



## ROYAL KPN N.V.

Koninklijke KPN N.V., a public limited liability company incorporated under Dutch law with its corporate seat in The Hague

**\$1,000,000,000 8.375% Notes due 2030**

**\$1,750,000,000 8.00% Notes due 2010**

**\$750,000,000 7.50% Notes due 2005**

**€1,000,000,000 6.25% Notes due 2005**

We will pay interest on the U.S. dollar notes on April 1 and October 1 of each year, beginning on April 1, 2001, and on the euro notes on October 4 of each year, beginning October 4, 2001. We may redeem any of the U.S. dollar notes at any time and at the redemption price described in this offering circular plus accrued interest. The euro notes are not redeemable prior to their maturity. In addition, we may, in the event of certain developments affecting taxation and in certain other circumstances, redeem all, but not some of, any series of U.S. dollar notes or euro notes at 100% of their principal amount plus accrued interest. There is no sinking fund for any series of the notes. Notes will be issued only in registered book-entry form in denominations of \$1,000 and integral multiples of \$1,000 in the case of the U.S. dollar notes and in denominations of €1,000 and integral multiples of €1,000 in the case of the euro notes.

We have agreed to file an exchange offer registration statement pursuant to a registration rights agreement. In the event we fail to comply with some of our obligations under the registration rights agreement, we will pay additional interest on the notes.

Application has been made to list the notes on Euronext Amsterdam N.V.

This offering comprises an offering of notes to institutional investors outside the United States in reliance on Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act") and a private placement of notes in the United States to qualified institutional buyers, as defined in and in reliance on Rule 144A under the Securities Act. You are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

**Price:**

**Per U.S. dollar note due 2030 99.751%**

**Per U.S. dollar note due 2010 99.981%**

**Per U.S. dollar note due 2005 99.936%**

**Per euro note due 2005 99.833%**

plus accrued interest, if any, from October 4, 2000.

Delivery of the U.S. dollar notes, in book-entry form only, will be made through the facilities of The Depository Trust Company, Euroclear and Clearstream, Luxembourg and the euro notes, in book entry form only, will be made through the facilities of Euroclear and Clearstream, Luxembourg in each case on or about October 4, 2000 against payment of immediately available funds.

**Investing in these securities involves certain risks. See "Risk Factors" beginning on page 17.**

*Joint Book Running Managers for the Dollar Notes*

**Morgan Stanley Dean Witter**

**UBS Warburg LLC**

**Banc of America Securities LLC**

**Chase Manhattan International Limited**

**Deutsche Banc Alex. Brown**

**ING Barings/BBL**

**Nomura Securities**

*Joint Book Running Managers for the Euro Notes*

**Morgan Stanley Dean Witter**

**UBS Warburg**

**Bank of America International Limited**

**Chase Manhattan International Limited**

**Deutsche Bank**

**ING Barings/BBL**

**Nomura Securities**

## TABLE OF CONTENTS

Important Information . . . . .	2	Relationship with the State . . . . .	186
SEC Review . . . . .	4	Management . . . . .	190
Service of Process and Enforceability of Certain Foreign Judgments . . . . .	4	Description of the Notes . . . . .	195
Summary . . . . .	5	Major Shareholder . . . . .	213
Risk Factors . . . . .	17	Related-Party Transactions . . . . .	214
Use of Proceeds . . . . .	27	Material Contracts . . . . .	220
Presentation of Financial and Other Information . . . . .	28	Taxation . . . . .	250
Exchange Rates . . . . .	29	Plan of Distribution . . . . .	257
Capitalization . . . . .	30	Clearance and Settlement . . . . .	260
Selected Consolidated Historical Financial Data—The Group . . . . .	32	Transfer Restrictions . . . . .	265
Selected Historical Financial Data— E-Plus . . . . .	35	Legal Matters . . . . .	267
Unaudited Pro Forma Condensed Consolidated Financial Data . . . . .	36	Independent Accountants . . . . .	267
Management’s Discussion and Analysis of the Financial Condition and Results of Operations . . . . .	50	Where You Can Find More Information . . . . .	268
Business . . . . .	123	Additional Listing Information . . . . .	268
Strategic Alliances . . . . .	162	Paying Agent . . . . .	269
Licensing and Regulatory Issues . . . . .	167	Publications . . . . .	269
		Historical Financial Statements of Koninklijke KPN N.V. . . . .	F-1
		Historical Financial Statements of E-Plus Mobilfunk GmbH . . . . .	G-1
		Interim Financial Statements of Koninklijke KPN N.V. (unaudited) . . . .	H-1

## IMPORTANT INFORMATION

We are responsible for the accuracy and completeness of the information in this offering circular, which constitutes a “prospectus” for the purposes of the listing rules of Euronext Amsterdam N.V. We represent and warrant that the information in this offering circular is in all material respects in accordance with the facts and does not omit anything likely to affect the accuracy and completeness of such information in any respect.

In making an investment decision, investors must rely upon their own examination of Koninklijke KPN N.V. (“KPN”) and its subsidiaries and the terms of the offering being made hereby, including the merits and risks involved.

You should rely only on the information contained in this offering circular. Neither we, nor any of the initial purchasers listed under “Plan of Distribution,” have authorized anyone to provide potential investors with information different from that contained in this offering circular. The information contained in this offering circular is accurate only as of the date of this offering circular, regardless of the time of delivery of this offering circular, or any sale of the notes.

The notes offered hereby have not been and will not be registered under the Securities Act. The notes are being sold by the initial purchasers only to non-U.S. persons in offshore transactions outside the United States in reliance on Regulation S (“Regulation S”) under the Securities Act, and are being sold by the initial purchasers in the United States only to qualified institutional buyers, as defined in, and in reliance on, Rule 144A (“Rule 144A”) under the Securities Act.

We are relying on an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing notes, you will be deemed to have made the acknowledgements, representations, warranties and agreements set forth under the heading

“Transfer Restrictions” in this offering circular. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time. The notes are subject to restrictions on transferability and may not be transferred or resold except as permitted under applicable U.S. federal or state securities law pursuant to a registration statement or an exemption from registration.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of these notes or passed upon the adequacy or accuracy of the offering circular. Any representation to the contrary is a criminal offense.

Neither this offering circular nor any other document issued in connection with this offering may be issued or passed on to any persons in the United Kingdom, unless such persons are of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisement) (Exemptions) Order 1996 (as amended) of the United Kingdom, or are persons to whom such document may otherwise be lawfully issued or passed on.

The distribution of this offering circular and the offering or sale of the notes in certain jurisdictions is restricted by law. This offering circular may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction in which it is unlawful to make such an offer or solicitation. Persons into whose possession this document may come are required by us and the underwriters to inform themselves about and to observe such restrictions. Neither we nor any of the initial purchasers accepts any responsibility for any violation by any person, whether or not it is a prospective purchaser of the notes, of any such restrictions.

We reserve the right to withdraw this offering of notes at any time and we and the initial purchasers named herein reserve the right to reject any commitment to subscribe for the notes, in whole or in part. We also reserve the right to allot to you less than the full amount of notes sought by you.

**In connection with this offering, the Joint Book Running Managers may over-allot or effect transactions which stabilize or maintain the market price of the notes at levels which might not otherwise prevail in the open market. Such transactions may be effected on Euronext Amsterdam N.V. or otherwise. Such stabilization, if commenced, may be discontinued at any time, and in any event will be discontinued no later than 30 days after the closing of this offering. Stabilization transactions conducted on Euronext Amsterdam N.V. must be conducted by an admitted institution (*toegelaten instelling*) of Euronext Amsterdam N.V. on behalf of the initial purchasers and must be conducted in accordance with all applicable laws and regulations, including those of Euronext Amsterdam N.V. and article 32 of the Securities Market Supervision Rules 1999 (*Nadere Regeling toezicht effectenverkeer*). For a description of these activities, see “Plan of Distribution.”**

#### **Notice to New Hampshire residents**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED (“RSA 421-B”) WITH THE SECRETARY OF STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED WITH THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

## **SEC REVIEW**

We have agreed that, at a future date, we will prepare and file, under certain circumstances described herein, a registration statement for an exchange offer. The SEC will review this registration statement. As a result we may have to make changes to the description of our business and other information contained in this offering circular. While we believe that the financial information included in this offering circular is consistent in all material respects with published SEC regulations governing registered securities offerings, comments by the SEC on the registration statement for the exchange offer may require modification or reformulation of this information which will be included in any future registration statement. We are responsible for the accuracy and completeness of the information in this offering circular, despite any additional information we include in the future registration statement as a result of the SEC's review. Please see "Registration covenant; exchange offer" in the "Description of Notes" for more information.

## **SERVICE OF PROCESS AND ENFORCEABILITY OF CERTAIN FOREIGN JUDGMENTS**

We are a public limited liability company incorporated under the laws of The Netherlands and substantially all of our assets are located outside the United States. In addition, all of our managing directors and members of our supervisory board, are residents of countries other than the United States. Although we have agreed in the indenture to accept service of process in the United States by an agent designated for that purpose, it may not be possible for holders of notes to:

- effect service of process upon certain of our directors or officers and those of our subsidiaries; or
- enforce judgments of courts of the United States predicated upon civil liability under the U.S. federal securities laws against such persons in the courts of a foreign jurisdiction.

We have been advised by our Dutch legal advisors, Allen & Overy, that there is doubt as to the enforceability in The Netherlands against any of the persons listed above in an original action or in an action for the enforcement of judgments of U.S. courts of civil liabilities predicated solely upon U.S. federal securities laws. As there is no treaty between the United States and The Netherlands providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards in civil and commercial matters), U.S. judgments would not be enforceable in The Netherlands. However, a final judgment for the payment of money obtained in a U.S. court, which is not subject to appeal or any other means of contest and is enforceable in the United States, would, in principle, under current practice be upheld by a Dutch court of competent jurisdiction when asked to render a judgment in accordance with that final judgment by a U.S. court, without substantive re-examination or re-litigation on the merits of the subject matter of that judgment, so long as the Dutch court finds that the jurisdiction of the federal or state court in the United States has been based on grounds that are internationally acceptable and so long as (1) that judgment has been rendered by a court of competent jurisdiction and resulted from proceedings which are compatible with Dutch concepts of due process, (2) that judgment has not been rendered in proceedings of a penal or revenue nature, (3) that judgment, and its content and possible enforcement are not contrary to public policy or public order of The Netherlands, and (4) that judgment does not concern the recognition of punitive damages that bear no relationship to the amount of damages incurred.

## SUMMARY

*You should read this summary together with the more detailed information about us and the notes being sold in this offering and our historical consolidated financial statements and notes to the historical consolidated financial statements appearing elsewhere in this offering circular. You should also read the entire offering circular carefully, especially where the risks of investing in our notes are discussed under "Risk Factors."*

In this offering circular, (1) "KPN" refers to Koninklijke KPN N.V., (2) "we," "us," "our," the "Group" and similar terms refer to KPN and any or all of its subsidiaries and joint ventures as the context requires and (3) "E-Plus" refers to E-Plus Mobilfunk GmbH & Co. KG, a limited liability partnership, and any or all of E-Plus' subsidiaries as the context requires.

### Overview

We are the leading telecommunications company in The Netherlands, offering a wide range of telecommunications services within The Netherlands and to, from and in other countries for business and residential customers. Our four core business activities are fixed network services; mobile communications; Internet Protocol and data services, or IP/data; and Internet, customer relationship management and media services, or ICM:

- *Fixed network services.* We are the largest provider of fixed line telephony services in The Netherlands. Based on management estimates, we supplied approximately 9.8 million access channels to Dutch customers as of June 30, 2000, including 2.7 million integrated services digital network, or ISDN, channels. In late 1999 we installed a new fiber-optic network covering major urban areas in The Netherlands, which we call the Lambda network. We are the leading provider of interconnection and other wholesale carrier services in The Netherlands to other telecommunications companies.
- *Mobile communications.* KPN Mobile N.V., or (together with any or all of its subsidiaries as the context requires) KPN Mobile, our 85.0% owned subsidiary, is the largest mobile telecommunications provider in The Netherlands. As of June 30, 2000, KPN Mobile had approximately 4.2 million customers connected to its network, representing an estimated 49% share of the total Dutch mobile telecommunications market. E-Plus, our majority-owned (but jointly controlled) joint venture, is Germany's third largest mobile network operator with approximately 5.0 million customers and approximately 15% market share as of June 30, 2000. In Belgium we have a 50.0% ownership interest in KPN Orange Belgium N.V./S.A., or KPN Orange, the third mobile telecommunications provider in Belgium and the first to provide DCS 1800 services. Based on management estimates, KPN Orange had approximately 243,000 customers as of June 30, 2000.
- *IP/data.* We are the leading provider of IP/data services in The Netherlands in terms of revenues and, through KPNQwest N.V., or KPNQwest, our joint venture with Qwest Communications International Inc., or Qwest, a leading provider of IP/data services to business customers in Europe. In The Netherlands we have constructed several networks to handle the rapidly increasing volumes of data communications efficiently. These networks use capacity available on our Lambda optical network. Through KPNQwest, we are in the process of building interconnected EuroRings consisting of advanced high-capacity fiber-optic cables throughout Europe, offering interconnection with our fiber-optic network in The Netherlands and Belgium, and with Qwest's fiber-optic network, offering connectivity between Europe and the United States. In the web-hosting market, KPNQwest currently operates 12 CyberCentres of approximately 100-200 square meters each.

- *ICM.* Through our ICM segment, we operate as a provider of customer relationship management, or CRM, and Internet and media, or I&M, services. As of June 30, 2000, we were ranked first in The Netherlands in terms of the number of registered ISP subscribers of our Internet service providers, or ISPs. We believe that we are the second largest ISP in Belgium in terms of the number of registered ISP subscribers. Based on management estimates, our ISPs had an aggregate registered subscriber base of 1.6 million in The Netherlands and Belgium. We are the leading provider of outsourced call center services in The Netherlands and also provide many Internet-related services (such as hosting), directory assistance, toll-free number services (0800), paid information services (0900), and telephone directory services.

## Strategy

Our goal is strong growth of enterprise value. We plan to achieve this goal by pursuing the specific strategic steps set out below to generate organic growth and growth through acquisitions, joint ventures or partnerships.

- *Fixed network services.* In order to retain our leadership in the fixed network market in The Netherlands we intend to leverage our large customer base and roll out broadband services. We also aim to focus on operational excellence, enhance the capacity of our networks, and improve our cost efficiency.
- *Mobile communications.* In our mobile communications business, our strategy is to become one of the leading pan-European mobile telecommunications providers by leveraging KPN Mobile's existing leading market position in The Netherlands and E-Plus' position in Germany. Our strategy is focused on building a profitable pan-European customer base.
- *IP/data.* In the IP/data market, our goal is to maintain leadership in the Dutch market and, through KPNQwest, to become one of the leading pan-European providers of Internet Protocol-based data transmission and other value-added telecommunications services.
- *ICM.* The aim of our ICM business is to become a major European player in interactive media based on the following criteria: number of subscribers; number of page views; number of agent positions in our call centers; number of calls handled by our call centers; and number of 0800/0900 numbers in service.

## Competitive Strengths

We believe we have a number of competitive strengths in our core business segments:

- *Fixed network services.* We are the oldest and best-known telecommunications provider in The Netherlands, with a strong brand name and the largest fixed telephony customer base. We are constantly investing in our network to further improve quality and efficiency and to enhance capacity. We also have a large and comprehensive sales and distribution network that targets both business customers and consumers.
- *Mobile communications.* We believe that our mobile telecommunications brands are widely recognized in The Netherlands and Germany. Given our current market position and our strategic relationship with NTT DoCoMo Inc. (which, together with its subsidiaries, we refer to as DoCoMo), and our joint venture with Hutchison Whampoa Limited (which, together with its subsidiaries, we refer to as Hutchison), we believe we can develop industry-leading services and applications, exploit benefits of scale, and accelerate the roll out of Universal Mobile Telecommunications System, or UMTS, networks, while sharing the associated costs.
- *IP/data.* We have built the CityRings network in the main cities in The Netherlands and we use capacity available on our Lambda fiber network to provide capacity for the growing IP/data

traffic. KPNQwest's EuroRings network, when completed, will extend almost 20,000 kilometers across 14 countries and 50 cities throughout Europe. KPNQwest's EuroRings network will connect to the Qwest fiber optic network that connects approximately 150 metropolitan areas across the United States and Mexico. KPNQwest recently announced a strategic partnership with IBM to build 18 regional mega-CyberCentres of at least 10,000 square meters each.

- *ICM.* We believe Planet is the leading brand in the consumer market for paid Internet access, services and content in The Netherlands, and our ISPs XS4ALL, Planet Internet and HetNet are among the best ISPs in their class in The Netherlands in terms of quality of service. As of June 30, 2000, based on management estimates, our ISPs were ranked first in The Netherlands and second in Belgium in terms of numbers of registered ISP subscribers. We are building a diverse portfolio of Internet content, and have reached agreements with several partners to provide Internet services, such as Money Planet, a financial portal, and Travel Planet, a travel portal. Further, with our majority-owned subsidiary SNT, the leading outsourced call center brand in The Netherlands, and our own call center operations, we believe we have valuable know-how on using call centers for the handling of customer care.

### **Recent Developments**

On February 24, 2000 our subsidiary KPN Mobile completed its acquisition of a 77.49% indirect interest in E-Plus, the third largest mobile telecommunications operator in Germany, from BellSouth Corporation (which, together with its subsidiaries, we refer to as BellSouth). We share control of E-Plus with BellSouth. The total consideration for the acquisition amounted to €19.1 billion. This amount included the fair value of certain rights we granted to BellSouth to acquire shares in our company or KPN Mobile.

In June 2000 we raised approximately €6.0 billion through the issue of floating rate notes maturing in one, two and three years. The issue was placed with a broad range of investors in Europe and Asia. In addition, in June and July 2000, we arranged two private placements of debt in Japan, amounting to approximately €1.0 billion and €1.2 billion respectively. The proceeds from these activities were used to repay money market debt and partly repay amounts drawn under a credit facility we incurred to finance the E-Plus acquisition. On August 10, 2000 we increased the issue of floating rate notes, raising a further €1.0 billion, which we added to our cash resources.

During July 2000 we agreed with Hutchison to acquire a 15.0% interest in Hutchison 3G UK Holdings Limited, the owner of a UMTS license in the U.K., for approximately €1.5 billion. This transaction was completed on September 21, 2000. DoCoMo has acquired a 20.0% interest in Hutchison 3G UK Holdings Limited.

During July 2000 KPN Mobile also entered into indicative agreements concerning the possibility of pursuing UMTS licenses in Belgium and France with Hutchison and (in the case of France) DoCoMo. We also entered into a separate joint venture agreement with Hutchison to bid jointly for a UMTS license in Germany through its Luxembourg-based subsidiary, Auditorium, in which KPN Mobile acquired a 50.0% stake. Auditorium was subsequently renamed E-Plus Hutchison.

During July 2000 we entered into five separate credit facility agreements with different banks amounting to €16.3 billion in total. Amounts drawn under these facilities are repayable by the end of November 2000. We have subsequently drawn part of the funds available under these facilities to refinance the balance outstanding under a previous facility utilized for the E-Plus acquisition and to pay for the UMTS licenses won by us in The Netherlands and Germany.

On August 2, 2000 DoCoMo subscribed for shares entitling it to a 15.0% voting interest in KPN Mobile for a total price of approximately €4.0 billion. Due to DoCoMo's participating interest in KPN Mobile, we will recognize an increase in the value of our shareholding of approximately €2 billion. In

accordance with Dutch GAAP, we intend to account for the proceeds received from DoCoMo as operating revenues in the second half of 2000. Approximately €1.4 billion of this amount was used to repay amounts drawn under a credit facility utilized for the E-Plus acquisition. The remaining €2.6 billion was retained by KPN Mobile to finance further expansion, including the completion of KPN Mobile's acquisition of a 15.0% interest in Hutchison 3G UK Holdings Limited. We have entered into various agreements with DoCoMo and BellSouth regarding their rights as shareholder or, in the case of BellSouth, potential shareholder of KPN Mobile, including the right to maintain certain percentage shareholdings in KPN Mobile and to appoint a specific number of members of KPN Mobile's supervisory board. We and DoCoMo, together with KPN Mobile, have agreed to conduct joint technology development projects and to exchange know-how and intellectual property within certain areas of cooperation, including in relation to DoCoMo's proprietary technology known as "Camesse" and "i-mode."

KPN Mobile won one of five UMTS licenses in The Netherlands for which it paid approximately €711 million on August 4, 2000. E-Plus Hutchison won one of six UMTS licenses in Germany for which it paid approximately €8.4 billion on August 31, 2000. At the time the German license was won, we announced that Hutchison had exercised its contractual right to withdraw from the joint venture. Accordingly, on August 29, 2000 E-Plus acquired the interests of both KPN Mobile and Hutchison in E-Plus Hutchison, which has been renamed E-Plus 3G Luxembourg. BellSouth, as the holder of a 22.51% indirect stake in E-Plus, has loaned E-Plus approximately €1.4 billion towards the cost of the license and loaned us an additional €465 million. We have loaned E-Plus the balance of approximately €7.0 billion (including the €465 million BellSouth loaned to us).

On August 22, 2000 France Télécom completed its acquisition of the U.K.-based mobile telecommunications operator, Orange plc. France Télécom has undertaken to the European Commission that it will divest its interests in KPN Orange, the third entrant in the Belgian mobile telecommunications market and a 50:50 joint venture between KPN Mobile and Orange, because of its controlling interest in Mobistar, a competing mobile telecommunications operator in Belgium. KPN Mobile has a right of first refusal in respect of any proposed sale of shares by Orange. KPN Mobile may either elect to purchase the shares itself or to nominate a third party to purchase any shares offered for sale. We have had preliminary discussions with France Télécom concerning this situation but we have not yet reached any agreement on a possible outcome. In the meantime an independent trustee has been appointed to exercise France Télécom's voting interest in KPN Orange.

On August 30, 2000 we announced our interim financial results for the first half of 2000. We announced an increase of 17.4% in our total operating profit before interest expense, income tax expense, income from participating interests, extraordinary loss after income taxes, and amortization, depreciation and impairment charges, or EBITDA, to approximately €1.7 billion, and a loss after taxes of €19.0 million, principally due to the effects of amortizing the goodwill we recorded as a result of the E-Plus acquisition. We also stated that we expected our EBITDA for 2000 to fall somewhat short of our previously announced target.

At the same time, we announced a change in dividend policy with effect from the declaration of our interim dividend for 2000. We will no longer offer our shareholders a choice between a cash or share dividend, but will make dividend payments in the form of shares only. This will enable us to reinvest our cash resources in fulfilling our growth strategy in our core business segments. As of 2001, we anticipate paying a share dividend twice a year following the announcement of our interim results and our annual shareholders' meeting. Our interim dividend for 2000 is €0.18 per share.

On August 30, 2000 we also announced:

- that we currently do not intend to pursue the proposed acquisition of a larger stake in Český Telecom, the incumbent fixed line telecommunications operator in the Czech Republic, in which we currently hold an aggregate direct and indirect interest of 20.3%;

- our intention to introduce consumer Internet services under the Planet Internet brand in a number of European countries, starting in Germany;
- our intention to implement a program to increase the effectiveness of our organization and to obtain a cost leadership position in The Netherlands. In particular we intend to implement cost-reduction programs, including rationalization of our network architecture, reduction of distribution and sales costs, disposal of non-core assets and reduction of our head-office overhead; and
- our intention to form an incubator subsidiary, KPN Valley B.V., or KPN Valley.

On September 1, 2000, Standard & Poor's, or S&P, announced that it had lowered our long-term corporate and senior unsecured ratings to single-"A"-minus from double-"A". S&P also announced that it had lowered our short-term rating from "A-1 plus" to "A-2". S&P stated that the downgrades reflected the impact on our risk profile of the E-Plus acquisition, investment in UMTS licenses and heightened competitive pressure in our domestic fixed telephony business. S&P also stated that its outlook for us remains negative.

On September 5, 2000, we announced that we had signed a letter of intent with VNU N.V., or VNU, a leading Dutch publishing and information company, regarding the formation of the KPN-VNU Convergence Fund, or the Fund. The Fund is a venture capital fund that is intended to invest in start-up companies active in new industry sectors such as mobile Internet applications and broadband content delivery. We and VNU have earmarked a total of \$30 million (\$15 million each) for these activities. We will hold our interest in the Fund through KPN Valley.

On September 7, 2000, Moody's Investors Service, or Moody's, announced that it had downgraded to A3 from Aa2 our senior unsecured debt ratings, and had downgraded to Baa1 from Aa3 our subordinated long-term debt ratings. Moody's stated that the downgrades reflect what Moody's described as the substantial increase in financial risk associated with our recent debt financed investments to enhance our international strategy. Moody's also stated that the downgrades reflect the significant challenges ahead to reduce debt in the short-term, and that it had taken into consideration what it sees as gradually increasing competitive pressure in The Netherlands and its expectation of further pressure on operating margins as the revenue mix shifts to lower-margin businesses.

On September 28, 2000, KPN Mobile and DoCoMo will sign a memorandum of understanding, or MOU. The MOU sets out KPN Mobile's and DoCoMo's intention to create a new pan-European mobile Internet portal, possibly in conjunction with other partners, subject to the execution of legally binding agreements. The MOU provides, among other things, that that portal would be established through a new joint venture vehicle, or JV, and that KPN Mobile (and its affiliates) intend to contribute their existing mobile portal activities to the JV. The JV would aim to offer services based on wireless application protocol, or WAP, and DoCoMo's i-mode technology, with a planned launch date in 2001.

