

In this Annual Report and Form 20-F for the year ended December 31, 2007 (referred to hereinafter as the 'Annual Report'):

- 'KPN' refers to Koninklijke KPN N.V.;
- 'we', 'us', 'our', the 'Company', the 'Group' and similar terms refer to KPN and any or all of its subsidiaries, associates and joint ventures as the context requires;
- 'E-Plus' refers to E-Plus Mobilfunk GmbH & Co. KG and E-Plus Mobilfunk Geschäftsführungs GmbH and any or all of their subsidiaries, as the context requires;
- 'BASE' refers to BASE N.V./S.A. and any or all of its subsidiaries, as the context requires;
- 'iBasis' refers to iBasis Inc., a US-based NASDAQ listed company, and any or all of its subsidiaries, as the context requires;
- 'Getronics' refers to Getronics N.V. and any or all of its subsidiaries, as the context requires; and
- 'Telfort' refers to Telfort B.V. and any or all of its subsidiaries, as the context requires.

For descriptions of abbreviations, please refer to the Glossary of terms.

In compiling the information in this Annual Report, we have used data and projections obtained from industry surveys, market research and other publicly available information. Such data and other publications generally state that the information they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on a number of significant assumptions. We have not verified this information independently or determined the reasonableness of such assumptions. As a result, this information may not be accurate, complete, adequate, up-to-date or comprehensive.

Our market share in traditional voice is defined as our share of the total traffic volumes, excluding VoIP. These figures are based on externally available market data, which may not be completely accurate.

Our market share in VoIP is defined as our share of the number of VoIP connections. These figures are based on externally available market data, which may not be completely accurate.

Our market share in consumer broadband is defined as the total number of our ADSL broadband connections as a percentage of total consumer broadband connections, which consist of ADSL competitors and broadband via cable. These figures are based on externally available market data, which may not be completely accurate.

Our net line loss figures are defined as the difference from one period to the other period in PSTN/ISDN lines plus consumer VoIP plus ADSL only and plus Wholesale line rental (WLR).

The customer figures of our mobile network operators consist of the number of registered SIM cards – excluding dual cards but including data-only PC connections and machine-based SIM cards – at the end of each reporting period. The customer base also comprises inactive prepaid users, who have had neither incoming nor outgoing traffic during a three-month period, but have not yet met the disconnection criteria (generally 12 months of inactivity). We define mobile market revenue share as our mobile network operators' share of the total service revenues of the respective countries' mobile telephony markets, for a reporting period. These figures are based on externally available market data, which may not be completely accurate.

Other mobile network operators may calculate their number of customers differently than we do, which may affect the comparability and accuracy of data.

Service revenues are defined as the aggregate of connection fees, monthly fixed subscription fees and traffic revenues. ARPU is the quotient of service revenues during a month and the average number of customers during that month.

Our financial statements are prepared in euro. Details of key exchange rates used in the preparation of this Annual Report are given elsewhere in this document together with Noon Buying Rates certified by the Federal Reserve Bank of New York in New York for the equivalent periods.

## Forward-looking statements

Certain of the statements we have made in this Annual Report are 'forward looking statements'. These statements are based on our beliefs and assumptions and on information currently available to us. They include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance or expense improvements and the effects of future legislation or regulation.

Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words 'believe', 'expect', 'plan', 'intend', 'anticipate', 'estimate', 'predict', 'potential', 'continue', 'may', 'will', 'should', 'could', 'shall', or the negative of these terms or similar expressions. Examples of forward-looking statements include but are not limited to:

- competitive forces in liberalized markets, including pricing pressures, technological developments, alternative routing developments and our ability to gain or retain market share in the face of competition from existing and new market participants;
- telecommunications usage levels and market conditions, including the number of telephone access lines, traffic patterns (including Internet usage) and development in customer numbers;
- the success and market acceptance of business, strategic, operating and financial initiatives (many of which are untested), the level and timing of the growth and profitability of new products, startup costs associated with entering new markets, the successful deployment of new systems and applications to support new initiatives, efforts at improving customer satisfaction, and local conditions and obstacles;
- any acquisitions, dispositions or mergers we or our subsidiaries may enter into;
- our dependence on and relationship with suppliers;
- Regulatory developments and changes, including with respect to the levels of tariffs, the terms of interconnection, electromagnetic field strengths of mobile transmission equipment, customer access and international settlement arrangements, and legal and regulatory proceedings and investigations;
- our ability to maintain an effective system of internal controls;
- the timing of the rollout of Universal Mobile Telecommunication System (UMTS) and HSDPA networks, the All-IP fixed network and other new, enhanced or upgraded networks, systems, products and services, and their performance and impact on our financial position;
- the amounts of future capital expenditure;
- our ability to attract and retain qualified personnel, particularly in light of our cost reduction efforts;
- risks related to information and communication technology systems generally;
- general economic conditions, government and regulatory policies, and business conditions in the markets we and our affiliates serve;
- the outcome of litigation, disputes and investigations in which we are involved or may become involved;
- the impact of tax rulings, the timing for settlement or applicability of tax losses carried forward and uncertainties regarding future tax liabilities;
- the availability, terms and deployment of capital;
- fluctuations in foreign exchange rates, interest rates and property prices;
- the amount and timing of any potential future impairment charges for our licenses, goodwill or other assets;
- asset retirement obligations;
- the impact of regulatory competitive developments on capital outlays and our ability to achieve cost savings and realize productivity improvements;
- uncertainties associated with developments related to the International Financial Reporting Standards; and
- international political and economic conditions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. No undue reliance should be put on any forward-looking statements. Unless required by applicable law or applicable rules of any stock exchange on which our securities are listed, we have neither the intention nor an obligation to update forward-looking statements after distribution of this Annual Report. For a more detailed description of these risks, see 'Risk factors'.

