Operating results

Consolidated results of operations

Our Financial Statements 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. The following discussion includes various forward-looking statements. Please see 'Forward-Looking Statements' as well as 'Risk Factors' for a description of certain factors, that may affect our operating results. For additional information about how we calculate customer data, including ARPU, see 'Presentation of Financial and Other Information'.

In millions of euro	**2007**	2006	2005
Revenues	12,461	11,941	11,811
Other income	171	116	125
Total	**12,632**	**12,057**	**11,936**
Own work capitalized	-143	-112	-112
Cost of materials	914	900	1,044
Work contracted out and other expenses	4,569	4,314	4,075
Employee benefits	1,632	1,435	1,441
Depreciation, amortization and impairments	2,400	2,614	2,376
Other operating expenses	760	683	764
Total operating expenses	**10,132**	**9,834**	**9,588**
Operating profit	**2,500**	**2,223**	**2,348**
Finance costs – net	-560	-520	-547
Share of the profit of associates and joint ventures	1	7	13
Profit before taxes	**1,941**	**1,710**	**1,814**
Income taxes	708	-127	-360
Profit for the period	**2,649**	**1,583**	**1,454**
Profit (loss) attributable to minority shareholders	-3	0	17
Profit attributable to equity holders of the parent	2,652	1,583	1,437

In millions of euro, unless otherwise stated	**2007**	2006	2005
– Total revenues The Netherlands	8,847	8,478	8,409
– Total revenues Mobile International	3,958	3,817	3,543
– Total revenues Other activities	7	22	182
– Intercompany revenues	-351	-376	-323
Total revenues	**12,461**	**11,941**	**11,811**
Other income	171	116	125
Total	**12,632**	**12,057**	**11,936**
– Operating expenses The Netherlands	7,112	6,746	6,338
– Operating expenses Mobile International	3,314	3,401	3,420
– Operating expenses 'Other'	57	63	153
– Intercompany expenses	-351	-376	-323
Total operating expenses	**10,132**	**9,834**	**9,588**
Operating profit	**2,500**	**2,223**	**2,348**
Operating profit The Netherlands	1,901	1,771	2,087
Operating profit Mobile International	646	418	148
Operating profit 'Other' (including intercompany)	-47	34	113

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Sources of revenue

Our principal sources of revenue are:
Service revenues for wireline services, which include:

- traffic revenues with respect to the fixed switched telephony network;
- national and international wholesale services; and
- portal enabling services.

Access revenues such as subscription revenues and one-off connection revenues for wireline services, which include:

- monthly subscription revenues and one-off connection revenues for traditional fixed telephony and flat fees for broadband xDSL and IP-VPN connections based on capacity provided;
- transmission services: include service revenues for fixed-network connections; and
- local loop services: monthly rental fees and initial fees paid for MDF Access and co-location.

Service revenues for wireless services, which include:

- traffic revenues. These are charged at an agreed price for a fixed duration of time or capacity. Airtime rates vary depending on proposition (prepaid vs. postpaid) as well as destination and time of the call. Traffic revenues also include:
  - traffic bundles, offered in combination with a subscription;
  - value-added service revenues, charged for our value-added mobile voice and data services (messaging services, voice mail and information services);
  - roaming revenues, received from other network operators for their clients' calls placed on our networks; and
  - termination revenues, charged to other telecommunications companies for calls originating on their networks and terminating on our networks.
- fixed monthly subscription fees. These are billed monthly to our contract customers for providing them access to our network irrespective of their actual airtime usage. The fees include handset service fees.

Hardware and other revenues for wireless services which include:

- revenues other than service revenues and comprise primarily hardware revenues; and
- income from intellectual property rights (IPR) and site sharing.

Revenues from integrated, outsourced and managed ICT solutions, which include designing, building, deploying and managing flexible and innovative end-to-end ICT solutions. These services are provided on a time and material basis or as a fixed-price contract with contract terms generally ranging from less than one year to three years.

Other sources of revenue include:

- inbound and outbound call services and e-mail handling services, as well as sales support services and directory assistance;
- monthly subscription fees for dial-up Internet, shares in telephony usage revenues, TV-subscription fees, online advertising revenues and the sales of modems, Internet portal services and Internet content; and
- IP services like IP Dial-In Services, billed at local tariffs based on minutes used.

For a more detailed description of the services we offer and the corresponding sources of revenues, see 'Information about the Company'.

2007

Highlights and trends

- Consumer Segment net line loss declining, customer base TV almost doubled;
- strong operating profit growth in wireless services of Consumer Segment as a result of the Telfort acquisition;
- continued growth in the Business Segment, migration to new services accelerating;
- preparations for FttC/FttH taken to the implementation stage;
- E-Plus outperforming competitors, exceeding growth and operating profit margin objectives;
- strategic initiatives (acquisitions of Allo Telecom and Tele2/Versatel Belgium) creating growth platform in Belgium;
- market leader in workspace management in the Benelux through the acquisition of Getronics; and
- created a leading position in international wholesale through iBasis.

Revenues

Group revenues for the full year 2007 increased by 4.4% or EUR 520 million year on year to EUR 12.5 billion, the net effect of the consolidation of iBasis and Getronics, growth in Mobile International and a continued decline in wireline The Netherlands.

Full-year revenues for The Netherlands were up 4.4% or EUR 369 million. This increase was mainly the result of the above mentioned acquisitions of Getronics (EUR 482 million) and iBasis and organic revenue growth in the Business segment. These increases were to a large extent offset by a decrease in wireline revenues at Consumer Segment and Wholesale & Operations Segment.

Revenues for Mobile International increased by 3.7% or EUR 141 million. Excluding a negative MTA effect of EUR 144 million, revenues were up 7.5%. This increase was mainly driven by organic growth at E-Plus and Mobile Wholesale The Netherlands and the acquisition of Tele2/Versatel Belgium.

Revenues for Other Segment decreased by EUR 15 million to EUR 7 million, caused by the sale of KPN's subsidiary Xantic in 2006. Revenues of Xantic in 2006 amounted to EUR 18 million.

For 2008 KPN expects that group revenues will increase, mainly resulting from the acquisitions of Getronics, iBasis and Tiscali The Netherlands.

Other income

Other income in 2007 includes the gain on the sale of KPN's Global Carrier Services business unit amounting to EUR 66 million and the gain on sale of real estate of EUR 96 million.

Operating expenses

Operating expenses in 2007 increased by EUR 298 million (3%) to EUR 10,132 million. An increase of EUR 366 million is attributable to The Netherlands, a decrease of EUR 87 million attributable to Mobile International and a decrease of EUR 6 million to our Other activities.

Additional operating expenses as a result of the acquisition of Getronics from October 2007 amounting to EUR 483 million were offset by a decline in operating expenses for Consumer Segment and Wholesale & Operations segment. The decline of both Segments is explained by cost savings in line with the declining traditional voice market.

The operating expenses for Mobile International decreased 2.6% to EUR 3,314 million. E-Plus is the main contributor for this decrease. E-Plus continued to lower the subscriber acquisition costs and had cost savings due to the outsourcing of network operations and maintenance to Alcatel-Lucent in March 2007.

The implementation of the FTE restructuring initiatives announced in the 'Attack-Defend-Exploit' strategy review of March 2005 is ahead of plan. In the period 2008-2010, KPN intends to accelerate the reduction of the number of FTEs (excluding Getronics).

Operating profit

KPN delivered an operating profit of EUR 2,500 million in 2007, up EUR 277 million or 12.5% compared to 2006. The Netherlands realized an increase of EUR 130 million which is mainly caused by a EUR 135 million increase at Wholesale & Operations Segment (of which an increase of gains of EUR 139 million due to the sale of KPN Global Carrier Services B.V. and disposals of real estate) and at Business Segment (EUR 37 million), partly offset by a decline in Consumer Segment (EUR 31 million). The operating result at Mobile International increased by EUR 228 million, predominantly by continued growth at E-Plus (EUR 210 million). The decrease of EUR 81 million in Other was caused by the gain on the sale of Xantic in 2006.

Financial income and expense

Net finance costs increased from EUR 520 million in 2006 to EUR 560 million this year, up 7.7%, due to higher leverage following the Getronics acquisition and EUR 0.5 billion additional share repurchases in the second half of 2007.

Income taxes

In 2007, E-Plus moved into a tax paying position in Germany. The increase in its taxable income is related to the success of E-Plus' challenger strategy and the financial restructuring of the company. This resulted in a EUR 1.2 billion increase in the deferred tax asset for tax loss carry forwards and temporary differences, bringing the total deferred tax assets to EUR 1.3 billion at December 31, 2007. This includes EUR 0.3 billion of expected tax payment savings and a EUR 1.0 billion realization of temporary differences for goodwill and UMTS license for tax purposes. E-Plus expects no tax payments for the medium term, which are currently estimated at EUR 30-50 million per year.

