integration Management, and Consulting and Transformation.

### Workspace Management

Workspace management expertise and focus is encapsulated in its Future-Ready Workspace. The Future-Ready Workspace has been developed to give the workforce constant and reliable access to relevant information and to help people connect across the enterprise. In a single physical and virtual environment, it gives the workforce access to all the applications and infrastructure. It is secure, scalable and simple to maintain. With the Future-Ready Workspace, innovations and upgrades are provided as required, and Getronics' remote management services ensure that all systems operate with efficiency. The Future-Ready Workspace also integrates technologies through alliances with Cisco and Microsoft.

### Application and Integration Management

Minimizing cost and adding value are essential objectives for both workspace and application management. Getronics is delivering expertise to its clients through three broad areas of activity:

- the integration of new and existing business applications;
- application maintenance and evolution, ranging from patching through to major replatforming projects; and
- full application management, where we assume complete responsibility as an outsourced applications service provider.

# Information about the company

## Business overview – The Netherlands

As an applications partner in specialist areas such as retail banking, insurance, healthcare and government, our applications expertise is particularly focused on the way applications help clients establish intimacy with their own customers. This can be at the physical point of contact in a branch or through virtual channels such as customer contact centers.

### Consulting and Transformation

We provide clients with guidance and analysis of issues around effectively maintaining current ICT investments, introducing new technology, leveraging industry standards for predictable performance, introducing continuous improvement programs, addressing security shortcomings, and transforming existing environments. With our clients, we develop proposals and also implements those proposals. In total, Getronics has over 1,500 workspace and application management architects and consultants.

The three broad go-to-market offers described above have been built around Getronics' core strengths and are built on the global portfolio of services which covers workspace management, applications, technology transformation, communications, and security.

### Tariffs

Pricing of our services varies in function of many parameters, such as the scope, the requested service level, and the geographic spread. In general, the tariffs in managed services (including outsourcing contracts) tend to suffer from rate discounts in most renewal and competitive bidding situations. This goes together with continued reductions in the cost associated with delivering these services, in particular by reducing the labor component and increasing automation. The professional services markets (including consulting and transformation services and application services) are benefiting from increases of hourly rates and tariffs, however, some of these increases also reflect upward pressure on employee compensation due to the scarcity of skilled and experienced ICT professionals, particular in Europe.

### Competition

The ongoing trend in the ICT industry towards globalization has resulted in, among other things, consolidation within the ICT industry. Notwithstanding this consolidation, the ICT industry in Europe remains fragmented. The markets in which Getronics operates are intensely competitive and undergo continuous change. The competitors can differ significantly depending upon the market, client and geographic area and include a broad spectrum of ICT services companies, ranging from systems integrators to outsourcing providers and consulting companies, such as IBM, Atos Origin and CapGemini.

### Distribution and seasonality

Getronics investment in its global service delivery organization and tools has significantly increased the proportion of services that Getronics provides from centralized and remote locations. This is particularly true for workspace management, including security and communication services. At the same time, consulting and transformation services require large numbers of skilled and certified ICT professionals on-site. The sales approach depends mainly on the size and type of the client. Getronics has established dedicated international sales and account management for the large multinational clients, whereas local market opportunities are targeted by country teams. Large national accounts also have dedicated sales and account management, but these are organized on a local level. In addition to the direct sales organization, Getronics has a global channel sales organization. This global channel organization distributes selective parts of the Getronics portfolio in geographic areas in which a direct sales force is not present. This organization also includes partners who sell our portfolio together with their own (e.g. OEM's, Telecommunications and other System Integrators).

Getronics' revenue and operating profit show a strong seasonal pattern with revenue and operating profit significantly higher in the second and fourth quarters than the first and third quarters. In particular, the fourth quarter is much stronger because of a seasonal pattern in activity levels within consulting and transformation services as well as a strong end of the year uplift in the application services business for the public sector as a result of the usual budgetary spending by government clients.

## Wholesale & Operations Segment

The Wholesale & Operations (W&O) Segment's activities comprise two main activities: the operation of KPN's networks (whether telephony, DSL, mobile, TV or All-IP networks) and the wholesale of network capacity to external parties. Besides serving the internal KPN market with all kinds of telecommunications services, W&O's main external businesses concern national wholesale (like Internet, voice and TV services) and international wholesale, such as global carrier services through iBasis.

### Strategy

The telecommunications industry is faced with two fundamental challenges: on the one hand, the declining costs of bandwidth making it easier for new entrants to enter the market, and, on the other, the convergence of infrastructure into a single IP protocol causing formerly separate infrastructures, such as cable, to become more competitive. In order to rise to the challenge of increasing competition (both from new entrants as well as other infrastructures), KPN is making sure that its infrastructure is competitive from a cost perspective, its execution outperforms that of the other market parties.

In view of being the most cost-efficient operator, KPN wants to make sure that its scale on the infrastructure side translates into a cost advantage. This means that KPN invested in implementing the newest technologies (All-IP technology, fiber networks, etc.) to ascertain that old infrastructures can be terminated and KPN can get to the lowest cost point. Moreover, it is KPN's opinion that execution is key to surviving in an increasingly competitive market. Finally, a fundamental belief of KPN is that if ownership or control over infrastructure is less of a barrier to entry, KPN must ensure that new entrants will use KPN's infrastructure by focusing on obtaining a fair share of the wholesale market.

The wholesale market shows an increasing demand for bandwidth and new services (mainly IP and mobile based), whereas revenues from traditional services (ISDN/PSTN and switched Internet) decline. Due to this shift in demand, KPN observes growth in its wholesale volumes, as cable and ADSL operators are entering the retail voice market via VoIP.

Internationally, KPN notices a trend in international consolidation and strategic alliances with, consequently, a downward pressure on tariffs only partly offset by increasing volumes. To address this challenge, KPN merged its global carrier services activities into US-based iBasis, Inc. in 2007. The merged entity (51% owned by KPN) presides over KPN's wholesale voice network in Europe and Asia and iBasis' footprint in the Americas and Asia. The acquisition of iBasis contributes to the growth of KPN's activities by increasing the share of IP-based services in KPN's portfolio.

### 'Attack'

Services are increasingly becoming infrastructure independent. KPN pro actively migrated traditional services to IP-based services (e.g. VoIP), while broadband services were extended with value-added services. The continuing launch of new services, both retail and wholesale, took place to achieve scale advantages.

As part of its strategy to grab a big portion of the wholesale market, Wholesale & Operations continued to search for new wholesale opportunities. In 2005, it introduced Wholesale Broadband Access (WBA) in addition to Local-Loop Unbundling (LLU), enabling ISPs and other operators to add ISP-specific value (such as spam and virus filters, firewalls and email services) without the need to invest in DSL networks. As part of its plan to roll out an All-IP network, in 2007 KPN reached agreements with alternative DSL providers on the future use of MDF co-locations. The agreements contain alternative access possibilities (e.g., access to core locations via WBA and access to street cabinets through SDF Access).

### 'Defend'

KPN continued to search for possibilities to maintain or even increase the profitability of traditional services by leveraging scale advantages, improving the execution of such services and responding to consumers' desire for choice via wholesale offerings in addition to KPN-branded retail products and services.