# Key information

## Key financial figures

The following tables show our selected historical financial data for the years ended December 31, 2004 through 2007.

Our Consolidated Financial Statements for the years 2007, 2006, 2005 and 2004 have been prepared in accordance with both International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and IFRS as adopted by the European Union.

On April 12, 2005 the SEC adopted amendments to Form 20-F for foreign private issuers related to the first-time adoption of IFRS. This amendment allowed KPN to provide only one year of comparative IFRS figures in the consolidated financial statements over the year 2005. As a result we have not adjusted our 2003 Consolidated Financial Statements for IFRS. Therefore comparative amounts for this year are not available.

On November 15, 2007 the SEC approved rule amendments under which financial statements from foreign private issuers in the United States will be accepted without reconciliation to US GAAP if the financial statements are prepared in accordance with IFRS as issued by the IASB. The new rule is effective for the 2007 fiscal year. As a result, we do not provide a reconciliation to US GAAP.

This table should be read together with 'Operating results' and our Consolidated Financial Statements and the Notes thereto, included elsewhere in this Annual Report.

## Income Statement Data<sup>3</sup>

Amounts in millions of euro,  
except for shares and per share data

As at and for the year ended December 31,

	2007	2006	2005	2004
Revenues	12,461	11,941	11,811	11,746
Other income	171	116	125	73
Operating profit	2,500	2,223	2,348	2,645
Profit before income tax	1,941	1,710	1,814	2,057
Profit attributable to equity holders	2,652	1,583	1,437	1,707
Earnings per ordinary share and per ADS (non diluted) <sup>1</sup>	1.42	0.79	0.66	0.72
Earnings per ordinary share and per ADS on a fully diluted basis <sup>1</sup>	1.42	0.79	0.65	0.71
Weighted average number of outstanding ordinary shares	1,862,566,702	2,005,326,106	2,192,232,156	2,385,418,773
Weighted average number of outstanding ordinary shares on a fully diluted basis	1,869,925,303	2,013,328,345	2,197,620,705	2,404,343,845

## Balance Sheet Data<sup>3</sup>

	December 31, 2007	December 31, 2006	December 31, 2005	January 1, 2005 <sup>2</sup>
Total assets	24,797	21,258	22,702	24,230
Non-current liabilities	13,702	13,213	12,191	12,297
Provisions	3,643	3,602	3,945	4,076
Shareholders' equity	4,490	4,195	5,076	6,266
Group Equity	4,518	4,196	5,104	6,411
Share capital (including Share premium)	11,563	12,563	14,634	15,866
Number of subscribed shares	1,843,482,213	1,928,551,326	2,151,360,369	2,329,399,969

1) Please refer to Note [8] of the Consolidated Financial Statements for a discussion on the method used to calculate profit or loss per share.

2) KPN applies IAS 32 Financial Instruments: Disclosure and Presentation, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations as from January 1, 2005. As a result, we report figures as of January 1, 2005 instead of December 31, 2004.

3) Please note that Income Statement data and Balance sheet data for the year ended December 31, 2003 prepared in accordance with IFRS is not available.

---

## Per-share information

---

Amounts in euro	2007	2006	2005	2004
Dividend per ordinary share	0.54	0.50	0.45	0.35

The proposed dividend for 2007 consists of a cash dividend of EUR 0.54 per share of which EUR 0.18 was paid as an interim dividend. For further information about our dividend policy, see 'Information about the KPN Share'.

## Workforce

---

	2007	2006	2005	2004
Average number of FTEs in The Netherlands	20,130	19,449	20,590	21,797
Average number of FTEs outside The Netherlands	9,215	6,838	6,737	7,114
Average number of FTEs	29,344	26,287	27,327	28,911
Number of FTEs as of December 31	43,531	25,976	26,598	28,056
Number of employees as of December 31	~47,000	28,368	29,286	31,116

The increase in the number of FTEs and employees in 2007 resulted mainly from the acquisition of Getronics.

# Key information

## Risk factors

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

### Strategic risks

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

We face increasing competition from various competitors in each market in which we operate. This increased competition has and could lead to loss of revenue, reduced margins and loss of market share and could have a material impact on our profitability. Furthermore, if we fail to achieve our strategic objectives, this could also lead to loss of revenue, reduced margins and loss of market share and adversely affect our financial position.