Operating results

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Excluding the EUR 1.2 billion tax gain at E-Plus, the effective tax rate for 2007 was 23.4%, compared to 7.4% in 2006. The lower effective tax rate in 2006 is caused amongst other factors by a EUR 100 million tax gain relating to the Telfort fiscal restructuring, a one-off tax gain of EUR 148 million related to a decrease in the Dutch statutory tax rate and a EUR 73 million tax gain on the valuation of loss carry forwards at BASE. In 2007, an agreement was reached with the Dutch tax authorities on a number of issues relating to the years 2001 to 2005. This resulted in a net EUR 43 million tax charge in 2007.

In the course of 2007, Royal KPN and KPN Mobile reached the point where all tax losses from prior years have been utilized. As a result, we have come into a tax paying position in the Netherlands in 2007. In 2008, we expect to pay approximately EUR 550 million Dutch corporate income tax. This is roughly equivalent to the statutory tax rate of 25.5% of Dutch profit before tax, plus 25.5% of E-Plus' EBITDA (operating profit adjusted for depreciation, amortization and impairments), less a Dutch corporate income tax refund related to prior years as a result of carry back of tax losses.

2006

Highlights and trends

- group revenues and other income increased;
- revenues wireless services increased in Germany, Belgium and The Netherlands;
- continued net line loss, supported by strong growth in VoIP;
- continued growth in broadband and TV;
- position in our segment Business strengthened with acquisitions and contract wins;
- All-IP transformation on track;
- continued FTE reduction and costs savings; and
- ongoing impact of regulation.

Revenues

Total revenues increased by EUR 130 million to EUR 11,941 in 2006. In both The Netherlands and Mobile International revenues increased, which was partly offset by lower revenues in Other activities. The consolidation of Telfort as of October 4, 2005 contributed EUR 416 million additional service revenues in 2006. MTA tariff reductions negatively influenced group revenues by EUR 243 million.

Despite a decrease in revenues due to regulatory MTA reductions (EUR 134 million) in The Netherlands total revenue increased by 0.8% to EUR 8,478 million. The continuing downward trend in line losses in the traditional market and related wireline revenues was compensated by the result of a step-up in wireless services following the consolidation of the Telfort acquisition in October 2005, a growth in VoIP-lines during 2006, both in our consumer and in our business market. New acquisitions (such as Narrowcasting, CSS, NewTel, Enertel, Nozema, Demon and Speedlinq) during 2006 contributed an amount of approximately EUR 100 million to our revenues.

Revenues of Mobile International increased by 7.7% to EUR 3,817 million. The improved performance of our mobile operators in Germany and Belgium, including Mobile Wholesale The Netherlands resulted in increased service revenues. MTA tariff reductions negatively influenced revenues of Mobile International by EUR 114 million.

The decrease of EUR 160 million for our other activities was mainly the result of the sale of Xantic as of February 14, 2006. The sale resulted in EUR 140 million lower revenues.

Other income

Other income in 2006 includes the gains on the sale of Xantic amounting to EUR 74 million, EUR 8 million on the sale of a part of the activities of SNT Germany and EUR 32 million related to the gains on the sale of property, plant and equipment.

Operating expenses

Operating expenses in 2006 increased by EUR 246 million (2.6%) to EUR 9,834 million. An increase of EUR 408 million is attributable to The Netherlands, a decrease of EUR 19 million attributable to the Mobile International and a decrease of EUR 90 million to our Other activities.

The operating expenses of the Group include a goodwill adjustment for the acquisition of Telfort amounting to EUR 175 million as a result of a restructuring and accelerated depreciation and amortization charges on the networks of the Mobile group and the Telfort licenses for a total amount of EUR 109 million (recorded in Wholesale & Operations Segment). The adjustment for the goodwill was recorded in the Mobile Wholesale The Netherlands (EUR 34 million), in the Consumer Segment (EUR 53 million) and in the Wholesale & Operations Segment (EUR 88 million).

Total operating expenses of The Netherlands include additional operating expenses as a result of the acquisition of Telfort from October 2005, the Telfort goodwill adjustment (EUR 141 million) and accelerated depreciation and amortization of the Telfort network (EUR 109 million) which were partly offset by MTA tariff reductions (EUR 100 million), continued headcount reduction and an energy tax reimbursement amounting to EUR 20 million. 'Work contracted out and other expenses' increased as a result of higher subscriber acquisition costs with respect to 'InternetPlusBellen'. 2005 operating expenses included a fine of EUR 17 million to OPTA and a payment of EUR 18 million to competitors (without admitting any liability).

The operating expenses for Mobile International decreased slightly to EUR 3,401 million in 2006. EUR 160 million lower expenses for E-Plus resulting from lower cost of materials due to significantly lower handset expenses and lower expenses as a result of MTA tariff reductions were offset by higher expenses for BASE (an increase of 12 million) and Mobile Wholesale The Netherlands (EUR 124 million) following the strong market growth.

Implementation of the restructuring initiatives announced in the strategy review in March 2005 was well on track in 2006. Since year-end 2004 to 2006, KPN reduced its workforce in The Netherlands by 17% or 3,673 FTEs (excluding subsequent acquisitions), exceeding the stated objective of a minimum of 1,500 FTE reductions per annum. As a result, in 2006 we recognized EUR 71 million for restructuring charges (in 2005: EUR 92 million) of which EUR 7 million related to an outsourcing contract in Wholesale & Operations. EUR 32 million restructuring charges (in 2005: EUR 53 million) related to The Netherlands, EUR 21 million (in 2005: nil) to Mobile International and EUR 18 million to Other activities (in 2005: EUR 39 million).

Our All-IP program had an effect on our operating expenses. Project and integration costs in the first year may increase by an amount which may be slightly higher than the anticipated book gains from the sale of our technical buildings.

Operating expenses within other activities decreased by EUR 90 million in 2006 as a result of the sale of Xantic resulting in EUR 116 million lower operating expenses partly offset by the release of EUR 63 million relating to the provision for pension charges in the 2005 income statement.

Operating profit

Operating profit decreased by 5.3% from EUR 2,348 million in 2005 to EUR 2,223 million in 2006. For a further discussion of the factors underlying the developments in operating profits, see the above sections and the discussion on the segmental results of operations.

In summary, the operating profit in 2006 was influenced significantly by, among others, the following elements:

- accelerated depreciation and amortization charges on the networks of the Mobile group and the Telfort licenses for a total amount of EUR 109 million;
- regulatory MTA tariff reductions resulting in EUR 84 million lower operating results;
- a restructuring at Telfort resulting in a goodwill adjustment amounting to EUR 175 million;
- a gain on the sale of Xantic amounting to EUR 74 million and the sale of property, plant and equipment amounting to EUR 32 million; and
- an energy tax reimbursement in The Netherlands amounting to EUR 20 million.

Financial income and expense

Net finance costs decreased from EUR 547 million in 2005 to EUR 520 million in 2006 by 4.9%. Compared to last year, financing costs were lower as a result of refinancing transactions in 2005 and 2006 which resulted in improved interest rate profile on our debt portfolio.

Share of the profit of associates and joint ventures

The share of the profit of associates and joint ventures mainly relates to the results of ON and Xantic.

Income taxes

The 2006 tax charge amounted to EUR 127 million, the effective tax rate being 7.5% in 2006 (20.0% in 2005). The decline of the effective tax rate is explained by:

- the Telfort restructuring, which impacted both profit before tax (additional amortization charge of EUR 175 million) and corporate tax (benefit of EUR 100 million);
- tax-exempted book gains on the 2006 sale of Xantic (EUR 74 million) and the NTT DoCoMo settlement in 2005 (EUR 58 million);
- positive effects from adjustments of the Dutch statutory tax rate in 2006 of EUR 158 million on deferred taxes (2005: EUR 52 million) (the Dutch corporate tax rate was lowered from 29.6% in 2006 to 25.5% effective January 1, 2007); and
- EUR 73 million recognition of the deferred tax asset for carry forward losses at BASE in 2005.