## The Offering

*Please refer to “Description of the Notes” in this offering circular for more information about the notes.*

Issuer . . . . .	Koninklijke KPN N.V.
Notes offered . . . . .	<p>\$1,000,000,000 8.375% Notes due 2030, referred to as the 30 year dollar notes</p> <p>\$1,750,000,000 8.0% Notes due 2010, referred to as the 10 year dollar notes</p> <p>\$750,000,000 7.50% Notes due 2005, referred to as the 5 year dollar notes</p> <p>€1,000,000,000 6.25% Notes due 2005, referred to as the 5 year euro notes</p> <p>The notes will be issued under an indenture to be dated as of October 4, 2000 among KPN, as issuer, and Bankers Trust Company, as trustee. The indenture is more fully described in “Description of the Notes.”</p>
Issue price . . . . .	<p>30 year dollar notes: 99.751%</p> <p>10 year dollar notes: 99.981%</p> <p>5 year dollar notes: 99.936%</p> <p>5 year euro notes: 99.833%</p>
Ranking . . . . .	The notes will rank equally without any preference among themselves and with all present and future unsecured and unsubordinated indebtedness of KPN. Because we are a holding company, the notes will effectively rank junior to any indebtedness of our subsidiaries.
Interest rate . . . . .	<p>30 year dollar notes: 8.375%</p> <p>10 year dollar notes: 8.00%</p> <p>5 year dollar notes: 7.50%</p> <p>5 year euro notes: 6.25%</p>
Date interest starts accruing . . . . .	October 4, 2000
Interest payment dates . . . . .	<p>Semi-annually, every April 1 and October 1, beginning April 1, 2001 for the dollar notes.</p> <p>Annually, every October 4, beginning October 4, 2001 for the euro notes.</p>
Payment of additional amounts . . . . .	We intend to make all payments on the notes without deducting Dutch withholding taxes. If any deduction is required on payments to non-Netherlands investors, we will pay additional amounts on those payments to the extent described under “Description of the Notes—Payment of additional amounts.”
Optional redemption . . . . .	The euro notes are not redeemable prior to their maturity except as described under “Description

of the Notes—Redemption and repayment—Optional tax redemption.” We may redeem any series of the dollar notes, in whole but not in part, at any time, at a price equal to the greater of (i) 100% of their principal amount plus accrued interest to the date of redemption or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on such series of notes (not including any portion of interest payments accrued as of the redemption date) discounted to the redemption date on a semi-annual basis at the adjusted treasury rate, plus 25 basis points for the 30 year dollar notes, 20 basis points for the 10 year dollar notes and 15 basis points for the 5 year dollar notes, plus accrued and unpaid interest to the redemption date, as described under “Description of the Notes—Special situations—Redemption and repayment.”

Optional tax redemption . . . . . We may also redeem any series of the notes before they mature if we are obligated to pay additional amounts on such series due to changes in Netherlands withholding tax requirements and other limited circumstances described under “Description of the Notes—Payment of additional amounts.” In that event, we may redeem any series of notes in whole but not in part, at a price equal to 100% of their principal amount plus accrued and unpaid interest to the redemption date.

Registration covenant; exchange offer . . . . . We have agreed to use our best efforts to file (or submit to the staff of the SEC for review on a confidential basis) within 120 days of the closing of this offering a registration statement relating to an exchange offer under which we will offer to exchange (i) securities that are substantially identical to the 30 year dollar notes, (ii) securities that are substantially identical to the 10 year dollar notes, and (iii) securities that are substantially identical to the 5 year dollar notes and (iv) securities that are substantially identical to the 5 year euro notes, in each case, for the then outstanding notes of such series tendered at your option, and to use our best efforts to cause such registration statement to become effective within 210 days of the closing of this offering. If the applicable interpretations of the staff of the SEC do not permit us to complete the exchange offer we have agreed to use our best efforts to file and to cause to become effective a shelf

	<p>registration statement with respect to the resale of the notes and to keep that shelf registration statement effective for a period of up to two years after the closing of this offering. If we do not comply with the above provisions, the interest rate on the notes will be increased by 0.25% per annum until such compliance.</p>
Book-entry issuance, settlement and clearance . . .	<p>We will issue the notes as one or more permanent global notes registered in the name of The Depository Trust Company (“DTC”), or its nominee, in the case of the dollar notes, and in the name of a nominee for the common depository of Morgan Guaranty Trust Company of New York, Brussels Office, as operator of the Euroclear System (“Euroclear”) or Clearstream Banking, société anonyme, Luxembourg (“Clearstream, Luxembourg”), in the case of euro notes. Investors may hold book-entry interests in a global note through organizations that participate, directly or indirectly, in the DTC, Euroclear and Clearstream, Luxembourg systems.</p> <p>The distribution of the dollar notes will be cleared through DTC, Euroclear or Clearstream, Luxembourg and the distribution of the euro notes will be cleared through Euroclear and Clearstream, Luxembourg. The notes also have been accepted for clearance through the Securities Clearing Corporation of Euronext Amsterdam N.V. Secondary market trading of book-entry interests will settle in same day funds.</p>
Restrictive covenants . . . . .	<p>The indenture relating to the notes contains a covenant restricting our ability to or incur liens on our property securing capital market indebtedness.</p>
Listing . . . . .	<p>We have applied for the notes to be listed on Euronext Amsterdam N.V.</p>
Use of proceeds . . . . .	<p>We intend to use a portion of the net proceeds of the offering to repay €3 billion borrowed under two credit facilities. In addition, we plan to use at least €1.5 billion of the net proceeds to repay indebtedness under certain other short-term credit facilities. We plan to use the remainder, if any, for general corporate purposes.</p>
Governing law . . . . .	<p>New York</p>

Our principal executive office .....	Maanplein 5 2516 CK The Hague The Netherlands  Telephone (31) 70 332 3426 <a href="http://www.kpn.com">http://www.kpn.com</a>
Risk Factors .....	Investing in the notes involves substantial risks. You should carefully consider the information under the caption “Risk Factors” and all other information in this offering circular before investing in the notes.

## Summary of Selected Financial and Operating Data

### *Segmentation*

At the beginning of 2000, we grouped our business into four core segments—corresponding to our four areas of strategic focus—and another segment called “Other.” In addition, we have restated our results of operations for the first half of 1999 and for the full year 1999 and 1998 on the same basis. We were not able to restate our 1997 results of operations, as it was impracticable to do so. As a result, all discussions of our 1997 results of operations in this offering circular are based on our previous segmentation.

Our new segments are as follows:

- *Fixed network services.* This segment includes domestic, fixed-to-mobile and outbound international telephone traffic that we provide on our fixed network in The Netherlands to business customers and consumers. It also comprises wholesale domestic and international network access and transmission services.
- *Mobile communications.* This segment consists of all of our mobile telecommunications business, both in The Netherlands and abroad.
- *IP/data.* This segment consists of the provision of data transmission services (including the provision of leased lines), private network services, data applications solutions and integration services for large business customers (other than telecommunications providers) in The Netherlands, Belgium and Luxembourg, or the Benelux countries. It also consists of the provision of data transmission services and telecommunications infrastructure sales in other countries through our interests in KPNQwest, Infonet Services Corporation, Inc., or Infonet, Euroweb International Corp., or Euroweb, and PanTel. We also act as the distributor of KPNQwest’s services in the Benelux countries.
- *ICM.* This segment consists of our Internet and media, and customer relationship management services. Our Internet and media services consist of ISPs, Internet portal content, telephone directories and premium rate calling services. Our customer relationship management services consist of operating call centers and customer interaction centers for business and providing call center services.
- *Other.* This segment consists of our business communications activity (which delivers, installs and services communications equipment for business customers), Station 12 (a satellite communications joint venture with Telstra) and our sales and distribution network, including Primafoon stores and Business Centers, together with all of our fixed network construction, operation activities, our head office functions, KPN Research (our research and development department) and our interests in eircom and Český Telecom.

**Summary financial data—in accordance with Dutch GAAP:**

	Six months ended June 30,		Year ended December 31,	
	2000	1999 <sup>(1)</sup>	1999 <sup>(1)</sup>	1998 <sup>(1)</sup>
	(unaudited)	(unaudited)		
	(all amounts in € million, other than share and per share information)			
<b>Operating revenues</b>				
Fixed network services . . . . .	2,635	2,414	4,819	4,593
Mobile communications . . . . .	1,567	810	1,748	1,274
IP/data . . . . .	576	382	1,499	617
ICM . . . . .	347	291	618	516
Other <sup>(2)</sup> . . . . .	732	604	1,456	1,558
Intragroup sales <sup>(3)</sup> . . . . .	(655)	(485)	(1,008)	(614)
Total operating revenues . . . . .	<u>5,202</u>	<u>4,016</u>	<u>9,132</u>	<u>7,944</u>
<b>Operating expenses, excluding depreciation and impairments</b>				
Fixed network services . . . . .	1,394	1,190	2,473	2,053
Mobile communications . . . . .	1,234	588	1,290	973
IP/data . . . . .	453	267	748	490
ICM . . . . .	387	308	644	519
Other . . . . .	632	652	1,630	1,536
Intercompany expenses . . . . .	(655)	(485)	(1,008)	(614)
Total operating expenses, excluding depreciation and impairments . . . . .	<u>3,445</u>	<u>2,520</u>	<u>5,777</u>	<u>4,957</u>
<b>EBITDA<sup>(4)</sup></b>				
Fixed network services . . . . .	1,241	1,224	2,346	2,540
Mobile communications . . . . .	333	222	458	301
IP/data . . . . .	123	115	751	127
ICM . . . . .	(40)	(17)	(26)	(3)
Other . . . . .	100	(48)	(174)	22
Total EBITDA <sup>(4)</sup> . . . . .	<u>1,757</u>	<u>1,496</u>	<u>3,355</u>	<u>2,987</u>
<b>Operating profit</b>				
Fixed network services . . . . .	816	765	1,156	1,769
Mobile communications . . . . .	(212)	131	234	114
IP/data . . . . .	8	30	365	(16)
ICM . . . . .	(80)	(56)	(113)	(72)
Other . . . . .	(88)	(234)	(589)	(220)
Total operating profit . . . . .	<u>444</u>	<u>636</u>	<u>1,053</u>	<u>1,575</u>
<b>Financial income and expense</b> . . . . .	(393)	(132)	(296)	(212)
<b>Taxes</b> . . . . .	(266)	(198)	(186)	(481)
<b>Income from participating interests</b> . . . . .	196	110	253	42
<b>Minority interests</b> . . . . .	0	0	4	0
<b>Extraordinary expense after income taxes</b> . . . . .	0	0	0	(236)
<b>Profit after taxes</b> . . . . .	<u>(19)</u>	<u>416</u>	<u>828</u>	<u>688</u>
Profit or loss after taxes per ordinary share and per ADS . . . . .	(0.02)	0.44	0.87	0.73
Profit or loss after taxes per ordinary share and per ADS on a fully diluted basis . . . . .	(0.02)	0.44	0.87	0.73
Weighted average number of outstanding ordinary shares . . . . .	956,983,112	951,000,300	955,769,964	945,695,828
Weighted average number of outstanding ordinary shares on a fully diluted basis . . . . .	956,983,112	952,072,738	955,989,472	946,979,690

	As of June 30,	As of December 31,				
	2000	1999	1998	1997	1996	1995
	(unaudited)	(all amounts in € million)				
<b>Balance sheet data</b>						
Cash and cash equivalents . . .	1,412	2,625	434	621	N/A	N/A
Total assets . . . . .	40,380	17,991	13,629	11,980	11,625	11,472
Current interest-bearing liabilities . . . . .	4,137	1,451	1,208	1,106	N/A	N/A
Long term liabilities . . . . .	15,953	5,412	3,474	2,203	2,283	2,125
Provisions . . . . .	652	795	869	543	519	871
Exchange right . . . . .	7,560	—	—	—	—	—
Group equity . . . . .	9,065	6,389	5,913	5,551	5,221	4,831

- (1) Resegmented in accordance with the new segmentation for the year 2000.
- (2) This figure represents the sale of products and services to non-Group entities only.
- (3) This figure represents the elimination of the sale of products and services between our four core segments.
- (4) EBITDA represents operating profit (loss) before amortization, depreciation and impairment charges. EBITDA is included because management believes it is a useful indicator of a company's ability to incur and service debt. EBITDA should not be considered as a substitute for operating income, net income, cash flow or other statements of operations or cash flow computed in accordance with Dutch or U.S. GAAP or as a measure of a company's results of operations or liquidity.

**Summary financial data—in accordance with U.S. GAAP:**

	As at and for the six months ended June 30		As at and for the year ended December 31,				
	2000	1999	1999	1998	1997	1996	1995
	(unaudited)		(all amounts in € million, except for ratio data)				
<b>Income Statement Data:</b>							
Total operating revenues . . . . .	4,914	3,882	8,061	7,696	7,155	6,571	6,346
Operating profit . . . . .	276	504	233	1,069	1,274	1,291	1,181
Profit or loss before taxes . . . . .	2,351	402	24	969	1,032	1,065	1,019
Profit or loss after taxes . . . . .	2,407	313	719	559	703	643	628
Profit after taxes per ordinary share (non-diluted) . .	2.52	0.33	0.75	0.59	0.75	0.70	0.69
Profit after taxes per ordinary share on a fully diluted basis . . . . .	2.26	0.33	0.75	0.59	0.75	0.70	0.68
Weighted average number of outstanding ordinary shares . . . . .	956,983,112	951,000,300	955,769,964	945,695,828	935,693,540	924,250,044	915,826,390
Weighted average number of outstanding ordinary shares on a fully diluted basis . . . . .	1,066,110,392	952,072,738	955,989,472	946,979,690	936,763,352	925,155,424	916,827,830
<b>Balance Sheet Data:</b>							
Total assets . . . . .	41,547	N/A	20,446	14,846	13,537	13,489	11,968
Long term liabilities . . . . .	15,847	N/A	5,405	3,560	2,265	2,597	2,125
Exchange right . . . . .	7,560	N/A	—	—	—	—	—
Provisions . . . . .	1,701	N/A	1,870	1,445	1,510	1,322	1,408
Group equity . . . . .	11,773	N/A	8,447	6,311	6,219	5,586	4,926

**Summary operating data**

	As of June 30,	As of December 31,		
	2000	1999	1998	1997
		(all amounts in millions)		
PSTN channels <sup>(1),(2)</sup> . . . . .	7.1	7.3	7.8	8.1
ISDN channels <sup>(1),(3)</sup> . . . . .	2.7	2.3	1.6	0.8
Mobile customers <sup>(1)</sup>				
Netherlands . . . . .	4.2	3.5	2.2	1.2
Germany . . . . .	5.0	3.8	2.1	1.0
Registered ISP subscribers <sup>(1)</sup> . . . . .	1.6	0.8	0.3	N/A

- (1) Based on internal sources and management estimates.
- (2) Each public switched telephone network, or PSTN, line provides one access channel.
- (3) ISDN digital channels include services with two channels per connection and services with 30 channels per connection.

## RISK FACTORS

*An investment in our notes involves a high degree of risk. You should carefully consider the risks described below and the other information in this offering circular before you decide to buy our notes.*

### Risks relating to the Group

*We are undergoing a period of profound transformation as the telecommunications industry in Europe develops rapidly and we enter a number of new markets. The transformation process will require us to make significant further investments and we may have difficulty financing those investments. We may not be successful in the new markets we are entering.*

The telecommunications industry in Europe has experienced profound changes in recent years, and we expect these changes to continue. They include the liberalization of competition in the fixed telephony market, together with the resulting price decreases, the growth of mobile telecommunications, the introduction of new technologies that create new markets such as fixed and mobile Internet services, and the roll out of new high-bandwidth capacity. In order to take advantage of these changes and to be able to compete effectively in our markets, we are transforming our company by focusing on four core business segments for the future.

The changes in our markets and our corporate transformation may give rise to a number of risks for our company, including the following:

- The expansion of our new businesses, such as mobile telecommunications and ICM, requires significant investments. For example, in the mobile telecommunications market, we need to acquire new licenses to offer third generation UMTS services and to roll out UMTS networks to continue to compete. These UMTS licenses are generally sold through auctions in which we are required to bid against other operators, frequently at high prices. To finance these investments, we have taken on significant debt, and, if necessary, will take on further debt or raise new capital through the issue of additional shares. Additional debt will require us to use a larger portion of our cash flow for payments of principal and interest, and may reduce our ability to obtain financing for other purposes such as acquisitions. We may not be able to raise the financing we need for our expansion plans, either on terms acceptable to us or at all, and this could harm our future growth and our consolidated financial condition and results of operations.
- A key aspect of our strategy is international expansion in Europe, by setting up new companies through acquisitions or licenses, alone or in partnership with other telecommunications providers. For example, we completed the acquisition of 77.49% of E-Plus in Germany in February 2000 and have recently entered into strategic alliances with DoCoMo and Hutchison. Our ability to compete in our rapidly changing markets may be affected if we are unable to expand successfully.
- Since our markets are undergoing rapid technological change, our future success depends, in part, on our ability to anticipate and adapt in a timely manner to those technological changes. To remain competitive, we must continually improve the speed and features of our existing products and services and develop attractive new products and services for our customers. We may not succeed in developing or introducing these items in a timely manner.
- Our strategy includes the devolution of significant entrepreneurial powers to our four core businesses. In exercising these powers, our businesses may form joint ventures or alliances with other entities outside of our group. For example, we already carry out significant portions of our business through joint ventures such as KPNQwest and E-Plus, and alliances with companies such as DoCoMo. To the extent that these joint ventures and alliances dilute our share in any profits from these activities, our financial position and results of operations may be harmed.

- An analysis of our historical operating results is not necessarily meaningful and may not be a reliable indicator of our future results of operations. We expect that our mobile communications, IP/data and ICM business segments will constitute an increasingly large portion of our asset base, our business, financial condition and results of operations. These businesses may not be as profitable as our historical fixed telephony and other fixed network services. At the same time, we expect that our fixed network services business will generate lower revenues as a result of an increase in mobile telephony usage, competition and regulatory constraints, and any shift to flat-rate pricing for Internet access.
- Changes in technology may lead to a change in usage patterns, which may result in a shift in revenues among our business segments. For example, as mobile telephone usage increases, our revenues from our historical fixed telephony business may decline.
- We may be required to recognize increased depreciation or amortization charges if we determine that the useful lives of our existing tangible and intangible assets are shorter than we originally expected because of technological changes. These charges would cause our results of operations to decline in the year of the charge. For example, in 1999 we wrote down a number of the assets of our fixed network services business in the amount of €599 million.

Any of these factors could harm our business, financial condition and results of operations.

***S&P and Moody's have downgraded our credit ratings. We may be further downgraded.***

On September 1, 2000, S&P lowered our long-term corporate and senior unsecured ratings to single-"A"-minus from double "A", and lowered our short-term rating from "A-1 plus" to "A-2". S&P also stated that its outlook for us was negative. In addition, on September 7, 2000, Moody's downgraded our senior unsecured debt ratings to A3 from Aa2, and downgraded our senior unsecured debt ratings to Baa1 from Aa3. We may be subject to further ratings downgrades by S&P or Moody's. This could harm our ability to obtain financing and increase our financing costs, for example by increasing the interest rates at which we are able to borrow money.

***Any failure in our ability to manage our growth and transformations in our businesses such as our mobile communications, IP/data and ICM businesses, could harm our consolidated financial condition and results of operations.***

We have experienced rapid growth and substantial transformations in our businesses, such as mobile communications, IP/data and ICM, over the past several years. We expect to continue experiencing rapid growth in our customer base in several of the markets in which we operate. This rapid growth and changes in our businesses have placed, and are likely to continue to place, strain on our technological, financial, management and operational resources. Our network and information technology systems, for example, may not be able to cope with a continuously rapid growth of mobile telecommunications, IP/data and ICM customers, placing strain on our network capacity, customer care and billing systems. Furthermore, our senior management may be required to focus on acquisition transactions in these businesses and other expansion strategies while endeavoring to run our ongoing operations effectively. If we are unable to continue to manage growth and changes in our businesses effectively, this could harm our consolidated financial condition and results of operations.

***We share control of some of our key subsidiaries and joint ventures which may limit the conduct of our business.***

We conduct some of our businesses through certain subsidiaries and joint ventures in which we share control (in whole or in part) with strategic partners. For example, we conduct a portion of our IP/data business through KPNQwest, a joint venture in which we share control with Qwest. In addition, although we own a 77.49% indirect interest in E-Plus, we share control of that company with

BellSouth. We also share control of KPN Orange with Orange plc, our 50:50 joint venture partner, although in the context of France Télécom's recent acquisition of Orange plc and the likely need for it to sell its shares in KPN Orange, an independent trustee has been appointed to exercise France Télécom's voting interest.

We cannot assure you that our strategic or joint venture partners will wish to continue their partnerships with us in the future or that we will be able to pursue our stated strategies with respect to our joint ventures and the markets in which they operate. For example, we may have disputes with our joint venture partners over the scope of business of our joint ventures, and in particular, any exclusivity arrangements with them, or we may be unable to reach agreement with our joint venture partners on key business decisions. In the case of KPNQwest, if a stalemate of this nature between us and our partner Qwest occurs with respect to a number of important decisions, then a buy/sell procedure is commenced. Under this procedure, one party will acquire the other's interest in KPNQwest and the selling shareholder will have the right to acquire certain unused capacity on KPNQwest's network, known as dark fiber, colocation space and transatlantic capacity of KPNQwest, among other things, at fair market value. Furthermore, the other investors in our joint ventures may undergo a change of control which may affect that investor's strategy with respect to the joint venture. In some cases we may receive less information about the business activities of these companies than we would about our own wholly owned subsidiaries. In addition, the joint ventures themselves may undergo a change of control, for example as the consequence of a public tender offer. Any of these factors could harm our financial condition and results of operations.

***We have granted BellSouth certain rights to acquire shares of KPN Mobile; if these rights are exercised, our interest in KPN Mobile will be diluted.***

BellSouth has certain rights entitling it to acquire A shares of our subsidiary KPN Mobile, subject to certain adjustment provisions. (Each A share of KPN Mobile entitles the holder to 10 votes per share compared to the one vote per B share which would be offered to the public in the event of any flotation of KPN Mobile. We also hold one C share which gives us effective control of KPN Mobile.) If BellSouth exercises its rights for shares of KPN Mobile, then our ownership of KPN Mobile will be diluted. For more information, please see "Strategic Alliances—Strategic alliance with BellSouth—Exchange rights" and "—Subordinated loan facility and warrant."

***Our securities may lose value in response to future acquisitions, investments and divestitures.***

As part of our strategy of expansion through acquisitions, strategic alliances or joint ventures, we may make announcements concerning potential acquisitions and investments at any time. These acquisitions and investments may occur in any of our lines of business.

To enhance the value of our assets, we may divest a portion of our interests in some of our growth businesses. For example, we have sold to DoCoMo a 15.0% interest in KPN Mobile. In October 2000 we intend to carve out our current ICM business to a wholly owned subsidiary, KPN Telecommerce Holding B.V., or KPN Telecommerce. We may sell some of our interest in KPN Telecommerce. We may also enter into strategic partnerships with other companies in respect of these and other subsidiaries. In the event that our ownership in these subsidiaries decreases, we risk reducing the level of control we may exercise over, and the amount of income we receive from, these companies.

***The State of The Netherlands owns a significant amount of our shares. Its interests may diverge from ours and could hamper our development.***

As of June 30, 2000, the State of The Netherlands owns approximately 43.17% of our ordinary shares. The State of The Netherlands also holds a special share, which gives it significant voting rights relating to the approval of fundamental changes in our group structure (such as the issuance of new

shares and entry into a merger) and options to acquire preferred shares in us. Consequently, the State of The Netherlands has the power to prevent a change of control in KPN and could take other actions that may be unfavorable to us and our other shareholders.

***Restrictions on change of control.***

We have in place certain arrangements that may delay or prevent other parties from acquiring control of us. For example, the State of The Netherlands has an option to acquire Class A preferred shares in us to increase its voting rights in us to 51.0% of our voting capital. Moreover, the Foundation for the Protection of KPN has a call option to acquire a number (up to the total amount of our issued share capital minus one share) of our Class B preferred shares. We also have a put option to place approximately the same amount of our Class B preferred shares with the Foundation for the Protection of KPN.

***Our future growth depends on our ability to attract and retain highly skilled and qualified personnel, and we may not be able to do so because of the scarcity in the labor market of these people.***

There is currently a scarcity in the labor market for qualified technical and commercial personnel with experience in the telecommunications industry. As a result, the competition for qualified personnel in the telecommunications industry is intense, and the costs of retaining such personnel may be high. Some of our staff have been working for us for only a short time and therefore are less familiar with our systems than more senior staff would be. We cannot assure you that we will be able to hire or retain necessary skilled personnel.

***We depend on our relationships with various partners and suppliers.***

Our businesses depend upon our ability to obtain adequate supplies of telecommunications equipment (and related software), our contractors' ability to build and roll out telecommunications networks on schedule, and our suppliers' ability to deliver dependable technical support. We cannot be certain that we will be able to obtain telecommunications equipment from alternative suppliers on a timely basis if our existing suppliers are unable to satisfy our requirements. This could lead to an interruption to the operation and build-out of our networks, which could harm our financial condition and results of operations.

In our mobile communications business, we have been unable, from time to time, to procure the most current models of mobile phone handsets. In respect of our ICM business, in addition to content providers, we have also established relationships with e-commerce companies, information technology consulting firms and sales partners. We may not be able to maintain these relationships on satisfactory financial terms, or at all. Our partners may choose not to renew their agreements with us, may provide services to our competitors or may begin to compete with us themselves.

Any of these events may seriously harm our business, financial condition and results of operations.

***If we lose or are unable to obtain licenses necessary for our operations or expansion, we may not be able to carry on parts of our current or planned business.***

We are in many cases only permitted to provide telecommunications services and operate networks under licenses granted by competent authorities in each country. All of these licenses are issued for a limited period of time and may not be renewed, or, if they are renewed, their terms may be changed.

These licenses contain a number of requirements regarding the way we conduct our business, as well as regarding network quality and coverage. Failure to meet these requirements could result in fines or other sanctions including, ultimately, revocation of the licenses. We may be required to obtain

licenses where we wish to expand into new areas of business and we cannot guarantee that we will be able to obtain these licenses.