A number of factors serve to increase our competitive risks, including: competitors that may have greater capital and other resources including larger research, marketing and engineering staff, consolidation between some of our competitors, and some of our competitors may achieve better time to market with new products and services and thereby gain larger market share.

#### Consumer Segment

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

In addition, our current designation as operator with significant market power in the retail fixed telephony market limits our flexibility in terms of pricing and sales incentives and bundling. If we are not able to lower our costs in light of the continuing pressure for lower prices, our financial results will be adversely affected. Our mobile business in The Netherlands is subject to many of the same risks as described below under 'Mobile International'.

#### Business Segment and Getronics Segment

In our business market, ICT is increasingly important. There also is an increased demand for managed services and a continuing shift in focus from network technology towards functionality of applications. New communication services are IP-based and data access has become independent of hardware devices. Because of these developments, IT and system integrators such as Cap Gemini, Accenture and IBM, among others, are moving down the value chain and may gain market share at our expense. In addition, global telecommunications solution providers are increasingly penetrating our national corporate markets. As customers increasingly search for global network solutions, KPN's strategy in the business market is aimed at grasping the opportunity to shift from decreasing traditional communication services towards services in the larger and growing market for ICT services, especially application hosting, workspace management and outsourcing.

In line with this strategy, KPN acquired Getronics in October 2007. In the ICT services market, competitors are numerous and vary widely in market position, size and resources. Competitors differ significantly depending upon the market, clients, services offered, and geographic area served and include a broad spectrum of ICT services companies, ranging from systems integrators to outsourcing providers and consulting companies. We also face competition from smaller ICT companies that have a particular service niche or have been able to develop strong local or regional client bases.

The ICT services industry has recently experienced consolidation. We expect consolidation within the ICT services industry to continue, which may create additional or stronger competitors and may intensify competition.

Additionally, since a substantial portion of Getronics' contracts are subject to relatively frequent periodic renewal, the increasing competition we face in our markets subjects us to the possibility that such contracts may not be renewed or extended, or, if they are renewed or extended, may be done so on less favorable terms.

---

Our current designation as operator with significant market power in the retail fixed telephony market has the same risks as mentioned under the Consumer Segment.

#### **Wholesale & Operations Segment**

Our national wholesale business – for the greater part of the services regulated by OPTA – reflects the effects of a rapidly changing landscape from both a competitive and a technological perspective. Increasing competition in telecommunications has resulted in increasing wholesale activities and the development of new wholesale offerings, like Wholesale Line Rental and Wholesale Broadband Access. Technological developments show a shifting market demand from traditional services to new technology, such as VoIP. This shift has an impact on our technical infrastructure. In the changing telecommunications market, we currently face competition from cable companies with respect to telephone, Internet and TV services as well as new emerging, non-telecommunications parties, such as Skype and Google.

If the Consumer and/or Business Segments are not able to retain their market positions or gain shares in existing and new markets, this will directly and adversely affect Wholesale & Operations' performance adversely. Moreover, our leading position in the national wholesale business for traditional services limits our flexibility in terms of pricing, sales incentives and bundling. Most importantly, if we are unable to reduce network and operational costs in light of the ongoing price pressure, our financial position could be adversely affected. As the national mobile wholesale business is performed by the Mobile International Segment, please see that section for risks related to that activity.

In our international wholesale voice business, we compete on the basis of quality of service and price. In recent years, prices for long distance telephone services have been declining as a result of increased competition as well as deregulation. We face competition from major telecommunications carriers such as AT&T and Verizon Communications as well as new emerging carriers. We also compete with VoIP service providers who route traffic to destinations worldwide. VoIP service providers that presently focus on retail customers may in the future enter the wholesale market and compete with us. If we cannot offer competitive prices and quality of service, our business could be adversely affected.

#### **Mobile International: E-Plus Segment and BASE Segment**

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

In this market, we face competition from a variety of competitors, including fixed and mobile network operators, operators offering new mobile network services such as wireless fidelity services (WiFi) and WiMAX and providers of higher speed xDSL and glass fiber services. Some of these competitors are smaller and may be more flexible and responsive than we are. Both E-Plus in Germany and BASE in Belgium, our mobile subsidiaries, compete in their respective markets with the respective top two operators that have significantly higher market shares and thus an ability to exert significant influence over the market. As a result, our subsidiaries may be at a competitive disadvantage and could rapidly lose market share, which could harm our financial results.