Operating results

Segmental results of operations

The Netherlands

In millions of euro	2007	2006	2005
Consumer Segment	4,133	4,228	4,036
Business Segment	3,381	3,310	3,420
Getronics Segment	488	-	-
Wholesale & Operations Segment	3,706	3,913	4,036
Other net sales (including intercompany revenues)	-2,861	-2,973	-3,083
Total revenues	**8,847**	**8,478**	**8,409**
– of which external revenues	8,603	8,223	8,181
Other income	166	39	16
Total revenues and other income	**9,013**	**8,517**	**8,425**
Own work capitalized	-109	-47	-41
Cost of materials	669	566	514
Work contracted out and other expenses	2,995	2,802	2,512
Employee benefits	1,347	1,135	1,153
Depreciation, amortization and impairments	1,578	1,753	1,565
Other operating expenses	449	292	400
Intercompany expenses	183	245	235
Total operating expenses	**7,112**	**6,746**	**6,338**
Operating profit	**1,901**	**1,771**	**2,087**
– Consumer Segment	460	491	676
– Business Segment	650	613	564
– Getronics Segment	5	-	-
– Wholesale & Operations Segment	815	680	874
– Other (including intercompany)	-29	-13	-27

Consumer Segment

In millions of euro	2007	2006	2005
Voice wireline	1,080	1,444	1,677
Wireless services	1,776	1,705	1,349
Internet wireline	917	762	699
Other (incl. Intrasegment revenues)	360	317	311
Total revenues	**4,133**	**4,228**	**4,036**
Other income	-	8	-
Total revenues and other income	**4,133**	**4,236**	**4,036**
– of which External revenues	3,845	3,973	3,784
Cost of materials	286	246	215
Work contracted out and other expenses	936	1,030	764
Own work capitalized	-2	-2	-1
Employee benefits	353	329	332
Depreciation, amortization and impairments	247	238	130
Other operating expenses	242	230	215
Intercompany expenses	1,611	1,674	1,705
Total operating expenses	**3,673**	**3,745**	**3,360**
Operating profit	**460**	**491**	**676**

During 2007, the market structure and dynamics of our home market continued to change and showed a challenging picture. In particular, we had to cope with:

- increased competition in our sector, coupled with advances in technology such as the uptake of VoIP and IPTV. The customer has benefited in terms of greater availability of services, a broader product offering, and, in many cases, lower prices. Overall, broadband (often bundled within a VoIP offer) could be bought at highly competitive prices, in particular compared with a separate voice – broadband purchase;
- stronger VoIP demand than anticipated at the end of 2006 resulted in slower installations and customer complaints during the first half of 2007. A combination of factors resulted in an overload at call centers and complex complaints with approximately 5% of the new VoIP customers. The most important factor was an overwhelming demand of approximately a quarter of a million net additions in the fourth quarter of 2006, beyond average demand in previous quarters and normal capacity;
- from an operational point of view, restoring the quality of our VoIP operations was therefore our main challenge in 2007. We had a strong focus on VoIP quality and clean orders, which resulted in intentionally lower order intake. At the same time, we targeted alternative propositions at high risk churn groups (such as single ADSL propositions) and started loyalty programs for traditional voice;
- by the end of the second quarter of 2007 the VoIP problems had been sorted out and we saw a recovery of the order intake at levels we think are appropriate to maintain a leading position in the market. However the scaling up was not allowed to affect quality of service and was therefore a step by step process. Because other operators also slowed down their installations our VoIP market share stabilized to approximately 37%. With the acquisition of Tiscali – completed in June 2007 – our VoIP market share increased to approximately 39%. We estimated that approximately EUR 55 million in one-off charges was needed to sort out the VoIP issues;
- the rate of line loss is related to these VoIP problems. In the first quarter of 2007 the net line loss increased to 165,000. In the course of 2007 we intensified our marketing activities at telephone customers with attractive retention offers which helped to slow down PSTN/ISDN line loss. From the third quarter of 2007 the outflow to Wholesale Line Rental (WLR) decreased while in the fourth quarter our own VoIP offerings were more intensively promoted. As a result, net line loss gradually diminished to 90,000 in the last quarter of 2007;
- the introduction of WLR in the first quarter of 2007 offered CPS providers in particular the opportunity to strengthen the relationship with their customers and create brand loyalty. In the first half of 2007 we reported a growth to 180,000 WLR lines, but during the second half of 2007 the growth rate declined significantly, reaching approximately 300,000 lines at December 31; and
- international Internet players such as eBay (by Skype), Google and Microsoft continue to offer similar services (such as web voice services) to our customers in The Netherlands. Initiatives such as the Open Handset Alliance from Google and Apple's move into the mobile business with iPhone illustrates the widening reach of competition in our markets.

Several other trends were supportive:

- we maintained high, leading market shares in VoIP: market share approximately 39%, broadband: retail market share approximately 44%;
- broadband remained a key growth driver and is revenue accretive;
- internet access anywhere was also supported by the continued growth of our nationwide WiFi hotspot network;
- wireless voice grew solidly with an increasing share of contract customers (in 2007 41% post paid customers, compared to 39% in 2006); and
- our new TV business model and campaign is pushing up customer numbers (approximately 500,000 TV customers at the end of 2007 compared to 265,000 at the end of 2006).

Some other trends in 2007, however, challenged our business growth and profitability prospects:

- rate cuts in August (MTA) and September (roaming) put mobile growth at a lower acceleration;
- our organic growth (excluding acquisitions) in broadband connections was lower than at cable operators;
- in addition to cable operators, alternative DSL operators chose to compete with us in our markets;
- aggressive broadband/VoIP/mobile pricing from competitors; and
- adjacent industries are increasingly targeting our (telecommunications) margins (e.g. Google, Apple).

We expect that many of these factors will continue to challenge us throughout 2008.

Operating results

Segmental results of operations

Revenues

2007
Revenues decreased by 2.2% (EUR 95 million) from EUR 4,228 in 2006 to EUR 4,133 million in 2007. This drop reflected notably the reduction in voice wireline revenues (decreased by 25.2% or EUR 364 million), fuelled by substantially lower subscription and traffic revenues as a result of line loss. This decline was only partially offset by increased Internet revenues (up 20.3% or EUR 155 million) with a large positive effect from the acquisition of Tiscali, by EUR 71 million higher wireless revenues (up 4.2%) due to an increased share of post paid customers and 13.6% (EUR 43 million) higher other revenues, in particular related to increasing TV customer numbers.

2006
During 2006 the transformation process of the Dutch Communication Market moving towards broadband-centric customers wanting to enjoy the advantages of 'digital communications' such as low cost calling, flat-rate pricing and digital entertainment reached a new phase, with approximately 1.4 million Dutch households subscribing to VoIP, offered by cable operators, alternative DSL operators or us. As a result, our telephone lines fell sharply but the rapid take-up of 'InternetPlusBellen' (our main VoIP product) significantly offset this trend. The sharp increase of these bundled VoIP/DSL packages (an increase of 0.5 million) is in contrast with the decline of traditional voice packages (a decrease of 0.3 million) line loss. Net line loss slowed down significantly in the following quarters reaching 130,000 in the fourth quarter of 2006.

In this dynamic market setting we strengthened our position as the leading provider of voice and broadband services and we continued to be a fast growing provider of digital TV. In VoIP, our share increased significantly during the course of 2006. We continued to grow in broadband, adding more than half a million subscribers and further expanding to a market share of almost 41%. Our KPN TV customer base (during 2006 marketed as 'Digitenne') continued to increase and reached 265,000 connections.

The revenue decline in voice wireline (in particular as a result of telephone line losses) was fully offset by a revenue increase in our wireless portfolio, mainly due to the acquisition of Telfort. Overall, external revenues increased by EUR 189 million (5.0%).

Operating expenses

2007
Operating expenses decreased in 2007 by 1.9% from EUR 3,745 million to EUR 3,673 million compared to a 2.2% decline in total revenues. Higher marketing costs for the Internet and TV business lines and additional costs for resolving our VoIP issues were significant factors. Work contracted out and other expenses decreased by EUR 94 million partly as a result of declining business volumes at Voice.

Intercompany expenses decreased by EUR 63 million, mainly as a result of lower purchases from Wholesale & Operations Segment following the decline in demand for traditional voice services.

2006
Operating expenses increased in 2006 by 11.5% from EUR 3,360 million to EUR 3,745 million compared to a 4.8% increase in total revenues. Overall, the higher marketing costs (including subscriber acquisition costs) for the Internet and TV business lines, reflecting the competitive nature of these markets were not offset by the effects of cost-cutting programs and MTA tariff reductions. Work contracted out and other expenses increased by EUR 266 million mainly as a result of increased subscriber acquisition costs at, in particular, the Internet business line.

Intercompany expenses decreased by EUR 31 million, mainly as a result of lower purchases from Wholesale & Operations Segment following the decline in demand for traditional voice services (traffic and lines).