***KPNQwest must complete its network and broadband access facilities as planned and on time to increase its revenues, but factors beyond its control may prevent it from doing so. This would reduce the amount of revenues from KPNQwest which we proportionally consolidate in our financial statements.***

KPNQwest's ability to increase its revenues (which we proportionally consolidate) and maintain its position as a leading European provider of advanced telecommunications and Internet services will depend in large part on the successful, timely and cost-effective completion of its EuroRings network. An important part of KPNQwest's business plan, the sale of dark fiber to other telecommunications entities, would be especially harmed by significant delays in completing its network, since KPNQwest expects opportunities to sell dark fiber to be significantly greater in the next two to three years than in the more distant future.

Factors beyond KPNQwest's control that could affect the timing of the completion of its network and broadband access facilities include its ability to:

- obtain and maintain applicable government approvals and rights of way to build and operate its network;
- enter into favorable contracts with infrastructure providers;
- secure the timely performance of independent contractors hired to engineer, design and construct portions of its network;
- manage costs related to construction of its network;
- attract and retain highly skilled and qualified personnel; and
- obtain timely supply of fiber and equipment.

#### **Risks relating to the telecommunications markets**

***We operate in highly competitive industries and face significant competition in all of our principal businesses.***

All of the industries in which we operate are highly competitive, and all of our principal businesses face significant competition. If we are unable to compete effectively against our competitors, this could lead to loss of revenue, loss of market share or the inability to gain market share. This could also, in turn, harm our financial condition and results of operations.

In particular, in our fixed network services business we face heightened competitive pressures as a result of recent regulatory changes, such as the ones allowing for carrier preselect services, number portability and main distribution frame access, which have increased the ease with which our customers can use the services of other telecommunications carriers in preference to our own. In our mobile communications business, we face increased competitive pressure from existing and new market participants. As a result, we anticipate losses in market share and tariff reductions to continue in our fixed network services and mobile communications businesses in The Netherlands. In our IP/data business, the price of wholesale bandwidth capacity in our markets is declining rapidly, which has lowered the price at which KPNQwest is able to sell dark fiber, managed broadband and IP transport products. Finally, in our ICM business, there are few substantial barriers to entry, and switching costs for users and customers are low.

In addition, we face competition in the global telecommunications industry from a variety of competitors, including, but not limited to, the following:

- existing fixed and mobile network operators;

- global alliances of international telecommunications providers;
- operators offering new mobile network services (such as UMTS);
- providers of higher speed xDSL services, which make use of the copper local loop of our public telephone network in The Netherlands;
- providers of satellite telecommunications services;
- cable operators; and
- non-traditional operators which offer mobile telecommunications services without maintaining their own networks (known as mobile virtual network operators).

***Network interruptions or service slowdowns caused by local or global system failures may result in reduced user traffic, reduced revenue and harm to our reputation.***

Our ability to operate our businesses depends significantly upon the performance of our technical infrastructure. The demand for capacity on our network has increased enormously in recent years. We have had to, and continue to, contend with shortages of transmission, switching and interconnection capacity as a result of the simultaneous strong growth of mobile telephone and Internet usage. These capacity problems have led (and any future problems may lead) to increased scrutiny by our regulators. Specifically, Internet traffic has caused serious problems in our telephony network, including notably a sharp increase in failed connections during busy periods for a portion of the network.

Our technical infrastructure is also vulnerable to damage or interruption from floods, fires, power loss, telecommunication failures and similar events. It is also subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. The occurrence of a natural disaster or other unanticipated problems at our facilities or any other damage to or failure of our systems could result in interruptions in our service. System failures, including failure of our network and the networks used by our suppliers, hardware or software failures or computer viruses, could also affect the quality of our services and cause temporary service interruptions, resulting in customer dissatisfaction and reduced traffic and revenue.

Any of these factors could harm our business, financial condition and results of operations.

***The costs of obtaining UMTS licenses may be high, the market for UMTS products and services may not develop as quickly as expected, and we may be unsuccessful in bidding for further UMTS licenses.***

In most markets in which we operate, licenses have been or soon will be granted for UMTS, the third generation of mobile telecommunications systems. On August 4, 2000 we paid approximately €711 million for a UMTS license in The Netherlands and on August 31, 2000 we paid approximately €8.4 billion for a UMTS license in Germany (held by a subsidiary of E-Plus). BellSouth, as the holder of a 22.51% indirect stake in E-Plus, has loaned E-Plus approximately €1.4 billion towards the cost of the license and loaned us an additional €465 million, while we have loaned E-Plus the balance of approximately €7.0 billion (including the €465 million BellSouth loaned to us). At the time the German license was won, we announced that Hutchison had exercised its contractual right to withdraw from the joint venture bidding vehicle. We have also agreed to acquire 15.0% of Hutchison 3G UK Holdings Limited, which indirectly owns a UMTS license in the United Kingdom, for approximately £900 million.

We have entered into indicative agreements concerning the possibility of pursuing UMTS licenses in Belgium and France with Hutchison and (in the case of France) DoCoMo. Subject to further evaluation of the market opportunities and expected costs, which will be carried out on a case-by-case basis, we intend to bid for UMTS licenses, possibly in conjunction with our strategic partners, in other markets where we currently operate or wish to operate.

We expect the cost of acquiring UMTS licenses and rolling out of the UMTS networks to continue to be high. We may need to borrow money or issue more shares to pay for the acquisition of UMTS licenses. Even if we are successful in acquiring UMTS licenses, the high costs of doing so may harm our financial condition and results of operations.

Given the heavy investments required to expand our existing networks to support UMTS and the uncertainty regarding the commercial interest in UMTS, we may be confronted with a long period to reach break-even for our investments. Furthermore, our competitors, or potential competitors, in any of the markets where we currently operate or wish to operate, may have obtained or be able to obtain UMTS licenses on terms more favorable than we are able to obtain them. This could place us at a competitive disadvantage in providing UMTS in such a market.

Should our bids for further UMTS licenses fail in any of the markets where we currently operate or wish to operate, our strategy to expand our products and services to include the advanced mobile multimedia options made possible by UMTS could be seriously affected, which in turn could harm our financial condition and results of operations. If new entrants are successful in obtaining a UMTS license in any of the markets where we operate, this may further intensify competition in these markets.

***If the growth rate of the mobile telecommunications industry slows down, our revenues may not grow as rapidly as in the past.***

In recent years, our revenues have grown in large part because of the rapid growth in our mobile communications business. This growth has been driven, in large part, by the rapid expansion of the mobile telecommunications market in The Netherlands. If the Dutch mobile telecommunications market does not continue to expand or if the other European mobile telecommunications markets in which we operate do not expand, our consolidated financial condition and results of operations may be harmed.

Continued growth of the mobile telecommunications market depends on a number of factors, many of which are outside our control. These factors include:

- population size;
- the activities of our competitors, including continued competitive tariff reductions;
- the development and introduction of new and alternative technologies for mobile telecommunications products and services;
- general economic conditions; and
- health risks or safety concerns associated with mobile telephones and transmission equipment.

***Our ICM business may fail to become profitable if the Internet market fails to grow or we fail to be successful in this market.***

Our ICM business may fail to become profitable because of the early stage and rapid development of the Internet industry and the number of uncertainties that affect the industry. In particular:

- The market for Internet access in The Netherlands and the rest of Europe may not continue to grow, particularly as a result of issues regarding quality of Internet content, quality of access services, the price and availability of access equipment or the cost of access over the telephone network.
- The markets for Internet access customers, Internet users, online advertising and Internet business services are extremely competitive. We expect the level of competition to increase significantly in the future, in particular since there are few substantial barriers to entry and since switching costs for users and customers are low. Recently, a large number of our competitors

have launched subscription-free access services in The Netherlands and other European countries. In addition, future technological developments may result in new access platforms that compete with the access technologies that we offer.

- The demand for, and market acceptance of, Internet advertising is uncertain. Advertisers that have traditionally relied upon other advertising media may be reluctant to advertise on the Internet, and existing advertisers may not continue their levels of Internet advertising, in part because there are currently no uniform standards for the measurement of the effectiveness of Internet advertising. In addition, it is difficult to predict which pricing model will emerge as the industry standard for online advertising.
- The Internet may fail to become a viable marketplace for online commerce, in part due to concerns regarding the security of online transactions. This would harm our ability to generate e-commerce revenue and may harm the markets for Internet access and online advertising.
- The legal and regulatory environment of Internet content and electronic commerce is fluid, uncertain and may change. New laws and regulations may be adopted for, and existing laws and regulations may be applied to, Internet service offerings. Either these laws and regulations, or uncertainty concerning the regulatory environment, could increase our costs. They could also harm the markets for Internet access, online advertising and e-commerce.

In addition, we are unsure whether our ICM business will be able to sustain growth at its historic rate over an extended period. The markets in which our ICM business operate are currently in a phase of rapid growth, which may not continue. As a result, we believe that an analysis of our historical operating results in this business is not necessarily meaningful and may not be a reliable indicator of our future results of operations.

### **Risks relating to regulation**

*We operate in a regulated industry and changes in, or adverse applications of, the regulations affecting us could harm our financial condition and results of operations.*

In all countries in which we use radio frequencies, operate telecommunications networks and provide telecommunications services, these activities are regulated, either at the national level or at an international level, such as by the European Union, or the EU.

Implementation and application of this regulation are undertaken by one or more regulatory and competition authorities which, in their discretion, may challenge our compliance with one or more aspects of such regulation. If we are found not to have complied, we may be subject to damage awards, fines, penalties and suspensions.

We currently face a number of regulatory constraints. These include the following:

- Under Article 4(1) of the European Union's Interconnection Directive (97/33/EC), we may be required to provide to other operators interconnection services that we would not otherwise wish to provide.
- In The Netherlands, we have been designated as a party with significant market power and are therefore required to provide certain services on non-discriminatory, cost-oriented and transparent terms, which may differ from the terms on which we would otherwise have provided those services. We cannot assure you that this obligation will not be made applicable also to other services or in other jurisdictions.
- The *Onafhankelijke Post en Telecommunicatie Autoriteit*, or OPTA, the Dutch telecommunications regulator, may require additional reductions in the prices we charge for our fixed telephony

services, interconnection services or leased lines. OPTA may also take steps to facilitate additional competition in the Dutch telephony market.

- We may be required to meet demands to provide network access to mobile virtual network operators on conditions which may not otherwise be commercially acceptable to us.
- We are subject to competition law investigations, including proceedings regarding the conditions under which we obtained our mobile telecommunications licenses, roaming fees, leased lines and the level of our mobile interconnection tariffs. The outcome of these proceedings may harm the prices of and other terms on which we offer the relevant services.
- It is unclear how regulation of the Internet, multimedia and interactive markets will develop and how it may affect our business in the future.

Changes in legislation, regulation or government policy affecting our business activities, as well as decisions by competition and other regulatory authorities or courts, including the granting, amending or revoking of licenses to us or other parties, could harm our financial condition and results of operations.

### **Risks relating to the notes**

#### ***You may face foreign exchange risks by investing in the notes.***

The 30 year dollar notes, 10 year dollar notes and 5 year dollar notes will be denominated and payable in U.S. dollars and the 5 year euro notes will be denominated and payable in euros. If you measure your investment returns by reference to a currency other than the currency in which the relevant series of notes is denominated, an investment in the notes will entail foreign exchange-related risks due to, among other factors, possible significant changes in the value of U.S. dollars or euros relative to the currency by reference to which you measure the return on your investment because of economic, political and other factors over which we have no control. Depreciation of U.S. dollars or euros against the currency by reference to which you measure the return on your investments could cause a decrease in the effective yield of the notes below their stated coupon rates and could result in a loss to you when the return on the notes is translated into the currency by reference to which you measure the return on your investment. There may be tax consequences for you as a result of any foreign exchange gains resulting from an investment in the notes.

#### ***There is no prior market for the notes and you cannot be sure that an active trading market will develop.***

No active trading market currently exists for the notes. If these securities are traded after we issue them, they may trade at a discount from their initial offering price, depending on many factors, including prevailing interest rates, the market for similar securities, general economic conditions, our financial condition, performance and prospects, as well as recommendations of securities analysts.

The notes have not been registered under the Securities Act or any state securities laws and may not be offered or sold except pursuant to an exemption from the registration requirements of the Securities Act and applicable state securities laws, or pursuant to an effective registration statement. We have agreed to use our best efforts to commence a registered exchange offer for the notes or to register resales of the notes under the Securities Act. We cannot assure you, however, that the registration will be completed or that any trading market will develop thereafter. See the heading “Registration covenant; exchange offer” in the section “Description of the Notes.”

### **Risk of errors in forward-looking statements**

#### ***We have made forward-looking statements. You should not rely unduly on these statements.***

We have made forward-looking statements in this offering circular, including in the sections entitled “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of the Financial

Condition and Results of Operation of KPN and E-Plus,” and “Business,” that are based on our beliefs and assumptions and on information currently available to us. Forward-looking statements include the information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, the effects of competition and the effects of future legislation or regulation. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words “believe,” “expect,” “plan,” “intend,” “anticipate,” “estimate,” “predict,” “potential,” “continue,” “may,” “will,” “should” or the negative of these terms or similar expressions. Examples of forward-looking statements include:

- telecommunications usage levels, including the number of telephone access lines, traffic and customer growth;
- competitive forces in liberalized markets, including pricing pressures, technological developments, alternative routing developments and our ability to retain market share in the face of competition from existing and new market entrants;
- regulatory developments and changes, including with respect to the levels of tariffs, the terms of interconnection, customer access and international settlement arrangements, and the outcome of proceedings related to regulation;
- the success and market acceptance of business, operating and financial initiatives (many of which are untested), the level and timing of the growth and profitability of new initiatives, start-up costs associated with entering new markets, the successful deployment of new systems and applications to support new initiatives, and local conditions and obstacles;
- the effects of mergers and consolidations within the telecommunications industry, the risks of completing acquisitions or divestitures and integrating acquired business and the costs associated with possible future acquisitions and planned dispositions;
- the success of our domestic and international investments, joint ventures and strategic relationships, in particular with Qwest, BellSouth, DoCoMo and Hutchison;
- uncertainties related to the award of, the extension of, or the temporary unavailability of, certain licenses, particularly in the area of mobile telecommunications;
- the effect and outcome of UMTS auctions and roll out of UMTS networks and their performance;
- the availability, terms and deployment of capital, particularly in view of our debt refinancing needs;
- the impact of regulatory competitive developments on capital outlays and our ability to achieve cost savings and realize productivity improvements;
- uncertainties associated with developments related to the Year 2000 problem, the introduction of the euro and fluctuations in exchange rates;
- general economic conditions, government and regulatory policies, and business conditions in the markets served by us and our affiliates; and
- risks related to information and communication technology systems generally.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not put undue reliance on any forward-looking statements. Other than as required by applicable law or the applicable rules of any exchange on which our securities may be listed, we have no intention or obligation to update forward-looking statements after we distribute this offering circular.

## **USE OF PROCEEDS**

The proceeds to us from this offering, after deducting underwriting discounts and before estimated expenses, are estimated to be approximately €5 billion. We intend to use a portion of the net proceeds of this offering to repay €3 billion borrowed under two credit facilities we entered into with UBS AG and Morgan Stanley Senior Funding, Inc. In addition, we plan to use at least €1.5 billion of the net proceeds to repay indebtedness under certain other short-term credit facilities. We plan to use the remaining proceeds, if any, for general corporate purposes. For information concerning the material terms of these credit facilities, see “Material Contracts.”

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this offering circular, references to “euro” or “€” are to the currency introduced at the start of the third stage of Economic and Monetary Union, or EMU, pursuant to the Treaty establishing the European Economic Community as amended by the Treaty on European Union. Certain, but not all, amounts in this offering circular have been converted into euro. The conversion rates between the euro and the participating member states’ national currencies were irrevocably fixed on January 1, 1999. Since January 1, 1999, the value of the national currency of a country participating in EMU in the national currency of another country (whether a participating member state or not) may be determined only through the bilateral conversion method, *i.e.*, by converting the first currency into euro and then converting this euro equivalent into the second currency.

We have historically compiled our financial statements in Dutch Guilders, or NLG, and E-Plus has historically compiled its financial statements in Deutsche Marks, or DM. In this offering circular, Dutch Guilder amounts in our financial statements, before and after January 1, 1999, have been translated into euro at NLG 2.20371 per euro, and Deutsche Mark amounts in E-Plus’ financial statements, before and after January 1, 1999, have been translated into euro at DM1.95583 per euro, the fixed conversion rates from January 1, 1999. However, no Deutsche Mark-euro or Dutch Guilder-euro exchange rates were actually quoted prior to January 1, 1999. This offering circular also contains translations of certain euro, Dutch Guilder and Deutsche Mark amounts into U.S. dollars. These translations do not mean that the euro, Dutch Guilder and Deutsche Mark amounts are actually equivalent to the U.S. dollar amounts, or could have been or will be converted into U.S. dollars at the rate indicated or at all.

In February 2000, we acquired a 77.49% indirect interest in KPN/BLS Holding GmbH, which owns (directly and indirectly) 100% of E-Plus. We have included financial statements based on generally accepted accounting principles in Germany, or German GAAP, for E-Plus for the three years ending December 31, 1997, 1998 and 1999.

Our unaudited interim financial statements for the first half of 2000, which are included in this offering circular, include the proportionally consolidated results of E-Plus from February 24, 2000, the date on which the acquisition became effective. We have included our unaudited interim financial statements for the first half of 1999 for the purpose of comparison, although they do not include the results of E-Plus.

Certain figures in this offering circular have been subject to rounding adjustments. Accordingly, amounts shown as totals in tables or elsewhere may not be an arithmetic aggregation of the figures which precede them.

Throughout this offering circular, we have used industry data and projections obtained from industry surveys, market research, publicly available information and industry publications. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on a number of significant assumptions. We have not independently verified this data or determined the reasonableness of such assumptions. We have indicated in this offering circular where information has come from internal sources.

All share and per share information has been adjusted to reflect the two-for-one share split which occurred on June 5, 2000.

## EXCHANGE RATES

A significant portion of our revenues and expenses is denominated in the euro or the legacy currencies of the countries participating in EMU, while the remainder is denominated in other currencies. For a discussion of the impact of exchange rate fluctuations on our financial condition and results of operations, see “Management’s Discussion and Analysis of the Financial Condition and Results of Operations—Quantitative and qualitative disclosure about market risk—Foreign currency exchange rate risk.”

For the periods from January 1, 1999 through December 31, 1999 and from January 1, 2000 through September 11, 2000, the average, high, low and period-end noon buying rates for the euro are shown expressed as U.S. dollars per €1.00. For each year in the period from 1995 through 1998, the average, high, low and period-end noon buying rates for the Dutch Guilder are shown converted into euro at the official fixed conversion rate and expressed as U.S. dollars per €1.00, although no Dutch Guilder-euro exchange rate was actually quoted prior to January 1, 1999.

<u>Year</u>	<u>Average<sup>(1)</sup></u>	<u>High</u>	<u>Low</u>	<u>Period-end</u>
1995 .....	1.38	1.45	1.26	1.37
1996 .....	1.30	1.37	1.25	1.28
1997 .....	1.13	1.27	1.04	1.09
1998 .....	1.11	1.21	1.05	1.17
1999 .....	1.06	1.18	1.00	1.01
2000 (through September 26, 2000) .....	0.93	0.98	0.88	0.88

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- (1) The average of the noon buying rates in the City of New York for cable transfers in euro as certified for customs purposes by the Federal Reserve Bank of New York on the last business day of each full calendar month during the relevant period.

## CAPITALIZATION

The following table presents our capitalization in accordance with accounting principles generally accepted in The Netherlands, or Dutch GAAP, as of June 30, 2000, and as adjusted to reflect post-balance sheet financing activities and the issuance of our notes in this offering and the application of the estimated aggregate proceeds of the offering of approximately €5.0 billion to repay €4.5 billion of indebtedness. Current liabilities include the current position of long-term debts and other interest-bearing short-term debts (bank overdrafts and short-term bonds). You should read this table together with our historical consolidated financial statements and unaudited interim financial statements, including the notes to those financial statements, appearing elsewhere in this offering circular.

	As of June 30, 2000		
	(unaudited)	As adjusted for post balance sheet financing activities (unaudited) (all amounts in € million)	As adjusted for the offering (unaudited)
<b>Liquid assets</b> . . . . .	<b>1,412</b>	<b>3,529<sup>(1)(2)(3)</sup></b>	<b>4,033</b>
<b>Current interest-bearing liabilities</b> . . . . .	<b>4,137</b>	<b>15,750<sup>(1)(4)(5)(6)</sup></b>	<b>11,250</b>
<b>Long-term liabilities</b>			
Subordinated loan from the State . . . . .	112	112	112
Subordinated loan from BellSouth . . . . .	—	465 <sup>(5)</sup>	465
Ordinary loan from the State . . . . .	146	146	146
Debentures . . . . .	7,400	8,407 <sup>(2)</sup>	8,407
The notes offered hereby . . . . .	—	—	5,004
Other borrowings . . . . .	8,295	3,672 <sup>(1)(4)</sup>	3,672
<b>Total long-term liabilities</b> . . . . .	<b>15,953</b>	<b>12,802</b>	<b>17,806</b>
<b>Exchange rights<sup>(7)</sup></b> . . . . .	<b>7,560</b>	<b>7,560</b>	<b>7,560</b>
<b>Group Equity</b>			
Issued share capital <sup>(8)</sup> . . . . .	231	231	231
Additional paid-in capital <sup>(8)</sup> . . . . .	4,275	4,275	4,275
Reserves <sup>(8)</sup> . . . . .	2,077	2,077	2,077
Warrant <sup>(7)</sup> . . . . .	2,330	2,330	2,330
Minority interests . . . . .	152	152	152
<b>Total group equity</b> . . . . .	<b>9,065</b>	<b>9,065</b>	<b>9,065</b>
<b>Total capitalization</b> . . . . .	<b>32,578</b>	<b>29,427</b>	<b>34,431</b>

Our capital base (Group equity increased by the subordinated loan and exchange rights) totaled €16,737 million as of June 30, 2000.

- (1) On August 2, 2000, we received cash proceeds of approximately €4.0 billion from our sale of 15.0% of KPN Mobile to DoCoMo. €1.4 billion of this cash, together with €2.3 billion drawn under two €1.5 billion credit facilities extended by UBS AG and Morgan Stanley Senior Funding Inc. have been used for repaying the remainder of the E-Plus acquisition credit facility. We have drawn down the remaining €680 million of the two €1.5 billion credit facilities and an amount of €31 million in the money markets and used these funds for the acquisition of the UMTS license in The Netherlands (€711 million).
- (2) On August 10, 2000, we issued another €1.0 billion of floating rate notes 2000 due 2002.

- (3) The balance of the proceeds remaining from DoCoMo's subscription for new shares in KPN Mobile, namely €2,569 million, is being used by KPN Mobile to finance further expansion, including the completion of KPN Mobile's acquisition of a 15.0% interest in Hutchison 3G UK Holdings Limited, the owner of a UMTS license in the U.K., for approximately £900 million (approximately €1,500 million, based on an average exchange rate between pounds sterling to euro of £0.62). Completion took place on September 21, 2000. We met this obligation from our cash resources.
- (4) On July 6, 2000 we completed a private placement of debt in Japan of approximately €1.2 billion of notes, consisting of two tranches of approximately €870 million and €307 million. We used the proceeds of the private placement to refinance a portion of the E-Plus acquisition credit facility. Both issuances of debt are included in "other borrowings," of which €870 million is current debt.
- (5) On August 31, 2000 we have drawn an amount of €465 million under a \$3 billion subordinated loan facility provided by BellSouth. We have loaned this amount to KPN Mobile, which subsequently loaned it to E-Plus. Under guarantee from BellSouth a bank loan of €1.4 billion has been provided to E-Plus as a shareholder loan. In accordance with our accounting policies, we will proportionally consolidate 77.49% or €1.1 billion. Both loans were taken out on August 31, 2000 and have been used to pay the balance due on the UMTS license in Germany. Our share of BellSouth's loan to E-Plus has been included in current interest-bearing liabilities.
- (6) As of August 31, 2000, we drew down €6.6 billion from the €13.3 billion credit facilities, extended by Goldman Sachs Credit Partners, L.P., ABN AMRO Bank N.V. and Citibank N.A., arranged to finance our share of the UMTS license in Germany.
- (7) For a discussion of the convertible exchange rights and the warrant, see "Material Contracts."
- (8) On August 30, 2000, we declared an interim stock dividend. Since it only affects group equity, this has not been reflected as adjustments for post-balance sheet financing activities.

## **SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA—THE GROUP**

The following tables show selected historical financial data for the Group as of and for the years ended December 31, 1995 through 1999. We derived the selected historical financial data from our audited financial statements. Our consolidated balance sheets as of December 31, 1998 and 1999 and our related consolidated statements of income and of cash flows for the three years ended December 31, 1999 and the related notes appear elsewhere in this offering circular. The selected historical unaudited financial data for our company as of and for the six months ended June 30, 1999 and 2000 have been derived from our unaudited financial statements included elsewhere in this offering circular. These statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. Our historical financial statements have been prepared in accordance with Dutch GAAP, which differs in certain significant respects from accounting principles generally accepted in the United States, or U.S. GAAP, as described in our historical financial statements.

On June 28, 1998, TNT Post Group demerged from KPN, retroactively as from January 1, 1998. In order to improve comparability, all comparative figures have been restated as if the demerger had taken place on December 31, 1994, *i.e.*, the figures of TNT Post Group have been deconsolidated as of that date and the results have been excluded.

We have adopted the use of the euro as our reporting currency from January 1, 1999. The Dutch Guilder, or NLG, was previously used for financial reporting. We used the fixed exchange rate as of January 1, 1999 of €1 = NLG 2.20371 in retroactively restating the financial data. The translation of all Dutch Guilder amounts into euro at the official fixed conversion rate does not affect the trends we will discuss below. However, the amounts relating to periods prior to the introduction of the euro will not be comparable to the amounts reported by other companies that were restated from currencies other than the Dutch Guilder. For additional information, refer to the audited historical financial statements included elsewhere in this offering circular.

