

Liquidity and capital resources

Cash flow information

The following table provides a three-year summary of our cash flows for the years ended December 31, 2007, 2006 and 2005:

Net cash flows

In millions of euro	2007	2006	2005
Net cash flow provided by operating activities	3,890	4,071	3,833
Net cash flow used in investing activities	-3,154	-1,878	-2,206
Net cash flow used in financing activities	-502	-2,024	-2,918
Change in cash and cash equivalents	234	169	-1,291

Operating activities

In 2007 our operating cash flow decreased by EUR 181 million to EUR 3,890 million. This decrease was mainly caused by EUR 251 million tax payments (in 2006 a net receipt of EUR 147 million) despite an improvement in working capital.

In 2006 our operating cash flow increased by EUR 238 million to EUR 4,071 million. This increase is mainly caused by net received income tax credits amounting to EUR 147 million, while EUR 24 million income taxes were paid in 2005. In addition, our working capital position improved slightly compared to 2005.

In 2005 our net cash flow from operating activities decreased by EUR 124 million compared to 2004. This decrease is mainly caused by a decrease in operating profit, partly compensated by lower interest payments (EUR 139 million) and an increased working capital position.

Investing activities

The table below is a three-year summary of our investments and additions and reconciliation to the cash flow used in investing activities:

In millions of euro	2007	2006	2005
Acquired group companies	-1,697	-413	-1,178
Additions to intangible fixed assets (licenses, software and other)	-364	-200	-223
Additions to property, plant and equipment	-1,386	-1,472	-1,201
Additions to associates and joint ventures	-4	-3	-4
Loans granted to associates	-2	-	-
Total investments and additions	-3,453	-2,088	-2,606
Less: non-cash items	67	66	158
Less: proceeds from sale of assets (including assets held for sale)	232	144	242
Total cash flow used in investing activities	-3,154	-1,878	-2,206

Acquired group companies

For 2007, acquisitions mainly relate to Getronics, Tiscali The Netherlands, Tele2/Versatel Belgium, and the 51% acquisition of iBasis. For more details reference is made to the section 'Business Combinations and other changes in consolidation' included in the Financial Statements.

In 2006, KPN acquired several Group companies. For more details reference is made to the section 'Business Combinations and other changes in consolidation' included in the Financial Statements. In addition, in 2006 a final payment of EUR 132 million was made for the 2005 acquisition of Telfort.

In 2005 investments in Group companies mainly related to the acquisition of Telfort for EUR 1,131 million, the acquisition of the 2.16% minority interest in KPN Mobile from NTT DoCoMo for EUR 5 million, additional investments in SNT for EUR 31 million and the acquisitions of Freeler and Hcc!Net.

Additions to intangible fixed assets

In 2007, investments in intangible fixed assets totaled EUR 364 million (2006: EUR 200 million, 2005: EUR 223 million). In 2007 these investments mainly related to software and to the extension of the GSM 900 license for an amount of EUR 40 million which will become payable in 2010. In 2006 these investments mainly relate to software. In 2005 these relate to EUR 207 million of software as well as to investments in customer bases of Tiscali (EUR 13 million) and Cistron (EUR 3 million).

Non-cash items

In 2007, non cash items include the investment in the GSM 900 license (EUR 40 million), additional asset retirement obligations included as an addition to Property, plant and equipment (EUR 13 million) and a deferred consideration for the remaining shares to be acquired for Getronics (EUR 12 million) included in acquired Group companies.

In 2006 non cash items include deferred earn-out settlements (EUR 37 million) and a non-cash consideration for the acquisition of Narrowcasting (EUR 7 million). In addition, non cash items included additional asset retirement obligations included as an addition to Property, plant and equipment for EUR 22 million (2005: EUR 15 million). 2005 also included an additional investment in SNT, a subsidiary of KPN, through issuance of 3 million shares (EUR 20 million) and a deferred payment amounting to EUR 132 million with respect to the Telfort acquisition.