Voice wireline

	2007	2006	2005
Revenues (in millions euro)			
Traffic fees	389	514	596
Subscriptions, connection fees and other	691	930	1,081
Total Revenues	**1,080**	**1,444**	**1,677**
Number of connections (*1,000)			
PSTN	2,563	3,554	4,518
ISDN	284	374	481
VoIP packages (voice/broadband)	847	517	13
Total voice connections	**3,694**	**4,445**	**5,012**
Traffic volumes (in billions of minutes)			
Domestic local	4.29	5.66	6.67
Domestic long-distance	1.91	2.41	2.82
Total domestic	**6.20**	**8.07**	**9.49**
Fixed-to-mobile	0.79	1.03	1.12
International	0.24	0.31	0.37
Total Voice wireline	**7.23**	**9.41**	**10.98**
Tariffs (in EUR/minute)			
Average local tariff	0.028	0.028	0.028
Average domestic long-distance tariff	0.034	0.034	0.034
Average fixed-to-mobile tariff	0.161	0.164	0.184
Average international tariff	0.177	0.180	0.189

2007

The subscription and traffic revenues generated by Voice wireline in 2007 fell 25% to EUR 1,080 million, driven by the impact of declining PSTN and ISDN lines (down 1.1 million lines), and a continued decline in voice traffic volumes (down 23%).

Price effects were relatively unimportant in 2007, while the market share increase in traditional voice (up approximately 10%), reflecting the success of our simplified portfolio with more flat fee options, was insufficient to compensate aforementioned volume effects.

We expect that in 2008 the negative trend in revenues will continue but will slow down, in line with the decreasing rate of decline of the number of telephone lines.

2006

The trend towards more VoIP households had a significant financial impact. Our PSTN/ISDN customer base eroded, with a sharp decline in traffic and subscription revenues. This negative trend reflects competition, price reductions and, in particular, technological and behavioral changes that drive customers away from traditional telephony services towards IP-based communication solutions.

The massive move to IP is also reflected in a downturn of the number of voice packages sold. In 2006 our range of packages served about 1.1 million customers, about 275,000 lower than in 2005. This unfavorable trend was partly offset by the rapid spread of innovative terminals (called 'Telefoon met Belminuten') that reached a total of approximately 160,000 units sold (the installed base increased to approximately 250,000 units).

Our installed base decreased by almost 1.1 million PSTN and ISDN connections. As a result, subscription and connection revenues declined by almost 14%. Thanks to our success with 'InternetPlusBellen' we stemmed net customer line loss considerably.

These trends also contributed to a major and ongoing decline of the (switched) voice traffic market. In 2006, the traditional Dutch voice minute market shrunk by approximately 19% as a consequence of more minutes moving from switched to VoIP. KPN's number of traditional voice minutes was 14% down compared to 2005. The turnaround in market share development, becoming visible from mid 2005, continued. KPN's voice market share was in 2006 approximately 3.5% higher than in 2005.

As a result of the above mentioned developments total voice revenues declined by 13.9%, from EUR 1,677 million in 2005 to EUR 1,444 million in 2006.

Operating results

Segmental results of operations

Wireless services

	2007	2006	2005
Revenues (in millions euro)			
Service revenues	1,700	1,635	1,279
Hardware and other revenues	76	70	70
Total Revenues	**1,776**	**1,705**	**1,349**
Customers (*1,000)			
Postpaid	2,536	2,319	1,946
Prepaid	3,658	3,604	3,974
Total	**6,194**	**5,923**	**5,920**
ARPU (in EUR)	**24**	**23**	**22**
Non-voice as % of ARPU	19%	17%	15%
Minutes of Use (originating, terminating; in minutes)	**110**	**104**	**87**
SAC/SRC (in EUR)	**134**	**166**	**179**

While the wireless services market is almost saturated, consumers continued to use their mobile phone in various ways during 2007. We see that mobile networks are a growing alternative for accessing Internet on the go. Mobile internet take-up is fuelled by affordable flat rates, a growing range of Internet-friendly handsets, and HSDPA availability.

2007

Revenues rose 4.2% in 2007 to EUR 1,776 million. This growth primarily reflected the following factors:

- the impact of the growing percentage of contract customers (0.27 million customers acquired between December 31, 2006 and December 31, 2007) for which the ARPU was more than six times higher than for prepaid offers. Postpaid customers represented 40.9% of the total number of customers at December 31, 2007, compared with 39.1% one year previously;
- the positive trend for ARPU, up 4.3% and Minutes of Use (MoU), up 5.8%;
- a rising contribution of non-voice services (increased from 17% in 2006 to 19% in 2007);
- the increase in other revenues (mainly equipment), representing a positive impact of EUR 7 million; and
- in addition, the reduction in MTA (from August 2007) and roaming (from September 2007) tariffs had a negative impact, see 'Regulatory developments'.

In 2008 we expect the continuation of present operational trends (decreasing MTA tariffs, increasing importance Internet/3G/HSDPA related services) will lead to a more or less flat revenue development.

2006

Wireless consumer revenues increased by 26.4%, or EUR 356 million, to EUR 1,705 million, including the effect from the consolidation of Telfort. Service revenue growth amounted to 27.8% or EUR 356 million, despite an adverse impact from regulatory MTA tariff reductions.

The growth in 2006 service revenues resulted from a larger postpaid customer base, a higher MoU and an ARPU increase from EUR 22 in 2005 to EUR 23 in 2006. We succeeded in further strengthening our leading position in the Dutch market.

With four mobile operators and numerous mobile service providers, the Dutch market remained competitive. In this market, we remain focused on customer value over customer base by emphasizing our postpaid propositions. Marketing and sales efforts aimed at attracting high-value postpaid customers contributed to a 19.2% growth of our postpaid customer base in 2006. Furthermore, the reduced level of handset subsidies on prepaid contracts resulted in a 9.3% decrease in prepaid customers. SAC costs declined considerably, from approximately EUR 179 in 2005 to EUR 166 in 2006.

Traffic growth was mainly driven by a sharp increase in the number of postpaid customers. As a result, MoU increased significantly from 87 minutes in 2005 to 104 minutes in 2006.

ARPU growth was satisfactory, from EUR 22 in 2005 to EUR 23 in 2006. The share of non voice in ARPU growth increased, from 15% in 2005 to 17% in 2006.

Internet wireline

	2007	2006	2005
Revenues (in millions euro)	**917**	**762**	**699**
KPN ADSL Platform connections (*1,000)	2,528	2,135	1,740
KPN Broadband ISP customers (*1,000)	2,402	2,044	1,485
KPN Market share VoIP	39%	36%	3%
KPN Market share broadband (retail)	43.9%	40.9%	36.1%

Internet is a vital part of the contemporary communications landscape. In 2007, approximately 76% of all Dutch households had a broadband Internet connection, up from 69% in 2006. In the course of 2007, the Dutch broadband market showed signs of saturation, an understandable development given its relatively high penetration compared to other countries.

For an increasing number of households broadband not only enables email access and general browsing, but is also used for a broad variety of information, communication and entertainment-oriented activities. Broadband is also being used more functionally by consumers for such things as making online purchases and carrying out banking transactions from home.

Broadband Internet is a main facilitator in the move to integrated, package offerings and of the convergence of telecommunications with media, for instance. A striking example of broadband based convergence is the use of VoIP, offered as a broadband – voice bundle. The uptake of VoIP in The Netherlands is remarkable: we estimate that as of December 2007 approximately 40% of all broadband lines were VoIP-enabled, compared to just 28% in 2006. In contrast, telephone line erosion continued throughout 2007 as an inevitable consequence of this rapid VoIP uptake.

2007

Revenues from Internet services increased in 2007 by 20.3% to EUR 917 million, and were primarily influenced by:

- the acquisition of Tiscali, which added 201,000 retail customers, representing a 3.8% increase in market share and approximately EUR 45 million extra revenues;
- the continued, albeit slowing, growth of broadband services, fuelled by the demand for VoIP (VoIP subscribers, up 330,000 year-on-year or a 64% increase);
- growing demand for supplementary services offered in addition to basic ADSL connection, such as the anti-virus and anti-spam security offers; and
- aforementioned positive revenue effects were partially tempered by the decline in traditional, dial-up revenue (dial-up minutes down 50%, generating approximately EUR 29 million lower revenues) and the impact of lower rates.

The number of broadband customers was 2.5 million as of December 31, 2007, up from 2.1 million one year earlier, representing an increase of 19%.

In 2008 we expect a continuation of the revenue growth at Internet, taking into account the impact of fast diminishing dial-up revenues and the strength of our broadband portfolio and new value added services.

2006

In The Netherlands, seven out of every 10 households have Internet access, while penetration of broadband is one of the highest in the world. As a consequence, dial-up Internet services rapidly decreased in significance. Many providers operate in this mature broadband market, including cable operators, alternative DSL operators and other service providers.

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

As part of our strategy we acquired Speedlinq and Demon in 2006. Compared to 2005, our retail broadband market share increased from 36.1% to 40.9% as of December 31, 2006.