You should read this table together with “Management’s Discussion and Analysis of the Financial Condition and Results of Operations” and our audited historical financial statements, our unaudited interim financial statements and the related notes, included elsewhere in this offering circular.

	As at and for the six months ended June 30		As at and for the year ended December 31,				
	2000 <sup>(1)</sup>	1999	1999	1998	1997	1996	1995
	(unaudited)		(all amounts in € million, except for ratio data)				
Income Statement Data							
In accordance with Dutch GAAP:							
Total operating revenues . . . . .	5,202	4,016	9,132	7,944	7,117	6,601	6,497
Operating profit . . . . .	444	636	1,053	1,575	1,492	1,571	1,459
Profit or loss before taxes . . . . .	51	504	757	1,363	1,260	1,323	1,252
Profit or loss on normal operations after taxes . . . .	(19)	416	828	924	878	821	779
Extraordinary expense after taxes . . . . .	—	—	—	(236)	—	—	—
Profit after taxes . . . . .	(19)	416	828	688	878	821	779
Profit after taxes per ordinary share (non-diluted) <sup>(2),(3)</sup> . . . . .	(0.02)	0.44	0.87	0.73	0.94	0.89	0.85
Profit after taxes per ordinary share on a fully diluted basis <sup>(2),(3)</sup> . . . . .	(0.02)	0.44	0.87	0.73	0.94	0.89	0.85
Weighted average number of outstanding ordinary shares <sup>(3)</sup> . . . . .	956,983,112	951,000,300	955,769,964	945,695,828	935,693,540	924,250,044	915,826,390
Weighted average number of outstanding ordinary shares on a fully diluted basis <sup>(3)</sup> . . . . .	956,983,112	952,072,738	955,989,472	946,979,690	936,763,352	925,155,424	916,827,830
In accordance with U.S. GAAP:							
Total operating revenues . . . . .	4,914	3,882	8,061	7,696	7,155	6,571	6,346
Operating profit . . . . .	276	504	233	1,069	1,274	1,291	1,181
Profit or loss before taxes . . . . .	2,351	402	24	969	1,032	1,065	1,019
Profit or loss after taxes . . . . .	2,407	313	719	559	703	643	628
Profit after taxes per ordinary share (non-diluted) <sup>(2),(3)</sup> . . . . .	2.52	0.33	0.75	0.59	0.75	0.70	0.69
Profit after taxes per ordinary share on a fully diluted basis <sup>(2),(3)</sup> . . . . .	2.26	0.33	0.75	0.59	0.75	0.70	0.68
Weighted average number of outstanding ordinary shares <sup>(3)</sup> . . . . .	956,983,112	951,000,300	955,769,964	945,695,828	935,693,540	924,250,044	915,826,390
Weighted average number of outstanding ordinary shares on a fully diluted basis <sup>(3)</sup> . . . . .	1,066,110,392	952,072,738	955,989,472	946,979,690	936,763,352	925,155,424	916,827,830
Balance Sheet Data							
In accordance with Dutch GAAP:							
Total assets . . . . .	40,380	N/A	17,991	13,629	11,980	11,625	11,472
Long term liabilities . . . . .	15,953	N/A	5,412	3,474	2,203	2,283	2,125
Provisions . . . . .	652	N/A	795	869	543	519	871
Exchange right . . . . .	7,560	N/A	—	—	—	—	—
Group equity . . . . .	9,065	N/A	6,389	5,913	5,551	5,221	4,831
Capital Stock . . . . .	4,506	4,505	4,505	4,505	4,478	4,478	4,478
Number of substantial shares . . . . .	960,429,648	956,691,050	958,730,933	953,068,723	944,479,843	935,429,713	925,980,048
In accordance with U.S. GAAP:							
Total assets . . . . .	41,547	N/A	20,446	14,846	13,537	13,489	11,968
Long term liabilities . . . . .	15,847	N/A	5,405	3,560	2,265	2,597	2,125
Exchange right . . . . .	7,560	N/A	—	—	—	—	—
Provisions . . . . .	1,701	N/A	1,870	1,445	1,510	1,322	1,408
Group equity . . . . .	11,773	N/A	8,447	6,311	6,219	5,586	4,926
Other Data (in accordance with Dutch GAAP)							
Net cash provided by (used in) operating activities <sup>(5)</sup> .	486	1,603	2,455	2,305	2,039	1,827	N/A
Net cash (used in) provided by investing activities <sup>(5)</sup> .	(11,720)	(1,055)	(2,658)	(2,947)	(1,536)	(1,383)	N/A
Net cash provided by (used in) financing activities <sup>(5)</sup> .	9,952	1,297	2,350	444	(326)	(687)	N/A
EBITDA <sup>(6)</sup> . . . . .	1,757	1,496	3,355	2,987	2,749	2,711	N/A
Ratios							
Pay-out ratio <sup>(7)</sup> . . . . .	N/A	N/A	61.2%	73.2%	75.5%	54.1%	53.3%
Dividend per ordinary share <sup>(3)</sup> . . . . .	N/A	N/A	0.53	0.53	0.51	0.48	0.45
Dividend per ordinary share in U.S. dollars . . . . .	N/A	\$0.19	\$0.37	\$0.37	\$0.36	\$0.36	\$0.40
Operating margin <sup>(8)</sup> . . . . .	8.5%	15.8%	11.5%	19.6%	20.8%	23.8%	22.5%
Solvency <sup>(9)</sup> . . . . .	41.2%	N/A	35.5%	43.4%	46.3%	47.0%	42.1%
Ratio of earnings to fixed charges—Dutch GAAP <sup>(10)(11)</sup> . . . . .	1.1	N/A	3.0	5.8	5.4	5.6	N/A
Ratio of earnings to fixed charges—U.S. GAAP <sup>(10)(11)</sup> .	1.2	N/A	1.4	4.8	4.3	4.7	N/A

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- (1) The comparability of our unaudited results of operations for the six months ended June 30, 2000 has been affected by our acquisition of E-Plus as of February 24, 2000. Consistent with our accounting policies under Dutch GAAP, the results of E-Plus have been proportionally consolidated from that day forward. Under U.S. GAAP, E-Plus would be considered an equity investment and, as discussed in the Notes to our unaudited financial statements for the six months ended June 30, 2000, proportional consolidation would not be allowed.
  - (2) Please refer to the Notes to the historical financial statements for a discussion of the method used to calculate profit or loss per share.
  - (3) Restated for the effect of the two-for-one share split which occurred in June 2000, as if the share split took place as of January 1, 1995.
  - (4) Under Dutch GAAP the income from the sale of assets such as the dilution gain of €555 million in 1999 related to KPNQwest and Infonet, is included in other operating revenues and thus included in operating profit. Under U.S. GAAP this gain is excluded from operating profit and stated separately.
  - (5) Comparable cash flows information is not available for the year ended December 31, 1995 on a disaggregated basis excluding TNT Post Group, which was spun off with effect from January 1, 1998.
  - (6) EBITDA represents operating profit (loss) before amortization, depreciation and impairment charges. EBITDA is included because management believes it is a useful indicator of a company's ability to incur and service debt. EBITDA should not be considered as a substitute for operating income, net income, cash flow or other statements of operations or cash flow data computed in accordance with Dutch or U.S. GAAP or as a measure of a company's results of operations or liquidity.
  - (7) Pay-out ratio: dividend divided by profit after taxes under Dutch GAAP.
  - (8) Operating margin: operating profit divided by operating revenues as determined under Dutch GAAP.
  - (9) Solvency: Group equity (including the exchange right) divided by total assets as determined under Dutch GAAP.
  - (10) The ratio of earnings to fixed charges is defined as our income from continuing operations before taxes as determined in accordance with generally accepted accounting principles, plus fixed charges. Fixed charges are reduced by the amounts of capitalized interest, plus income allocable to minority interests in consolidated entities that have incurred fixed charges. Fixed charges are defined as the sum of interest, whether expensed or capitalized, amortization of premiums, discounts and capitalized expenses related to indebtedness, amounts accrued with respect to guarantees of other parties' obligations, and the estimated interest component of rental expense.
  - (11) Information required to compute the ratio of earnings to fixed charges is not available for the year ended December 31, 1995 on a disaggregated basis excluding TNT Post Group, which was spun off with effect from January 1, 1998. Accordingly, no ratio is presented for 1995.

## SELECTED HISTORICAL FINANCIAL DATA—E-PLUS

This table shows selected historical financial data for E-Plus as of and for the years ended December 31, 1997, 1998 and 1999. We derived the selected historical financial data for E-Plus for the years ended December 31, 1997, 1998 and 1999 from the audited historical financial statements of E-Plus included elsewhere in this offering circular. The audited historical financial statements of E-Plus have been prepared in accordance with accounting principles generally accepted in Germany, or German GAAP, which differs in certain significant respects from U.S. GAAP as described in Note VII to the audited historical financial statements of E-Plus included elsewhere in this offering circular.

You should read this table in conjunction with “Management’s Discussion and Analysis of the Financial Condition and Results of Operations” and the audited historical financial statements of E-Plus, and the related notes, included elsewhere in this offering circular.

	For the year ended December 31,		
	1999	1998	1997
	(all amounts in € million)		
<b>Consolidated Statement of Income Data</b>			
<b>Amounts in accordance with German GAAP:</b>			
Total operating revenues . . . . .	1,260	757	474
Results from ordinary activities . . . . .	(163)	(382)	(456)
Loss before income taxes . . . . .	(178)	(462)	(459)
Net loss . . . . .	(178)	(462)	(459)
<b>Amounts in accordance with U.S. GAAP:</b>			
Total operating revenues . . . . .	1,260	757	N/A
Results from ordinary activities . . . . .	(133)	(383)	N/A
Loss before income taxes . . . . .	(133)	(383)	N/A
Net loss . . . . .	(133)	(383)	N/A
<b>Consolidated Balance Sheet Data</b>			
<b>Amounts in accordance with German GAAP:</b>			
Total assets . . . . .	1,776	1,576	1,635
Long term liabilities . . . . .	3,238	2,928	2,493
Shareholders' deficit . . . . .	(1,745)	(1,567)	(1,113)
<b>Amounts in accordance with U.S. GAAP:</b>			
Total assets . . . . .	1,879	1,632	N/A
Long term liabilities . . . . .	3,237	2,927	N/A
Shareholders' deficit . . . . .	(1,642)	(1,510)	N/A
<b>Other Data:</b>			
<b>Amounts in accordance with German GAAP:</b>			
Net cash provided (used) by operating activities . . . . .	36	(269)	(294)
Net cash used in investing activities . . . . .	(298)	(224)	(312)
Net cash provided by financing activities . . . . .	258	452	597

## **UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL DATA**

### **Introduction**

The following unaudited pro forma condensed consolidated financial data is presented for illustrative purposes only and gives effect to our acquisition of a 77.49% indirect interest in E-Plus and the related acquisition financing. The pro forma adjustments relating to the acquisition were prepared assuming the acquisition occurred on the first day of the respective periods presented. The unaudited pro forma condensed consolidated financial data is for illustrative purposes only and does not purport to represent our actual results of operations had the acquisition of a 77.49% indirect interest in E-Plus occurred on the respective dates assumed, nor is it necessarily indicative of our future operating results. The statement of operations pro forma adjustments give effect to events that are directly attributable to the E-Plus transaction, that are expected to have a continuing effect and that are factually supportable.

The unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 1999 has been prepared based on our audited consolidated financial statements for the year ended December 31, 1999 and the audited consolidated financial statements of E-Plus for the year ended December 31, 1999 included elsewhere in this offering circular and has been prepared based upon available information and assumptions we believe are reasonable.

The unaudited pro forma condensed consolidated statement of operations for the six months ended June 30, 2000 has been prepared based on our unaudited consolidated financial statements for the six months ended June 30, 2000 (which includes the proportionally consolidated results of E-Plus from February 24, 2000) and the unaudited consolidated financial statements of E-Plus for the period from January 1, 2000 through February 23, 2000.

We accounted for the acquisition as a purchase and, accordingly, E-Plus' assets and liabilities have been recorded at their estimated fair values at the date of the acquisition. The unaudited pro forma condensed consolidated statements of operations include various adjustments to the purchase price allocation and goodwill based on our preliminary allocation of the purchase price to the assets and liabilities that we acquired. The final allocation may differ from the amounts reflected in these pro forma financial statements based upon the final determination of the fair value of E-Plus' assets at the date of acquisition, specifically with regard to certain intangible assets.

In accordance with our accounting policies, joint ventures in which we participate by virtue of a joint venture agreement with one or more parties but in which we share control are proportionally consolidated. Since we share control and hold a significant interest in E-Plus, it has been proportionally consolidated in the unaudited pro forma condensed consolidated financial data.

In preparing the unaudited pro forma condensed consolidated financial data, certain adjustments were identified and made to reflect the differences between Dutch GAAP as applied by us and the German GAAP financial statements of E-Plus included elsewhere in this offering circular. For purposes of presenting the unaudited pro forma condensed consolidated financial data for the year ended December 31, 1999, E-Plus' historical financial information has been conformed to Dutch GAAP. These adjustments, as appropriate, have also been applied to E-Plus' statement of operations for the period from January 1, 2000 through February 23, 2000.

The financial information has been prepared in accordance with Dutch GAAP, which differs in certain significant respects from U.S. GAAP as described under the "U.S. GAAP Adjustments" section in relation to the unaudited pro forma condensed consolidated financial data for both the year ended December 31, 1999 and for the six months ended June 30, 2000. The unaudited pro forma financial data should be read together with "Management's Discussion and Analysis of the Financial Condition

and Results of Operations” and the respective consolidated financial statements of The Group (without E-Plus) and E-Plus.

**Unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 1999**

	<b>The Group (without E-Plus)<sup>(1)</sup></b>	<b>E-Plus as adjusted 77.49%<sup>(2)</sup></b>	<b>Acquisition and financing adjustments<sup>(3)</sup></b>	<b>Pro forma</b>
	<b>(all amounts in € million, except for profit or loss per share)</b>			
Net sales . . . . .	8,100	1,155	—	9,255
Own work capitalized . . . . .	352	33	—	385
Other operating revenues . . . . .	680	14	—	694
Total operating revenues . . . . .	9,132	1,202	—	10,334
Cost of materials . . . . .	932	244	—	1,176
Work contracted out and other external expenses . . . . .	2,644	507	—	3,151
Salaries and social security contributions . . . . .	1,610	123	—	1,733
Depreciation and impairments . . . . .	2,302	237	1,017 <sup>(4)</sup>	3,556
Other operating expenses . . . . .	591	153	—	744
Total operating expenses . . . . .	8,079	1,264	1,017	10,360
Operating profit or loss . . . . .	1,053	(62)	(1,017)	(26)
Financial income and expense . . . . .	(296)	(133)	(655) <sup>(5)</sup>	(1,084)
Profit or loss before income taxes . . . . .	757	(195)	(1,672)	(1,110)
Tax on profit or loss on normal operations <sup>(6)</sup> . . . . .	186	—	—	186
Share in income from participating interests . . . . .	253	—	—	253
Minority interests . . . . .	4	—	—	4
<b>Profit or loss after taxes . . . . .</b>	<b>828</b>	<b>(195)</b>	<b>(1,672)</b>	<b>(1,039)</b>
Profit or loss on normal operations after taxes per ordinary share and per ADS <sup>(7)</sup> . . . . .	0.87	—	—	(1.09)
Profit or loss on normal operations after taxes per ordinary share and per ADS on a fully diluted basis <sup>(7)</sup> . . . . .	0.87	—	—	(1.09)

1. This column is derived from our audited consolidated financial statements prepared in accordance with Dutch GAAP and included elsewhere in this offering circular.
2. This column is derived from the audited historical financial statements of E-Plus prepared in accordance with German GAAP and included elsewhere in this offering circular. The adjustments to E-Plus’ audited historical financial information in order to reflect certain adjustments to Dutch

GAAP, purchase price allocation adjustments and our 77.49% indirect proportionate share, are as follows:

	<u>E-Plus historical (I)</u>	<u>Purchase accounting and other adjustments (II)</u>	<u>E-Plus as adjusted</u>	<u>Proportionate share of E-Plus consolidated</u>
		(all amounts in € million)		
Net sales . . . . .	1,215	276 <sup>(A)</sup>	1,491	1,155
Own work capitalized . . . . .	13	29 <sup>(B)</sup>	42	33
Other operating revenues . . . . .	32	(14) <sup>(C,H)</sup>	18	14
Total operating revenues . . . . .	<u>1,260</u>	<u>291</u>	<u>1,551</u>	<u>1,202</u>
Cost of materials . . . . .	315	—	315	244
Work contracted out and other external expenses . . . . .	176	478 <sup>(A,C,D,E)</sup>	654	507
Salaries and social security contributions . . . . .	160	(1) <sup>(H)</sup>	159	123
Depreciation and impairments . .	175	131 <sup>(B,E,F,G)</sup>	306	237
Other operating expenses . . . . .	426	(229) <sup>(D)</sup>	197	153
Total operating expenses . . . . .	<u>1,252</u>	<u>379</u>	<u>1,631</u>	<u>1,264</u>
Operating profit or loss . . . . .	8	(88)	(80)	(62)
Financial income and expense . . .	<u>(171)</u>	<u>—</u>	<u>(171)</u>	<u>(133)</u>
Profit or loss on normal operations after taxes . . . . .	(163)	(88)	(251)	(195)
Extraordinary items . . . . .	<u>(15)</u>	<u>15<sup>(I)</sup></u>	<u>—</u>	<u>—</u>
<b>Profit or loss on normal operations after taxes and extraordinary items . . . . .</b>	<u>(178)</u>	<u>(73)</u>	<u>(251)</u>	<u>(195)</u>

- I. The data contained in this column are derived from E-Plus' historical financial information prepared in accordance with German GAAP and included elsewhere in this offering circular.
- II. This column reflects the adjustments made as a result of differences between E-Plus' accounting principles and our accounting principles as well as the effect on operations resulting from the fair value adjustments made to the E-Plus assets acquired and liabilities assumed resulting from the purchase price allocation. The audited historical financial information of E-Plus has been prepared in accordance with German GAAP. For the purposes of preparing the unaudited pro forma condensed consolidated financial data, the audited historical financial information of E-Plus has been restated to Dutch GAAP. This restatement has been prepared solely for the purposes of preparing these pro forma financial data and should not be used for any other purpose. These differences between E-Plus' accounting principles and our accounting principles include reclassifications and other differences which exist between German and Dutch GAAP as applied by E-Plus and us, respectively. The following adjustments have been made:
- A. Historically, E-Plus presented its statement of operations revenues net of certain costs, including those associated with handset subsidies and amounts paid to external service providers for new customers. We include these amounts in "work contracted out and other external expenses." The adjustment of €276 million represents a reclassification of these costs.

- B. Historically, E-Plus did not capitalize all personnel costs directly attributable to building the network. The effect on its statement of operations of capitalizing these costs is an increase of own work capitalized of €29 million. In addition, we have assumed the fair value of the E-Plus network to be €1,070 million at the date of acquisition resulting in a downward adjustment to “property, plant and equipment” of €249 million. The remaining average useful life of the network is assumed to be four years. The adjustment relating to the carrying value of the network and assessment of the remaining useful life resulted in an increase in “depreciation and amortization” of €93 million.
  - C. Historically, E-Plus recorded amounts received from miscellaneous sources including, but not limited to, credit notes, advertising allowances and gains on the disposal of fixed assets as “other revenues.” In accordance with our accounting presentation, €13 million was reclassified to “work contracted out and other external expenses.”
  - D. Historically, E-Plus recorded certain amounts as “other operating expenses” including, but not limited to, selling expenses, certain administrative costs and certain other operating expenses. In accordance with our accounting presentation, €229 million was reclassified to “work contracted out and other external expenses.”
  - E. In accordance with German GAAP, certain lease contracts are classified as operating leases, and periodic lease payments are expensed. In accordance with Dutch GAAP, an additional €95 million liability to the lessor was recorded and €95 million was recorded in “property, plant and equipment.” An adjustment of €14 million and €13 million is related to decreased rental expense and increased depreciation, respectively, from the capitalization of certain leases.
  - F. We have assumed the fair value of E-Plus’ telecommunications licenses to be €276 million at the date of acquisition. This resulted in an adjustment to the carrying value of those licenses of €261 million. The remaining average useful life of the licenses is assumed to be 12 years. An additional €22 million amortization expense is related to the adjustment of the carrying value of the licenses.
  - G. We have assumed the fair value of certain software that E-Plus developed to be €11 million, which resulted in an upward adjustment in “property, plant and equipment” for this amount. We have assumed the remaining average useful life of this software to be four years. The change in depreciation resulting from the adjustment of the carrying value of the software is €3 million.
  - H. Historically, E-Plus recorded amounts received from contracting employees out as “other revenues.” In accordance with our accounting presentation, €1 million was reclassified from “other revenues” to a reduction in “salaries and social security contributions.”
  - I. The amount reflects the effect on the statement of operations to reverse E-Plus’ write-off of €15 million of capitalized financing costs associated with debt that was expected to be refinanced in the following year.
3. This column reflects the amortization of the goodwill related to the acquisition of E-Plus and the additional interest related to the financing.
  4. This adjustment reflects the estimated amount of annual goodwill amortization that results from the acquisition of E-Plus. The goodwill is being amortized over 20 years on a straight-line basis.

The determination of the purchase price, net assets acquired and the calculation of the estimated goodwill is as follows:

	(all amounts in € million)
Acquisition of Vodafone interest in E-Plus . . . . .	1,750
Acquisition of VR interest in E-Plus . . . . .	7,369
Direct costs related to acquisition . . . . .	60
Fair value of additional non-cash consideration . . . . .	9,890
Total consideration . . . . .	19,069
Negative net asset value E-Plus . . . . .	1,085
Total goodwill as included in unaudited interim financial statements (H-pages) . . . . .	20,154
Reduction in the fair value of the acquired E-Plus license . . . . .	193
Total goodwill . . . . .	<u>€20,347</u>

Direct acquisition costs consist of fees to investment bankers and other professional advisors. We purchased the former Vodafone and VR interest in E-Plus. Following completion of the transaction we hold an indirect 77.49% interest in KPN/BLS Holding GmbH and therefore in E-Plus. BellSouth is the only other shareholder in KPN/BLS Holding GmbH and holds a 22.51% indirect interest in KPN/BLS Holding GmbH and therefore in E-Plus. The shareholders agreement of KPN/BLS Holding GmbH are such that we and BellSouth share control of E-Plus.

Our unaudited interim financial statements include goodwill computed based upon the assumed fair value attributable to a license we acquired as a result of our acquisition of E-Plus. Subsequent to reporting our interim results, we have received a fixed valuation for the license, resulting in a reduction of the value of the license acquired, and a corresponding increase in goodwill. This revision has been reflected in these pro forma financial statements.

Non-cash consideration in this acquisition included an exchange right valued at €7,560 million and a warrant valued at €2,330 million. Both fair values were based on a valuation carried out by a reputable investment bank as of the date of acquisition. For an explanation of the exchange rights and warrants, see “Material Contracts—Contractual arrangements relating to KPN Mobile’s acquisition of E-Plus—Reorganization agreement—Exchange rights” and “—Contractual arrangements relating to E-Plus—Subordinated loan facility agreement and warrant.”

5. This adjustment records the interest expense relating to the financing incurred to effect the acquisition for the year ended December 31, 1999:

	For the year ended December 31, 1999 (all amounts in € million)
Credit facility <sup>(A)</sup> . . . . .	610
Elimination of historical interest expense <sup>(B)</sup> . . . . .	(41)
Debt acquisition costs <sup>(C)</sup> . . . . .	81
Commitment fee <sup>(D)</sup> . . . . .	5
Pro forma adjustment . . . . .	<u>655</u>

- A. Interest on the credit facility with an aggregate principal amount of €13,000 million at a floating rate of Euribor plus 0.9%. A rate of 5.77% was used to compute the interest

adjustment related to the €10,574 million actually drawn under the credit facility. On September 1, 2000 S&P, and on September 7, 2000 Moody's, downgraded our long-term corporate and unsecured ratings. Accordingly, the interest associated with future borrowing may be (and the fixed interest rates under the notes offered hereby are) higher than those reflected in the pro forma financial statements. Subsequent to this acquisition we have undertaken a number of bridge facilities with varying rates of interest with lower interest margins above Euribor than those initially used to finance the acquisition of E-Plus. We intend to refinance these bridge facilities with a mix of equity, convertible notes and debt, including the notes offered hereby. If Euribor were to fluctuate by 1/8%, interest expense would increase by €13 million. No effect has been included to account for the notes offered hereby.

- B. Amount represents the elimination of the historical interest expense incurred on the VR and Vodafone shareholder loans. These loans were refinanced using drawdowns from the credit facility. As reflected in 5.A. above, the pro forma statement of operations includes an adjustment reflecting the interest charged on this facility assuming it was outstanding for the entire period.
  - C. Amount represents fees paid to the banking syndicate to obtain the credit facility. The amount is amortized over the life of the facility, which is assumed to be 364 days and does not take into effect the term-out option which could potentially extend the term of up to €5,000 million of the loan by 365 days. As of December 9, 1999, the debt acquisition costs were included within our historical financial statements. As such, the adjustment pertains only to the period from January 1, 1999 through December 8, 1999.
  - D. We must pay on the undrawn facility a commitment fee equal to 0.20% per annum if the total commitments are €6,500 million or less and 0.275% per annum of the total commitment are more than €6,500 million. As such, the commitment fee was calculated on the basis of the undrawn facility of €2,426 million.
6. The unaudited pro forma condensed consolidated statement of operations assumes that there are no tax effects of the pro forma adjustments related to the merger and the related transactions. This is because E-Plus has historically generated operating losses. Due to its history of operating losses, coupled with the uncertainty of future profits against which to offset these losses, management has determined that a full valuation allowance is needed. During June 2000 we, together with KPN Mobile and BellSouth, commenced a restructuring of E-Plus. In the course of this restructuring E-Plus was converted from a limited liability company to a limited liability partnership. The limited partner of E-Plus is KPN/BLS Holding and the general partner is a wholly owned subsidiary of KPN/BLS Holding, E-Plus Mobilfunk Geschäftsführungs GmbH.
  7. The calculation represents profit or loss per share or ADS assuming that the weighted average number of ordinary shares and ADSs during the period was 956 million, which was the number of ordinary shares and ADSs in issue as of December 31, 1999 each retroactively restated to reflect the June 2000 two-for-one share split.