*If we fail to introduce new or enhanced products and services successfully or with shorter time-to-market than our competitors, our revenues and margins could be lower than expected and our financial position could deteriorate.*

Part of our overall business strategy is based on the introduction of new or enhanced products and services, such as VoIP and WLR, Interactive IPTV formats, integrated communication and messaging clients, content and entertainment services, new mobile data services and machine-to-machine services. Any of the new or enhanced products or services we introduce may encounter technical difficulties or fail to achieve market acceptance. Alternatively, new or enhanced products or services introduced by our competitors may be more appealing to customers. If our new and enhanced products and services are not successful or are delayed, our customers may decide to discontinue using our services and choose other telecommunications providers. In addition, the introduction of new products and services such as IPTV, VoIP and ICT solutions results in additional costs and puts pressure on our existing operating structure. Our upcoming migration to an All-IP network should reduce costs in the long term, but requires additional capital expenditures in the short to mid-term. In order to cope with the anticipated pressure on our revenues and,

# Key information

## Risk factors

consequently, the risk of decreased profitability, we have set up a restructuring and cost saving program. While our aim is to reduce around 10,000 FTEs (expected to be substantially completed by 2010), we may not be successful in these efforts, and as a consequence, our financial position could deteriorate. Our restructuring and cost saving program also may result in one-time special charges and costs, and may have other adverse consequences on our organization and business.

In addition, our operations in The Netherlands may not successfully fulfill the need to move from our traditional services to services based on our new All-IP network which could adversely affect our financial position.

*If we fail to integrate businesses we acquire our business may suffer and profitability could be negatively impacted.*

In 2007, we acquired Getronics, 51% of iBasis, Tiscali in The Netherlands and Tele2/Versatel in Belgium. The transition of these businesses, and other businesses we may acquire in the future, and our ability to successfully execute our proposed business plans with respect to those businesses, will present significant challenges to our management and risks to our existing business. We may not be able to successfully integrate acquired businesses, and the combined company may not perform according to our plans. We may not achieve the desired profitability and synergies that we anticipate from these acquired businesses, and such failure could adversely affect our existing business and results of operation. Our acquisition of these businesses involves numerous risks, including:

- difficulties in the integration of the assets and operations of each of the acquired businesses with our existing operations;
- higher than expected or unanticipated costs to implement our business plan and to operate the combined business;
- inadequate resources to implement our business plan and to operate the combined business;
- difficulties retaining key employees;
- the failure to identify and realize synergies and cost savings;
- difficulties in coordinating corporate and administrative functions;
- the influence of minority shareholders;
- unexpected changes in trade barriers;
- foreign currency fluctuations, which could result in increased operating expenses and reduced revenues, to the extent incurred in a foreign currency;
- exposure to liability under the U.S. Foreign Corrupt Practices Act and similar laws in other jurisdictions; and
- seizure of property by foreign governments and regulatory restrictions applicable to foreign companies.

As a result, we may not achieve our projected combined financial results in the time anticipated, or at all. In such cases, our results of operations and profitability would be adversely affected.

## Industry risks

*The industry in which we operate is subject to rapid technological changes and we may not successfully make the substantial investments on an on-going basis required to remain competitive.*

Our industry is undergoing rapid technological change, and our future success depends, in part, on our ability to anticipate and adapt in a timely and effective manner to those technological changes. To remain competitive, we must continuously improve the speed and features of our existing products and services, develop attractive new products and services for our customers and maintain a quick time-to-market for these products and services. As a consequence, we have to make substantial investments in our business on an ongoing basis to remain competitive. New communication services are more and more IP-based and, especially in the fixed business, are less dependent on underlying hardware. As a consequence, new global competitors are entering the market and competition is increasing in all areas of our business. This may be disadvantageous for us and may lead to a decline in our operating results.

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

Within our operations in The Netherlands, our strategy to migrate to an All-IP network operator and service provider is the basis for our new service portfolio and our planned cost reductions. The technical rollout of our All-IP network, which is currently in a piloting phase,

is expected to take several years. We may not be successful in the timely rollout of such a network and, as a consequence, our main competitors may gain market share at our expense. In addition, our strategy for migrating our customers towards IP-based solutions could be less effective and efficient than we anticipate. Furthermore, our investments in new IP-based services and solutions could prove to be more time consuming and more expensive than we had estimated, all of which could adversely affect our financial position.

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

As defined in the amended Telecommunications Act, the obligation for landlords to allow cables that are part of a public electronic communications network on their property terminates as soon as those cables have been idle for a continuous period of 10 years. In that situation, a public electronic communications network supplier is required to remove cables upon the request of a landlord. Since many factors are currently unpredictable and uncertain, we are not able to estimate the potential impact of this risk. Costs or expenses associated with the removal of these cables, however, could adversely affect our financial position.

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

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

Our business depends upon our ability to obtain adequate supplies of telecommunications equipment, related software and IT services, our contractors' ability to build and rollout telecommunications networks on schedule, and our suppliers' ability to deliver dependable technical support. Due to downturns in economic conditions or other market developments, some of our suppliers may cease to do business. We cannot be certain that we will be able to obtain quality telecommunications equipment and support from alternative suppliers, particularly in relation to new technologies, on a timely basis if our existing suppliers are unable to satisfy our requirements. This could lead to an interruption in the operation and build-out of our networks, which may adversely affect our financial position and results of operations. We depend on our relationships with these suppliers for the continuation of these services, some of which are vital to our business.

In addition, in those markets in which we have a limited or no presence, we depend on our ability to find and work with local service partners to meet our clients' needs. An inability to find adequate service partners may place us at a competitive disadvantage and result in a loss of business. Moreover, the failure of any such service partners to provide service of an appropriate standard could adversely affect our reputation, lead to claims and limit our ability to procure further business.