In 2006, total Internet revenues increased by 9% to EUR 762 million (2005: EUR 699 million). Higher revenues from increased ADSL connections more than offset lower revenues from dial-up minutes and a negative price effect resulting from an increase in lower priced ADSL packages. The number of ADSL connections from KPN ISPs increased by 38% to 2,044 thousand at the end of 2006 (including approximately 99,000 customers from acquired ISPs and excluding connections from pending acquisitions).

Operating results

Segmental results of operations

Other (including tv)

	2007	2006	2005
Revenues (in millions euro)	360	317	311
TV subscribers (*1,000)	497	265	184

Revenues of 'Other' include revenues from TV, media, KPN Contact and KPN Retail. Revenues increased both in 2006 and 2007, partly reflecting the increasing demand for our TV and media services. The radical change in our TV business model in 2007 influenced the underlying trends in quantities and ARPU's:

- starting in August 2007 we decreased the monthly subscription fees for Digitenne by approximately 30%, offering the customer a significant discount to comparable cable packages;
- a new, low priced IPTV offer (rate cut approximately 50%);
- an acceleration in the number of our Digital TV subscriptions: from approximately 184,000 in 2005, to approximately 265,000 at the end of 2006 to approximately 500,000 at the end of 2007;
- increasing demand for supplementary TV packages;
- in total, TV generated approximately EUR 20 million additional revenues; and
- KPN Contact's external revenues increased by approximately EUR 15 million, while KPN Retail's revenues declined reflecting the more focused strategy with respect to the number of outlets.

Business Segment

In millions of euro	2007	2006	2005
Voice Wireline	1,028	1,086	1,238
Wireless Services	916	868	827
Network Services	775	746	804
Application Services	477	467	444
Corporate Solutions	585	505	492
Other (incl. intrasegment revenues)	-400	-362	-385
Total Revenues	**3,381**	**3,310**	**3,420**
– of which External revenues	3,151	3,102	3,235
Other income	1	6	4
Total	**3,382**	**3,316**	**3,424**
Own work capitalized	3	1	-
Cost of materials	215	240	213
Work contracted out and other expenses	572	511	532
Employee benefits	359	350	346
Depreciation, amortization and impairments	109	98	82
Other operating expenses	74	47	108
Intercompany expenses	1,400	1,456	1,579
Total operating expenses	**2,732**	**2,703**	**2,860**
Operating profit	**650**	**613**	**564**

Revenues

2007
Total revenues of the Business Segment increased by 2.1% (EUR 71 million) to EUR 3,381 million compared to 2006, due to higher revenues of Wireless Services (EUR 48 million) despite the effect of a roaming tariff decrease and a MTA tariff decline of EUR 9 million (see 'Regulatory Developments'), Network Services (EUR 29 million), Application Services (EUR 10 million, mainly due to the acquisitions in the second half of 2006) and Corporate Solutions (EUR 80 million, due to several new customer programs and acquisitions in the second half of 2006). This increase was slightly offset by lower net sales of Voice Wireline (EUR 58 million). Voice Wireline experienced an ongoing migration towards broadband and mobile solutions combined with market share loss in the traditional voice market (partly due to wholesale line rental).

2006
Total revenues of the Business Segment decreased by 3.2% (EUR 110 million) to EUR 3,310 million compared to 2005 due to lower revenues of Voice Wireline (EUR 152 million) and Network

Services (EUR 58 million). This decrease was somewhat offset by higher revenues of Wireless Services (EUR 41 million), due to an increase in the number of customers, despite a MTA tariff decline, higher revenues of Corporate Solutions (EUR 13 million) and Application services (EUR 23 million) as a result of additional acquisitions. The lower revenues are mainly caused by the migration from traditional voice traffic and data to new mostly IP-based services, which are rendered at lower tariffs. Voice Wireline experienced an ongoing migration towards broadband and mobile solutions combined with market share loss in the traditional voice market and the MTA tariff decline as a result of OPTA regulation.

Operating expenses

2007

Total operating expenses in 2007 compared to 2006 increased by EUR 29 million (1.1%) to EUR 2,732 million. The decrease of EUR 56 million in intercompany costs is closely related to the decline in revenues in the Voice Wireline business (revenues decreased EUR 58 million). Cost of materials plus work contracted out and other expenses increased (EUR 36 million) as a result of increased revenues at Application Services and Corporate Solutions (revenues increased EUR 90 million).

Other operating expenses increased partly because of the acquisitions of Newtel, CSS Telecom and Gemnet.

2006

Total operating expenses in 2006 compared to 2005 decreased by EUR 157 million (5.5%) to EUR 2,703 million.

The decrease of EUR 123 million in intercompany costs is closely related with the decline in the revenues of the business lines Voice Wireline and Network Services (revenues decreased EUR 210 million), partly compensated due to an increase of intercompany cost related to the revenue increase of Wireless Services. Cost of material plus Work contracted out and other expenses slightly increased (EUR 6 million) as a result of increased net sales at Application Services and Corporate Solutions (revenues increased EUR 36 million).

Other operating expenses decreased by EUR 61 million mainly due to the fact that other operating expenses for 2005 included payment for an OPTA fine of EUR 17 million and a payment of EUR 18 million to competitors following the conclusion of OPTA's investigation into certain discounts offered to certain business customers.

Voice wireline

In millions of euro	2007	2006	2005
Traffic fees	534	579	687
Subscriptions, connection fees and other	494	507	551
Total revenues	**1,028**	**1,086**	**1,238**

Number of connections (in thousands)	2007	2006	2005
PSTN	815	905	965
ISDN	867	923	943
VoIP (package broadband, voice)	13	5	-
Total number of connections	**1,695**	**1,833**	**1,908**
Traffic volumes (in billions of minutes)			
Domestic local	2.64	3.06	3.67
Domestic long-distance	2.42	2.76	3.29
Total domestic	**5.06**	**5.82**	**6.96**
Internet-related	0.41	0.76	1.40
Fixed-to-mobile	1.24	1.25	1.29
International	0.42	0.45	0.52
Total Voice wireline	**7.13**	**8.28**	**10.17**

In EUR/minute	2007	2006	2005
Average local tariff	0.038	0.037	0.036
Average Internet tariff	0.048	0.039	0.029
Average domestic long-distance tariff	0.054	0.052	0.053
Average fixed-to-mobile tariff	0.165	0.168	0.188
Average international tariff	0.193	0.188	0.187

Operating results

Segmental results of operations

Revenues

2007

In 2007, Voice Wireline revenues decreased by 5.3% to EUR 1,028 million. Revenues from subscriptions and connection fees decreased by 2.6% to EUR 494 million, whereas revenues from traffic decreased by 7.7% to EUR 534 million (2006: EUR 579 million).

The decline of the Voice Wireline business continued in 2007. The introduction of wholesale line rental (WLR) had an additional negative impact on the number of PSTN/ISDN-connections. Both broadband and mobile services are negatively affecting fixed line revenues from both traffic and subscriptions.

In 2007, the traffic volumes in billions of minutes dropped by 13.9%. Minutes in all traffic categories fell, but the decline was most notable for Internet traffic, as a result of accelerated broadband penetration, which resulted in higher churn of dial-up customers. Domestic traffic volumes declined, as a result of a declining overall telephony market and ongoing competition from traditional fixed-telephony and (cable) VoIP operators. The decrease in the number of connections also contributed to the decline in the number of calls and traffic volumes. As in 2006, our market share in 2007 stabilized, due to further improved customer retention efforts and effective discount propositions.

The decrease in revenues from subscriptions and connection fees was caused by a 8.0% decrease in the number of PSTN and ISDN connections in 2007. Both the number of PSTN and ISDN connections decreased, although the decrease in PSTN connections was larger. The decrease in the number of connections is the result of both accelerated penetration of mobile-only usage as well as broadband access competition, VoIP offerings in the small and medium sized enterprises market, direct access offerings in the corporate market and the introduction of WLR.

2006

In 2006, Voice Wireline revenues decreased by 12.3% to EUR 1,086 million. Revenues from subscriptions and connection fees decreased by 8.0% to EUR 507 million, whereas revenues from traffic decreased by 15.7% to EUR 579 million (2005: EUR 687 million).

The Voice Wireline business is in continuous decline caused by an ongoing migration towards broadband and mobile solutions combined with market share loss in the traditional voice market. Both broadband and mobile services are negatively affecting fixed line revenues from both traffic and subscriptions.

In 2006, the traffic volumes in billions of minutes dropped by 18.6%. Minutes in all traffic categories fell, but the decline was most notable for Internet traffic, as a result of accelerated broadband penetration, which resulted in higher churn of dial-up customers. Domestic traffic volumes declined, as a result of a declining overall telephony market and ongoing competition from traditional fixed-telephony and (cable) VoIP operators. The decrease in the number of connections also contributed to the decline in the number of calls and traffic volumes. In 2006, however, our market share stabilized, due to further improved customer retention efforts and new discount propositions.