Proceeds from sale of assets

Total proceeds in 2007 include the proceeds from the sale of the Getronics operations in Spain and Portugal (EUR 58 million) remaining proceeds from the sale of Xantic (EUR 14 million), the proceeds from the sale of licenses (EUR 16 million) and the proceeds from the sale of property, plant and equipment (EUR 143 million).

Total proceeds in 2006 included the net proceeds (excluding dividends paid to minority shareholders amounting to EUR 11 million) from the sale of Xantic for an amount of EUR 72 million, the sale of SNT activities (EUR 8 million) and the proceeds from the sale of property, plant and equipment (EUR 56 million).

During 2005, the total proceeds from sale of assets amounted to EUR 242 million and included Intelsat (EUR 29 million), Infonet (EUR 129 million) and PanTel (EUR 9 million). Additionally, the proceeds included EUR 45 million (GBP 30 million) from a redeemed loan related to the sale of our 15% shareholding in Hutchison 3G UK to Hutchison Whampoa Limited in 2003 as well as the proceeds of property sales (EUR 31 million).

Financing activities

2007

In 2007, total cash flow used in financing activities amounted to EUR 502 million, consisting of a cash inflow of EUR 4,349 million, offset by a cash outflow of EUR 4,851 million. In 2007, we paid EUR 645 million as a final dividend for 2006 and EUR 337 million as an interim dividend for 2007.

On February 7, 2007 KPN started a EUR 1 billion share repurchase program, which was finalized in August 2007 under which we repurchased 85.1 million shares. Additionally we started a EUR 0.5 billion share repurchase program in September 2007 which was finalized in December 2007 under which we repurchased 40.6 million shares. For details of our share repurchases in 2007 see 'Corporate Governance'.

On November 6, 2007 we issued under the Global medium term note (GMTN) program a EUR 1.25 billion Eurobond with a five year maturity and a coupon of 5.00%. The proceeds of this bond were used to redeem drawdowns on our credit facilities and for general corporate purposes. Following the execution of this bond transaction, KPN terminated the EUR 1.25 billion bilateral backstop credit agreements with banks.

On May 22, 2007, we issued under the GMTN program a dual-tranche euro and Pound Sterling bond consisting of a EUR 650 million euro tranche with a tenor of 7 years and a coupon of 4.75% and a EUR 250 million GBP tranche with a tenor of 12 years and a coupon of 6%. The GBP tranche was swapped into EUR 367 million with a fixed interest rate of 5.12%. Following this dual tranche issuance we reduced the 2010 debt maturity by EUR 703 million in order to balance our redemption profile.

The remaining proceeds and repayments from borrowings relate to temporary drawings and repayments under our credit facility. As of December 31, 2007, we had temporarily drawn EUR 800 million under our credit facility.

2006

In 2006, total cash flow used in financing activities amounted to EUR 2,024 million, consisting of a cash inflow of EUR 2,970 million, offset by a cash outflow of EUR 4,994 million.

In 2006, we paid a EUR 661 million dividend for 2005 and EUR 321 million as an interim dividend for 2006.

In 2006, we repurchased 162.8 million shares for a total amount of EUR 1.6 billion which included 80 million shares repurchased from the Dutch State. During the completion of the share repurchase program we also repurchased 2.1 million shares for a total amount of EUR 18.4 million to cover share option plans and performance share plans.

In accordance with our regular redemption schedule we redeemed the EUR 279 million Eurobond 1996-2006, the EUR 564 million Eurobond 2001-2006, EUR 14 million Other loans, EUR 8 million Private loans and we redeemed early EUR 732 million of our EUR 1.5 billion Eurobond 1998-2008.