KPN's All-IP objectives support its defending strategy by maximizing the position in traditional services prior to migration to IP-based services and phase-out. KPN delivers an IP-based open access model with unbundlers as resellers on KPN's infrastructure.

### 'Exploit'

As explained before, KPN strongly believes its infrastructure has to be the most competitive infrastructure from a cost point of view. To achieve that, several cost savings programs have been initiated (mainly aiming at staff levels, traditional IT systems and infrastructure), the fixed and mobile organizations have been integrated, while all network assets were centralized to increase efficiency. The switch to an All-IP network will further contribute to reducing KPN's cost base.

# Information about the company

## Business overview – The Netherlands

### Strategy going forward; 2008-2010

In the International Wholesale voice market KPN has become a top four player through the combination of KPN Global Carrier Services and iBasis. The companies are, to a large extent, complementary. KPN is strong in Europe and routing mobile traffic, whereas iBasis is strong in the Americas and in routing fixed traffic and VoIP. The combined company is a solid base for further growth.

In the national wholesale market Wholesale & Operations has the ambition to remain a highly efficient and 'best-in-class' network operator through a radical simplification of the business. The implementation of the All-IP access network creates an opportunity to redesign the whole front-end and back-end of the business, including service platforms, IT and services. The simplification process enables KPN to further reduce its workforce.

The All-IP access network will consist of a mix of Fiber to the Curb/VDSL and Fiber to the Home/Offices (FtH/FtO). KPN will engage in selected initiatives with partners to rollout FtH and FtO as described in the strategy update for the Consumer and Business Segments. The network is open for service providers and allows them to offer their services through a highly efficient IP-network. The KPN All-IP network will be open for service providers through Wholesale Broadband Access (WBA) and access to street cabinets (SDF), allowing them to offer their services to their customers.

### Products and services and tariffs

#### National wholesale services

The national wholesale services offered by W&O can be divided into wholesale services and local-loop services. Through wholesale services, KPN supplies a comprehensive range of services providing other telecommunications companies with access to W&O's fixed and mobile networks. These services include:

- terminating services, allowing customers from other operators to reach KPN's customers through terminating access to end users connected to KPN's fixed and mobile networks;
- voice-originating services, offering other operators (such as Carrier (Pre)Select operators and MVNOs) access to calls originating on KPN's fixed and mobile networks and offering KPN's customers interconnection with so-called premium numbers (0800/0900 prefixes), pagers and VPNs;
- Internet-originating services, offering ISPs the opportunity to directly bill their customers for Internet usage through special dial-in numbers (0676 prefix); and
- transit services, offering other telecommunications operators routing of incoming and outgoing national and international calls between other operators' networks through KPN's fixed and mobile networks.

In 2007 as well as in 2006, traffic volumes in the fixed network decreased for originating and terminating voice services due to strong competition in the national voice market by competitors like Tele2/Versatel The Netherlands, Verizon and BT. Also, competition from cable operators with VoIP offerings increased significantly during 2006 and 2007. In addition, fixed-mobile substitution contributed to a further decrease of the fixed network's traffic volumes. Traffic volumes in KPN's mobile network, on the other hand, showed an increase, although not strong enough to compensate for the loss of fixed network traffic volumes. Due to the substitution from Internet dial-in to broadband Internet access, volumes of Internet-originating services saw a substantial decline in 2007 and 2006.

Due to the end-user migration from fixed to mobile services adding to a growing VoIP market, the transit market increases. KPN faces ongoing fierce competition in this market from direct interconnection as well as competitors (like Orange and BT). Despite the competition, KPN has been successful in defending its market share by increasing traffic volumes for transit voice services; the main driver behind this growth being the continuing growth in mobile-to-mobile voice traffic.

Through national local-loop services, KPN offers access services to the 'last mile' of its network. These services include:

- MDF access, offering physical connection of other operators' networks to KPN's local-loop network, offering other operators direct access to the homes and offices of their customers;
- MDF co-location, providing other operators the possibility to install their equipment in or alongside KPN's switches to connect their networks to KPN's by offering other operators direct access to KPN's local-loop network;
- WLR, enabling other operators offering Carrier (Pre)Select services to sell PSTN/ISDN connections. In combination with WLR, they can offer complete subscription and traffic services to their customers;
- SDF access: as of October 2006, SDF access services are available as part of KPN's All-IP program;

- WBA, consisting of Bitstream access (offering operators and ISPs the possibility to develop individual DSL-based services) and Wholesale ADSL (a value-added service on top of LLU); and
- ILL, offering a connection between end-user locations and an operator's transmission network.

Continuing the trend seen in 2006, ISDN/PSTN connections continued to decline throughout 2007. On the other hand, MDF access increased due to introducing end-user services like VoIP, Tele2 Compleet (by Tele2/Versatel The Netherlands) and Livebox (by Orange). Thanks to current developments in the broadband market, WBA showed a growth in both 2006 and 2007.

#### **International wholesale services**

The international wholesale services offered by KPN consist of voice and data services. Data services are primarily handled by the Business segment (KPN EuroRings). International voice services carry international voice traffic originating outside or inside The Netherlands to any place in the world and include:

- International Premium Services, offering worldwide access through KPN's high-quality voice network in Europe and the international access points in Hong Kong, Miami, New York and Singapore;
- International Wholesale Services, offering worldwide voice termination services at competitive prices;
- mobile operator solutions, offering data services for SMS, MMS and mobile Internet besides voice termination services; and
- ISP solutions, offering voice services by connecting VoIP traffic to switched networks internationally.

As of October, 2007, KPN merged its international wholesale voice business into US-based iBasis Inc.

The 'new iBasis' combination has strongholds in two of the fastest growing segments of global telecommunications: mobile services and consumer VoIP. Furthermore, the combination resulted in complementary geographic coverage by bringing together KPN's extensive footprint in Europe, the Middle East and Africa with iBasis' strong presence in the Americas and Asia. KPN also added an established business in mobile services (including a reliable and high-quality product portfolio and relationships with over 100 mobile operators) as well as international traffic from KPN's Dutch, German and Belgian operations. iBasis contributed a global VoIP network comprising over 1,000 points of presence in more than 100 countries and interconnections with more than 600 carriers worldwide.

The transaction also enhanced the iBasis product portfolio by adding feature-rich voice and data offerings for mobile operators and combining other products to meet the needs of customers in every market segment. The new iBasis serves approximately 1,000 customers including national operators, wholesale carriers, calling-card operators, mobile operators, fixed-retail business, cable multi-service operators and voice over broadband service providers. iBasis remains a stand-alone, publicly traded company, headquartered in Burlington, MA, USA, while it gained a significant operation in The Hague and additional sales offices throughout the world.

#### **Tariffs**

KPN's national fixed-telephony wholesale tariffs and tariffs for Wholesale ULL services are subject to regulatory approval. As a result of the market analysis by the Dutch telecommunications regulator OPTA in 2005, KPN's transit services have been subject to regulation since January 1, 2006. Therefore, regulatory obligations like non-discriminatory access apply. KPN's tariffs for transit, originating and terminating services are comprised of a call set-up fee plus a charge per minute. For local loop services, KPN charges a one-off connection fee plus monthly subscription fees.