## **Regulatory and compliance risks**

*We operate in heavily regulated markets and are subject to regulatory decisions and changes in the regulatory environment that could adversely affect our business.*

Most of our network activities are monitored by regulatory bodies, such as OPTA in The Netherlands, BNetzA in Germany, BiPT in Belgium and the European Commission generally in Europe. These authorities regulate, among other things, the prices we may charge for many of our services and the extent to which we have to provide services to our competitors. In recent years, these authorities have compelled us to reduce some of our prices. Regulatory authorities may increase the severity of pricing controls, extend the range of services to which regulations apply (including any new services that we may offer in the future), and extend the services that we have to provide to our competitors. Regulatory decisions could also influence the rollout planning of the All-IP network and the conditions under which we are allowed to migrate to an All-IP network operator such as the deferment of the dismantling of the MDF locations or the imposition of new access obligations. These and other regulatory actions may adversely impact our financial position, increase the severity of competition and decrease our profitability. In addition, there is an increasing risk of non-compliance associated with the increasing complexity of regulation.

We have to comply with an extensive range of requirements regarding the licensing, construction and operation of our networks and services. Decisions by regulators regarding the granting, amendment or renewal of licenses, to us or to third parties, could adversely affect our future operations.

# Key information

## Risk factors

Governments in the countries in which we operate may issue telecommunications licenses to new operators whose services will compete with ours. In addition, other changes in the regulatory environment concerning the use of mobile phones may lead to a reduction in the usage of mobile phones or otherwise adversely affect us. In the countries in which we operate, mobile terminating tariffs are regulated. Tariffs for mobile roaming services are now regulated by EU regulation by which obligations were imposed by the EU on all mobile operators to reduce wholesale and retail roaming tariffs. Such regulatory intervention will likely increase the pressure on our pricing and could negatively affect our financial position.

*Our business may be hampered because of more stringent regulation of the exposure of the public to electromagnetic fields of base stations.*

Our businesses may increasingly be subject to more stringent regulation of exposure to electromagnetic fields of mobile transmission equipment. Health risks perceived by public opinion may cause national and local governments to further impose restrictions on the construction of base station towers, the upgrade of networks and the replacement of existing antennae and other related infrastructure. As a result, we are experiencing difficulties and delays in obtaining building permits for our mobile transmission equipment. This may prevent us from completing the further build-out of our mobile networks, providing new services and fulfilling UMTS license terms. In addition, it may become more difficult to renew leases for existing base stations and other equipment, with the cost of such leases increasing. Any of these factors could adversely affect our business and financial position.

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

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

Effective internal controls are necessary for us to provide reliable financial reports and prevent or detect significant fraud. If we cannot provide reliable financial reports or prevent fraud, our financial results could be adversely affected. Fraud could also result in loss of assets and additional costs as well as claims and lawsuits.

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

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements in our financial reporting, as defined under Section 404 of the Sarbanes-Oxley Act of 2002, will not be prevented or detected on a timely basis by internal control. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could adversely affect our business and financial position or cause us to fail to meet our reporting obligations. Any such failure could also adversely affect our assessment of the effectiveness of our internal control over financial reporting. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have an adverse effect on the market price of our securities. Non-compliance with the rules set under the Telecommunications Act as a result of a failure of our internal controls may lead to the incurrence of an administrative fine, as well as claims for damage.

## Operational risks

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

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

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

In Belgium, a further rollout of our UMTS network started in 2004 in order to comply with the license 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 measurements 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. For further information, see 'Regulatory developments'.

*We depend on major and long-term outsourcing contracts, which could later turn out to be commercially unattractive and have a material adverse effect on our margins and financial condition.*

A significant proportion of our Getronics Segment business is performed under outsourcing contracts from customers. The structuring of an outsourcing contract requires considerable skills, particularly in evaluating, amongst others, (i) whether the services can be performed remotely, (ii) the quality and future costs of any personnel taken over from the customer, many of whom need to be retrained or reassigned by Getronics to make the project cost effective and (iii) the economic viability of the customer. If, and to the extent that Getronics has entered into or enters into a major and long-term outsourcing project on terms which later would turn out to be commercially unattractive, this could have a material adverse effect on our margins and financial condition. In the Business Segment we have similar outsourcing contracts from customers with similar risks.

*We depend on our current personnel and may have difficulty attracting and retaining the skilled employees we need to execute our business plans.*

Competition for highly skilled personnel is intense in the markets in which we operate. We depend, to a significant extent, on the continued services of key management, technical, sales and research and development employees. Because there is strong competition for qualified personnel in our industry, the limited availability of qualified individuals could become an issue in the future. The loss of key management or our inability to identify, attract and retain other necessary qualified personnel could adversely affect our business and financial position. Our growth and future success will depend in large part on our ability to attract, motivate and retain highly qualified employees.