## **U.S. GAAP adjustments**

### ***General***

The unaudited pro forma condensed consolidated financial statements are prepared in accordance with Dutch GAAP, which differs in certain respects from U.S. GAAP. These differences are described

within our historical consolidated financial statements included in this offering circular. In addition to these differences, the following additional items are related to the E-Plus acquisition. These are:

*Intangible assets*

Under U.S. GAAP, we would have recognized the following additional intangible assets related to the acquisition of E-Plus. These assets would not be recognized under Dutch GAAP.

	<u>(all amounts in € million)</u>	<u>Average useful life</u>
Brand name . . . . .	1,138	20 years
Work force . . . . .	26	7 years
Customer relationships . . . . .	263	4 years
Favorable lease contracts . . . . .	52	17 years
Total . . . . .	<u>1,479</u>	

This U.S. GAAP adjustment would not have an effect on net equity but would increase “other intangible assets” by €1,479 million and decrease goodwill by the same amount.

*Proportional consolidation*

Under Dutch GAAP, investments in joint ventures can be consolidated proportionally. U.S. GAAP does not allow proportional consolidation and instead would require the use of the equity method of accounting for these investments. Accordingly, our investment in E-Plus would be included in “financial fixed assets” and the net income from this investment would be included in the result from “investments in affiliated companies.” This difference does not affect equity or net income under U.S. GAAP as compared to Dutch GAAP.

### ***Reconciliation to U.S. GAAP***

The following statements summarize the principal adjustments, which reconcile net income and total shareholders' equity under Dutch GAAP to the amounts that would have been reported had U.S. GAAP been applied. The adjustments that relate to us are recorded gross with the tax effect shown separately; however the adjustments that relate to E-Plus assume that there are no tax effects. (Refer to Note 6 above.) For a discussion of the nature of these differences please refer to the historical financial statements of the Group (without E-Plus) and E-Plus.

#### *Net income*

	<b>December 31, 1999</b>
	<b>(all amounts in € million)</b>
Pro forma net loss under Dutch GAAP . . . . .	(1,039)
Amortization of other identifiable intangible assets . . . . .	(56)
Employee and reorganization provisions . . . . .	(5)
Capitalization of interest expense . . . . .	30
Pension charges . . . . .	(227)
Self-insurance . . . . .	(6)
Write-down of capitalized interest charges . . . . .	(22)
Write-down of capitalized software/software produced in-house . . .	(6)
Consolidation of Vision Networks Holdings B.V. . . . .	(27)
Investment grants to replace WIR allowances . . . . .	24
Minority participating interests . . . . .	48
Tax effect of adjustments . . . . .	82
Pro forma net loss under U.S. GAAP . . . . .	<u>(1,204)</u>

**Unaudited pro forma condensed consolidated statement of operations for the six months ended June 30, 2000**

	The Group historical for the six months ended June 30, 2000 <sup>(1)</sup>	77.49% E-Plus as adjusted period from January 1, 2000 to February 23, 2000 <sup>(2)</sup>	Acquisition and financing adjustments <sup>(3)</sup>	Pro forma
	(all amounts in € million, except for loss per share)			
Operating revenues . . . . .	5,202	215	—	5,417
Cost of materials . . . . .	621	44	—	665
Work contracted out and other external expenses . . . . .	1,666	87	—	1,753
Salaries and social security contributions . .	985	20	—	1,005
Depreciation and impairments . . . . .	1,313	46	150 <sup>(4)</sup>	1,509
Other operating expenses . . . . .	173	26	—	199
Total operating expense . . . . .	4,758	223	150	5,131
Operating profits or loss . . . . .	444	(8)	(150)	286
Financial income and expense . . . . .	(393)	(22)	(79) <sup>(5)</sup>	(494)
Profit or loss before income taxes . . . . .	51	(30)	(229)	(208)
Tax on profit or loss on normal operations <sup>(6)</sup> . . . . .	266	—	—	266
Share in income from participating interests . . . . .	196	—	—	196
<b>Profit or loss after taxes . . . . .</b>	<b>(19)</b>	<b>(30)</b>	<b>(229)</b>	<b>(278)</b>
Profit or loss on normal operations after taxes per ordinary share and per ADS <sup>(7)</sup> .	(0.02)	—	—	(0.29)
Profit or loss on normal operations after taxes per ordinary share and per ADS on a fully diluted basis <sup>(7)</sup> . . . . .	(0.02)	—	—	(0.29)

1. This column is derived from our unaudited consolidated statement of operations for the six months ended June 30, 2000 prepared in accordance with Dutch GAAP and included elsewhere in this offering circular, and including the results of E-Plus from February 24, 2000 onward.
2. This column is derived from the unaudited historical financial statements of E-Plus for the period from January 1, 2000 to February 23, 2000 prepared in accordance with Dutch GAAP. The adjustments to E-Plus' unaudited historical statement of operations to reflect certain purchase price allocation adjustments and our 77.49% indirect proportionate share are as follows:

	E-Plus Historical for the Period from January 1, 2000 to February 23, 2000 (I)	Purchase accounting adjustments (II)	E-Plus as adjusted	Proportionate share of E-Plus consolidated
		(all amounts in € million)		
Net revenues . . . . .	270	—	270	209
Own work capitalized . . . . .	5	—	5	4
Other revenues . . . . .	3	—	3	2
Total operating revenues . . . . .	278	—	278	215
Cost of materials . . . . .	57	—	57	44
Work contracted out and other external expenses . . . . .	112	—	112	87
Salaries and social security contributions . . . . .	26	—	26	20
Depreciation and impairments . . . . .	44	16 <sup>(A,B,C)</sup>	60	46
Other operating expenses . . . . .	33	—	33	26
Total operating expenses . . . . .	272	16	288	223
Operating profit or loss . . . . .	6	(16)	(10)	(8)
Net financial income and expense . . . .	(28)	—	(28)	(22)
<b>Net loss . . . . .</b>	<b>(22)</b>	<b>(16)</b>	<b>(38)</b>	<b>(30)</b>

I. The data contained in this column is derived from E-Plus' unaudited historical statement of operations for the period from January 1, 2000 to February 23, 2000 prepared in accordance with Dutch GAAP.

II. This column reflects the fair value adjustments made to the E-Plus assets acquired and liabilities assumed resulting from the purchase price allocation. The following adjustments have been made:

- A. The adjustment relating to the carrying value of the network and assessment of the remaining useful life has resulted in an increase in "depreciation and amortization" of €12 million. We have assumed the fair value of the network at the acquisition date to be €1,070 million (a downward adjustment in "property, plant and equipment" of €249 million). The remaining average useful life of the network is assumed to be four years.
- B. An additional €3 million amortization expense is related to the value adjustment of the license. We have assumed the fair value of E-Plus' telecommunications licenses to be €276 million at the date of acquisition (an upward adjustment of €261 million). The remaining average useful life of the licenses is assumed to be 12 years.
- C. The change in depreciation resulting from the adjustment of the carrying value of certain software is €1 million. We assumed the fair value of certain software that E-Plus developed to be €11 million, which was not capitalized by E-Plus at the date of the acquisition. We have assumed the remaining average useful life of this software to be 20 years.

3. This column reflects the amortization of the goodwill related to the E-Plus acquisition and the additional interest related to the financing.

4. This adjustment reflects the estimated amount of goodwill amortization for the period from January 1, 2000 to February 23, 2000 that results from the acquisition of our indirect interest in E-Plus. The goodwill is being amortized over 20 years on a straight-line basis. The determination of the purchase price, net assets acquired and the calculation of goodwill is as follows:

	(all amounts in € million)
Acquisition of Vodafone interest in E-Plus . . . . .	1,750
Acquisition of VR interest in E-Plus . . . . .	7,369
Direct costs related to acquisition . . . . .	60
Fair value of additional non-cash consideration . . . . .	9,890
Total consideration . . . . .	19,069
Negative net asset value E-Plus . . . . .	1,085
Total goodwill is included in the unaudited interim financial statements (H-pages) . . . . .	20,154
Reduction in the fair value of the acquired E-Plus license . . . . .	193
Total goodwill . . . . .	20,347

Direct acquisition costs consist of fees to investment bankers and other professional advisors. We purchased the former Vodafone interest and the VR interest in E-Plus, previously named Vodafone GmbH. Following completion of the transaction, we hold an indirect 77.49% interest in KPN/BLS Holding GmbH and therefore in E-Plus. BellSouth is the only other shareholder in KPN/BLS Holding GmbH and holds a 22.51% indirect interest in KPN/BLS Holding GmbH and therefore in E-Plus. The shareholders' agreement of KPN/BLS Holding GmbH is such that we and BellSouth share control of E-Plus.

Our unaudited interim financial statements include goodwill computed based upon the assumed fair value attributable to a license we acquired as a result of our acquisition of E-Plus. Subsequent to reporting our interim results, management has received a final valuation for the license, resulting in a reduction of the value of the license and a corresponding increase in goodwill. This revision has been reflected in these pro forma financial statements.

Non-cash consideration in this acquisition included an exchange right valued at €7,560 million and a warrant valued at €2,330 million. Both fair values were based on a valuation carried out by a reputable investment bank as of the date of acquisition. Under U.S. GAAP, the exchange right must be marked to market at the period end date. As of June 30, 2000, the fair value of the exchange right decreased to €5,120 million, resulting in an adjustment which increases net income in the U.S. GAAP reconciliation for the six months ended June 30, 2000 by €2,440 million. For an explanation of the exchange right and warrants, see "Material Contracts—Contractual arrangements relating to KPN Mobile's acquisition of E-Plus—Reorganization agreement—Exchange rights" and "—Contractual arrangements relating to E-Plus—Subordinated loan facility agreement and warrant."

5. This adjustment records the interest expense relating to the financing incurred to effect the acquisition of our indirect interest in E-Plus for the period from January 1, 2000 to February 23, 2000.

	For the six months ended June 30, 1999
	(all amounts in € million)
Credit facility <sup>(A)</sup> . . . . .	90
Elimination of historical interest expense <sup>(B)</sup> . . . . .	(11)
Debt acquisition costs <sup>(C)</sup> . . . . .	—
Pro forma adjustment . . . . .	<u>79</u>

- A. Interest on the credit facility with an aggregate principal amount of €13,000 million at a floating rate of Euribor plus 0.9%. A rate of 5.77% was used to compute the interest adjustment related to the €10,574 million actually drawn under the credit facility. On September 1, 2000 S&P, and on September 7, 2000 Moody's, downgraded our long-term corporate and senior unsecured ratings. Accordingly, the interest associated with future borrowing may be (and the fixed interest rates under the notes offered hereby are) higher than those reflected in the pro forma financial statements. Subsequent to this acquisition we have undertaken a number of short term bridge facilities with varying rates of interest with lower interest margins above Euribor than those initially used to finance the acquisition of E-Plus. We intend to refinance these bridge facilities with a mix of equity, convertible notes and debt, including the notes offered hereby. If Euribor were to fluctuate by ¼%, interest expense would increase by €2 million for the six-month period. No effect has been included to account for the notes offered hereby.
  - B. Amount represents the elimination of the historical interest expense incurred on the Vodafone and VR shareholder loans. These loans were refinanced using drawdowns from the credit facility. As reflected in 5.A. above, the pro forma statement of operations includes an adjustment reflecting the interest charged on this facility assuming it was outstanding for the entire period.
  - C. Amount represents fees paid to the banking syndicate to obtain the credit facility. The amount is amortized over the life of the facility, which is assumed to be 364 days and does not take into effect the term-out option which could potentially extend the term of up to €5,000 million of the loan by 365 days. As of December 9, 1999, the debt acquisition costs were included within our historical financial statements. As such, no pro forma adjustment is necessary for the period from January 1, 2000 to February 23, 2000.
6. The unaudited pro forma condensed consolidated statement of operations assumes that there are no tax effects of the pro forma adjustments related to the merger and the related transactions. This is because E-Plus has historically generated operating losses. Due to its history of operating losses, coupled with the uncertainty of future profits against which to offset these losses, management has determined that a full valuation allowance is needed. During June 2000 we, together with KPN Mobile and BellSouth, commenced a restructuring of E-Plus. In the course of this restructuring E-Plus was converted from a limited liability company to a limited liability partnership. The limited partner of E-Plus is KPN/BLS Holding and the general partner is a wholly owned subsidiary of KPN/BLS Holding, E-Plus Mobilfunk Geschäftsführungs GmbH.
  7. The calculation represents profit or loss per share assuming that the weighted average number of common shares and ADS during the period was 957 million, which was the number of ordinary shares and ADS in issue as of June 30, 2000.

## U.S. GAAP adjustments

### *General*

The unaudited pro forma condensed consolidated financial statements are prepared in accordance with Dutch GAAP, which differs in certain respects from U.S. GAAP. These differences are described within our historical consolidated financial statements included in this offering circular. In addition to these differences, the following additional items are related to the E-Plus acquisition. These are:

### *Intangible assets*

Under U.S. GAAP, we would have recognized the following additional intangible assets related to the acquisition of E-Plus. These assets would not be recognized under Dutch GAAP.

	(€ in millions)	Average useful life
Brand name . . . . .	1,138	20 years
Work force . . . . .	26	7 years
Customer relationships . . . . .	263	4 years
Favorable lease contracts . . . . .	52	17 years
Total . . . . .	<u>1,479</u>	

This U.S. GAAP adjustment would not have an effect on net equity but would increase “other intangible assets” by €1,479 million and decrease goodwill by the same amount.

### *Proportional consolidation*

Under Dutch GAAP, investments in joint ventures can be consolidated proportionally. U.S. GAAP does not allow proportional consolidation and instead would require the use of the equity method of accounting for these investments. Accordingly, our investment in E-Plus would be included in “financial fixed assets” and the net income from this investments would be included in the result from “investments in affiliated companies.” This difference does not affect equity or net income under U.S. GAAP as compared to Dutch GAAP.

### ***Reconciliation to U.S. GAAP***

The following statements summarize the principal adjustments, which reconcile net income and total shareholders' equity under Dutch GAAP to the amounts that would have been reported had U.S. GAAP been applied. The adjustments that relate to us are recorded gross with the tax effect shown separately; however the adjustments that relate to E-Plus assume that there are no tax effects. (Refer to Note 6 above.)

#### *Net income*

	<b>June 30, 2000</b>
	<b>(all amounts in € million)</b>
Pro forma net loss under Dutch GAAP . . . . .	(278)
Amortization of other identifiable intangible assets . . . . .	(27)
Employee and reorganization provisions . . . . .	(137)
Capitalization of software . . . . .	(2)
Pension charges . . . . .	58
Self-insurance . . . . .	(10)
Consolidation of Vision Networks Holdings B.V. . . . .	9
Investment grants to replace WIR allowances . . . . .	4
Deferred Income . . . . .	29
Minority participating interests . . . . .	3
Exchange right . . . . .	2,440
Tax effect of adjustments . . . . .	32
Pro forma net loss under U.S. GAAP . . . . .	<u>2,121</u>

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion of our financial condition and results of operations relates to our company only (without E-Plus) in 1997, 1998 and 1999. In February 2000, we acquired our 77.49% indirect interest in E-Plus. As a result, the discussion of our financial condition and results of operations for the first half of 2000 includes the results of E-Plus since the acquisition date. We also discuss separately the financial condition and results of operations of E-Plus for 1997, 1998 and 1999.*

*You should read this discussion in conjunction with our historical financial statements for the years 1997, 1998 and 1999, our historical unaudited interim financial statements for the six months ended June 30, 1999 and 2000, E-Plus' historical financial statements and our pro forma financial statements, each of which are included in this offering circular.*

*This discussion contains forward-looking statements concerning the operations, economic performance and financial condition of both our company and E-Plus. Examples are the statements concerning future revenues, expenses and capital expenditures and possible changes in the industry and the competitive environment. Because these forward-looking statements involve risks and uncertainties, our actual results may differ materially from the results expressed or implied in these statements.*

*Our financial statements were prepared in accordance with Dutch GAAP and E-Plus' financial statements were prepared in accordance with German GAAP. Both Dutch GAAP and German GAAP are different from U.S. GAAP. We discuss the principal differences and present a reconciliation of these financial statements to U.S. GAAP under "—U.S. GAAP reconciliation" below and in the paragraph "Information based on U.S. Accounting Principles" in our historical financial statements and Note VII to E-Plus' historical financial statements.*

*We have historically prepared our financial statements in Dutch Guilders, or NLG, and E-Plus has historically compiled its financial statements in Deutsche Marks, or DM. For consistency of presentation, all of the amounts discussed below have been translated into euro at the conversion rates fixed on January 1, 1999, equal to NLG 2.20371 per euro and DM 1.95583 per euro. Although no such exchange rates were actually quoted prior to January 1, 1999, we have also translated amounts in Dutch Guilders or Deutsche Marks for prior periods into euro at these rates. The translation of all amounts into euro at the official fixed conversion rate does not affect the trends we discuss below. However, the amounts relating to periods prior to the introduction of the euro will not be comparable to the amounts reported by other companies reporting in euro that were restated from currencies other than Dutch Guilders or Deutsche Marks.*

### **Overview—The Group**

#### **Our organization into segments**

At the beginning of 2000, we grouped our business into four core segments—corresponding to our four areas of strategic focus—and another segment called "Other." We have restated our results of operations for the first half of 1999 and for the full year 1999 and 1998 on this basis. The discussion of our results of operations in the first half of 1999 and 2000 and for the full year 1998 and 1999 reflects our new segmentation. We were not able to restate our 1997 results of operations to reflect our new segmentation, as it was impracticable to do so, since the organizational structure and management reporting information for this period differs significantly from that available for later periods. The restatement of 1997 results of operations can therefore not be obtained without disproportionate effort. Accordingly, the discussions of our 1997 results of operations in this offering circular are based on our previous segmentation.

Our new segments are as follows:

- *Fixed network services.* This segment includes domestic, fixed-to-mobile and outbound international telephone traffic that we provide on our fixed network in The Netherlands to business customers and consumers. It also comprises wholesale domestic and international network access and transmission services.
- *Mobile communications.* This segment consists of all of our mobile telecommunications businesses, both in The Netherlands and abroad.
- *IP/data.* This segment consists of the provision of data transmission services (including leased lines), private network services, data applications solutions and integration services for large business customers (other than telecommunications providers) in the Benelux countries; together with the provision of data transmission services and telecommunications infrastructure sales in other countries through our interests in KPNQwest, Infonet, Euroweb and PanTel. We also act as the distributor of KPNQwest's services in the Benelux countries.
- *ICM.* This segment consists of our Internet and media services (consumer ISP, internet portal content, telephone directories and premium rate calling services) and customer relationship management services (call centers, information services and ancillary services).
- *Other.* This segment consists of our business communications activity (which delivers, installs and services communications equipment for business customers), Station 12 (a satellite communications joint venture with Telstra), and our sales and distribution network including our Primafoon stores and our Business Centers, together with all of our fixed network construction, operation activities, our head office functions, KPN Research and our interests in eircom and Český Telecom.

Previously, our business was grouped into the following three segments:

- *Fixed telephony, equipment and other.* This segment was divided into five business units:
  - *Fixed telephony;*
  - *Business communications,* now included in our Other segment;
  - *Corporate Networks,* which consisted of our IP/data business in the Benelux countries (now included, together with KPNQwest, in IP/data);
  - *Telecommerce,* which consisted of our Internet, customer relationship management and media services (now part of our ICM segment) as well as the infrastructure related to our Internet activities (now part of our IP/data segment); and
  - *Other,* including our wholesale carrier services business (now included in fixed network services), our network construction and operation activities (now included in Other), our centralized sales and distribution units, and our fixed network construction and operation activities and head office functions (now included in Other).
- *Mobile communications.* As under our new segmentation, this segment consisted of all of our mobile telecommunications businesses, both in The Netherlands and abroad.
- *International activities.* This segment consisted of all of our international activities other than mobile telecommunications, including our wholesale international call handling and transmission services (now part of fixed network services), investments in incumbent operators, such as Český Telecom (now included in Other) and our interests in other companies such as KPNQwest, KPN Belgium, PanTel and Infonet (which are now included in IP/data).

Both under our new and old segmentation, our centralized sales and distribution, production and head office functions (included in Other) provide their services within our Group, either at cost or, in the case of businesses which have been carved out or in which other parties have taken an interest (like KPN Mobile), on an arms' length basis.

### **Some recent trends and developments affecting our business**

Our business has been affected in recent years by a number of important trends. The telecommunications market in Europe has experienced rapid growth in demand as a result of a number of factors, including the globalization of trade, the increasing integration of European markets and the advent of factors such as mobile telecommunications, the Internet and the growth of data traffic. The mobile telecommunications market in particular has grown substantially in the last three years, as the demand for, and use of, mobile telephones continues to increase substantially. In addition, growth in the use of the Internet has contributed to substantial growth in traffic on our fixed network. In the future we expect the quality of content for mobile data and Internet applications, rather than the level of penetration, to be the most significant driver of growth in the mobile and Internet markets. These factors are reshaping the telecommunications business.

The telecommunications sector in Europe has also undergone a radical regulatory transformation. Historically, only the incumbent public telecommunications operators had the right to provide public telephone service or networks in most European countries. However, a process of deregulation has been underway in our principal European markets throughout the 1990s. As a result of this process, a large number of new competitors have entered the telecommunications markets in which we operate.

In The Netherlands, the telecommunications market has experienced gradual deregulation since the early 1990s. In 1997, the introduction of carrier select service enabled customers to route long distance and international calls and calls from fixed lines to a mobile network through an alternative provider on a call-by-call basis by dialing an access code. In late 1998, a new Telecommunications Act came into force in The Netherlands. The principal goal of this new legislation was to lift many of the existing barriers to entry into the telecommunications market and to implement a regulatory framework appropriate for the new competitive environment. Under this legislation our company has been designated as having significant market power in the public fixed network voice telephony, leased lines and mobile telecommunications markets in The Netherlands. As a result, unlike our competitors in The Netherlands, many of our fixed network tariffs are, and may remain, subject to regulation. In early 2000, the introduction of carrier preselect services enabled customers to select alternative providers on a default basis for all of their calls without dialing a prefix code. In March 1999, OPTA, the Dutch telecommunications regulator, introduced guidelines which required us to provide access to our local loop network, known as "unbundled access." As a result other operators are able to offer telephony services directly to our customers. In the summer of 2000, we introduced unbundled access to our local network.

Although deregulation, competition and specific regulation of our activities have caused our prices to decline in recent years, our revenues have continued to grow, driven by new services and an increasing volume of traffic. Between the first half of 1999 and the first half of 2000, without accounting for our acquisition of E-Plus, our revenues increased by almost 15%.

### ***Fixed network services***

Fixed network services continued to be our largest segment, contributing 50.7% to our operating revenues in the first half of 2000. Fixed network services posted a 9.2% increase in revenues in the first half of 2000, compared with the first half of 1999.

Our success in increasing our fixed network services revenues comes despite substantial and increasing competition in the fixed telephony market in The Netherlands. Our competitors in this

market include international telecommunications carriers and start-up fixed line telecommunications operators as well as cable companies and carrier select and preselect operators. We are also coming under increasing competition from new xDSL operators who are benefiting from the recent opening of access to our local network. We believe that an increasing proportion of calls that would previously have been made over the fixed network is now being made on mobile telephones, a process known as “fixed-mobile substitution.”

Despite this increasing competition, we have retained significant market share in The Netherlands. In the first half of 2000, we held approximately 90% of the Dutch local call market, and based on management estimates, approximately 75% of the national and fixed-mobile call markets and approximately 54% of the international call market—our most competitive market—each measured in terms of minute volumes. Based on management estimates, demand for fixed telephony services in The Netherlands has continued to increase, principally due to Internet dial-up calls and the increasing number of faster digital lines, such as ISDN lines, while demand for wholesale carrier services has grown substantially. In addition, increasing mobile penetration has led to an increase in the number of fixed-to-mobile calls originating from our fixed network.

In September 1999, OPTA implemented a price-cap system for our public fixed network voice telephony service. Under this system, we are required to reduce our prices for a basket of services consisting of telephone subscriptions, local and national telephone calls, calls from fixed to mobile telephones, standard directory listings and directory assistance service by at least 5.3% per year, subject to allowances for inflation. Under this formula, the required price reduction for the period from July 1, 1999 through June 30, 2000 was 3.3%, after accounting for inflation. In addition, for this period we voluntarily decided to lower our prices by approximately a further 2% in order to increase our competitiveness in the market. The price-cap formula requires us to reduce our prices by a further 3.1%, after accounting for inflation, for the period from July 1, 2000 through June 30, 2001. We can offset our 2% voluntary reduction in prices against this requirement.

As a separate matter, OPTA has indicated that it will separately examine “retention” (*i.e.*, the amount that we incorporate in our end user prices to cover costs associated with actual use of our fixed network for a fixed-mobile call) in order to decide whether it is cost oriented. Our retention may differ depending on the mobile operator involved. Finally, OPTA also regulates the charges we make to other telecommunications carriers for access to our network.

The wholesale market for international telecommunications is becoming increasingly competitive, and pricing is becoming more transparent, as a result of the continuing global liberalization of telecommunications markets. This is making it more difficult for us to compete, as other telecommunications companies have alternatives to routing calls through our network. This may harm the profitability of our wholesale international network services in the future. In addition, international traffic from and to The Netherlands still represents a sizeable part of the overall international traffic which we carry on our network. Our success in the wholesale international market therefore depends on our success in the retail market in The Netherlands.