Ongoing liberalization and growing international competition due to EU regulation puts continuing pressure on international tariffs. In September 2006, OPTA published the directive on wholesale price caps for a three-year period starting April 1, 2006; wholesale tariffs for regulated voice services remained unchanged while wholesale tariffs for other regulated services were reduced. In 2007, the EU roaming regulation was published, which became effective June 30, 2007. The regulation was directly applicable in all 27 EU Member States. Retail roaming tariffs for calls are capped for incoming calls when customers are abroad within the EU. Average wholesale tariffs for roaming on EU networks have also been capped as of August 30, 2007.

# Information about the company

## Business overview – Mobile International

In addition to The Netherlands, KPN is a provider of mobile telecommunications services in Western Europe with a particular focus on Germany and Belgium. 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 (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 large number of mobile-only users reflects the trend towards growing use of mobile networks at the expense of fixed networks. Mobile International comprises the mobile wholesale activities in The Netherlands and all other mobile services outside The Netherlands.

UMTS was introduced in Germany in 2004. UMTS enhances the functionality of mobile data services (e.g. mobile Internet) by adding video and increased transmission speeds. KPN expects the introduction of UMTS-based services to accelerate the use of advanced data services in the coming years.

### Strategy

It is Mobile International's objective to expand and continue growth in the European mobile business, despite regulatory tariff cuts and competition. Thereto, it will continue its successful challenger strategy.

Mobile International will further exploit synergies in wholesale between The Netherlands, Belgium and Germany, and leverage wholesale partnerships on each of our networks in the current footprint. Mobile International also aims to expand the business model into other Western European countries exemplified by the announcement in January 2008 of our MVNO launch in Spain.

For details on how customer data are calculated, please see 'Key Information'.

## E-Plus Segment

We are active in the German mobile telecommunications market through our mobile network operator E-Plus. During 2007, E-Plus' customer base increased to 14.8 million customers. In a competitive German mobile market, we succeeded in expanding our service revenue market share by over a full percentage point to approximately 14.0% (2006: 12.9%).

### Strategy

The strategy revision was aimed at accelerating growth and to put E-Plus on a solid path to profitability. The 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 Yıldiz' (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 to focus on new distribution channels besides captive channels; and
- we are expanding our captive distribution, with 251 stores at the end of 2007 compared to 197 at the end of 2006.

With the growth strategy the focus is on increasing our customer base, revenues and market share on the one hand and profitability on the other. We succeeded in 2007 in attracting more than 2.1 million new customers. Our focus on partnerships such as with Medion meant that a large share of this growth was with prepaid customers. The number of postpaid customers as of December 31, 2007 was 6.3 million representing a 43% share of our customer base (2006: 47%), whereas we served 8.5 million prepaid customers as of December 31, 2007.

### Strategy going forward; 2008-2010

E-Plus aims to outperform the competition in a growing German market. To that end, E-Plus will focus on mid/high value customers and increase data revenues share, now that the demand is growing. It will also exploit its customer base via cross/upselling and value added services.

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## Products and services, tariffs and competition

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Under the 'E-Plus' brand, we offer a range of propositions to the business and consumer markets. These propositions include bundled packages for consumers, such as 'Time & More' or with minimum monthly commitment as 'Zehnsation Classic' and for the business market 'Professional' (S, M, L, XL) and 'Free & Easy' prepaid packages. In addition to standard mobile services, we also offer under the 'E-Plus' brand a wide range of value-added voice and data services, such as SMS, GPRS, UMTS.

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, 'Ay Yildiz' the first tailor-made offering for Turkish-speaking people. Besides that, E-Plus has closed a co-operation with Universal Music Deutschland and launched VybeMobile for the music and SMS affine youth.

We offer wholesale solutions for an increasing number of partners which act as branded resellers, including Blau and MTV, as well as via MVNOs like Versatel or Netcologne.

As of December 31, 2007, we offered customers the possibility to use mobile telecommunications services outside Germany in approximately 170 countries through international roaming agreements.

### Tariffs

We offer a variety of tariff structures for postpaid and prepaid customers. Bundled minutes at discounted rates per minute, tariff with minimum fee without subscription fee and flat fees are being offered with simple tariff structures. These offers aim at capturing a larger share of the total voice market. We also offer flat fees in the data segment.

The 'BASE' brand offers flat fee variants or minimum fee with simple tariff structure. 'Simyo' also offers a simple tariff structure with one tariff for every call regardless of the time of the day. 'Ay Yildiz' offers a simple tariff structure for Turkish-speaking people.

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

The German regulator Bundesnetzagentur (BnetzA, the former RegTP) ordered the German mobile network operators to reduce their MTA tariffs in four 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. The fourth consecutive reduction was announced on November 30, 2007 and became effective as of December 1, 2007. For further information, see 'Regulatory Developments'.

### Competition

Four mobile network operators, all holding GSM & UMTS licenses, are currently active in the German mobile telecommunications market: T-Mobile, Vodafone, E-Plus and O2. The two largest mobile telecommunications providers, T-Mobile and Vodafone, hold an estimated combined service revenue market share of 71% (2006: 73%). In the past years, E-Plus has been successful in growing its service revenue market share.

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, Victor Vox and MobilCom. Service provider customers constitute approximately 13% of our total customer base.

### Brand strategy

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During 2007, E-Plus continued to pursue its multi-brand strategy with tailor-made offers to well-defined customer groups concentrating on customer needs, such as voice telephony and simple services.

### Distribution

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We offer our products and services through our own chain of 251 shops as well as E-Plus' website and exclusive partner shops. Apart from these channels, we offer our services through resellers, MVNOs and service providers that may repackage our offers, tailoring them to their customers' needs. For the business market segment, we also use these sales channels in addition to a direct sales force.

# Information about the company

## Business overview – Mobile International

### **BASE segment**

In Belgium, BASE is the number-three mobile telecommunications provider by revenue and number of customers, serving 2.9 million customers as of December 31, 2007 (2006: 2.4 million), with an estimated service revenue market share of around 16% (2006: 15%). 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.

#### **Strategy**

In Belgium, BASE aims to reignite growth in its business with a broader scope. BASE will launch new commercial propositions and further strengthen its distribution capabilities. It will engage in regionalized marketing in areas with low market shares and exploit the acquisitions of Allo Telecom and Tele2/Versatel Belgium to increase market share in those markets.

#### **Products and services, tariffs and competition**

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' brand (targeted at the Turkish community), our low-cost 'Simyo' brand and the recently introduced products 'Zoniq' (focusing on expatriates and people with high international calling profiles) and 'Jim Mobile' (focusing on the youth segment and replacing the previous TMF offer).

As of December 31, 2007, our customers could use mobile telecommunications services outside Belgium in approximately 200 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 past year was dominated by the introduction of flat rate products. With the introduction of BASE 3, customers can call up to 3 hours a day on-net for a fixed fee. BASE 3+ gives them the opportunity to call 3 hours a day on-net or to fixed lines for a flat monthly fee.

Similar products were introduced for the business market, such as BASE Business and Business + (99 hours a month for a fixed fee).

With the introduction of BASE Platinum and BASE Gold, BASE was a pioneer in the Belgian market by offering its clients flat fee tariff plans based on the 'any time, any network' principle. BASE Platinum is the first subscription allowing customers to make unlimited calls to all national mobile and fixed networks for a fixed monthly fee.