The decrease in revenues from subscriptions and connection fees was caused by a 4.2% decrease in the number of PSTN and ISDN connections in 2006. Both the number of PSTN and ISDN connections decreased, although the decrease in PSTN connections was larger. The decrease in the number of connections is the result of both accelerated penetration of mobile-only usage as well as broadband access competition, VoIP offerings in the Small and Medium sized Enterprises (SME) market and direct access offerings in the corporate market.

Wireless services

In millions of euro	2007	2006	2005
Service revenues	930	894	845
Hardware and other revenues	-14	-26	-18
Total revenues	**916**	**868**	**827**
Customers (* 1,000)	**1,306**	**1,171**	**1,048**
Minutes of Use (originating, terminating; in minutes)	**267**	**299**	**317**
ARPU (in EUR)	**62**	**68**	**72**
Non-voice as % of ARPU	17%	13%	10%
SAC/SRC (in EUR)	**325**	**295**	**329**

2007

Wireless Services revenues increased by 5.5%, or EUR 48 million to EUR 916 million. Service revenue growth amounted to 4.0% or EUR 36 million, despite an adverse impact from regulatory MTA tariff reductions and roaming tariff reductions. Hardware and other revenues (including discounts) increased by EUR 12 million to EUR -14 million, mainly due to increased revenues of Sympac, a subsidiary of KPN.

The growth in service revenues in 2007 resulted from a larger (postpaid) customer base, despite slightly lower Minutes of Use. Lower tariffs and growth of non-voice (data) as a percentage of ARPU contributed to the reduction of postpaid ARPU.

With the merger of T-Mobile and Orange, the number of mobile operators in the Dutch market decreased to three. Despite this, the business market remains highly competitive. Because of the numerous service providers active in the market, KPN remains focused on customer value over customer base by emphasizing its high-value postpaid customers.

Traffic growth was mainly driven by an 11.5% increase in the number of customers. Minutes of Use and total monthly ARPU decreased, because of the increase of data-connections (mainly Machine to Machine). Non-voice as a percentage of ARPU increased by 4% to 17%. SAC/SRC increased by EUR 30 million, mainly caused by increased discounts for corporate accounts.

2006

Wireless Services revenues increased by 5.0%, or EUR 41 million to EUR 868 million. Service revenue growth amounted to 5.8% or EUR 49 million, despite a EUR 18 million adverse impact from regulatory MTA tariff reductions. Hardware and other revenues (including discounts) decreased by EUR 8 million to EUR -26 million.

The growth in 2006 service revenues resulted from a larger (postpaid) customer base, despite slightly lower Minutes of Use. Lower tariffs and growth of non-voice (data) as a percentage of ARPU contributed to the reduction of postpaid ARPU.

In 2006, the market consisted of four mobile operators and numerous mobile service providers, and the business market remained competitive.

Traffic growth was mainly driven by an 11.7% increase in the number of customers. Minutes of Use and total monthly ARPU decreased, because of the increase of data-connections (mainly Machine to Machine). SAC/SRC decreased by EUR 34 million, mainly due to lower discounts and distribution fees.

Network services

In millions of euro	2007	2006	2005
Revenues	775	746	804
Number of analog leased lines (in ‘000)	26.2	29.1	33.3
Number of digital leased lines (in ‘000)	6.5	7.3	8.8
IP-VPN connections (Epacity) (in ‘000)	30.4	32.7	33.5
E-VPN connections (in ‘000)	7.5	4.2	1.8
M-VPN (# routers in ‘000)	15.9	11.4	5.3
Business DSL connections (in ‘000)	90.5	53.6	24.0
Housing Services (number of m2 occupied)	10,300	5,600	5,000
Hosting Services (number of servers hosted)	1,830	920	790

Revenues

2007

In 2007, revenues for Network Services increased by 3.9% to EUR 775 million. In 2007 Network Services passed the inflection point: migration from traditional to new data services led to revenue growth despite lower tariffs.

In the new data market, our strong IP-VPN, E-VPN and M-VPN propositions are stimulating the migration trend from point-to-point (leased lines) to any-to-any (VPN connections) solutions. The number of E-VPN connections grew more than 75% and the number of M-VPN connections grew by approximately 40%. The number of IP-VPN connections slightly decreased, mainly because of upgrading to E-VPN or M-VPN propositions. KPN managed to maintain a leading position in the Dutch VPN market. Increasing revenues are generated from value added cyber center (Housing services) and hosting services, reflected by the strong growth of number of m2 occupied (+80%) and the number of hosted servers, which more than doubled.

Business DSL connections grew more than 65% in the last year. With our business proposition we are able to stimulate over 90,000 small and medium enterprises to do their e-business via KPN.

Operating results

Segmental results of operations

2006
In 2006, revenues for Network Services decreased by 7.2% to EUR 746 million.

Revenues declined primarily for traditional data transmission services (national and international). This decline was due to customers migrating towards more cost-effective IP and fiber-based network services and other competitors and related severe price erosion. An increase of traditional services was only seen for Managed Private Lines (point-to-point broadband solutions), as a result of the ongoing increase of PIN-payments and demand from the alarm and surveillance sector.

In the new data market our strong E-VPN and M-VPN propositions were well received and stimulated the migration trend from point-to-point (leased lines) to any-to-any (VPN-connections) solutions. The number of M-VPN routers grew more than 100% and the number of E-VPN connections grew by more than 100%. KPN managed to maintain a leading position in the Dutch VPN market. The chosen strategy of cross- and up-sell towards managed solutions has proven to be successful in 2006.

Business DSL connections grew also more than 100% in 2006. With our business proposition we are able to stimulate over 54,000 small and medium enterprises to do their e-business via KPN providing a solid base for new applications and services.

Application services

In millions of euro	**2007**	2006	2005
Revenues	477	467	444

Revenues
2007
Revenues increased by 2% to EUR 477 million mainly due to the acquisition of CSS Telecom and the growth of Newtel Essence, which was acquired in 2006. These higher revenues are partly offset by lower revenues on delivery of Enterprise Communication Systems caused by a loss of market share. Furthermore, service revenues are decreasing because of consolidation of service contracts: customers are replacing their old service contracts for one combined new contract with lower prices/tariffs for all services.

2006
Revenues increased by 5.2% or EUR 23 million to EUR 467 million partly due to the acquisition of Newtel in June 2006 and CSS Telecom in July 2006. The traditional PABX-voice deliveries decreased due to the highly competitive market combined with lower revenues as a result of a decrease in the installed base. This was offset by an increase of revenues from data solutions and related services such as Managed IPT.

Corporate solutions

In millions of euro	**2007**	2006	2005
Revenues	585	505	492

Revenues

2007
Total revenues increased by 15.8%, or EUR 80 million in 2007, mainly because of several new customer programs. Furthermore, Gemnet (acquired at the end of 2006) is generating increasing revenues. Gemnet owns and operates a network connecting local governments and has started to provide certain value-added services.

2006
Revenues increased by 2.6% to EUR 505 million in 2006 mainly due to an increase in projects. The traditional voice deliveries decreased due to the highly competitive market combined with lower revenues as a result of a decrease in the installed base. This was offset by an increase of revenues from data solutions and related services such as Managed IPT.

Getronics Segment

Numbers reflect period from October 23, 2007 to December 31, 2007

In millions of euro	2007
Service revenues	433
Hardware and other revenues	55
Total revenues	**488**
– of which External revenues	482
Other income	0
Total revenues and other income	**488**
Own work capitalized	-3
Cost of materials	78
Costs of work contracted out and other expenses	103
Employee benefits	221
Depreciation, amortization and impairments	18
Other operating expenses	63
Intercompany expenses	3
Total operating expenses	**483**
Operating profit	**5**

Revenues and other income

2007

The fourth quarter revenue was supported by the high activity levels within Consulting & Transformation services and a strong year end uplift in the application services business for the public sector, although shortage of skilled staff hindered full exploitation of this strong demand. In revenues is EUR 46 million included from the Iberian operating company, which was sold to Technocom on December 20, 2007. Technocom is a listed Spanish ICT Services company.

Going forward, Getronics will focus on its core operations such as 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.

Operating expenses

2007

Employee benefits expenses were adversely impacted by shortage in some labor markets. This shortage resulted in relative high work contracted out, both in volume and price. The operating expenses include an amount of EUR 6 million for restructuring expenses and EUR 8 million for integration expenses. The amortization of intangibles amounted to EUR 10 million.

The expenses for the period include EUR 46 million expenses from the Iberian operating company.