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

Our ability to operate our business depends significantly upon the performance of our technical infrastructure. Failures in power supply by power companies could occur and may harm our technical infrastructure. Although our critical infrastructure equipment has power interruption backup facilities, these facilities may prove not to be adequate during a prolonged or extensive interruption. Our technical infrastructure is also vulnerable to damage or interruption by floods, fires, telecommunications failures and other similar events. It also may be subject to break-ins, sabotage, terrorism, vandalism and similar misconduct. Furthermore, the security of our network and related applications may be inadequate, which may result in access and misuse by hackers and other unauthorized users and may adversely affect our

# Key information

## Risk factors

operations. The occurrence of a natural disaster, other unanticipated problems at our facilities or any other damage to, or misuse or failure of our systems could result in interruptions in our service. System failures, including failure of our network and the networks used by our suppliers, and hardware or software failures or computer viruses, could also affect the quality of our services and cause temporary service interruptions, resulting in customer dissatisfaction, penalties and reduced traffic volumes and revenue. Any of these factors could adversely affect our business and financial position.

Moreover, our reputation and public image is important to our sales, marketing and customer relations efforts. Any damage to our reputation or image as a result of the above failures or breaches, corporate actions, developments of particular business units or otherwise, could adversely affect our business, financial position and market position.

### Financial risks

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

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

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

As of December 31, 2007, we recognized pension provisions of EUR 1.0 billion as a result of defined benefit plans. The recognition of the pension provision is subject to actuarial and financial assumptions, which are management estimates of, among other things, future salary increases, discount rates, expected indexation of the benefits and return on assets. These determine the costs and cash flows of providing the post-employment benefits. Changes in assumptions can result in changes of the pension obligation and the related pension costs as well as the contributions to the pension funds. Adjustments required to be made to our recorded provision for these benefits may have an adverse effect on our results of operations and financial position, and cash payments to fund these plans could have an adverse effect on our cash flows.

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

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

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

- the general state of the securities markets, with particular emphasis on the European telecommunications sector;
- competition, regulatory conditions and the status of telecommunications liberalization in Europe;
- the build-out of our networks (such as UMTS and All-IP), the development of compatible handsets, delays in the rollout of UMTS services and networks and associated costs;
- competitors' positions in the market and ongoing consolidation in the telecommunications industry;
- changes in the financial estimates by securities analysts;
- our earnings releases and the earnings releases of our competitors;
- the outcome of legal proceedings;
- fluctuations in foreign exchange rates, interest rates and property prices;
- international political and economic conditions and any acts of terrorism; and
- economic weakness, including inflation and political instability.

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

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

For a discussion of material current legal proceedings, see 'Commitments, contingencies and legal proceedings' in our Consolidated Financial Statements, and 'Regulatory developments'.

*We may be subject to additional tax liabilities in the future, including changes of tax laws, loss of net operating loss carry-forwards and as a result of audits of our tax returns.*

Given the changing nature of laws, rules and regulations, in the future we could be subject to additional tax liabilities.

A reduction or expiration of net operating loss carry forwards could increase the corporate income tax payments and impact our deferred tax position. Furthermore, tax authorities may audit our tax returns and may disagree with the positions taken in those returns.

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

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

International credit and money markets faced ongoing bouts of turbulence through the latter half of 2007 due to the deepening U.S. residential housing slump and crisis in securitized credit and sub-prime mortgage markets. Financing and refinancing conditions will largely depend on future market conditions, the effects on European markets of the U.S. market volatility, our credit ratings, the telecommunications industry ratings, and our results of operations and future prospects, and we cannot be certain that financing will be available to us on favorable terms, or at all. Our credit rating may be impacted by the rapid technological and industry developments, our operational performance and our competitive and financial position going forward. If we cannot raise new funding, we may be unable to pursue growth opportunities or to refinance our existing indebtedness. Liquidity problems in the capital market may affect our ability to raise new funding on favorable terms.

*We are exposed to a variety of financial risks as a result of the use of financial instruments including: credit risk, liquidity risk and market risk, which may have an adverse effect on our profit development.*

We are aware of the unpredictability of financial markets and seek to minimize potential adverse effects on our financial performance. We use derivative financial instruments to hedge certain risk exposures. We have exposure to the following risks from the use of financial assets and liabilities:

- credit risk that arises from the possibility of asset impairment due to counterparties that are not able to meet their obligations in transactions involving financial instruments;
- liquidity risk that arises from not being able to meet the financial obligations associated with financial instruments as they fall due. Prudent liquidity risk management implies 'maintaining sufficient cash and the availability of financing sources' at 'reasonable capital resource covenants'. For a discussion of these sources, see 'Liquidity and capital resources'; and
- market risk that arises from movements in:
  - foreign currency exchange rates;
  - interest rates; and
  - other market prices.

# Key information

## Risk management

Risk management is a basic element of good governance. Risk management applies to the identification and analysis of potential risks, which could influence the achievement of our strategic, operational, financial, compliance and financial reporting objectives, as well as the adequate control of these risks to an acceptable level.