For information regarding MTA, we refer to 'Regulatory Developments'.

#### **Competition**

Our mobile operator competitors in Belgium are Proximus and Mobistar. Proximus is a wholly-owned mobile subsidiary of Belgacom, the incumbent telecommunications provider in Belgium. Orange holds a 50.17% equity interest in Mobistar. Proximus is the obvious market leader in Belgium with 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.

During the year competition increased which resulted in heavy price competition, increased competition on the wholesale market.

#### **Brand strategy**

We have positioned BASE by distinguishing ourselves from the competition by 'doing things differently'. Furthermore 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 51 BASE shops and via the internet. We also offer our services through branded-resellers, service providers, and MVNO's that may repack our offers and tailor them to their customers' needs. In 2007, BASE increased its position in the wholesale market by further expansion of wholesale partnerships.

In order to strengthen our distribution channel and to create a platform for further profitable growth, we acquired Allo Telecom in August 2007, a distribution chain operating 51 stores with a strong presence in the southern part of Belgium, a region in which we were traditionally underrepresented.

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## Mobile Wholesale The Netherlands segment

Mobile Wholesale The Netherlands contains the mobile wholesale business of former KPN Mobile The Netherlands. Our approach to mobile wholesale is based on leveraging the capabilities of KPN to the benefit of our partners, customizing our services to their specific needs and exploring opportunities within KPN's footprint.

Our goal is to make our wholesale partners successful as mobile virtual network operators (MVNO). Our flexible customized platforms ensure that partners can successfully introduce their own mobile proposition in the market, irrespective of their background as a mobile provider. It results in the optimal end user experience for the customers of our partners. Over 1.8 million end-users are connected to the KPN network via our mobile wholesale partners, an increase of more than 20% compared to the end of 2006.

### Strategy

Mobile Wholesale The Netherlands will further exploit synergies in wholesale between The Netherlands, Belgium and Germany such as expertise and branding, and leverage wholesale partnerships on each of our networks in the current footprint.

### Brand strategy

Mobile Wholesale The Netherlands allows service providers and MVNO's to develop and market their own brand and proposition for the niche markets in which they choose to operate. Increasingly service providers and MVNO's leverage their brand and proposition across countries through KPN's international networks.

### Distribution and sales

Mobile Wholesale The Netherlands provides partners access to the best mobile network in The Netherlands. While adapting our business model to suit our partner's proposition best, Mobile Wholesale The Netherlands delivers thorough commercial and operational support through marketing, sales and product management.

### Products and services, tariffs and competition

Mobile Wholesale The Netherlands makes its network available to partners that wish to offer mobile telecommunications under a private label. These partners are offered a range of standard and value-added mobile voice and data services, both prepaid and postpaid. An increasing amount of service providers have added UMTS/HSDPA services to their portfolio.

### Tariffs

Mobile Wholesale The Netherlands offers both prepaid and postpaid to its partners. A wide range of business models is used in order to suit our wholesale partners propositions and allow them to be competitive in the market in which they operate.

In response to regulatory requirements, we reduced our MTA tariffs in August 2007 and plan to reduce them further in 2008 and 2009. For further information, see 'Regulatory Developments'. Also EU roaming tariffs have been reduced in order to comply to EU regulation.

### Competition

KPN's competitors in the Dutch mobile market are Vodafone and T-Mobile (after the acquisition of Orange The Netherlands by T-Mobile), both of which offer mobile wholesale to (potential) partners. 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 the operators. As a result of the Telfort acquisition, KPN's revenue share generated through MVNOs and service providers increased.

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## Mobile International Other Segment

This segment includes Ay Yildiz, Simyo and the recently acquired Tele2/Versatel Belgium business. Furthermore Mobile International aims to expand the wholesale business model into other Western European countries. In January 2008, we launched a MVNO under the Simyo brand in Spain.

## Information about the company

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### Other activities

During the year under review, our other activities included our Corporate Center (support functions), KPN Holding and KPN Mobile Holding. Our Corporate Center mainly provide group internal services.

As a result of our reorganization as of January 1, 2007, KPN Retail (Primafoon stores and Business Centers) and KPN Sales (KPN's own personal sales force) have been allocated to the Consumer Segment and the Business Segment, respectively.

In the beginning of 2006, KPN and Telstra sold their total holdings in Xantic B.V. (a satellite communications provider) to the Canadian Stratos Global Corporation.

# Information about the company

## Property, plant and equipment

### The Netherlands

Telecommunications services depend on a core network for the transfer of data or voice information. The ongoing growth in bandwidth and services requires continuous development in design and capabilities. KPN's existing fixed and mobile infrastructures and its future plans are described hereafter.

#### Fixed Infrastructure

##### Access networks

KPN's access network in The Netherlands basically consists of twisted pair copper reaching nearly all of the eight million Dutch households with two pairs of copper wires in the access network.

Despite the continuing migration to mobile-only solutions, over 60% of Dutch households were actively connected to KPN's access network as of December 31, 2007.

On December 31, 2007, 251 CityRing areas (in 107 concentration points) and about 794 other access areas form KPN's fiber access network. Fiber access permits transmission rates in excess of 155 Mb/s. KPN's fiber network is partly upgraded to 1 Gb/s and 10 Gb/s C/DWDM/Ethernet technology in order to offer services to large enterprises.

In certain cases, wireless transmission systems are used in KPN's access network (as back-up or if fiber access is not available). At HotSpot locations, broadband Internet access is provided through WiFi. By the end of 2007, over 900 HotSpot locations were operational in The Netherlands. In co-operation with NS (Dutch Railways), KPN operates WiFi HotSpots in major railway stations. In 2006, KPN HotSpots acquired Attingo B.V., the only provider of public Internet and business communications services at Amsterdam Airport Schiphol. With the acquisition of Enertel in 2006, KPN also acquired Enertel Wireless B.V. Enertel Wireless, operating 150 HotSpots and fully integrated it into KPN's HotSpots network in 2007.

##### Backbone networks

KPN's backbone networks support voice, video and data traffic between access points. The backbone networks can be divided in the 'Lambda' dense wavelength division multiplexing network (fiber optic backbone), the 'Hirka' synchronous digital hierarchy network (traditional backbone), dedicated service-related networks and several long-distance CityRings (fiber).

The average usage levels of these networks are summarized in the following table:

Average usage level	2007	2006	2005
Lambda DWDM	86%	85%	72%
Hirka SDH	70%	68%	69%
CityRings	20%	20%	18%

The traditional backbone has a maximum network capacity of 155 Mb/s. To accommodate the fast growing demand for high-speed transmission (defined as 155 Mb/s and up), KPN built the fiber-optic "Lambda" network with SDH and DWDM-based transmission technology. This fiber optic network became operational in 2000. By the end of 2007, about 220 locations were interconnected by 10 Gb/s transmission routers and 740 locations by 2.5 Gb/s transmission routers. Each of the access areas is connected to the transmission backbone network at two separate locations to ensure continuity.

The development and rollout of cost-efficient networks relies on the technically advanced multi-protocol label switching (MPLS) infrastructure, which is based on fiber techniques and suitable for advanced DSL and IPTV services. This MPLS infrastructure is fully integrated in KPN's Ethernet network and builds upon the Lambda network, interconnecting various MetroRings across the country using 1 Gb/s and 10 Gb/s fiber-optic infrastructures. Moreover, this core infrastructure is used to interconnect regional Ethernet and IP access nodes.