On March 16, 2006, we issued under the GMTN program a Eurobond of EUR 850 million maturing in 2013 with a fixed coupon of 4.5%, and an Eurobond GBP 275 million maturing in 2016 with a fixed coupon of 5.75%. In order to limit our foreign currency exposure, on March 16, 2006 we entered into two cross currency swap transactions to change the interest rate profile of the Eurobond 2006-2016 GBP from a GBP fixed rate of 5.75% to an average euro fixed rate of 4.89%. On November 8, 2006, we also issued a Eurobond of EUR 1 billion maturing in 2017 with a fixed coupon of 4.75%.

The remaining proceeds and repayments from borrowings relate to temporary drawings and repayments under our credit facility. As of December 31, 2006, we had temporarily drawn an amount of EUR 250 million under our credit facility and we obtained an additional EUR 5 million from other banks.

2005

In 2005, total cash flow used in financing activities amounted to EUR 2,918 million, consisting of a cash inflow of EUR 1,381 million, offset by a cash outflow of EUR 4,299 million.

In 2005 we paid a EUR 609 million dividend for 2004 and EUR 281 million as an interim dividend for 2005.

In the same year, we repurchased 238.9 million shares. We also repurchased 5.2 million shares for a total amount of EUR 33 million to cover share option plans. In addition, we repurchased the special share held by the State of The Netherlands for an amount of EUR 0.48 on December 16, 2005.

In accordance with our regular redemption schedule, we redeemed a total amount of EUR 1,662 million, which consisted of a EUR 204 million syndicated loan, the EUR 333 million global bond 2000 – 2005, the EUR 659 million global bond 2000 – 2005 and the EUR 327 million Convertible bond 2000-2005. We redeemed EUR 40 million of our private loans of which EUR 9 million were early redemptions and redeemed EUR 99 million other loans, of which EUR 38 million early redemptions.

On June 22, 2005, we issued a EUR 1 billion Eurobond with a maturity of ten years and a 4% coupon. As of December 31, 2005, we had temporarily drawn on our credit facility in the fourth quarter of 2005 were an amount of EUR 350 million.

Credit ratings

Our credit ratings on December 31, 2007 were BBB+ with negative outlook from Standard & Poor's and Baa2 with stable outlook from Moody's.

Commitments and contingencies

The following table sets forth our contractual obligations over the coming years:

Contractual obligations

In millions of euro	Total	Amounts due by period			
		Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Debt obligations (excluding financial lease obligations)	11,777	2,294	1,913	2,675	4,895
Derivatives	393	19	110	-	264
Financial lease obligations	69	16	22	23	8
Interest payments	4,172	577	996	714	1,885
Non-current payable	40	-	13	27	-
Trade and other payables (including accrued expenses)	2,684	2,684	-	-	-
Contractual cash flows	19,135	5,590	3,054	3,439	7,052
Capital commitments	367	355	12	-	-
Rental lease contracts	2,800	378	664	575	1,183
Operational lease contracts	236	79	114	27	16
Guarantees	66	5	22	5	34
Purchasing commitments	840	451	310	59	20
Other	11	1	2	2	6
Total commitments	4,320	1,269	1,124	668	1,259
Total	23,455	6,859	4,178	4,107	8,311

Our budgeted 2008 capital expenditures amount to approximately EUR 2 billion. For our All-IP program in The Netherlands we expect additional capital expenditures of approximately EUR 900 million during the roll-out period (till 2010).

On February 5, 2008 KPN announced a EUR 1 billion share repurchase program, to be executed during 2008, but only at a price which enhances value for the remaining shareholders.

KPN also announced that the percentage paid out as dividend will be 40%-50% of adjusted free cash flow, defined as net cash flow provided by operating activities plus real estate proceeds minus capital expenditures and excluding tax recapture at E-Plus. For further information, see 'Financial and Dividend Policy' below.

There are no off-balance sheet arrangements, other than those disclosed in the section titled 'Commitments, contingencies and legal proceedings' in the notes to our Consolidated Financial Statements, that have or are reasonably likely to have a material current or future effect on our financial position and results that is material to investors.