### Internal risk management and control system

We have combined elements of our existing internal risk management and control system into an overall control framework, which satisfies the relevant criteria for financial procedures as set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Some key components are:

- Code of Conduct;
- business planning and review cycles;
- risk analyses;
- financial risk management;
- internal audit function;
- internal control over financial reporting;
- Disclosure Committee; and
- regulatory compliance measures.

These key components are explained in further detail below.

Our internal risk management and control system is designed to manage rather than eliminate the risks associated with the realization of our strategic, operational and financial objectives. It only provides reasonable and not absolute assurance against material misstatement or loss. Additionally, we may face certain delays in effectively implementing or integrating our control framework and regulatory compliance measures in our recent acquisitions such as Getronics and iBasis, and achieving conformity with our existing businesses.

Our internal risk management and control system was discussed in the Audit Committee and Supervisory Board. For more information about the Audit Committee and Supervisory Board, see 'Report by the Supervisory Board'.

#### Code of Conduct

We are conscious of our social and ethical responsibilities and we wish to ensure that work practices across the Company are in strict compliance with the law and consistent with social and ethical norms. To this end, we work in accordance with a Code of Conduct, which sets out our key values: personal, trust and simplicity. We can be held accountable for our performance in this regard by all of our stakeholders (customers, shareholders, employees, business associates, competitors, environmental organizations, international business relations and the community in the broadest sense). The Code of Conduct is available on our website ([www.kpn.com](http://www.kpn.com)).

To translate the Code of Conduct into practical terms for employees, we have introduced a number of separate codes to clarify our internal rules. These separate codes are bundled into four clusters: 1) integrity, 2) competition and telecommunications law, 3) insider trading and 4) information security. The integrity cluster contains rules with respect to secondary employment outside KPN and also with respect to business transactions and business gifts. This cluster also contains our Code of Ethics for our financial management, which sets rules to protect the integrity of our financial management. It applies to our CEO, CFO, the director of our Corporate Control Department and all other financial managers. The competition and telecommunications law cluster contains rules with respect to the use of customer information, anti-trust issues, retail offerings and wholesale issues. The insider trading cluster contains rules to prevent insider trading. The information security cluster contains rules with respect to the use of information regarding our Company and the use of information and communication tools provided to our employees.

To complement the rules in the separate codes we have introduced three general guidelines: the whistleblower policy, the fraud policy and the protocol on integrity investigations. The whistleblower policy allows employees to report questionable accounting or auditing matters or fraud to the Chairman of the Audit Committee. Any reports or complaints by employees under this code will be dealt with in strictest confidence and investigated promptly by management or the Chairman of the Audit Committee, as the case may be. In order to simplify the reporting process, we have introduced a telephonic reporting system where employees can report issues. As the system is operated by an independent third party, anonymity of the employee is, if desired by the employee, guaranteed.

Our current fraud policy has been in place since 2005. We promote consistent organizational behavior by providing guidelines and assigning responsibility for the development of controls that will aid in the detection and prevention of financial and telecommunications fraud against KPN and other inappropriate misconduct. Since 2002, the protocol on integrity investigations has been implemented. The purpose of this protocol is to create the framework to prove or rule out the involvement of employees and/or third

---

parties connected to KPN in violating internal or legal rules. We encourage our employees to actively report any suspected breach of the Code of Conduct or the separate codes. Our internal Security department plays a key role in this by offering support via a helpdesk, where employees can anonymously report such breaches and also obtain information regarding the principles underlying the codes. In the event a breach is reported, our Security department conducts an investigation on a strictly confidential basis. The outcome of the investigation is reported to local management and, in relevant cases, to the Audit Committee.

Throughout 2007, we continued our efforts to effectively communicate our Code of Conduct and compliance policies including through an e-learning course explaining the Code of Conduct.

### Business planning and review cycles

---

In order to fulfill our strategy, the Board of Management and the management of the various Segments discuss and define the targets and objectives. The targets and objectives are detailed in operational plans by Segment. The operational plans are the basis for the business plan, which covers three years, and the annual plans. Progress and performance on these plans are reported by the Segments to the Board of Management. Management of the Segments also provides the Board of Management with a letter of representation regarding the accuracy of the reporting and compliance with prescribed policies. On a monthly basis, management of each Segment discusses the performance of the Segment with the relevant member of the Board of Management as well as our CEO and CFO.

### Risk analyses

---

KPN developed an internal method to carry out and document risk management in a structured way. The method consists of the following steps: identify risks based on targets and objectives, identify countermeasures to mitigate those risks, draw up action plans and establish improvements and secure those improvements within the organization.

Periodically, the various Segments perform a business risk assessment in which the main risks and countermeasures are identified. The assessment is discussed in the Board of Management, which leads to action plans and those are monitored during the reviews.

### Financial risk management

---

The financial risks associated with the use of financial instruments as discussed in 'Risk factors' are managed by our Treasury department under policies approved by the Board of Management. These policies are established to identify and analyze the financial risks faced by the group, to set appropriate risk limits and controls, and to monitor adherence to those limits. Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating entities. The Board of Management provides written policies covering specific areas such as currency risks, interest rate risks, credit risks and liquidity risks.