#### Service layers of the fixed infrastructure

The service layers built on KPN's core infrastructure networks in The Netherlands comprise switched voice, video and data network services. Service edges connect the access network to KPN's backbone networks.

##### Voice networks

KPN's public switched telephony network (PSTN) and ISDN networks in The Netherlands consist of approximately 1,328 local exchanges and 2 x 20 trunk exchanges connected by a long-distance transmission network. KPN's network is also connected to other operators' networks. The telephony networks are designed and engineered to have general availability with internal blocking and outages during peak hours below 1% end-to-end, measured on a yearly basis.

##### Data networks

The switched data networks consist of frame relay (FR) and asynchronous transfer mode (ATM) networks and of Ethernet.

# Information about the company

## Property, plant and equipment

### FR/ATM networks

KPN operates the 'Natvan' FR network to provide large numbers of data services for:

- the backbone infrastructure supporting KPN's dial-in network from 20 dial-in points of presence to the ISPs;
- Local Area Network (LAN) interconnect services for corporate customers;
- the backbone infrastructure that enables bulk transport of X.25 services through leased lines as well as ISDN channels; and
- native FR (64 Kb/s through 2 Mb/s) VPNs.

KPN's ATM network is used for flexible leased-line services, as a carrier network for its FR network and to connect xDSL customers to KPN's data/IP services backbone.

### Ethernet

Ethernet is the most recent national network currently deployed in The Netherlands. This advanced network is based on a switched native Ethernet infrastructure, using either dark fiber or C/DWDM as underlying infrastructures. Within this network, Ethernet interfaces up to 10Gb/s are in use. The Ethernet is fully integrated with KPN's new national core MPLS infrastructure.

### DVB-T and DVB-H networks

In March 2006, KPN acquired Nozema Services, which provides analog radio (AM/FM/SW), Digital Radio (T-DAB) and Digital TV (DVB-T) services to broadcasters. Prime customers for these services include national broadcasters, various commercial radio stations and Digitenne. Since the acquisition of Nozema Services, KPN has launched a full DVB-T rollout.

The DVB-T rollout is on track with 69% indoor coverage and the introduction of two football TV channels, new multiplex equipment, new DVB-T sites and frequency changes. Regarding DVB-H, first steps have been taken. Discussions on the DVB-H technology to be applied have had a delaying effect on the availability of handsets for the Dutch market. Mobile operators have been requested to indicate the right moment for the industry launch; depending on their reactions, it will be decided when to commercially launch DVB-H in The Netherlands.

### Developments

As part of KPN's strategy to achieve a leading position in the broadband market and develop new communication services, it rolls out services and networks based on IP and broadband. KPN expects IP and broadband to become dominant and mainstream within the industry and to take over all current services and networks. KPN develops and upgrades its networks to enable the introduction of new IP and broadband services.

In addition to the traditional SDH and ATM networks, KPN introduced high-capacity transmission networks over the last several years. The C/DWDM fiber backbone has been recently upgraded and will be extended to more nodes in KPN's network. The IP-MPLS and Ethernet data networks, primarily used for business connectivity services, is becoming the new high-capacity network. Ethernet has been rolled out to more than half of The Netherlands to support new consumer broadband services like IPTV. In the coming years, Ethernet will replace the SDH and ATM networks, whilst IP-MPLS will replace traditional FR data networks. This will contribute to KPN's ability to offer new broadband services and simultaneously reduce the operational costs of its transmission networks.

With the introduction of VoIP and IPTV, KPN implemented two new IP-services networks: the IMS platform and TV Middleware. These service platforms are independent of the underlying transmission and access networks and will in the mid-term melt together into one new services environment. This provides KPN with the opportunity to offer converged services: fixed-mobile, voice-TV-Internet and new business applications, like security and a national victim tracking system.

KPN upgraded its DSL network to ADSL2+ in 79% of The Netherlands through which it can offer Internet access services of up to 12 Mb/s. In addition, KPN increasingly deploys FttO in the business market.

In 2007, KPN started rolling out FttH in newly built areas, providing bandwidth of up to 100 Mb/s. It also started extensive pilots with state-of-the-art access technologies supporting both broadband services (like VDSL2 and providing capacities up to 50 Mb/s) and narrowband services (like PSTN and ISDN). If these pilots prove to be successful, KPN will be able to replace its current broadband nodes and telephony switches during the coming years. This will lead to new services being offered and a streamlining of KPN's access and backbone networks.

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Since telephony traffic in the fixed network is declining due to mobile-only and VoIP, KPN is minimizing its investments in the telephony network. If the aforementioned pilots prove to be successful, KPN plans to transfer its remaining telephony customers from traditional telephony switches to new multi-service access nodes over the next few years.

### Mobile infrastructure

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In addition to the current second-generation (2G) GSM network and the third-generation (3G) UMTS network currently being deployed, an entire range of mobile data technologies is emerging to support the need for mobile and online usage. KPN's strategy is to benefit from the increasing demand for mobile data services, offering its customers secure mobile data services solutions regardless of the access technologies applied. KPN will continue to invest in its 2.5G-enabled GSM network to maintain and even improve quality and coverage, while providing sufficient voice and data capacity.

Mobile broadband technologies (e.g., UMTS) offer three advantages over narrowband technologies that we expect will be crucial for KPN's future success:

- increased speed, enriching KPN's current services and making these more user friendly;
- larger data volumes, enhancing the number and types of services (e.g., pictures, clips, ringtones, music, radio) and rendering them more useful (applications for business users); and
- improved service quality, enabling guaranteed throughput and quality rather than 'best-effort' services.

KPN's end-user oriented strategy is to be 'always best connected', meaning it wishes to provide customers with the best available network capability for the specific services requested in the most cost-efficient way. Boundaries between networks blur: most of KPN's services (voice and messaging) will run with nationwide coverage on any technology, although some (e.g., video telephony) depend on real-time high speeds and therefore will only work in geographic areas equipped with broadband networks. When all technologies are available in a certain geographic area, KPN makes every effort to use network capacity as efficiently as possible to keep investments and operational costs down. KPN expects this will allow competitive retail pricing.

### Rollout

The current network rollout is focused on achieving maximum synergies among GSM/GPRS and UMTS with respect to infrastructure and transmission for example. Re-utilization of 2.5G-enabled infrastructure in certain areas may provide a substantial part of the basic infrastructure. Ericsson and Huawei are KPN's mobile network suppliers in The Netherlands.

KPN surpasses the rollout requirements in terms of in-house coverage and available speed.

### Networks

KPN's 2.5G-enabled network consistently scores high on quality, reliability and coverage. KPN began to roll out its UMTS network in 2003 and commercially launched UMTS services in the second half of 2004. By the end of 2007, KPN had over 3,100 UMTS sites covering 500 cities with over 5,000 inhabitants, or more than 95% of the population. Moreover, KPN upgraded its entire UMTS network to HSDPA in 2006, thereby offering the most extensive HSDPA coverage in The Netherlands. At year-end 2007, over 95% of the Dutch population was able to use the mobile broadband Internet services.