For additional information on the above as well as on our debt profile, see 'Financial Risk Management and Borrowings' and 'Commitments, contingencies and legal proceedings' in our Consolidated Financial Statements.

Available financing sources in 2008

We believe that our working capital and available financing resources will be sufficient to fund our present business requirements, including our budgeted capital expenditures.

Due to German capital maintenance rules, we are required to keep certain funds available at E-Plus. As of December 31, 2007 KPN's cash position amounted to EUR 1,148 million (including EUR 486 million in non-netted notional cash pools, of which EUR 409 million relate to E-Plus).

In addition to the available cash and cash equivalents, cash flows from operations and cash flows from any further sales of non-core assets, we have the following financing resources available:

EUR 1.5 billion multi-currency revolving credit facility

We have a EUR 1.5 billion multi-currency credit facility maturing on August 2013. The credit facility can be used for general corporate purposes, working capital and refinancing indebtedness. The interest rate margin amounts to 0.175% over Euribor through the fifth anniversary of the agreement and 0.20% thereafter. In the event the total drawings exceed 50% of the total commitment under the credit facility, KPN must pay an additional utilization fee of 0.025%. KPN also must pay a commitment fee over undrawn amounts, which is equal to 30% of the interest rate margin applicable at the time.

As of December 31, 2007, we had temporarily drawn an amount of EUR 800 million under this facility for working capital purposes.

Overdraft facilities

During 2007, we had four uncommitted overdraft facilities with four banks, worth EUR 50 million each. The overdraft facilities may be cancelled at any time and do not have a specified maturity date. In 2007 we drew on one of the facilities from time to time. As of December 31, 2007 there were no amounts drawn under any of the overdraft facilities.

Bilateral backstop facilities

We signed bilateral backstop agreements with three banks for a total amount of EUR 1.25 billion maturing on August 27, 2008. Following the EUR 1.25 billion Eurobond issue on November 6, 2007, all these backstop agreements were terminated.

Global Medium Term Note Program

In April 2007, we updated our EUR 10 billion GMTN program. The available borrowing capacity as of December 31, 2007 under our EUR 10 billion GMTN program (available since April 1997) amounted to EUR 1,402 million. The GMTN program contains no commitment from investors to provide funding to us. Funding will be available subject to market conditions and other factors at the relevant time.

Capital resources covenants

Our existing capital resources contain the following covenants, which could trigger additional financial obligations or early redemption of the outstanding indebtedness:

Our Eurobond 2006-2013 (EUR), Eurobond 2006-2016 (GBP), Eurobond 2006-2017 (EUR), Eurobond 2007-2014 (EUR), Eurobond 2007-2019 (GBP) and Eurobond 2007-2012 (EUR) contain a change of control clause by means of which we may be required to redeem such outstanding bonds early, in the event that (i) certain changes of control occur and (ii) within the change of control period a rating downgrade to subinvestment grade occurs in respect of that change of control. The change of control period ends 90 days after the change of control event occurs.

Our Eurobond 2001-2008 (GBP) contains a rating step-up provision which offers each note holder a 0.375% increase in the interest rate for each notch downgrade of our unsecured long-term debt below either Baa2 by Moody's or BBB by Standard & Poor's, and a rating step-down provision which results in a 0.375% decrease in the interest rate for each notch upgrade (up to the initial interest rate). Additionally, we may be required to redeem the outstanding notes early, in the event that we consolidate with or merge into another entity (other than a merger of a subsidiary into KPN in which KPN is a continuing corporation) or convey, transfer or lease all or substantially all of our properties and assets to another person or entity without the prior approval of a majority of the note holders; and the rating assigned to the notes after giving effect to any such transaction is lower either than Baa3 (Moody's) or BBB- (Standard & Poor's). As of December 31, 2007, the total outstanding amount under this bond amounted to EUR 258 million.