### Internal audit function

---

The Internal Audit function plays an important role in assessing the quality and effectiveness of KPN's internal risk management and control system. The Internal Audit function conducted systematic and ad hoc financial, IT and operational audits for management of the Segments and the Board of Management. The audit findings are discussed with applicable management and every quarter the main findings are reported to the Board of Management and the Audit Committee.

### Internal control over financial reporting

---

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Therefore, KPN has implemented controls to assure that financial reporting is reliable. Those controls are tested and assessed on effectiveness by dedicated personnel. For further information, see 'Controls and procedures statement under the Sarbanes-Oxley Act'.

### Disclosure Committee

---

Our Disclosure Committee evaluates disclosure and internal control procedures to ensure that relevant information on the Company is brought to the attention of the Board of Management and the Supervisory Board. This Committee also examines reports and other materials that are to be issued externally to ensure that they are accurate, timely and complete. The Disclosure Committee advises the Board of Management, the Audit Committee and the Supervisory Board. In 2007 the committee consisted of the directors of Corporate Control, Corporate Treasury and M&A, Internal Audit, Corporate Legal, Corporate Communication,

# Key information

## Risk management

Investor Relations, the Secretary to the Board of Management and the finance directors of the Segments, amongst others. The Committee met periodically in 2007 and reviewed disclosure controls and procedures and proposed public disclosures.

### Regulatory compliance measures

#### Compliance Risk Assessment

In 2007 we started a Compliance Risk Assessment project in The Netherlands (excluding acquisitions in 2007) in which we define, on a top-down, risk based basis the relevant inherent risks from the Dutch Telecommunications Act and subsequently define the required processes and controls to cover such risks. The first phase of the project is focused on the rules set forth under the Telecommunications Act for KPN on the basis of its designation as a party with significant market power in the voice market. These rules concern, among others, pricing, bundling and rebates.

#### Training

In 2007, we continued to organize training sessions on competition and telecommunications law for our employees. The objective of the training program is to increase the awareness and the knowledge of employees regarding competition and telecommunications law. The training program consists of workshops, in-house designed and tailor-made e-learning tools and e-tests. In addition, several 'tone at the top' meetings have been held to discuss business ethics. We also continued to develop e-learning training for employees covering our business control policies.

#### Compliance organization

During 2007 we further strengthened our compliance organization to reflect the importance of compliance within our company. The compliance organization consists of a central Group Compliance Office, which is supported by Business Compliance Officers in relevant parts of the business, Compliance Specialists with specific knowledge of certain compliance topics and a Compliance Advisory Committee, consisting of senior members of relevant staff departments. The Group Compliance Officer reports to the CEO and the Chairman of the Audit Committee.

### Compliance with the Dutch Corporate Governance Code

The Board of Management, to the best of its knowledge, believes that KPN complies with the requirements of recommendation II.1.4 of the Dutch Corporate Governance Code and the recommendations of the Corporate Governance Code Monitoring Committee on the application thereof, by:

- the description of our strategic, industry, regulatory and compliance, operational and financial risks. See 'Risk factors';
- the description of our internal risk management and control system; and
- the management's report on Internal Control Over Financial Reporting to comply with the requirements of Section 404 of the Sarbanes-Oxley Act. See 'Controls and Procedures statement under the Sarbanes-Oxley Act'.

---

## Controls and procedures statement under the Sarbanes-Oxley Act

### Evaluation of disclosure controls and procedures

As of the end of the period covered by this report, KPN's management (with the participation of its CEO and CFO) conducted an evaluation pursuant to Rule 13a-15 promulgated under the US Securities Exchange Act of 1934, as amended (the Exchange Act), of the effectiveness of the design and operation of KPN's disclosure controls and procedures. Based on this evaluation, KPN's CEO and CFO concluded that, as of the end of the period covered by this report, such disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by KPN in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and accumulated and communicated to management, including the principal executive and principal financial officers, as appropriate, to allow timely decisions regarding disclosure.

### Management's Report on Internal Control Over Financial Reporting

As of the end of 2006, the Company must comply with the requirements of Section 404 of the Sarbanes-Oxley Act. Section 404 requires the Company to include in the annual report an internal control report, containing management's assessment on the effectiveness of the internal controls over financial reporting. Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f)). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria for effective internal control over financial reporting set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2007. There were no changes to our internal control over financial reporting that occurred during the period covered by this Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management has excluded Getronics from its assessment of internal control over financial reporting as of December 31, 2007 because Getronics was acquired in a purchase business combination by the Company in 2007. Management concludes that this exclusion meets the criteria of the SEC's allowed exclusion. Total assets and total liabilities of Getronics represented approximately 6% and 5% respectively, of the Company's consolidated assets and liabilities as of December 31, 2007; and 4% and 0%, respectively, of consolidated revenues and other income and pretax income for the year then ended.

PricewaterhouseCoopers Accountants N.V., the registered public accounting firm that audited the financial statements included in this Annual Report, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting. The Accountant's attestation report is presented on pages 121-122.