Upon the Telfort acquisition in 2005, KPN owned and operated two 2.5G networks and one 3G network. As operational cost synergies were an important feature of Telfort's acquisition, KPN integrated both 2.5G networks by switching off Telfort's 2.5G radio network in 2007 and transferring all traffic to KPN's radio network. At a later stage – mid to end 2008 – both operators' core networks will be replaced by a new, integrated core network.

# Information about the company

## Property, plant and equipment

### International

#### Fixed infrastructure

KPN's international infrastructure comprises two major voice and data transmission networks.

##### Voice networks

For the provision of international wholesale voice services, KPN operates an international transmission network (in consort) including land and submarine cables as well as satellite transmission systems, which directly connects approximately 400 telecommunications operators worldwide. The network is partly circuit switched and partly based on IP trunking technology with a flexible capacity. Its main international switches are located in The Netherlands. In addition, KPN has eleven European points of presence (Brussels, Copenhagen, Frankfurt, Lisbon, London, Madrid, Milan, Paris, Vienna, Warsaw and Zurich) and four further points of presence outside Europe (Hong Kong, Miami, Singapore and an exchange in New York).

##### Data networks (EuroRings)

KPN's EuroRings transmission backbone is based on KPN-owned fibers equipped with SDH and C/DWDM technology in The Netherlands, Germany, France, Belgium, United States (New York) and United Kingdom. In addition, KPN has provided access nodes over 22 European countries using leased infrastructures based on either wavelength rings or protected SDH circuits. For access in these countries, KPN uses DSL, Ethernet, lease-line and fiber technology. Other regions are connected and served via the use of trusted partners. KPN's services on these networks include MPLS-VPN, ATM, Ethernet, IPT, IPLC, SDH, wavelength, dark fiber and fiber channel.

##### IP/MPLS

KPN operates a European IP backbone, using more than 200 IP/MPLS devices and making this infrastructure one of the largest IP infrastructures in Europe. It covers all major business centers and international Internet exchanges and assures quick access to the United States via multiple dedicated high-speed connections. The KPN EuroRings MPLS-VPN service offers an industry-leading network solution for corporate clients, providing a reliable and secure environment with guaranteed quality.

In 2004, KPN and Singapore Telecommunications (SingTel), one of Asia's leading carriers, announced a significant expansion of their IP-VPN MPLS network coverage through a partnership. The interconnection of both carriers' IP-VPN MPLS networks enables SingTel and KPN to leverage each other's extensive networks in their respective markets in Asia Pacific and Europe.

In 2005, KPN and Telefónica signed an agreement to enable the interconnection of their IP-VPN MPLS networks. This agreement enables KPN to extend international coverage to most of Latin America. The services offered will range from a fully managed solution to basic bandwidth services. In addition, KPN expects to offer services like remote access, security solutions, housing and hosting. Access to the MPLS-VPN service is provided using DSL, lease-line and Ethernet technologies.

##### Ethernet VPN

International Ethernet VPN is part of KPN's All-IP strategy with one international MPLS network for all VPN-type of services. The International Ethernet VPN service provides Ethernet connectivity between two or more locations nationally and internationally. It is a fully managed, end-to-end service including local access, offering high-quality, high-speed, flexible services with scalable bandwidth access. Ethernet will also offer multiple service classes and integration to a single platform. It is based on existing Ethernet technology enabling point-to-point and any-to-any connectivity. Ethernet technology was originally used for LANs and has been extended to WANs. KPN's international Ethernet service is available in The Netherlands, Belgium, United Kingdom, France and Germany with further extensions planned in over 20 countries.

##### ATM/Frame Relay

The KPN-owned and managed EuroRings ATM network provides a secure private network with the highest guaranteed level of service covering all major European business centers. The EuroRings network is designed to meet the most demanding requirements for flexible but secure networking, offers both ATM and FR access, can provide integrated access to the Internet, while providing the technology to support voice, data, multimedia and IP applications in a single network infrastructure.

## Mobile infrastructure

### Rollout

The current network rollout is focused on achieving maximum synergies among GSM/GPRS and UMTS, with respect to infrastructure and transmission for example. Re-utilization of 2.5G-enabled infrastructure in certain areas may provide a substantial part of the basic infrastructure. Ericsson and Huawei are KPN's mobile network suppliers in Belgium. In Germany the mobile network suppliers are Ericsson and Nokia.

In Belgium, a further rollout of our UMTS network started in 2004 in order to comply with the license requirements of at least 40% population coverage by the end of 2006 and 50% by the end of 2007. The Belgian regulator BiPT carried out measures in 2007 and concluded that BASE complied with the 40% requirement as of the end of 2006. Non-compliance with the license obligations may lead to the incurrance of an administrative fine and may ultimately result in the loss or suspension of the UMTS license of BASE. Please see 'Risk Factors' and 'Regulatory Developments'.

### Germany

During recent years, we have directed our efforts at increasing the quality and coverage of the GSM/GPRS network. In 2006, we additionally obtained 900 MHz E-GSM frequencies, enabling us to further improve the quality of our network. An independent report by 'Connect' concluded that with request to 'voice quality' E-Plus is more or less on par with T-Mobile and Vodafone.

On January 31, 2007 an outsourcing contract containing network roll-out and operations between E-Plus and Alcatel Lucent was signed.

### Belgium

During 2007, we further increased the quality and coverage of our 2.5G-enabled network by adding approximately 259 GSM base stations.

### Facts and figures – mobile infrastructure

The tables below show the number of active base stations, the average network usage as well as the coverage ratios of our networks each as of December 31, 2007:

Active base stations	Germany	The Netherlands <sup>1</sup>	Belgium <sup>1,2</sup>
2.5G sites	17,947	4,543	2,707
3G sites	5,821	2,729	276
<b>Total sites</b>	<b>23,768</b>	<b>7,272</b>	<b>2,983</b>
Average network usage	Germany	The Netherlands <sup>1</sup>	Belgium <sup>1,2</sup>
Usage – as %	58% (GSM)	93% (GSM)	37% (GSM)
Network coverage ratios	Germany	The Netherlands <sup>1</sup>	Belgium <sup>1,2</sup>
<b>2.5G network</b>			
Outdoor – as % of population	99.6%	99.9%	>99%
Outdoor – as % of area	98.7%	98.7%	98%
Indoor – as % of population	82%	98.5%	98%
<b>3G network</b>			
Outdoor – as % of population	62%	95.2%	>50% <sup>3</sup>

1) GSM and UMTS antennae in the same location are counted as separate sites.

2) Though BASE invested in 3G assets, no 3G sites became active during 2007 as the UMTS network has not been commercially launched yet.

3) License coverage only, not commercially available.

## Properties

KPN owns 1,804 buildings as of December 31, 2007; the majority of which are freehold and located in The Netherlands. Almost all of KPN's buildings form part of the transmission network equipment and cannot readily be adapted to alternative uses. The remainder of the properties comprises offices, shops, storage facilities, residential properties and buildings for other miscellaneous uses. KPN sold real estate in 2007 and intends to sell parts of its real estate portfolio in the coming years.

## Information about the company

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### Research and development

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

We intend to continue to benefit from the telecommunications and technology expertise of TNO-IC 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-IC. In 2007, we extended the cooperation agreement with TNO for one year until December 31, 2011. The total remaining commitments until December 31, 2011 amount to EUR 48 million.