Operating results

Segmental results of operations

Wholesale & Operations Segment

In millions of euro	2007	2006	2005
External revenues	1,127	1,147	1,163
Intercompany revenues	2,579	2,766	2,873
Total revenues	**3,706**	**3,913**	**4,036**
Other income	164	25	12
Total revenues and other income	**3,870**	**3,938**	**4,048**
– of which Real Estate	455	372	360
Own work capitalized	-80	-42	-36
Cost of materials	80	59	72
Work contracted out and other expenses	1,181	1,080	1,035
Employee benefits	358	397	408
Depreciation, amortization and impairments	1,180	1,407	1,337
Other operating expenses	59	16	48
Intercompany expenses	277	341	310
Total operating expenses	**3,055**	**3,258**	**3,174**
Operating profit	**815**	**680**	**874**
– of which Real Estate	185	126	67

Revenues and other income

2007
Wholesale & Operations' total revenues decreased by 5.3% or EUR 207 million in 2007. Although total revenues were adversely affected by the further decline in fixed-line connections and related traffic volumes as well as roaming tariff reductions, the decrease was to some extent mitigated by higher revenues from WLR and the consolidation of the acquired iBasis activities in the fourth quarter of 2007. Other income, up EUR 139 million compared to 2006, consisted mainly of a EUR 66 million gain on the sale of KPN Global Carrier Services B.V. and EUR 96 million gains on disposal of real estate (2006: EUR 25 million).

2006
Wholesale & Operations' total revenues decreased by 3.0% or EUR 123 million in 2006. This was mainly caused by declining intercompany revenues: the growth in Mobile could not compensate the loss of fixed-line connections and traffic as well as the EUR 40 million MTA tariff reduction. External revenues decreased by 1.4% or EUR 16 million; less originating and terminating minutes were offset by increased transit and international traffic volumes.

Traffic volumes

in billions of minutes	2007	2006	2005
Terminating	11.80	13.04	13.49
Originating	6.87	9.91	12.95
Transit	9.93	8.44	6.78
International	13.02	9.03	7.93
Total Wholesale & Operations	**41.62**	**40.42**	**41.15**

National traffic volumes were down 8.9% to 28.6 billion minutes in 2007 (2006: -5.5% to 31.4 billion), mainly due to reduction in traffic by a smaller ISDN/PSTN installed base. Reduced volumes in traditional voice stem from strong competition and migration to VoIP. The increase in transit volumes is mainly caused by 'mobile-only users', a phenomenon that continued in 2007.

International traffic volumes increased by 4 billion minutes (44.2%; 2006: 13.9%) mainly due to the consolidation of iBasis in the fourth quarter of 2007. International call volumes benefited from the fast-developing global market for minute trading. Average revenues per minute, however, continued to fall. Apart from fierce competition in the wholesale carrier market, the mix of global carrier services sold changed due to the iBasis acquisition.

Operating expenses

2007
Total operating expenses in 2007 fell by 6.2% compared to prior year. Traffic purchase costs decreased – however less than the related revenues – due to traffic swapping from high-margin originating and terminating minutes to low-margin transit and international minutes. Moreover, personnel-related costs started to benefit from the significant FTE reductions in 2007, although dampened by the need to create restructuring provisions. The effect of lower traffic-related and personnel costs was offset by an increase in costs due to consolidating iBasis as from October 2007. Because the accelerated write-down of Telfort network assets halted as from July 2007 (as book values then equaled their residual values), depreciation and amortization charges decreased from prior year's amounts by 16.1% (or EUR 227 million).

2006
The operating expenses in 2006 increased by 2.6% to EUR 3,258 million. The main reasons for these cost increases included:

- increased traffic cost due to the shift from high-margin originating and terminating minutes to low-margin transit and international traffic;
- cost savings on the traditional services were partly offset by launch costs of the IP portfolio;
- Ecotax refunds (EUR 20 million) were more than offset by Telfort network integration costs; and
- higher depreciation and amortization charges due to the accelerating the write-down of Telfort network assets (both radio network and licences).

Mobile International

In millions of euro	2007	2006	2005
Service revenues	3,754	3,609	3,199
– E-Plus Segment	2,816	2,698	2,461
– BASE Segment	595	609	541
– Mobile Wholesale The Netherlands Segment	341	303	201
– Intercompany and other	2	-1	-4
Hardware and other revenues	204	208	344
Total revenues	**3,958**	**3,817**	**3,543**
– of which External revenues	3,852	3,696	3,447
Other income	2	2	25
Total revenues and other income	**3,960**	**3,819**	**3,568**
Own work capitalized	-35	-65	-70
Cost of materials	241	335	528
Costs of work contracted out and other expenses	1,527	1,432	1,408
Employee benefits	222	264	263
Depreciation and impairments	495	495	525
Amortization and impairments	325	363	273
Other operating expenses	273	328	292
Intercompany expenses	266	249	201
Total operating expenses	**3,314**	**3,401**	**3,420**
Operating profit	**646**	**418**	**148**

For the principle sources of revenue, see 'Consolidated Results of Operations'.

Operating results

Segmental results of operations

E-Plus Segment

In millions of euro	2007	2006	2005
Service revenues	2,816	2,698	2,461
Hardware and other revenues	146	196	336
Total revenues	**2,962**	**2,894**	**2,797**
– of which External revenues	2,933	2,850	2,750
Other income	1	0	25
Total revenues and other income	**2,963**	**2,894**	**2,822**
Own work capitalized	-34	-65	-70
Cost of materials	230	325	504
Costs of work contracted out and other expenses	1,157	1,135	1,146
Employee benefits	171	222	209
Depreciation and impairments	403	396	425
Amortization and impairments	273	282	253
Other operating expenses	204	263	237
Intercompany expenses	122	109	123
Total operating expenses	**2,526**	**2,667**	**2,827**
Operating profit	**437**	**227**	**-5**

Revenues and other income

2007

In 2007, revenues were up 2.3% as higher service revenues, up 4.4%, were to some extent offset by lower hardware and other revenues. Service revenues increased on higher traffic volumes. Hardware and other revenues were lower due to the success of SIM-only offers. The growth of the German mobile market and E-Plus' increased share thereof were reflected in an enlarged customer base, up to 14.8 million at year-end 2007 (2006: 12.7 million).

While the customer base rose again in 2007, ARPU saw a further decrease to EUR 17 mainly due to regulatory MTA tariff reductions, VAT increase, tariff optimization induced by customers as well as the changed postpaid/prepaid mix due to the high prepaid customer intake during the year.

The estimated 14.0% service revenue market share as of December 31, 2007 (2006: 12.9%) demonstrates the impact hereof on E-Plus' position in the German market. As of December 2007, E-Plus served 6.3 million postpaid customers, representing 43% of its total customer base (2006: 47%). This decrease is the result of E-Plus' focus on partnerships, such as with Medion (offering only prepaid), meaning that a large share of the customer base growth in 2007 related to prepaid customers.

2006

In 2006, revenues were up 3.5% as higher service revenues, up 9.6%, were to some extent offset by lower hardware and other revenues. Service revenues increased on higher traffic volumes. Hardware and other revenues were lower due to the success of SIM-only offers. The growth of the German mobile market and E-Plus' increased share thereof were reflected in an enlarged customer base, up to 12.7 million at year-end 2006 (2005: 10.7 million).

While the customer base rose again in 2006, ARPU saw a further decrease to EUR 19 mainly due to regulatory MTA tariff reductions, tariff optimization induced by customers as well as the changed postpaid/prepaid mix due to the high prepaid customer intake during the year.

The estimated 12.9% service revenue market share as of December 31, 2006 (2005: 11.7%) demonstrates the impact hereof on E-Plus' position in the German market. As of December 2006, E-Plus served 6.0 million postpaid customers, representing 47% of its total customer base (2005: 52%). This decrease is the result of E-Plus' focus on partnerships, such as with Medion (offering only prepaid), meaning that a large share of the customer base growth in 2006 related to prepaid customers.

The other income in 2005 related to an one-time off effect relating NTT i-mode.

The below tables summarize the developments in customer base, traffic volumes, average revenues and gross churn ratios of E-Plus:

Customer base development

Number of customers in thousands at December 31,	2007	2006	2005
Postpaid	6,297	6,005	5,574
Prepaid	8,510	6,649	5,174
Total	**14,807**	**12,654**	**10,748**

Traffic volumes, Minutes of Use, ARPU and Churn

	2007	2006	2005
Total traffic volumes (in millions of minutes)	**21,773**	**15,350**	**9,376**
Minutes of Use (originating, terminating; in minutes)	**136**	**110**	**79**
Postpaid	252	192	135
Prepaid	45	32	21
ARPU (in EUR)	**17**	**19**	**21**
Postpaid	31	32	35
Prepaid	6	6	6
Gross churn ratio	**23%**	**25%**	**23%**
Postpaid	22%	22%	16%
Prepaid	23%	27%	30%

In 2007, prepaid churn decreased to 23% as a result of an increased prepaid customer base. In 2006, postpaid gross churn increased due to the higher volume of contract expirations as well as clearing inactive customers, while in 2005 prepaid gross churn rose due to clearing inactive customers.