### ***Mobile communications***

European mobile telecommunications markets have demonstrated strong growth in recent years. The mobile telecommunications market in Western Europe increased by 68% to 194.4 million customers as of June 30, 2000 compared with 115.5 million customers as of June 30, 1999. Our mobile operations benefited from this substantial growth in our two largest markets, The Netherlands and Germany.

The Dutch mobile telecommunications market is currently among the most competitive in Europe with five active network operators. As of June 30, 2000 approximately 8.6 million mobile telephone users were registered in The Netherlands, representing a penetration rate of approximately 54%. These

customer numbers represented an increase of approximately 74% compared with June 30, 1999. As of June 30, 2000, mobile penetration in the Dutch market amounted to 54% compared with 31% as of June 30, 1999. This growth was driven primarily by the lower tariffs and higher handset subsidies introduced by new market entrants in late 1998 and 1999 and the introduction of new value-added products and services to the market.

The German mobile telecommunications market experienced substantial growth in the first half of 2000. Germany has one of the largest potential customer bases in Western Europe with a population of approximately 82 million. As of June 30, 2000 approximately 34 million mobile telephone users were registered in Germany, representing a penetration rate of 41%, almost double the number of registered users at June 30, 1999. Historically in Germany, relatively high prices and long term contracts have limited the growth of the mobile telecommunications market. In 1999, E-Plus was the first operator in the German market to introduce a prepaid service without a minimum subscription period. The new service led to substantial competition in the prepaid consumer market, leading to an increase in customer acquisition costs, such as subsidies paid by operators to enable customers to purchase handsets.

During the first half of 2000, a number of European countries began to auction licenses for the next generation of mobile telecommunications technology known as Universal Mobile Telecommunications Systems, or UMTS. We believe that UMTS licenses are essential to the future expansion and success of our business since UMTS technology is expected to provide certain services, such as mobile data transmission and mobile Internet access, more efficiently. We have purchased UMTS licenses at auctions in our largest mobile telecommunications markets, The Netherlands and Germany. We have entered into indicative agreements concerning the possibility of pursuing UMTS licenses in Belgium and France with Hutchison and (in the case of France) DoCoMo. We have also agreed to acquire a 15.0% interest in Hutchison 3G UK Holdings Limited, the owner of a UMTS license in the United Kingdom. Purchasing UMTS licenses, or interests in other companies that own UMTS licenses, and developing UMTS networks will continue to increase our operating expenses and capital expenditure and reduce our liquidity in the future.

#### ***IP/data***

We provide data transmission services in the Benelux countries, where the market is experiencing strong growth as businesses adopt new data-intensive business applications, such as electronic commerce, corporate intranets and virtual private networks, voice communication over the Internet, video streaming, broadcast multimedia, application hosting services and other products and services based on Internet Protocol data transmission. These new applications are driving the demand for bandwidth and for value-added services, such as LAN-interconnect services and frame relay, which give our business customers greater flexibility in the transmission of data and higher bandwidth capacity. The same factors are also driving demand for integration and management of applications and private networks that connect workstations within a building or connect a number of business sites. As a result of the demand for bandwidth, international telecommunications providers and specialized IP/data providers are investing heavily in building high capacity IP/data infrastructure, including local networks that compete with our CityRings network in the Dutch market. We expect both demand for and investments in bandwidth to continue to grow in the future.

The fact that both we and our competitors are constructing new capacity has led to a decline in prices, which in turn has spurred demand for new applications and consequently bandwidth. In addition, the prices of our leased lines services are subject to regulation by OPTA and are based on prescribed cost-based calculations. Our objective is to offset future price decreases by attracting increased volumes of data traffic we handle and offering value-added services.

We believe that similar trends are developing elsewhere in Europe and that our success in the international data transmission market will depend on KPNQwest's ability to compete with a variety of other telecommunications providers, specialized IP/data providers and new market entrants, including those providing competing networks and those providing competing Internet connectivity and value-added services. Competition in this market focuses on how to deliver reliable, flexible, high-quality bandwidth for a reasonable price. The Internet connectivity market and the market for other value-added services, such as web hosting and application services, are also extremely competitive. We expect that the number of competitors and vertical and horizontal integration in the industry, pricing pressure and competition for market share will all intensify in the future.

#### ***Internet, customer relationship management and media***

We are the leading ISP in The Netherlands and, based on management estimates, second in Belgium by number of registered ISP subscribers. At the end of 1999, the Internet penetration rate in The Netherlands was 24%, with 3.9 million users, which was higher than the average penetration rate in Western Europe of 21%. The Internet penetration rate in Belgium at the end of 1999 was 20%, with 2.2 million users. We have experienced substantial growth in ISP subscribers and Internet traffic and believe that use of the Internet will continue to be driven in large part by increasing computer and modem penetration, the implementation of faster, high bandwidth technologies such as ADSL, the introduction of mobile Internet access, decreasing prices of bandwidth and access, the introduction of easy-to-use navigational tools and the growth in the number of information, entertainment and commercial services available on the Internet.

We also operate in the international call center outsourcing market, through our call center businesses, SNT Groep N.V., known as SNT, and KPN Call Centers B.V. (which currently generates inter-segment revenues). The growth of the call center outsourcing market is mainly driven by the trend for companies to focus on their core activities in order to increase cost efficiency. Businesses that require an outsourced call center often also require inbound customer services and technical help desk functions. Call center outsourcing increasingly consists of the management of entire business processes on behalf of clients.

In addition, an increasing number of companies in The Netherlands are using free phone services (those with an 0800 prefix) as a marketing tool to offer their customers free access to their telephone services, information and contact centers. Internet service providers are also using 0800 numbers to provide their customers with free Internet dial-up services. The market for paid 0900 service numbers also continues to grow as more companies are looking for ways to distribute their knowledge on a cost-efficient basis to their customers.

#### **Acquisitions, divestments and new operations**

Our results of operations in 1997, 1998, 1999 and the first half of 2000 reflect the following significant acquisitions, divestments and new operations:

- In January 1998, we acquired KPN Belgium, a provider of business telecommunications services in Belgium. KPN Belgium, which has been fully consolidated since January 1, 1998, is included in the IP/data segment and generated revenues of €54 million in the first half of 2000.
- In January 1998, we acquired a 49.0% share in PanTel, a newly formed Hungarian telecommunications operator. We acquired an additional 12.7% of PanTel in March 1999 and a further 13.5% in April 2000. Our interest in PanTel currently amounts to 75.2%. PanTel's results were included in share in income from participating interests in 1998 and were fully consolidated as of April 1999. PanTel is included in our IP/data segment and generated revenues of €6 million in the first half of 2000.

- In June 1998, we formed a 50:50 joint venture with Orange plc called KPN Orange, the third operator to enter the mobile telecommunications market in Belgium. KPN Orange commenced commercial operations in April 1999. KPN Orange, which has been proportionally consolidated since 1998, is included in the mobile communications business segment and contributed €29 million to our consolidated revenues in the first half of 2000.
- In September 1998, we increased our share in Pannon GSM from approximately 24% to 44.66%. Pannon GSM has been proportionally consolidated as from January 1, 1999, and is included in the mobile communications segment. Pannon GSM contributed €73 million to our consolidated revenues in the first half of 2000.
- In December 1998, we acquired XS4ALL, one of the first ISPs in The Netherlands. XS4ALL has been fully consolidated since January 1, 1999, is included in the ICM segment and generated revenues of €9 million in the first half of 2000.
- In December 1998, we acquired a direct stake of 6.5% in Český Telecom, the incumbent telecommunications operator in the Czech Republic, giving us an aggregate stake of 20.3%, including our 13.8% indirect share through Telsource, a joint venture with Swisscom. Český Telecom's results are included in share in income of participating interests.
- In April 1999, we and Qwest formed a 50:50 joint venture called KPNQwest to create a dedicated network to handle the rapidly increasing volumes of Internet data communication. In November 1999, KPNQwest conducted an initial public offering that reduced our economic interest from 50% to 44.4%. KPNQwest is now listed on Euronext Amsterdam N.V. and the NASDAQ National Markets. Our share of the voting rights currently amounts to 49.4%. KPNQwest, which was proportionally consolidated at 50.0% as of April 1999 and at 44.4% as of November 1999, is included in the IP/data segment and contributed €82 million to our consolidated revenues in the first half of 2000.
- We hold an interest in eircom, the Irish incumbent operator, through ComSource, a joint venture between our company and Telia of Sweden. In July 1999, we increased our stake in eircom from 12.0% to 21.0%. In the fourth quarter of 1999, in line with our new strategic focus, we decided to sell our interest in eircom. Our share in the results of eircom was included in share in income from participating interests up to September 1999. After that date, because of our decision to sell our interest, we have only recognized dividends from eircom under share in income from participating interests.
- We hold an interest in Infonet, which provides worldwide data communications and multimedia services. In December 1999, Infonet conducted an initial public offering and obtained a listing on the New York and Frankfurt stock exchanges. Currently, we hold an economic interest of 17.7% in Infonet. Our share of Infonet's results is included under share in income from participating interests.
- In February 2000, we acquired a 77.49% share in E-Plus, the third largest mobile telecommunications operator in Germany. We share control of E-Plus with BellSouth. E-Plus, which has been proportionally consolidated at 77.49% since February 24, 2000, is included in our mobile communications segment and contributed €583 million to our consolidated revenues in the first half of 2000. At June 30, 2000, total goodwill recognized on the E-Plus acquisition (including the fair market value of the exchange rights and the warrant issued to BellSouth) amounted to €20.2 billion. This goodwill will be amortized over 20 years, giving rise to an annual amortization charge of approximately €1 billion.
- In February 2000, we acquired a 51.0% share in Euroweb, a NASDAQ listed company with interests in Internet access providers for business customers in Central and Eastern Europe.

Euroweb, which has been fully consolidated since February 2000, is included in the IP/data segment. It did not generate significant revenues in the first half of 2000.

- In February 2000, we acquired a 70% share in HCC Net B.V., HCC's ISP business. HCC Net, which is fully consolidated as of June 1, 2000, is included in the ICM segment.
- In March 2000, we increased our interest in SNT, the leading call center outsourcing business in The Netherlands, to 51.0% concurrently with SNT's initial public offering and listing on Amsterdam Exchanges N.V., now Euronext Amsterdam N.V. Previously, we had a minority interest in SNT and its results were included in share in income from participating interests. Since March 2000, we have fully consolidated SNT's results, and it contributed €22 million to our consolidated revenues in the first half of 2000.
- In April 2000, we combined our business with Telstra's mobile satellite business in a new company called Station 12 B.V., in which we hold a 65.0% interest through our wholly owned subsidiary, KPN Satcom B.V. Telstra holds the remaining 35.0% stake in Station 12. Station 12 is fully consolidated in our Other segment. It contributed €137 million to our consolidated revenues in the first half of 2000.

### **Reorganization provisions**

In 1998, we implemented a reorganization program known as New KPN. This program was designed to improve our responsiveness to changing market conditions, improve our efficiency (principally in fixed network maintenance, but also in other areas) and increase transparency. As part of the New KPN program, we sought to reduce our headcount of full-time equivalent employees, or FTEs, by 4,000 and to hire 1,000 new FTEs.

We made total provisions with respect to New KPN of €363 million in 1998. These consisted of €159 million related to headcount reductions and the cost of retraining employees, €127 million for the introduction of Enterprise Resource Planning, or ERP, information systems, €57 million for a nationwide relocation program affecting 20,000 FTEs together with associated costs related to our intranet and €20 million for adjustments to terms of employment for employees in certain segments. The tax benefit of these provisions amounted to €127 million in 1998, resulting in a net charge after tax of €236 million, which was recorded as an extraordinary expense after tax.

We have endeavored, where possible, to prevent forced redundancies by offering employee retraining. During 1999, it became clear—partly as a result of our growth and labor shortages—that redundant workers could, after suitable retraining, be employed elsewhere in our company. In 1999, 1,768 employees who were initially declared redundant were posted elsewhere within our company. As a result, at year-end 1999, approximately 2,000 employees remained subject to redundancy. We also decided to further adjust terms of employment for certain employees in line with market conditions in The Netherlands. As a result, we increased the provision for adjustments to terms of employment by €17 million. Our employee-related reorganization activities during 1999 resulted in utilization of €51 million of the headcount reduction, retraining and terms of employment provisions. After accounting for the additional provision of €17 million made during the year, the outstanding amount under these provisions totaled €145 million at year-end 1999.

Also in 1999, we utilized €17 million of the ERP provision, leaving a balance of €110 million at year-end, and we utilized €27 million of the relocation provision, leaving a balance of €30 million at year-end.

In the first half of 2000, we utilized €54 million of the headcount reduction, retraining and terms of employment provisions, leaving a balance of €91 million for these purposes at June 30, 2000. Also in the first half of 2000, we utilized €52 million of the ERP provision, leaving a balance of €58 million at

June 30, 2000. Finally we completed the relocation program in the first half of 2000 and utilized the remaining relocation provision for this purpose.

### **Exceptional items**

In addition to the reorganization provisions discussed above, our results of operations reflect various exceptional revenues and expenses. The principal items were as follows:

In 1999:

- Our shareholding in KPNQwest declined from 50% to 44.4% through the issue of new shares by KPNQwest in its initial public offering. The new shares were issued at a premium above the amount we originally contributed for our initial 50% stake. Accordingly, we accounted for an increase of €414 million in the value of our existing shareholding. We recognized this amount under other operating revenues in the IP/data segment.
- We sold a small portion of our interest in Infonet at the time of its initial public offering, generating proceeds of €23 million. Since the shares were sold at a premium above the price we paid, we also accounted for an increase of €140 million in the value of our remaining shareholding, for a total of €163 million. This item is recorded under other operating revenues for the IP/data segment.
- As part of our new strategic focus and the reorganization of our activities, we incurred exceptional expenses of €211 million in terminating non-strategic or loss-making activities. These expenses were recorded under other operating expenses for the segment Other.
- In the light of new technology, we were required to shorten the remaining useful lives of a number of our assets, principally switches, transmission equipment, network management systems, payphones, mobile telecommunications equipment and computer equipment. In addition, we wrote down the value at which they were carried on our balance sheet. As a result, we incurred additional depreciation charges totaling €236 million in various segments. We also incurred impairment charges in various segments totaling €363 million as a result of writedowns on platforms for leased lines and sea cables mainly related to changing market conditions.
- In connection with the winding-up of Unisource, a joint venture between our company, Swisscom and Telia, we wrote down goodwill relating to Unisource in the amount of €39 million. This goodwill amortization charge is recorded in the Other segment.
- Our interest expenses included €19 million of charges related to the write-off of loans to minority participations.
- We generated €137 million in connection with the winding-up of Unisource and the sale of a number of its activities. This amount was recorded under share in income from participating interests.
- We generated revenues of €36 million from the sale by eircom of Cablelink, one of its subsidiaries. This amount was recorded under share in income from participating interests.
- We wrote off a number of our investments, including Utel, a Ukrainian telecommunications operator, and ICO, a satellite communications operator, following our decision to sell our stakes in these investments. The total write-down charge of €20 million was recorded under share in income from participating interests.
- Our income tax charge decreased by €196 million as a result of the tax treatment of the exceptional items described above and because no tax was payable in respect of the revenues we recognized for the increase in the value of our shareholdings in KPNQwest and Infonet.

In the first half of 2000:

- The underwriters in the initial public offering of Infonet exercised their over-allotment option. We sold shares in Infonet in connection with this option, recognizing proceeds of €21 million, which we have recorded under other operating revenues for the IP/data segment.
- We also recorded proceeds of €21 million on the initial public offering of SNT.
- In connection with the winding-up of Unisource, we entered into a demerger agreement and sold our indirect interest in D-Plus, a mobile telecommunications service provider in Germany, and received an additional amount from the sale of Arcor, an IP/data service provider. These items generated proceeds of €147 million which were recorded under share in income from participating interests.

**Our results of operations in the first half of 1999 and 2000**  
**The Group (including E-Plus since February 24, 2000)**

**General**

We continued to implement our growth strategy in the first half of 2000. We increased our efforts to achieve rapid development through further organic growth and through acquisitions, joint ventures and partnerships.

The following table shows our total operating revenues by business segment for the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
Fixed network services <sup>(1)</sup> .....	2,635	2,414
Mobile communications <sup>(1)</sup> .....	1,567	810
IP/data <sup>(1)</sup> .....	576	382
ICM <sup>(1)</sup> .....	347	291
Other <sup>(2)</sup> .....	732	604
Inter-segment sales <sup>(3)</sup> .....	(655)	(485)
Total operating revenues .....	<u>5,202</u>	<u>4,016</u>

(1) Includes sales of products and services to the other three core business segments, but does not include sales to the Other business segment.

(2) This figure represents sales of products and services by the Other segment to entities outside our Group.

(3) This figure represents sales of products and services between our four core segments.

We increased our operating revenues by 29.5% to €5,202 million in the first half of 2000 from €4,016 million in the first half of 1999. This increase consists of an 18% effect of new acquisitions, such as E-Plus, SNT, Station 12 and PanTel, plus an 11% effect of organic growth. The organic growth effect comprised an 18% volume effect offset by a 7% reduction in prices.

The main components of our organic growth in operating revenues in the first half of 2000 were the following:

- increased growth of Internet and IP/data traffic on our network;
- substantial growth in mobile telecommunications; and

- an increase in sales of fixed network services and the number of ISDN lines.

Our operating revenues for the first half of 2000 also reflect revenues from the initial public offerings of Infonet and SNT.

Our total operating profit before depreciation and impairments, or EBITDA, increased by 17.4% to €1,757 million in the first half of 2000 from €1,496 million in the first half of 1999. Excluding the effect of E-Plus, EBITDA grew by 12.3% to €1,680 million. However, as a percentage of total operating revenues, our EBITDA margin declined from 37.3% in the first half of 1999 to 33.8% in the same period of 2000. In addition to volume-related cost increases, such as payments to other operators for terminating traffic on their network (e.g., Internet dial-up and fixed-to-mobile calls) and marketing campaigns, the decrease in the EBITDA margin was caused by business activities currently in their initial phases, such as KPNQwest, which incurred start-up costs.

The following table shows our EBITDA by business segment for the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
Fixed network services . . . . .	1,241	1,224
Mobile communications . . . . .	333	222
IP/data . . . . .	123	115
ICM . . . . .	(40)	(17)
Other . . . . .	100	(48)
Total EBITDA <sup>(1)</sup> . . . . .	<u>1,757</u>	<u>1,496</u>

- (1) EBITDA represents operating profit (loss) excluding amortization depreciation and impairment charges. EBITDA is included because management believes it is a useful indicator of a company's ability to incur and service debt. EBITDA should not be considered as a substitute for operating income, net income, cash flow or other statements of operations or cash flow computed in accordance with Dutch or U.S. GAAP or as a measure of a company's results of operations or liquidity.

Our depreciation and impairments in the first half of 2000 increased by 52.7% to €1,313 million from €860 million in the first half of 1999, primarily as a result of the amortization of the goodwill arising on the E-Plus acquisition in the mobile communications segment, which amounted to €334 million. Total goodwill on the acquisition of E-Plus amounted to approximately €20.2 billion, including the goodwill arising as the result of non-cash consideration recognized in connection with the exchange rights and warrant granted to BellSouth. We also recorded a €91 million increase in depreciation charges, of which €86 million related to E-Plus. This additional depreciation was partly offset by a €14 million decline in impairment charges in the first half of 2000.

Despite the improvement in EBITDA, our operating profit declined by 30.2% to €444 million in the first half of 2000 from €636 million in the first half of 1999. This decline was due to the amortization, depreciation and impairment charges related to the E-Plus acquisition. Excluding all effects of the E-Plus acquisition including the amortization of goodwill arising from the acquisition, our operating profit would have increased by 22.6% to €780 million.

The following table shows a breakdown of our operating profit by business segment for the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
Fixed network services . . . . .	816	765
Mobile communications . . . . .	(212)	131
IP/data . . . . .	8	30
ICM . . . . .	(80)	(56)
Other . . . . .	(88)	(234)
Total operating profit . . . . .	<u>444</u>	<u>636</u>

In the first half of 2000, we incurred a loss after taxes of €19 million compared to a profit after taxes of €416 million in the first half of 1999. This reflects the effect of the amortization of the goodwill on the acquisition of E-Plus and increased interest expenses as a result of the acquisition. Excluding E-Plus' revenues and expenses and the effect of amortization of goodwill arising from this acquisition, our profit after taxes would have increased by 40.9% to €586 million.

#### **Fixed network services**

##### ***Operating revenues***

The following table shows a breakdown of our total operating revenues from fixed network services in the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
Net sales . . . . .	2,635	2,414
Own work capitalized . . . . .	—	—
Other operating revenues . . . . .	—	—
Total operating revenues . . . . .	<u>2,635</u>	<u>2,414</u>

##### ***Net sales***

We derive net sales from the following fixed network services:

- *Fixed telephony services*, comprising domestic and outbound international telephone traffic on our fixed network in The Netherlands for business customers and consumers. Fixed telephony services continue to be our largest business activity, accounting for over two-thirds of our total consolidated operating revenues for fixed network services in the first half of 2000.
- *Wholesale carrier services*, principally network access and wholesale transmission services that we provide to other telecommunications operators in The Netherlands.
- *Wholesale international network services*, consisting of call handling and transmission services that we provide to other international telecommunications companies.

The following table shows a breakdown of our net sales from fixed network services for the first half of 1999 and 2000:

	Six months ended June 30,			
	2000		1999	
	Net sales	Percentage	Net sales	Percentage
	(all amounts in € million, except percentages)			
Fixed Telephony: . . . . .				
Connection and subscription fees . . . . .	785	30%	765	32%
Traffic revenues . . . . .	1,188	45%	1,185	49%
Total fixed telephony . . . . .	1,973	75%	1,950	81%
Wholesale carrier services . . . . .	484	18%	248	10%
Wholesale international network services . . . . .	360	14%	314	13%
Intra-segment sales <sup>(1)</sup> . . . . .	(182)	(7)%	(98)	(4)%
Total net sales . . . . .	<u>2,635</u>	<u>100%</u>	<u>2,414</u>	<u>100%</u>

(1) This represents products and services sold by businesses within our fixed network services segment to each other.

Our net sales from fixed network services increased by 9.2% to €2,635 million in the first half of 2000 from €2,414 million in the first half of 1999. The increase was primarily attributable to a 95.2% growth in net sales generated by our wholesale carrier services business, to €484 million compared with €248 million in the first half of 1999. Net sales from our wholesale international network services increased by approximately 14.6% to €360 million compared with €314 million in the first half of 1999. Fixed telephony posted a modest increase in revenue growth, with an increase of 1.2% to €1,973 million compared with €1,950 million in the first half 1999, due to growth in the number of ISDN (digital) connections to our network (which was partly offset by a decrease in the number of regular analog lines), the increase in Internet dial-up traffic and the rising number of fixed to mobile calls originating from our network.

#### *Fixed telephony*

Net sales from our fixed telephony services are derived from the following:

*Connections and subscription fees.* These fees consist of subscription fees paid by our customers, in general on a bi-monthly basis, for the use of public switched telephone network, or PSTN (mainly analog) channels and ISDN (digital) channels, together with one-time charges for the installation and connection of those channels at the customer's premises. The level of net sales from connections and subscription fees depends on the number of subscriber lines and new installations, the mix of subscriptions provided (since subscriptions for digital and broadband lines are higher than for analog lines) and the price at which we provide our services. Our prices for both analog and digital services are subject to OPTA's price-cap formula.

In the first half of 2000, the net sales we derived from connection and subscription fees increased by 2.6% to €785 million from €765 million in the first half of 1999. This amounted to approximately 40% of our fixed telephony net sales in the first half of 2000. The increase was driven primarily by the number of customers upgrading from analog lines to higher priced digital lines.

The following table, which is based on management estimates, shows a breakdown of the number of channels connected to our network as at the end of the first half of 1999 and 2000:

	As of June 30,	
	2000	1999
	(all data in thousand units)	
PSTN (analog) channels . . . . .	7,111	7,548
ISDN (digital) channels <sup>(1)</sup> . . . . .	2,668	1,900
Total channels . . . . .	<u>9,779</u>	<u>9,448</u>

(1) ISDN digital channels include services with two channels per connection and services with 30 channels per connection.

The number of PSTN lines decreased by 5.8% to 7.1 million as of June 30, 2000 from 7.5 million as of June 30, 1999. This was due in large part to the number of customers upgrading from PSTN analog lines to digital lines as well as to a decline in our market share as competition increased, and to the effects of fixed-mobile substitution, as more consumers begin to favor mobile telephones over fixed line telephones. By contrast, the number of higher priced ISDN channels grew to 2.7 million from 1.9 million as of June 30, 1999. In the first half of 2000 we also introduced an ADSL broadband product called Mxstream on a pilot basis with 2,000 connections. We began commercial roll out of Mxstream in the third quarter of 2000.

*Traffic revenues.* All traffic charges on our switched fixed telephony network are based on the amount of time spent on our network in seconds plus a call set-up charge. Prices are set according to the distance called, the time of day and whether the day is a business day or not. Our call charges are subject to OPTA's price-cap formula.

Strong growth in fixed-mobile calls and in Internet dial-up calls contributed to the growth in net sales, although average net sales per call for Internet-related traffic are lower than for traditional voice traffic, mainly due to the high level of traffic at off-peak times.

Our net sales from traffic revenues remained stable at €1,188 million in the first half of 2000 compared with €1,185 million in the first half of 1999. However, although net sales remained stable, the total number of telephony minutes increased by approximately 17%. In particular, call volume from Internet-related traffic increased by approximately 80.9% to 8.5 billion minutes in the first half of 2000 from 4.7 billion minutes in the first half of 1999, and volumes of fixed-mobile calls grew by approximately 38%. National traffic (excluding Internet dial-up) and international call volume remained relatively stable. Average call duration per subscriber line increased from 3.58 minutes to 4.05 minutes, reflecting the increase in Internet traffic. However, these factors were offset by substantial rate cuts. We reduced our overall selling prices by approximately 17% compared with the first half of 1999, partly in reaction to the increased price-related competition.