Our research and development expenditures with TNO-IC in 2007 totaled EUR 16 million as compared to EUR 17 million in 2006.

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### Intellectual property

Our current portfolio of intellectual property consists of approximately 25 registered core trademarks and 400 patent families. We continue to invest in the growth of our intellectual property portfolio, among others through our targeted long term R&D program. This R&D program runs in close cooperation with TNO-IC and comprises about 7% 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 that we own are essential for the commercial exploitation of telecommunications technology and services. A number of suppliers have entered into license agreements with us related to these and other of our patents.

# Information about the company

## Regulatory developments

Telecommunications regulations are, to a large extent, based on EU regulations, but the application is national and our position in the national markets is different for The Netherlands, Germany and Belgium.

For our mobile activities in these countries three issues were of specific interest in 2007: the new EU Roaming Regulation, decisions and procedures in relation to our frequencies and the (further) national market analysis decisions in relation to mobile call termination. For our fixed telecommunications activities in The Netherlands the issues of specific interest were the continued discussion in relation to our All-IP strategy, the unequal regulatory treatment between the cable operators and the telecom operators, and the outcome of legal proceedings in relation to the market analysis decisions for the fixed markets.

The current rules which govern the telecommunications sector in the EU were agreed in 2002. In November 2007, the European Commission adopted review proposals which will bring the rules up to date. While the reform will tackle some areas where the current rules have still not opened the market to competition, the Commission recognized that the rules have worked in other areas. Therefore, it proposes to remove the requirements for ex ante regulation in major parts of the telecommunications sector including most retail markets. Once adopted at the EU level, the revised rules have to be incorporated into national law. The new framework is expected to be implemented in the next few years.

### All-IP

In 2007, KPN concluded Memorandums of Understanding (MOU's) with six (out of ten) alternative DSL operators and continued negotiations with the others for the future use of MDF locations. The MOUs allow KPN to proceed with its All-IP program in line with earlier announced principles, costs and timelines and allow the alternative DSL operators the continued delivery of unbundled access with own network infrastructure at their current MDF locations at least until mid 2010. KPN and the alternative DSL operators have also agreed on the principle for various alternative access methods such as continued delivery of unbundled access on 196 so called mini MDF locations, wholesale broadband access, and access to street cabinets based on SDF access. The principles laid down in the MOUs will be worked out in the first half of 2008. These developments induced OPTA to defer the review of the wholesale unbundled access market and, at the request of alternative DSL operators, the wholesale broadband access market. OPTA did continue the analysis regarding SDF backhaul, however, because no one has taken up KPN's voluntary offer for this service. OPTA published a draft decision for consultation amending the December 21, 2005 decision on the wholesale unbundled access market, in which it is established that SDF backhaul is an associated facility of local sub loop unbundling. If the draft decision takes effect after the consultation period, sometime during the spring of 2008, then we will be required to provide SDF backhaul under non discriminatory and transparent terms and at cost oriented rates.

### Unequal regulatory treatment

Both cable and telecommunications operators offer television, internet and telephony services. While the telecommunications sector is subject to stringent regulation, the cable sector is hardly regulated. In 2007 we continued our fight for equal regulatory treatment between the cable operators and the telecommunications operators, pleading for the imposition of an obligation on the cable companies to offer a package of sound or television broadcasting content for reselling by KPN and the withdrawal of the obligations imposed on KPN in the retail markets for fixed telephony. Concrete results have not been achieved. On July 24, 2007, the Trade and Industry Appeals Tribunal (Tribunal) rejected our appeal against OPTA's decisions on the cable TV markets, arguing that there is no need to impose symmetric obligations due to the level of competition on the cable TV markets. The Tribunal also ruled that there is no need to impose an obligation on the cable companies to offer content packages for reselling by KPN. We will get a fresh chance in 2008, when OPTA will review its market review decisions.

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

The implementation of the current 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 problems identified. 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.

# Information about the company

## Regulatory developments

Fixed telephony	Retail markets	<p>Low and high capacity access; local and national calls, fixed-to-mobile calls, dial-up Internet calls</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 was accepted by OPTA (January 2007), we were allowed to raise our access tariffs in line with inflation correction. 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>Low capacity access</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. The minus has been set by OPTA at 15.6% for PSTN services and 14.4% for ISDN services. However, OPTA must take a new decision on that taking into account the ruling of the Trade and Industry Appeals Tribunal that OPTA should allow KPN a return on sales based on KPN's actual retail costs rather than on a normative return on sales.</p> <p>Call origination for Carrier (Pre)Selection and for calls to 067(60), 0800/090x and 082 numbers</p> <p>Obligations: access, price regulation by way of a wholesale price cap, non discrimination, reference offer, accounting separation. We are only required to provide Carrier (Pre)Selection call origination for calls based on Voice over Broadband in response to a reasonable request to that effect.</p> <p>Local-tandem transit</p> <p>Obligations: access, price regulation by way of a wholesale price cap, non-discrimination, reference offer, accounting separation.</p> <p>Transit services</p> <p>Obligations: prohibition to charge discriminatory rates (such as volume discounts), non-discrimination, reference offer.</p> <p>Call termination for calls to geographic numbers, 084/087 and 088 numbers and 112</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>Analog Leased Lines (national)</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>Leased Lines &lt; 2 Mbs (national)</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>Analog Leased Lines (international)</p> <p>Obligation: to supply on reasonable request.</p>
	Wholesale markets	<p>Interconnecting Leased Lines &lt; 2 Mbs and 2 Mbs</p> <p>Obligations: access (&lt; 2 Mbs: at regional handover points; 2 Mbs: at local and regional handover points), price regulation by way of a wholesale price cap, non discrimination, reference offer, accounting separation.</p>
Unbundled Access	Wholesale market	<p>Wholesale unbundled access (including shared access) to metallic loops and sub loops</p> <p>Obligations: access, price regulation by way of a wholesale price cap, non-discrimination, reference offer, accounting separation.</p>
Wholesale Broadband Access	Wholesale market	<p>High quality wholesale broadband access (with booking ratios of 1:1 up to and including 1:20)</p> <p>Obligations: access, non-discrimination, reference offer.</p> <p>All of the above market review decisions will be reviewed in 2008. OPTA has to decide whether to maintain, amend or withdraw these obligations no later than December 31, 2008.</p>

## Market analysis decisions mobile markets (mobile call termination)

In Germany, Belgium and The Netherlands we have been designated as having 'significant market power' on the markets for call termination on our individual mobile networks. The following table provides details of the current status of the decisions by the three relevant regulatory authorities:

**The Netherlands**      OPTA decision as of July 30, 2007 (appeals pending)

Obligations for KPN (including Telfort): non-discrimination, transparency, price control by way of a defined glide path and the obligation to offer direct interconnection upon reasonable request. The tariff reductions by the mobile operators as tariff remedy, have to follow this glide path:

In EUR/minute	15/8/2007	1/7/2008	1/4/2009	1/7/2009
KPN	10.0 ct	9.0 ct	8.0 ct	7.0 ct
Vodafone/Tele2Versatel	10.0 ct	9.0 ct	9.0 ct	7.0 ct
Orange/T-Mobile	11.4 ct	10.4 ct	10.4 ct	8.1 ct

**Germany**      BNetzA decision as of November 30, 2007

In Germany, there is no glide path.