Operating expenses

2007

In 2007, operating expenses decreased 5.3%, or EUR 141 million, mainly due to lower cost of materials due to our SIM-only strategy, as a result of continued SAC/SRC reductions and the outsourcing of network operations and maintenance to Alcatel-Lucent in March 2007. In addition, personnel cost decreased due to restructuring.

2006

In 2006, operating expenses decreased 5.7%, or EUR 160 million, mainly due to lower cost of materials and lower acquisition costs due to our SIM-only strategy, which means SIM cards are distributed without a handset, which means lower cost of materials, and cheaper distribution channels such as the Internet are employed, which means lower work contracted out.

At the end of 2005, the i-mode and internet platform were fully depreciated, therefore the deprecation charge in 2006 is lower than in 2005.

BASE Segment

In millions of euro	2007	2006	2005
Service revenues	595	609	541
Hardware and other revenues	18	11	7
Total revenues	**613**	**620**	**548**
– of which External revenues	587	588	518
Other income	0	2	0
Total Revenues and other income	**613**	**622**	**548**
Own work capitalized	0	0	-1
Cost of materials	9	7	23
Costs of work contracted out and other expenses	244	237	200
Employee benefits	43	39	47
Depreciation and impairments	89	99	100
Amortization and impairments	24	18	19
Other operating expenses	57	52	51
Intercompany expenses	30	23	24
Total operating expenses	**496**	**475**	**463**
Operating profit	**117**	**147**	**85**

Revenues

2007

Total revenues in 2007 decreased by EUR 7 million or 1.1% compared to 2006. The decrease in service revenues by EUR 14 million or 2.3% compared to 2006 is the direct result of the

Operating results

Segmental results of operations

regulatory MTA tariff reductions which started on November 1, 2006 followed by a second cut on May 1, 2007. The effect of the reduced MTA tariffs was partly compensated by an increase in our subscriber base which went up from 2.4 million subscribers at the end of 2006 to 2.9 million subscribers at the end of 2007. The increase in hardware and other revenues is explained by the acquisition of Allo Telecom in August 2007.

2006

While our customer base increased from 2.0 million as of December 31, 2005 to 2.4 million in 2006, our blended ARPU remained stable compared to EUR 24 in 2005. The change in the prepaid/postpaid mix, promotions and the effect of the reduced MTA tariffs as of November 1, 2006 were offset by a usage increase in our existing customer base. BASE estimates it has approximately a 15% share of total revenues in the Belgian mobile market (2005: over 13%). As of November 1, 2006, BiPT took a first step to reduce the MTA tariffs.

The tables below summarize the developments in customer base, traffic volumes, average revenues and gross churn ratios of our mobile operator in Belgium.

Customer base development

Number of customers in thousands at December 31,	**2007**	2006	2005
Postpaid	512	461	429
Prepaid	2,343	1,897	1,572
Total	**2,855**	**2,358**	**2,001**

Traffic volumes, Minutes of Use, ARPU and Churn

	2007	2006	2005
Total traffic volumes (in millions of minutes)	**4,289**	**3,508**	**2,579**
Minutes of Use (originating, terminating; in minutes)	**138**	**137**	**117**
Postpaid	403	390	271
Prepaid	76	71	78
ARPU (in EUR)	**19**	**24**	**24**
Postpaid	51	60	61
Prepaid	12	14	15
Gross churn ratio	**18%**	**20%**	**17%**
Postpaid	20%	19%	20%
Prepaid	18%	20%	16%

Under the current tariffs and conditions introduced by BASE in 2005, prepaid customers are removed from the customer base after one year of inactivity (i.e., customers without incoming or outgoing traffic).

Operating expenses

2007

Operating expenses increased by EUR 21 million or 4.4% in 2007 compared to 2006. Part of this increase resulted from the acquisition of Allo Telecom in August 2007. Furthermore, cost of materials and costs of work contracted out increased by EUR 9 million which is mainly explained by higher network infrastructure expenses and increased commission costs. The increase of intercompany expenses is explained by higher interconnect costs caused by increased traffic volumes.

2006

Operating expenses increased by 2.6% in 2006 compared to 2005. Cost of materials and costs of work contracted out increased by EUR 21 million. This increase can be explained by higher interconnection costs caused by increased traffic volumes, higher external costs resulting from our outsourcing activities, and higher costs for network extension and optimization. This increase was partly offset by lower dealer commissions and roaming costs. Salary-related expenses decreased by EUR 8 million compared to 2005 mainly due to the lower average number of FTEs (2006: 482; 2005: 534). The decrease in FTEs was the result of outsourcing projects in the second half of 2005.

Mobile Wholesale The Netherlands Segment

In millions of euro	2007	2006	2005
Service revenues	341	303	201
Hardware and other revenues	3	0	1
Total revenues	**344**	**303**	**202**
- of which External revenues	291	255	177
Other income	0	0	0
Total revenues and other income	**344**	**303**	**202**
Own work capitalized	0	0	0
Cost of materials	1	1	1
Costs of work contracted out and other expenses	94	57	61
Employee benefits	4	3	2
Depreciation and impairments	0	0	0
Amortization and impairments	28	63	1
Other operating expenses	3	11	0
Intercompany expenses	113	119	65
Total operating expenses	**243**	**254**	**130**
Operating profit	**101**	**49**	**72**

Revenues

2007

Mobile Wholesale The Netherlands generated EUR 344 million in revenues, which is an increase of 14% compared to 2006. Continued market growth in the mobile wholesale segment and strong performance of KPN within this segment fueled the revenue increase in 2007. However, regulatory impact on MTA and roaming tariffs has negatively affected revenues. In a competitive market with continuing price pressure, Mobile Wholesale The Netherlands has succeeded in showing profitable organic growth with its partners. Emphasis on strong brands and specific segments both in The Netherlands and other countries within our footprint proved to be a sound strategy. As a result the customer base increased by 0.3 million to 1.8 million by the end of 2007.

2006

Mobile Wholesale The Netherlands generated EUR 303 million in revenues, 50% higher than in 2005, due to strong market growth in the wholesale segment. After a step-up from the Telfort acquisition, this segment has shown strong profitable organic growth, as KPN has attracted the most attractive wholesale partners and the business model has low subscriber acquisition costs. KPN's mobile wholesale strategy focuses on leveraging wholesale partners, brands and platforms across the footprint.

Operating expenses

2007

Operating expenses show a decline of 4% compared to 2006 to EUR 243 million. As total traffic generation in 2007 was substantially higher than in 2006, so are interconnection fees. Especially outgoing international traffic caused traffic related expenses to increase. Amortization decreased substantially compared to previous year due to a goodwill adjustment in 2006, recorded as amortization, as a result of the acquisition of Telfort for an amount of EUR 34 million.

2006

Operating expenses are relatively high due to one off amortization costs. Costs of work contracted out increased during the course of 2006 as a result of significant customer base and traffic growth.

Operating results

Segmental results of operations

Other activities

In millions of euro	2007	2006	2005
Revenues	**7**	**22**	**182**
Other income	3	75	84
Total revenues and other income	**10**	**97**	**266**
Operating expenses	57	63	153
Operating result	-47	34	113

Revenues and other income

2007

Revenues in 2007 decreased by EUR 15 million mainly resulting from the sale of Xantic (a satellite communication provider) as of February 14, 2006.

2006

The decrease in total revenues in 2006 amounting to EUR 160 million or 88% was mainly the result of the sale of Xantic in 2006. The sale resulted in EUR 140 million lower revenues. Other income in 2006 includes a gain on the sale of Xantic of EUR 74 million. As of February 14, 2006, KPN and Telstra sold their total holdings in Xantic to the Canadian Stratos Global Corp.

Other income in 2005 included the book gains on the sale of Intelsat and Infonet amounting to EUR 21 million.

Operating expenses

2007

The operating expenses mainly relate to the Corporate Center.

2006

The decrease in operating expenses in 2006 amounting to EUR 90 million was the result of the sale of Xantic, resulting in EUR 116 million lower operating expenses which was opposed by a release of EUR 63 million relating to the provision for pension charges in the 2005 income statement.

Other Consolidated Results of Operations

Sale of activities and assets

During the last three years, we sold various activities and assets. The below table reflects the estimated impact of the asset disposals on our external revenues, operating result and total assets. The figures are based on the last full year of consolidation or the moment of disposal in case of participating interests.

In millions of euro	Year of disposal	Impact on external revenues	Impact on operating result	Impact on total assets
Infonet	2005	None	None	116
Intelsat	2005	None	None	25
PanTel	2005	100	6	136
Xantic	2006	157	28	144