In addition, many of our capital resources contain a covenant prohibiting us to enter into any amalgamation, demerger, merger, corporate restructuring or reorganization, unless prior written consent has been given by a majority of the lenders or noteholders or the resulting company assumes all of our rights and obligations with respect to the loans or notes.

Financial and dividend policy

KPN seeks to ensure that its ratio of net debt to operating result plus depreciation, amortization and impairments remains within the range of 2 to 2.5 times. Furthermore, KPN intends to maintain a minimum credit rating of Baa2 by Moody's and BBB by S&P. We expect that this financial policy will allow KPN to continue with its policy of accommodating an attractive dividend policy, while maintaining flexibility to grow and invest in its business.

On February 5, 2008 KPN announced an updated mid-term dividend policy, increasing the percentage of annual free cash flow paid out as dividend. The percentage paid out as dividend will increase from 35-50% under the free cash definition as defined in 2007 to 40-50% in the medium term, based on an adjusted definition for free cash flow going forward (> EUR 2.4 billion in 2010). Free cash flow going forward is defined as net cash flow provided by operating activities plus real estate proceeds minus capital expenditures and excluding tax recapture at E-Plus.

Dividend per share is expected to increase from EUR 0.54 in 2007 to EUR 0.80 in 2010, driven by the 'Back to Growth' strategy and supported by continued share repurchases. Accordingly, KPN has proposed a cash dividend of EUR 0.54 per share in respect of the year ending December 31, 2007, of which EUR 0.18 was paid out as an interim dividend in August 2007. The proposed dividend will be presented for approval at the Annual General Meeting of Shareholders to be held on April 15, 2008 and, upon approval, paid out shortly thereafter.

Within the context of the financial policy, on February 5, 2008 KPN announced a EUR 1 billion share repurchase program.

These policies may change and are based on a number of assumptions concerning future events and are subject to uncertainties and risks that are outside our control.

Information about market risk

As a result of our international operations, we are exposed to various kinds of market risks in the ordinary course of business. These risks include:

- foreign currency exchange rate risks;
- interest rate risks; and
- other market price risk.

We have established policies that deal with the use of derivative financial instruments in order to reduce foreign currency exposure and to manage our interest rate profile. Our centralized Treasury department matches and manages intercompany and external foreign currency reported by our various business operations and group companies. Hedges are applied on a full coverage basis, when economically feasible. See 'Financial risk management'.

Derivative financial instruments are used solely for the purpose of hedging underlying exposures. We do not enter into derivative financial instruments for speculative purposes.

Foreign currency exchange rate risks

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Although KPN acquired iBasis and Getronics during 2007, the risks associated with foreign currency transactions positions arising from operating activities are limited for KPN since operating income and operating expenses are, as a rule, largely denominated within the eurozone. The risk mainly results from settlement of international telecommunications traffic, purchase of goods and equipment and primarily exists of British pound and US dollar exposure (iBasis and Getronics). As a result of currency fluctuations, the value of subsidiaries operating outside the eurozone markets could fluctuate and affect KPN's balance sheet and equity positions from year to year.

As of December 31, 2007, 99% of our cash and cash equivalents were denominated in euro, with the remainder denominated in US dollar and other currencies.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. As KPN has a mix of financial instruments bearing a floating or a fixed interest rate, KPN is subject to risk from movements in interest rates. An unfavourable interest rate movement would result in additional interest expenses.

With regard to our interest rate risk exposure we review periodically the desired mix of fixed and floating interest rate liabilities. As of December 31, 2007, approximately 73% of our interest-bearing debts were subject to fixed interest rates. We may enter into additional derivative instruments in the future to adjust our mix of fixed and floating interest rate liabilities.

Other market price risk

KPN does not enter into commodity contracts other than for its own use to meet the Group's expected usage. We have entered into energy contracts for own use with a nominal amount of approximately EUR 60 million.