The following charts illustrate the percentage of our traffic revenues from national calls, Internet dial-up, fixed-mobile calls and international calls in the first half of 1999 and 2000:



#### *Wholesale carrier services*

Wholesale carrier services consist of the following services, which we provide to other telecommunications operators in The Netherlands:

- Network access services and transit services, namely allowing other telecommunications operators access to our network, either to terminate calls on our network, to originate calls on our network (e.g., through carrier select or preselect services) or for the transit or routing of calls through our network. We charge for all of these services on the basis of time spent connected to our network. Dutch regulations require that our terminating and originating charges be based on cost.
- Wholesale transmission services, including leasing bandwidth capacity to other telecommunications operators and service providers to enable them to transmit voice and data traffic between fixed points. We charge for these services on the basis of monthly subscription fees and one-time connection fees.

The level of net sales depends on the traffic and volume we generate on our network and on calling prices. The price of transit services and bandwidth capacity are both subject to significant competitive pressure.

Net sales from wholesale carrier services increased by 95.2% to €484 million in the first half of 2000 from €248 million in the first half of 1999.

The increase in net sales is driven partly by volume growth and partly as a result of a significant increase in average revenues per minute. This increase stems from raising our charges for incoming international traffic connecting to our mobile network in The Netherlands to match our charges for domestic traffic connecting to our mobile networks.

#### *Wholesale international network services*

Wholesale international network services consist of the following services, which we provide to international telecommunications operators and multinational corporations:

- International wholesale services, such as the handling of international voice traffic through our network and the transit of international calls from one foreign network to another through our own network, known as voice hubbing services. We charge for these services on the basis of minutes spent connected to our international network.
- International bandwidth services, such as the leasing of international lines for the transport of data traffic, which generate connection and subscription fees.

Net sales from wholesale international network services increased by 14.6% to €360 million in the first half of 2000 from €314 million in the first half of 1999. The increase in net sales was principally

due to the effect of an increase in traffic volumes for both fixed and fixed-mobile calls, which was partially offset by a downward trend in overall traffic and lower prices for bandwidth capacity. Our overall international traffic volumes in the first half of 2000 grew by approximately 18% compared with the first half of 1999. The main growth area was international wholesale services such as voice hubbing (the volume of which increased by 120.2%). Traffic volumes from wholesale services increased significantly, more than doubling to 540 million minutes. In addition, international wholesale services experienced a change in mix towards a greater amount of higher priced traffic, such as mobile telephone traffic and traffic to destinations outside North America and Europe. As a result of the combined effects of volume and mix, total revenues from international wholesale services more than quadrupled to €82 million in the first half of 2000 from €17 million in the first half of 1999.

#### ***Operating expenses excluding depreciation and impairments***

Total operating expenses for fixed network services, excluding depreciation and impairments, increased by 17.1% to €1,394 million in the first half of 2000 from €1,190 million in the first half of 1999. By comparison, net sales for the segment increased by 9.2% over the same period. The increase in operating expenses as a percentage of operating revenues was a result of higher marketing efforts and increased purchase costs for interconnection and transit traffic.

Our principal operating expenses for fixed network services, other than depreciation and impairments, are as follows:

- *Work contracted out and other external expenses:* These include costs of network maintenance by third parties and payments to other operators, such as interconnection charges.
- *Salaries and social security contributions.* These do not include salaries and social security contributions for employees of our fixed network operator and network construction businesses, which expenses are recorded in the Other segment and billed to fixed network services as inter-segment recharges.
- *Other operating expenses:* These include sales and marketing expenses.
- *Inter-segment recharges:* These include amounts charged by the other three core business segments and the Other segment for products and services provided to the fixed network services segment.

The following table shows a breakdown of our total operating expenses for fixed network services, excluding depreciation and impairments, for the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
Cost of materials . . . . .	1	1
Work contracted out and other external expenses . . . . .	518	316
Salaries and social security contributions . . . . .	25	19
Other operating expenses . . . . .	33	14
Inter-segment recharges . . . . .	817	840
Total operating expenses (excluding depreciation and impairments) . . . . .	<u>1,394</u>	<u>1,190</u>

Work contracted out and other external expenses increased by 63.9% to €518 million in the first half of 2000 from €316 million in the first half of 1999. This increase was principally due to payments to other operators which increased by over 30% in the first half of 2000 compared with the first half of 1999. This was caused by our gradually falling market share, the increasing impact of free Internet access, the growth of the wholesale carrier services market and the effect of increased payments to other operators because of the growth in transit services and the introduction of mobile surcharges for outgoing international calls.

Other operating expenses increased by 135.7% to €33 million in the first half of 2000 from €14 million in the first half of 1999. This increase was primarily due to higher sales and marketing expenses.

***Operating profit excluding depreciation and impairments (EBITDA)***

EBITDA from fixed network services increased slightly to €1,241 million in the first half of 2000 compared with €1,224 million in the first half of 1999.

***Depreciation and impairments***

This item includes amortization, depreciation and impairment charges. Depreciation and impairments for fixed network services in the first half of 2000 decreased by 7.4% to €425 million from €459 million in the first half of 1999. This decrease mainly reflected the lower value of our asset base (resulting from the impairment charges taken in the second half of 1999).

***Operating profit***

Operating profit from fixed network services increased by 6.7% to €816 million in the first half of 2000 from €765 million in the first half of 1999. This increase reflected both the improved EBITDA and the decrease in depreciation and impairments.

**Mobile communications**

***Operating revenues***

Operating revenues from mobile communications increased by 93.5% to €1,567 million in the first half of 2000 from €810 million in the first half of 1999. Excluding E-Plus, which contributed €583 million in operating revenues in the first half of 2000, operating revenues would have increased by 21.4% to €984 million.

The following table shows a breakdown of our total operating revenues from mobile communications for the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
Net sales . . . . .	1,524	798
Own work capitalized . . . . .	28	7
Other operating revenues . . . . .	15	5
Total operating revenues . . . . .	<u>1,567</u>	<u>810</u>

We generate revenues primarily from the sale of mobile telecommunications services, a large part of which consists of network airtime usage fees. The following are our principal sources of revenues:

- *Net sales:* These include revenues derived from the following items:
  - *Network airtime usage fees:* These fees are based on minutes of actual airtime usage. Airtime tariffs may vary depending on the user's service package, in particular whether it is a post-paid or prepaid package, the destination of the call and the time at which a call is placed. Network airtime usage fees also include:
    - *Termination fees:* These fees are collected from other telecommunications operators for calls originating from their networks and terminating on our networks.

- *Roaming fees:* These fees are collected from other network operators for calls by their customers made on our networks.
- *Value-added service fees:* These fees include charges for our value-added mobile voice and data services such as short text messaging services, known as SMS, voicemail and information services.
- *Fixed monthly subscription fees:* We collect these fees from our post-paid customers each month for access to our network without regard to actual usage.
- *Equipment sales and other:* Equipment sales include revenues from sales of subscriber identity module cards, known as SIM cards, as well as handsets and accessories. In 2000 we began to sell accessories through our centralized sales force and no longer through our mobile communications segment. Other items include initial connection charges, which are one-time charges to new customers when they subscribe to our services.
- *Own work capitalized:* To the extent that our salary expense relates to construction of property, plant and equipment used for our own purposes, we defer the recognition of these expenses by recording them on our balance sheet and depreciating them over the life of the asset. Own work capitalized consists of the annual depreciation with respect to these deferred expenses.
- *Other revenues:* These include revenues from non-core related activities such as revenues from leasing base station sites.

### *Net sales*

The following table shows the breakdown of total net sales from mobile communications for our Dutch, German and other operations for the first half of 1999 and 2000:

	Six months ended		Six months ended	
	June 30, 2000		June 30, 1999	
	Net sales	Percentage	Net sales	Percentage
	(all amounts, other than percentages, in € million)			
The Netherlands . . . . .	868	57%	742	93%
Germany . . . . .	563	37%	—	—
Other operations . . . . .	93	6%	56	7%
Total net sales . . . . .	<u>1,524</u>	<u>100%</u>	<u>798</u>	<u>100%</u>

Our net sales from mobile communications increased by approximately 91.0% to €1,524 million in the first half of 2000 from €798 million in the first half of 1999. E-Plus' contribution to our net sales amounted to €563 million in the first half of 2000, while our net sales in The Netherlands increased by 17.0% to €868 million from €742 million. Our net sales from other operations increased by 66.1% to €93 million from €56 million.

### *The Netherlands*

The following table shows a breakdown of net sales from our mobile operations in The Netherlands for the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
Network airtime usage fees . . . . .	675	485
Fixed monthly subscription fees . . . . .	131	184
Equipment sales and other . . . . .	62	73
Net sales . . . . .	<u>868</u>	<u>742</u>

Mobile penetration in The Netherlands increased to approximately 54% as of June 30, 2000 from approximately 31% as of June 30, 1999 (calculated on an estimated population in The Netherlands of 15.9 million and 15.8 million, respectively). We succeeded in maintaining our market leadership in this strong market. We estimate our customer base to have grown by approximately 50% to approximately 4.2 million users as of June 30, 2000 from approximately 2.8 million users as of June 30, 1999. This growth was in substantial part driven by new prepaid customers. The increase in net sales in the first half of 2000 was principally due to the increase in customer base and traffic driving a 28.5% increase in our overall volumes, which more than offset the 11.5% decrease in prices due to tariff reductions.

*Network airtime usage fees:* Net sales from network airtime usage fees in The Netherlands increased by 39.2% to €675 million in the first half of 2000 from €485 million in the first half of 1999. This increase was due to the growth in our customer base, which increased our total airtime usage by 50.0% to 2.7 billion minutes in the first half of 2000 from 1.8 billion minutes in the first half of 1999.

*Fixed monthly subscription fees:* Net sales from fixed monthly subscription fees decreased by 28.8% to €131 million in the first half of 2000 from €184 million in the first half of 1999, due mainly to a decrease in our post-paid tariffs. The number of post-paid customers remained relatively stable, with the result that post-paid customers represented a significantly smaller portion of our overall users in the first half of 2000.

### *Germany*

The following table shows a breakdown of our mobile communications net sales in Germany for the period from February 24, 2000 through June 30, 2000:

	As of June 30, 2000
	(all amounts in € million)
Network airtime usage fees . . . . .	441
Fixed monthly subscription fees . . . . .	41
Equipment sales and other . . . . .	81
Net sales . . . . .	<u>563</u>

The following table, which is based on management estimates, shows for comparative purposes certain operational statistics for E-Plus for the first half of 1999 and 2000 (although we did not own E-Plus at any time during 1999):

	Six months ended June 30,	
	2000	1999
Customers:		
Prepaid (at period end) . . . . .	2,225,000	683,000
Post-paid (at period end) . . . . .	2,807,000	1,962,000
Total . . . . .	<u>5,032,000</u>	<u>2,645,000</u>
Minutes of use per customer per month (outgoing and incoming):		
Prepaid . . . . .	46	57
Post-paid . . . . .	107	118
Average . . . . .	83	102
Total minutes (in millions):		
Outgoing . . . . .	1,276	885
Incoming . . . . .	928	558
Total minutes . . . . .	<u>2,204</u>	<u>1,443</u>

E-Plus has experienced strong growth in its customer base in recent years which was reflected again in the first half of 2000. E-Plus' customer base increased by 90.2% to just over 5.0 million customers at June 30, 2000 from 2.6 million as of June 30, 1999. Total traffic on E-Plus' network in the first half of 2000 increased by 52.7% to 2,204 million minutes from 1,443 million minutes in the first half of 1999 due to the increase in customer base. The level of traffic increased less rapidly than the customer base because the number of prepaid customers grew faster than the number of post-paid customers. Prepaid customers grew by 225.8% to 2.2 million as of June 30, 2000 from 0.7 million as of June 30, 1999. Prepaid customers typically consume fewer airtime minutes than post-paid customers. As a result, the average minutes of use per customer per month decreased by 18.6% to 83 minutes in the first half of 2000 from 102 minutes in the first half of 1999.

### *Other operations*

The following table shows a breakdown of the contributions of Pannon GSM and KPN Orange to our net sales for the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
Pannon GSM . . . . .	73	56
KPN Orange . . . . .	20	0
Total net sales . . . . .	<u>93</u>	<u>56</u>

Our net sales from other operations in the first half of 2000 consisted mainly of our share of Pannon GSM's and KPN Orange's revenues from their respective network airtime usage fees and fixed monthly subscription fees. Our share of net sales from Pannon GSM increased by 30.4% to €73 million in the first half of 2000 from €56 million in the first half of 1999, principally due to an approximately 78% growth in Pannon GSM's customer base, which was partly offset by lower airtime usage per customer and tariff cuts. Our share of net sales from KPN Orange, which only launched full commercial service in the second half of 1999, amounted to €20 million in the first half of 2000.

### *Operating expenses excluding depreciation and impairments*

Total operating expenses from mobile communications, excluding depreciation and impairments, more than doubled to €1,234 million in the first half of 2000 from €588 million in the first half of 1999. Excluding all of the effects of the E-Plus acquisition, these expenses would have increased by 23.1% to €724 million. By comparison, net sales excluding E-Plus would have increased by 20.4% over the same period.

The following table shows the breakdown of the operating expenses incurred by our Dutch, German and other operations for the first half of 1999 and (except in the case of Germany) the first half of 2000:

	Six months ended June 30,			
	2000		1999	
	Operating expenses	Percentage	Operating expenses	Percentage
	(all amounts in € million, except percentages)			
The Netherlands . . . . .	603	49%	541	92%
Germany <sup>(1)</sup> . . . . .	510	41%	—	—
Other operations . . . . .	121	10%	47	8%
	<u>1,234</u>	<u>100%</u>	<u>588</u>	<u>100%</u>

(1) From February 24, 2000

Our principal operating expenses in mobile communications are as follows:

- *Cost of materials:* These consist principally of purchase costs of handsets for sales to customers and materials that we use in maintaining our mobile networks. In 1999 the cost of accessories was also included in the cost of materials. In 2000 we began to sell accessories through our centralized sales force and no longer through our mobile communications segment.

- *Work contracted out and other external expenses:* These include the cost of access to third party networks, the cost of network maintenance by third parties, customer acquisition costs, such as commissions paid to distributors, and other external expenses. We pay network access costs to other fixed line or mobile network operators for calls by our customers that terminate on their networks.
- *Salaries and social security contributions:* Unlike fixed network services, we manage our mobile networks within the mobile communications segment rather than through a separate network operator. Accordingly, all network-related expenses are recorded in expenses of the segment rather than billed by our network operating business. As a result, salaries and social security expenses for mobile communications include all expenses relating to individuals employed by us for the design, construction and maintenance of our mobile networks.
- *Other operating expenses:* These include sales and marketing expenses.
- *Inter-segment recharges:* These include amounts charged by the other three core business segments and the Other segment for products and services provided to the mobile communications segment.

The following table shows a breakdown of our total mobile communications operating expenses, excluding depreciation and impairments, for the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
Cost of materials:		
The Netherlands . . . . .	139	125
Germany <sup>(1)</sup> . . . . .	162	—
Other . . . . .	22	16
Total cost of materials . . . . .	323	141
Work contracted out and other external expenses:		
The Netherlands . . . . .	162	160
Germany <sup>(1)</sup> . . . . .	230	—
Other . . . . .	50	0
Total work contracted out and other external expenses . . . . .	442	160
Salaries and social security contributions:		
The Netherlands . . . . .	46	33
Germany <sup>(1)</sup> . . . . .	50	—
Other . . . . .	18	10
Total salaries and social security contributions . . . . .	114	43
Other operating expenses:		
The Netherlands . . . . .	29	15
Germany <sup>(1)</sup> . . . . .	68	—
Other . . . . .	30	21
Total other operating expenses . . . . .	127	36
Inter-segment recharges . . . . .	228	208
Total operating expenses (excluding depreciation and impairments) . . . . .	1,234	588

(1) From February 24, 2000.

Cost of materials increased by 129.1% to €323 million in the first half of 2000 from €141 million in the first half of 1999. Excluding the E-Plus acquisition, cost of materials in the first half of 2000 would have increased by 14.2% to €161 million. This increase was mainly due to higher volumes of handset purchases to meet the demands of our larger customer base, which was partially offset by the lower prices offered by suppliers of handsets.

Work contracted out and other external expenses increased by 176.3% to €442 million in the first half of 2000 from €160 million in the first half of 1999. Excluding the E-Plus acquisition, work contracted out and other external expenses in the first half of 2000 would have increased by 32.5% to €212 million. This increase was due to increased interconnection and network access costs which resulted from the increase in traffic on our network in The Netherlands in the first half of 2000. An additional contributory factor was the roll out of KPN Orange's network.

Customer acquisition costs, which are part of work contracted out and other external expenses, include the direct and indirect costs of acquiring new customers, including handset subsidies, call credits included in initial subscription packages, dealer commissions and advertising costs. Currently, our customer acquisition costs per customer are significantly higher in Germany than in The Netherlands because we subsidize customers' purchases of mobile handsets to a greater degree, and we incur higher marketing expenses in order to compete effectively in the highly competitive German market. In addition, although comparative data is not available, we believe that E-Plus' customer acquisition costs have increased significantly in the first half of 2000 as competition has intensified.

Salaries and social security contributions increased by 165.1% to €114 million in the first half of 2000 from €43 million in the first half of 1999. Excluding the E-Plus acquisition, salaries and social security contributions in the first half of 2000 would have increased by 48.8% to €64 million, primarily due to an increase of 32.6% in the number of employees at the end of the first half of 2000 due to the organic growth in our mobile communications segment.

Other operating expenses increased by 252.8% to €127 million in the first half of 2000 from €36 million in the first half of 1999. Excluding the E-Plus acquisition, other operating expenses in the first half of 2000 would have increased by 63.9% to €59 million. This increase was primarily due to an increase in sales and marketing efforts. In addition, marketing and sales expenses increased at Pannon GSM and KPN Orange and network costs increased due to greater marketing efforts and growth in customer base.

#### ***Operating profit excluding depreciation and impairments (EBITDA)***

EBITDA from mobile communications increased by 50.0% to €333 million in the first half of 2000 from €222 million in the first half of 1999. Excluding the effect of the E-Plus acquisition, EBITDA would have increased by 15.3% to €256 million in the first half of 2000, largely due to the organic growth in our customer base in The Netherlands.

#### ***Depreciation and impairments***

Depreciation and impairments for mobile communications in the first half of 2000 increased to €545 million from €91 million in the first half of 1999. This increase included charges of €334 million relating to the amortization of the goodwill recorded for the E-Plus acquisition, including goodwill arising from the value of BellSouth's exchange rights and warrant. Excluding the effect of the E-Plus acquisition, depreciation expenses for mobile communications would have increased by 37.4% to €125 million in the first half of 2000, mainly due to the growth of KPN Orange's network and the depreciation of its DCS 1800 license. There was no corresponding item for the first half of 1999.

### *Operating profit or loss*

We generated an operating loss of €212 million in the first half of 2000 compared with an operating profit of €131 million in the first half of 1999. The deterioration was due to depreciation and impairments, which more than offset the increase in our EBITDA.

### **IP/data**

#### *Operating revenues*

The table below shows our operating revenues from our IP/data business in the first half of 1999 and 2000:

	<b>Six months ended June 30,</b>	
	<b>2000</b>	<b>1999</b>
	<b>(all amounts in € million)</b>	
Net sales . . . . .	555	382
Own work capitalized . . . . .	—	—
Other operating revenues . . . . .	21	—
Total operating revenues . . . . .	<u>576</u>	<u>382</u>

We derive operating revenues from the following IP/data services:

- *Benelux.* In the Benelux countries we have four lines of business:
  - *Data transmission services*, principally the provision of analog and digital leased lines and value-added network services to corporate customers for transportation of high quality data services.
  - *Private network services*, which comprise, in addition to the provision of leased lines, the installation and management of local and wide area networks and closed mobile networks for business customers.
  - *Enterprise solutions*, which consist of installing and marketing entire network solutions and applications for business customers.
  - *Integration services*, which consist of the provision of integrated data transmission and private network services for business customers.
- *International.* During the first half of 2000, we owned a 44.4% economic share in KPNQwest and proportionally consolidated its results on that basis. During the first half of 1999, our interest was 50%. KPNQwest operates in two segments:
  - *Infrastructure sales*, which consists of sales of dark fiber and ducts.
  - *Data transmission services.*

We derive additional revenues from our participations in PanTel and Euroweb, the results of both of which are fully consolidated.

### *Net sales*

The following table shows a breakdown of our net sales from our IP/data business for the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
Benelux . . . . .	466	359
International: KPNQwest . . . . .	82	23
International: Other . . . . .	7	—
Total net sales . . . . .	<u>555</u>	<u>382</u>

The 45.3% increase in our total net sales to €555 million in the first half of 2000 from €382 million in the first half of 1999 reflects a volume increase of over 50% offset by overall price reductions of 5%.

### *Benelux*

The total net sales we derived from our operations in the Benelux countries increased by 29.8% to €466 million in the first half of 2000 from €359 million in the first half of 1999. This increase was mainly due to an increase in revenues derived from data transmission services.

The following table shows a breakdown of net sales from our four lines of business in the Benelux countries for the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
Data transmission services . . . . .	338	272
Private network services . . . . .	48	43
Enterprise solutions . . . . .	29	29
Integration services . . . . .	10	6
Other . . . . .	<u>41</u>	<u>9</u>
Total net sales . . . . .	<u>466</u>	<u>359</u>

*Data transmission services.* Data transmission services traditionally are marketed in flat fee pricing schedules consisting of installation fees and monthly subscription fees. Our monthly fees vary depending on the amount of capacity we provide and, for leased lines, on the distance covered. Services may also differ in their quality of service and functionality, which is also reflected in our prices. Value-added network services are designed to maximize capacity on a line by parceling data streams into packets before transmitting them. Technological developments in this market are enabling providers to lower prices, which further increases demand for bandwidth.

Our net sales from data transmission services in the Benelux countries increased by approximately 24.3% to €338 million in the first half of 2000 from €272 million in the first half of 1999. This increase was driven by an increase in the number of digital leased lines in the first half of 2000 compared with the first half of 1999 and an increase in value-added network services in the same period.

*Private network services.* Private network services generate revenues from the sale of hardware, from installation fees and flat monthly management fees. Net sales from these services increased by €5 million to €48 million in the first half of 2000.

*Enterprise solutions.* We provide application management services to customers on an individually negotiated basis. Application service provisioning is charged on a monthly per user basis. Net sales from these services remained stable at €29 million.

*Integration services.* Integration services generate revenues based on the prices of the components of the services being offered (e.g., data communications and private network services) together with consultancy fees on the basis of time spent. Net sales from integration services increased by €4 million to €10 million in the first half of 2000.

*Other.* Our other net sales, which increased to €41 million in the first half of 2000 from €9 million in the first half of 1999, mainly consist of sales by KPN Belgium.

### *International*

*KPNQwest.* As KPNQwest was formed on April 1, 1999 its contribution to our results for the first half of 1999 reflects only the second quarter of 1999.

Our share of KPNQwest's data transmission services revenues increased by 256.5% to €82 million in the first half of 2000 from €23 million in the first half of 1999. While KPNQwest experienced significant price declines for some of its data transmission services, these price declines were offset by increases in volumes of traffic in all product lines, particularly higher bandwidth product offerings.

*Other.* These revenues were derived from the full consolidation of PanTel's results with effect from April 1999 and the acquisition of Euroweb in February 2000.

### *Other operating revenues*

Our other operating revenues of €21 million in the IP/data segment in the first half of 2000 consist of the proceeds from the underwriters' over-allotment option in the initial public offering of Infonet.

### *Operating expenses excluding depreciation and impairments*

Total operating expenses for the IP/data business segment, excluding depreciation and impairments, increased by 69.7% to €453 million in the first half of 2000 from €267 million in the first half of 1999. €81 million of the amount in the first half of 2000 was attributable to KPNQwest.

Our principal operating expenses for the IP/data segment, other than amortization, depreciation and impairment charges, are:

- *Cost of materials:* These are mainly purchases of computer hardware and software and other materials for our private network services and enterprise solutions business in the Benelux countries.
- *Work contracted out and other external expenses:* These principally include costs of network maintenance by third parties and services provided by KPNQwest and Infonet for use of their networks.
- *Salaries and social security contributions.* As in the case of fixed network services, salaries and social security contributions relating to network construction and operation are included in inter-segment recharges.
- *Other operating expenses:* These principally include sales and marketing expenses.

- *Inter-segment recharges:* These include charges for network construction and maintenance carried out by our own businesses within the Other segment, as well as other support services in The Netherlands.

The table below shows a breakdown of our total operating expenses, excluding depreciation and impairments, for the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
Cost of materials		
Benelux . . . . .	34	23
International . . . . .	—	—
Total cost of materials . . . . .	34	23
Work contracted out and other external expenses		
Benelux . . . . .	64	77
International . . . . .	60	21
Total work contracted out and other external expenses . . . . .	124	98
Salaries and social security contributions		
Benelux . . . . .	43	44
International . . . . .	22	7
Total salaries and social security contributions . . . . .	65	51
Other operating expenses		
Benelux . . . . .	8	10
International . . . . .	31	1
Total other operating expenses . . . . .	39	11
Inter-segment recharges . . . . .	191	84
Total operating expenses (excluding depreciation and impairments) . . . . .	<u>453</u>	<u>267</u>

Our total operating expenses, excluding inter-segment recharges, increased by 43.2% to €262 million in the first half of 2000 from €183 million in the first half of 1999. The majority of these expenses are driven by volume. Inter-segment recharges increased to €191 million in the first half of 2000 from €84 million in the first half of 1999 due to increased network maintenance costs related to our IP/data network backbone.

KPNQwest, which is still in an early stage of development, accounts for the majority of our expenses in relation to international activities.