In EUR/minute	1/12/2006 – 30/11/2007	1/12/2007 – 30/03/2009
T-Mobile	8.78 ct	7.92 ct
Vodafone	8.78 ct	7.92 ct
E-Plus	9.94 ct	8.80 ct
O2 (Germany)	9.94 ct	8.80 ct

**Belgium**      BiPT decision as of August 11, 2006 (appeals pending)

Obligations for BASE: external non-discrimination, transparency, price control by way of a defined glide path and the obligation to offer direct interconnection upon reasonable request. In accordance with the tariff reductions by the mobile operators as tariff remedy, BiPT decided on the following glide path (starting November 1, 2006) :

In EUR/minute	1/11/2006	1/5/2007	1/1/2008	1/7/2008
BASE	15.81 ct	12.76 ct	11.82 ct	10.41 ct
Proximus	10.13 ct	8.09 ct	7.48 ct	6.56 ct
Mobistar	12.75 ct	10.16 ct	9.38 ct	8.21 ct

On December 18, 2007, BiPT has issued a decision to further reduce the average MTA of BASE and Mobistar and to increase the average MTA of Proximus as of February 1, 2008 in comparison with BiPT's initial decision of August 6, 2006. This decision also includes an extension of the glide path until the end of 2009. The new glide path looks as follows:

In EUR/minute	1/1/2008	1/7/2008	1/1/2009	1/7/2009
Proximus	8.02 ct	7.96 ct	7.85 ct	7.73 ct
Mobistar	8.84 ct	7.96 ct	7.85 ct	7.73 ct
BASE	10.36 ct	8.75 ct	8.62 ct	8.49 ct

According to BiPT, the MTA-levels as from July 1, 2008 are to be considered as indicative pending the official publication by the ERG workgroup of a common position in relation to symmetric versus asymmetric termination rates. Depending on the outcome of the ERG workgroup, BiPT may decide to revise its decision. BASE will launch both suspension and annulment proceedings against BiPT's new decision.

## International roaming on mobile networks

After a lengthy rule-making process, the EU roaming regulation came into force on June 30, 2007. Retail roaming tariffs for calls within the EU are capped at EUR 0.49 (excluding VAT), decreasing to EUR 0.46 and 0.43 after 14 and 26 months respectively for mobile outgoing calls, and to EUR 0.24, 0.22 and 0.19 for incoming calls while abroad in EU countries (all minute tariffs). Average wholesale roaming tariffs will be capped at EUR 0.30, 0.28 and 0.26 as of August 30, 2007, August 30, 2008 and August 30, 2009, respectively. Based on the regulation, our customers have been offered such a 'Euro tariff' prior to July 30, 2007, implemented after one month upon request. Customers that did not opt in to a specific roaming tariff prior to the regulation were automatically switched to the Euro tariff two months after the Euro tariffs were being offered. The European Commission and the national regulatory authorities of the member states actively monitor the implementation of the regulation.

# Information about the company

## Regulatory developments

<b>Licenses for mobile communications (The Netherlands)</b>	<p>In The Netherlands KPN holds licenses for GSM 900, DCS 1800 and UMTS. The GSM 900 licenses of KPN and Vodafone were to expire on April 1, 2010, but in 2007 the Minister of Economic Affairs extended the duration of this license from April 1, 2010 to February 25, 2013. For the extension KPN is due to pay an additional license fee of approximately EUR 40 million. As a result, all GSM 900 and DCS 1800 licenses in The Netherlands will expire on the same date (February 26, 2013).</p> <p>In January 2007, the E-GSM frequencies that were part of Telfort's license were sold and transferred to T-Mobile, upon approval of the Minister of Economic Affairs.</p> <p>The Dutch telecommunications agency ('Agentschap Telecom') of the Ministry of Economic Affairs has published a control system for verifying the roll-out obligations of the UMTS licenses. Agentschap Telecom announced actual control of the roll-out as of September 2007. The roll-out will be measured at 300 random locations within the area that should be covered. If the license requirements are not met, operators will be given a timeframe to remedy, and will also be subject to fines, which will be determined based on the significance of the difference between the actual and required level of compliance.</p> <p>Auctions for frequency licenses are expected in 2008 for T-DAB (broadcasting) and in the 2.6 GHz band (mobile communications).</p> <p>Orange instituted civil proceedings against the State of The Netherlands and KPN 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 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.</p>
<b>Licenses for mobile communications (Germany)</b>	<p>In Germany, the regulator BNetzA offered to sign a contract with E-Plus under which the regulator would be obliged to allocate the right to use the GSM frequencies currently used by E-Plus from December 31, 2012 to December 31, 2016. E-Plus signed the contract in May 2007.</p> <p>Already last year, BNetzA had allocated further frequencies from the GSM extension band to E-Plus (and O2). This allocation has been challenged in court by Deutsche Bahn and Airdata. On November 30, 2007 the regional court of Cologne rejected the complaints of Deutsche Bahn and Airdata. Accordingly, the frequency allocations are valid in their initial form and E-Plus may further use the E-GSM 900 frequencies. However, it remains unclear whether Deutsche Bahn and Airdata will appeal the decision of the court of first instance.</p> <p>According to the list of markets which might be subject to ex-ante regulation, the German regulator analyzed the mobile market for call origination (market 15). The German regulator concluded that in this market 15 no mobile operator has significant market power. In the notification procedure of market 15 the European Commission asked the German regulator to elaborate on the service provider obligation in the GSM licenses of T-Mobile, Vodafone and E-Plus, which might run counter to EC law.</p> <p>In 2007, the regulator started a consultation on the allocation of frequencies in the 1.8 GHz, 2 GHz and 2.6 GHz band. Although most of the frequencies are the subjects of legal proceedings, the regulator intends to auction those frequencies in 2008.</p>
<b>Licenses for mobile communications (Belgium)</b>	<p>In Belgium, under BASE's UMTS license, BASE is required to deploy a UMTS network covering 40% of the Belgian population by December 31, 2006 and 50% by December 31, 2007. Following a verification, BiPT confirmed on July 2, 2007 BASE's UMTS network covers more than 40% of the Belgian population. On May 11, 2007, the Royal Decree authorizing the use of 900 MHz frequencies for UMTS services was published in the Belgian Official Journal. Under the Royal Decree, the 2G holders of frequencies in the 880-915 MHz and 925-960 MHz bands can use the GSM 900 frequencies for UMTS services as of July 1, 2008. The right to use such 900 MHz frequencies for UMTS is not subject to the imposition of any additional license fee. Because BASE does not have the same number of radio channels in the GSM 900 band as its competitors, BASE has appealed the Royal Decree at the State Council.</p>
<b>Licenses for broadcasting services (The Netherlands)</b>	<p>The license of Digitenne for DVB-T and DVB-H has been amended (between August 2006 and January 2007) in relation to the allocated frequencies, to allow nation wide coverage in The Netherlands. Objections of third parties thereto have been rejected by the Minister of Economic Affairs, but this decision is under appeal before the court of Rotterdam. Annulment of the decision could potentially endanger further rollout.</p>