***Operating profit excluding depreciation and impairments (EBITDA)***

EBITDA from IP/data services increased by 7.0% to €123 million in the first half of 2000 from €115 million in the first half of 1999 due mainly to the effect of volume growth in both the Benelux and international segments and a decrease in operating expenses in The Netherlands following certain cost control programs, which were partially offset by the start-up costs and operating expenses of KPNQwest.

### ***Depreciation and impairments***

Depreciation and impairments for IP/data services increased by 35.3% to €115 million in the first half of 2000 from €85 million in the first half of 1999. This increase was principally due to increased depreciation charges due to the increase in our network asset base, particularly with respect to the build out of KPNQwest's network.

### ***Operating profit***

Operating profit from IP/data services decreased by 73.3% to €8 million in the first half of 2000 from €30 million in the first half of 1999 reflecting an increase in our EBITDA which was more than offset by the increase in depreciation and impairments, mainly as a result of the start-up of KPNQwest.

## **ICM**

### ***Operating revenues***

The table below shows a breakdown of operating revenues from our ICM business in the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
Net sales . . . . .	326	291
Own work capitalized . . . . .	—	—
Other operating revenues . . . . .	21	—
Total operating revenues . . . . .	<u>347</u>	<u>291</u>

The ICM business segment consists of our customer relationship management, or CRM, services and Internet and Media, or I&M, services.

- *CRM services* consist of the following services:
  - *Call center services*: call center services, including in- and outbound call- and e-mail centers, which offer information services, sales support services and directory assistance services;
  - *0800/0900 services*: toll free (0800) and paid (0900) national and international telephone service numbers provided to businesses for use by their customers; and
  - *Other services*: including e-commerce facilitating and conferencing services, an employment agency for call centers and training services.
- *I&M services* consist of the following services:
  - *Telephone directories*: sales of yellow pages business directories and advertisements, white pages residential directories, electronic and CD-ROM directories and sales of database information;
  - *Consumer ISP services*: Internet portal services and Internet content; and
  - *Premium rate calling services*: premium rate call services for mass calling events, such as television shows and number information services.

### *Net sales*

The following table shows a breakdown of the principal sources of net sales for our ICM business for the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
CRM services . . . . .	173	137
I&M services . . . . .	153	154
Total net sales . . . . .	<u>326</u>	<u>291</u>

### *CRM services*

The following table shows a breakdown of our net sales from our CRM services business for the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
Call center services . . . . .	94	59
0800/0900 services . . . . .	68	73
Other . . . . .	11	5
Total net sales . . . . .	<u>173</u>	<u>137</u>

*Call center services.* The net sales we derive from call center services depend on the price we charge per call handled, the calling time and volume of calls. Our net sales from call center services increased by 59.3% to €94 million in the first half of 2000 from €59 million in the first half of 1999. This was largely due to the €20 million contribution of SNT, the results of which we have fully consolidated since March 2000.

*0800/0900 services.* The net sales we derive from 0800/0900 services are also driven by the price we charge per call handled, the calling time and volume of calls, as well as the number of business customers who subscribe for these services. Our net sales from 0800/0900 services decreased by 6.8% to €68 million in the first half of 2000 from €73 million in the first half of 1999. Although we have been able to expand our customer base to approximately 3,900 customers as of June 30, 2000 from approximately 3,400 as of June 30, 1999, resulting in an increase of minutes of approximately 11%, our prices have decreased overall due to increased competition, giving rise to the slight decrease in net sales.

*Other.* Our net sales from other services more than doubled to €11 million in the first half of 2000 from €5 million in the first half of 1999. This increase is mainly attributable to increased sales of conferencing and e-commerce facilitating services.

### *I&M services*

The following table shows a breakdown of net sales from our I&M services business for the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
Telephone directories . . . . .	64	65
Consumer ISP services . . . . .	39	34
Premium rate calling services . . . . .	50	55
Total net sales . . . . .	<u>153</u>	<u>154</u>

*Telephone directories.* We derive net sales from telephone directories based on the amount of advertising space which we sell and the amount we charge for that advertising. Our net sales from telephone directories remained relatively stable in the first half of 2000 compared with the first half of 1999.

*Consumer ISP services.* Our net sales from consumer ISP services are based on monthly subscription fees, revenue sharing from telephone traffic, online advertising charges and transaction fees. Our net sales from consumer ISP services increased by 14.7% to €39 million in the first half of 2000 from €34 million in the first half of 1999. Although we experienced a large increase of 335% in the number of registered ISP subscribers to approximately 1.6 million at June 30, 2000 from 0.4 million at June 30, 1999, we have experienced a decrease in average subscription fees due to the increasing trend towards subscription-free Internet access. Despite this trend, subscription fees still represent approximately 50% of our total net sales from consumer ISP services.

*Premium rate calling services.* We derive net sales from our premium rate calling services based on the duration and number of calls made. Our net sales from these services decreased by 9.1% to €50 million in the first half of 2000 from €55 million in the first half of 1999 due to the effect of competition from Internet and CD-ROM technology on the demand for traditional number information services.

### *Other operating revenues*

In the first half of 2000, SNT conducted an initial public offering and obtained a listing on Amsterdam Exchanges N.V., now Euronext Amsterdam N.V. We recognized an increase of €21 million in the value of our shareholding in SNT at the time of its initial public offering.

### *Operating expenses excluding depreciation and impairments*

Total operating expenses, other than depreciation and impairments, increased by 25.6% to €387 million in the first half of 2000 from €308 million in the first half of 1999.

Our principal operating expenses, other than depreciation and impairments, are:

- *Cost of materials:* These are mainly purchases of paper for directories, telephone number and address databases and Internet content.
- *Work contracted out and other external expenses:* These include consultancy fees, product and market development costs and printing expenses.
- *Salaries and social security contributions.*

- *Other operating expenses:* These include sales and marketing expenses, license fees and distribution costs.
- *Inter-segment recharges:* These include charges for distribution and sales support, platform and network costs and administrative services by our own businesses within the Other segment.

The table below shows a breakdown of our total operating expenses for the ICM segment, excluding depreciation and impairments, for the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
Cost of materials . . . . .	18	14
Work contracted out and other external expenses . . . . .	78	52
Salaries and social security contributions . . . . .	107	70
Other operating expenses . . . . .	56	41
Inter-segment recharges . . . . .	128	131
Total operating expenses (excluding depreciation and impairments) . . . . .	387	308

Cost of materials in the first half of 2000 increased by 28.6% to €18 million from €14 million in the first half of 1999. This increase was principally due to the purchase of exclusive content for our Internet portals. In addition, we printed a greater number of telephone directories than in the first half of 1999.

Work contracted out and other external expenses in the first half of 2000 increased by 50.0% to €78 million from €52 million in the first half of 1999. This increase was due to additional external expenses incurred for product and international market development.

Salaries and social securities contributions increased by 52.9% to €107 million in the first half of 2000 from €70 million in the first half of 1999. In the first half of 2000 we consolidated the results of three new businesses (SNT, TeleMedia and HCC Net) which resulted in a total increase in our salaries and social security contributions of €27 million. The remainder of the increase was attributable to an increase of 5% in general wage expenses and a 5% increase in the average number of employees (excluding the newly consolidated businesses).

Other operating expenses increased by 36.6% to €56 million in the first half of 2000 from €41 million in the first half of 1999. This increase was primarily due to the increasing sales and marketing spending related to our ISPs.

#### ***Operating profit or loss excluding depreciation and impairments (EBITDA)***

EBITDA from our ICM segment decreased to a loss of €40 million in the first half of 2000 from a loss of €17 million in the first half of 1999, due mainly to the effect of the increase in operating expenses arising from increased marketing activity and the increased marketing and product development expenses.

#### ***Depreciation and impairments***

Depreciation and impairments amounted to €40 million in the first half of 2000 compared to €39 million in the first half of 1999.

### ***Operating profit or loss***

Operating loss from ICM services amounted to €80 million in the first half of 2000 compared with a loss of €56 million in the first half of 1999. The increase in operating loss was due to the deterioration in EBITDA.

### **Other**

The components of our Other segment that generate operating revenues are:

- our business communications activity, which delivers, installs and services communications equipment for business customers; and
- Station 12, a satellite communications joint venture with Telstra.

In addition, our Other segment includes various group support functions, that generate internal charges, such as:

- our centralized fixed network construction and operation activities, our sales and distribution activities and head office functions; and
- KPN Research, our research and development department.

The following table shows a breakdown of the operating results of the Other segment in the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
Operating revenues . . . . .	732	604
Intra-segment and inter-segment revenues . . . . .	1,922	1,781
Total revenues . . . . .	2,654	2,385
Operating expenses . . . . .	1,338	1,430
Intra-segment and inter-segment recharges . . . . .	1,216	1,003
Total expenses . . . . .	2,554	2,433
EBITDA . . . . .	100	(48)
Depreciation and impairments . . . . .	188	186
Operating profit or loss . . . . .	(88)	(234)

### *Operating revenues*

The following table shows a breakdown of our operating revenues in the Other segment in the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
Net sales . . . . .	564	416
Own work capitalized . . . . .	125	160
Other operating revenues . . . . .	43	28
Total operating revenues . . . . .	<u>732</u>	<u>604</u>

Operating revenues, which are revenues derived from external business activities, increased by 21.2% to €732 million in the first half of 2000 from €604 million in the first half of 1999. This was due principally to the increase in our net sales from business communications, driven in part by an increased demand for value-added services, and an increase in sales of Inmarsat satellite communications services through KPN Satcom and Station 12. This increase more than offset the decrease in own work capitalized. Other operating revenues in the first half of 2000 included €6 million from the sale of our interests in Utel, €10 million from the sale of our interest in WiproNet, an ISP in India, and €14 million from the contribution of Telstra's assets to Station 12.

### *Intra-segment and inter-segment revenues*

Our total revenues from the provision of products and services by businesses within the Other segment to each other and by the Other segment to the four core segments increased by 7.9% to €1,922 million in the first half of 2000 from €1,781 million in the first half of 1999. This increase was principally caused by an increase in the amount of equipment installed for our own purposes by our business communications unit and increased maintenance costs connected with the extension of our networks.

### *Operating expenses*

The following table shows a breakdown of our operating expenses in the Other segment for the first half of 1999 and 2000:

	Six months ended June 30,	
	2000	1999
	(all amounts in € million)	
Cost of materials . . . . .	244	248
Work contracted out and other external expenses . . . . .	411	455
Salaries and social security contributions . . . . .	673	620
Other operating expenses . . . . .	10	107
Total operating expenses . . . . .	<u>1,338</u>	<u>1,430</u>

Operating expenses, which are costs other than internal recharges, decreased by 6.4% to €1,338 million in the first half of 2000 from €1,430 million in the first half of 1999. The decrease was due principally to a €97 million decline in other operating expenses and a €44 million decline in work

contracted out and other external expenses. The decline in other operating expenses was principally due to charges related to the termination of non-strategic and loss-making activities. The decline in work contracted out and other external expenses was due to our ongoing cost reduction efforts. These factors were partly offset by a €53 million increase in salaries and social security contributions, due to increases in headcount and higher salaries.

#### ***Intra-segment and inter-segment recharges***

Our intra-segment and inter-segment recharges in the Other segment consist of the amounts charged by businesses within our Other segment to each other, and by our four core business segments for products and services provided to the Other segment. Our intra-segment and inter-segment recharges increased by 21.2% to €1,216 million in the first half of 2000 from €1,003 million in the first half of 1999.

#### ***Operating profit or loss excluding depreciation and impairments (EBITDA)***

EBITDA from the Other segment improved to a profit of €100 million in the first half of 2000 from a loss of €48 million in the first half of 1999 due to the increase in net sales from business communications and Station 12, as well as the effects of the contribution of assets by Telstra to Station 12 and the termination of some activities in 1999.

#### ***Depreciation and impairments***

Depreciation and impairments increased slightly to €188 million in the first half of 2000 from €186 million in the first half of 1999.

#### ***Operating profit or loss***

Operating loss from the Other segment improved to €88 million in the first half of 2000 compared with a loss of €234 million in the first half of 1999 due to the increase in our EBITDA.

#### ***Profit or loss of our Group after taxes***

##### ***Financial income and expense***

Our financial income and expense consists of interest income less interest expense and associated charges. Net financial expense in the first half of 2000 amounted to €393 million, consisting of interest expense of €488 million partly offset by interest income of €95 million. In the first half of 1999, our total financial expense consisted of €132 million, consisting of interest expense of €152 million partly offset by interest income of €20 million. The €336 million increase in interest expense was almost wholly due to the interest expense and underwriting fees on the financing arrangements for the E-Plus acquisition.

##### ***Tax on profit or loss on normal operations***

We recognized €266 million in taxes in the first half of 2000 on a net profit before taxes of €247 million. We recognized €198 million in taxes in the first half of 1999 on a net profit before taxes of €614 million. Our increased taxes in the first half of 2000 are principally due to the non-deductible goodwill amortization charge in connection with the E-Plus acquisition, which amounted to €334 million, and to non-deductible financial expenses in the same period amounting to €230 million. In addition, losses incurred by E-Plus and KPN Orange, which amounted to €124 million, cannot, for tax purposes, be offset against profits of companies within our tax group.

### *Share in income from participating interests*

Share in income from participating interests amounted to €196 million in the first half of 2000 compared to €110 million in the first half of 1999. The amount in the first half of 2000 included income of €123 million generated on the sale of our indirect interest in D-Plus, a German fixed line telecommunications provider, in connection with the winding-up of Unisource, together with an additional payment of €24 million from the prior divestment by Unisource of Arcor, an IP/data service provider. Our share in net income of Český Telecom amounted to €21 million.

By comparison, the amount reported in the first half of 1999 consisted principally of income of €42 million arising on the sale by Unisource of Arcor's activities in Germany and a €36 million profit on the sale by eircom of Cablelink, an Irish cable distribution company. Our share in net income of Český Telecom in the first half of 1999 amounted to €17 million.

### *Profit or loss after taxes*

Our net loss after taxes for the first half of 2000 amounted to €19 million compared with a net profit after taxes of €416 million in the first half of 1999. The significant increase in EBITDA was more than offset by higher goodwill amortization charges arising on the E-Plus acquisition, significantly higher interest expenses and income taxes.

## **Our results of operations in 1999 and 1998**

### **The Group (without E-Plus)**

#### **General**

Our performance improved in our four core business segments. We increased our operating revenues and EBITDA through a combination of organic growth, acquisitions and joint ventures.

The following table shows our total operating revenues by business segment for 1998 and 1999:

	Year ended December 31,	
	1999	1998
	(all amounts in € million)	
Fixed network services <sup>(1)</sup>	4,819	4,593
Mobile communications <sup>(1)</sup>	1,748	1,274
IP/data <sup>(1)</sup>	1,499	617
ICM <sup>(1)</sup>	618	516
Other <sup>(2)</sup>	1,456	1,558
Inter-segment sales <sup>(3)</sup>	(1,008)	(614)
Total operating revenues	9,132	7,944

(1) Includes sales of products and services to the other three core business segments, but does not include sales to the Other business segment.

(2) This figure represents sales of products and services by the Other segment to entities outside our Group.

(3) This figure represents sales of products and services between our four core segments.

We increased our operating revenues by 15.0% to €9,132 million in 1999 from €7,944 million in 1998. Excluding the increase in value of our existing shareholdings that we realized in connection with the initial public offerings of KPNQwest and Infonet and the revenues we realized from the sale of a portion of our interest in Infonet, which totaled €577 million, our operating revenues would have

increased by 7.7% to €8,555 million. This increase reflected higher sales volumes, partially offset by lower prices.

The main components of our growth in operating revenues in 1999 were:

- increased Internet traffic;
- growth in mobile telecommunications in The Netherlands;
- increased sales of traditional fixed network telephone services; and
- increased data transmission.

Our EBITDA increased by 12.3% to €3,355 million in 1999 from €2,987 million in 1998. This increase reflected increased sales volumes, partially offset by volume-related cost increases and higher marketing costs.

The following table shows our EBITDA by business segment for 1998 and 1999:

	Year ended December 31,	
	1999	1998
	(all amounts in € million)	
Fixed network services . . . . .	2,346	2,540
Mobile communications . . . . .	458	301
IP/data . . . . .	751	127
ICM . . . . .	(26)	(3)
Other . . . . .	(174)	22
Total EBITDA <sup>(1)</sup> . . . . .	<u>3,355</u>	<u>2,987</u>

(1) EBITDA represents operating profit (loss) excluding amortization, depreciation and impairment charges. EBITDA is included because management believes it is a useful indicator of a company's ability to incur and service debt. EBITDA should not be considered as a substitute for operating income, net income, cash flow or other statements of operations or cash flow computed in accordance with Dutch or U.S. GAAP or as a measure of a company's results of operations or liquidity.

Our depreciation and impairments increased by 63.0% to €2,302 million in 1999 from €1,412 million in 1998. The increase in depreciation and impairments included €599 million in depreciation and impairments related to the reduction in the useful lives of certain assets and to write down certain other assets.

Our operating profit decreased by 33.1% to €1,053 million in 1999 from €1,575 million in 1998. The increase in our EBITDA was more than offset by the increased depreciation and impairments.

The following table shows a breakdown of our operating profit by business segment for 1998 and 1999:

	Year ended December 31,	
	1999	1998
	(all amounts in € million)	
Fixed network services . . . . .	1,156	1,769
Mobile communications . . . . .	234	114
IP/data . . . . .	365	(16)
ICM . . . . .	(113)	(72)
Other . . . . .	(589)	(220)
Total operating profit . . . . .	<u>1,053</u>	<u>1,575</u>

### Fixed network services

#### Operating revenues

The table below shows a breakdown of our total operating revenues from fixed network services in 1998 and 1999:

	Year ended December 31,	
	1999	1998
	(all amounts in € million)	
Net sales . . . . .	4,819	4,593
Own work capitalized . . . . .	—	—
Other operating revenues . . . . .	—	—
Total operating revenues . . . . .	<u>4,819</u>	<u>4,593</u>

#### Net sales

The following table shows a breakdown of our net sales from our fixed network services in 1998 and 1999:

	Year ended December 31,			
	1999		1998	
	Net sales	Percentage	Net sales	Percentage
	(all amounts in € million, except percentages)			
Fixed telephony:				
Connection and subscription fees . . . . .	1,540	32%	1,392	31%
Traffic revenues . . . . .	<u>2,374</u>	<u>49%</u>	<u>2,450</u>	<u>53%</u>
Total fixed telephony . . . . .	3,914	81%	3,842	84%
Wholesale carrier services . . . . .	637	13%	358	8%
Wholesale international network services . . . . .	711	15%	756	16%
Intra-segment sales <sup>(1)</sup> . . . . .	<u>(443)</u>	<u>(9)%</u>	<u>(363)</u>	<u>(8)%</u>
Total net sales . . . . .	<u>4,819</u>	<u>100%</u>	<u>4,593</u>	<u>100%</u>

(1) This represents products and services sold by businesses within our fixed network services segment to each other.

Our net sales from fixed network services increased by 4.9% to €4,819 million in 1999 from €4,593 million in 1998. This increase was primarily attributable to a 77.9% increase in net sales generated by our wholesale carrier services business, to €637 million in 1999 from €358 million in 1998. Net sales from our fixed telephony business increased by 1.9% to €3,914 million in 1999 from €3,842 million in 1998. This modest increase reflected volume growth of 8.7% caused by increased Internet and fixed-mobile traffic, partially offset by price reductions of 6.8%. Net sales from our wholesale international services decreased by 6.0%, to €711 million in 1999 from €756 million in 1998.

#### *Fixed telephony*

*Connections and subscription fees.* In 1999, the net sales we derived from connection and subscription fees increased by 10.6% to €1,540 million from €1,392 million in 1998. This increase was driven primarily by customers upgrading from analog lines to higher-priced digital lines.

The following table, which is based on management estimates, shows a breakdown of the number of channels connected to our network as at the end of 1998 and 1999:

	As of December 31,	
	1999	1998
	(all data in thousand units)	
PSTN (analog) channels . . . . .	7,330	7,767
ISDN (digital) channels <sup>(1)</sup> . . . . .	2,280	1,570
Total channels . . . . .	<u>9,610</u>	<u>9,337</u>

(1) ISDN digital channels include services with two channels per connection and services with 30 channels per connection.

The number of PSTN channels decreased by 5.6% to 7.3 million as of December 31, 1999 from 7.8 million as of December 31, 1998. This was due in large part to the number of customers upgrading from analog lines to digital lines as well as to a decline in market share stemming from increases in competition and the effects of fixed-mobile substitution. By contrast, the number of ISDN channels increased by 45.2% to 2.3 million as of December 31, 1999 from 1.6 million.

*Traffic revenues.* Traffic revenues decreased by 3.1% to €2,374 million in 1999 from €2,450 million in 1998. The total number of telephony minutes increased by 12% to 48.6 billion but was more than offset by the overall effect of price reductions and product mix. In particular, call volume from Internet-related traffic increased by 73% to 10.6 billion minutes in 1999 and fixed-mobile traffic increased by 59% to 1.7 billion minutes in 1999. National and international traffic (excluding Internet dial-up) remained relatively stable.

#### *Wholesale carrier services*

Net sales from wholesale carrier services increased by 77.9% to €637 million in 1999 from €358 million in 1998. This increase was due to the increase in fixed-to-mobile, mobile-to-fixed and Internet traffic which we carry between various network providers, together with the growing number of competitors in the telecommunications market.

#### *Wholesale international network services*

Net sales from wholesale international network services decreased by 6.0% to €711 million in 1999 from €756 million in 1998. This decrease was due to a 15% decrease in prices, partially offset by volume growth of 9% in incoming traffic, outbound traffic and voice hubbing.

### ***Operating expenses excluding depreciation and impairments***

Total operating expenses for fixed network services, excluding depreciation and impairments, increased by 20.5% to €2,473 million in 1999 from €2,053 million in 1998. By comparison, net sales for the segment increased by 4.9% over the same period. The increase in operating expenses as a percentage of operating revenues was the result of higher charges from other operators and from our fixed network operator.

The table below shows a breakdown of our total operating expenses for fixed network services, excluding depreciation and impairments, for 1998 and 1999:

	Year ended December 31,	
	1999	1998
	(all amounts in € million)	
Cost of materials . . . . .	2	2
Work contracted out and other external expenses . . . . .	775	653
Salaries and social security contributions . . . . .	37	24
Other operating expenses . . . . .	86	15
Inter-segment recharges . . . . .	1,573	1,359
Total operating expenses (excluding depreciation and impairments) . . . . .	<u>2,473</u>	<u>2,053</u>

Work contracted out and other external expenses increased by 18.7% to €775 million in 1999 from €653 million in 1998. This increase was principally due to payments to other operators which increased substantially due to the increase of Internet traffic and fixed-mobile traffic.

Inter-segment recharges increased by 15.7% to €1,573 million in 1999 from €1,359 million in 1998, principally due to increased charges from our fixed network operator, as a consequence of higher traffic volumes, and charges for the services of employees who are engaged principally in network design and construction services for our fixed network services business.

### ***Operating profit excluding depreciation and impairments (EBITDA)***

EBITDA from fixed network services decreased by 7.6% to €2,346 million in 1999 from €2,540 million in 1998. This decrease principally reflected price reductions and increased operating expenses due to increased payments to our own fixed network operator and to other operators as a result of traffic growth.

### ***Depreciation and impairments***

Depreciation and impairments from fixed network services increased by 54.3% to €1,190 million in 1999 from €771 million in 1998. The increase was related to the requirement in light of new technology to shorten the useful lives of certain assets and to write down certain other assets in 1999.

### ***Operating profit***

Operating profit from fixed network services decreased by 34.7% to €1,156 million in 1999 from €1,769 million in 1998. This decrease primarily reflected the combined effects of decreased EBITDA and increased depreciation and impairments.

## Mobile communications

### Operating revenues

Operating revenues from mobile communications increased by 37.2% to €1,748 million in 1999 from €1,274 million in 1998. In The Netherlands, volumes increased by 61.3% but were partly offset by a negative price effect of 35.2%, mainly caused by our reductions in traffic rates and a change in the structure of subscription fees. The increase in operating revenues also reflected the proportionate consolidation of Pannon GSM with effect from January 1, 1999.

The following table shows a breakdown of our total operating revenues from mobile communications for 1998 and 1999:

	Year ended December 31,	
	1999	1998
	(all amounts in € million)	
Net sales . . . . .	1,725	1,261
Own work capitalized . . . . .	17	11
Other operating revenues . . . . .	6	2
Total operating revenues . . . . .	<u>1,748</u>	<u>1,274</u>

### Net sales

The following table shows a breakdown of total net sales for our Dutch and other mobile operations for 1998 and 1999:

	Year ended December 31,		Year ended December 31,	
	1999		1998	
	Net sales	Percentage	Net sales	Percentage
	(all amounts, other than percentages, in € million)			
The Netherlands . . . . .	1,580	91.6%	1,261	100.0%
Other operations . . . . .	145	8.4%	—	—
Total net sales . . . . .	<u>1,725</u>	<u>100.0%</u>	<u>1,261</u>	<u>100.0%</u>

Our net sales from mobile communications increased by 36.8% to €1,725 million in 1999 from €1,261 million in 1998. Net sales in The Netherlands increased by 25.3% to €1,580 million in 1999 from €1,261 million in 1998. We also had net sales of €145 million in 1999 from our other operations. We had no corresponding net sales from other operations in 1998.

### *The Netherlands*

The following table shows a breakdown of net sales from our mobile operations in The Netherlands for 1998 and 1999:

	Year ended December 31,	
	1999	1998
	(all amounts in € million)	
Network airtime usage fees . . . . .	1,081	792
Fixed monthly subscription fees . . . . .	339	338
Equipment sales and other . . . . .	160	131
Net sales . . . . .	<u>1,580</u>	<u>1,261</u>

Based on management estimates, mobile penetration in The Netherlands increased to approximately 43% as of December 31, 1999 from approximately 21% as of December 31, 1998 (calculated on an estimated population of The Netherlands of 15.9 million and 15.8 million respectively). At the end of 1999 our estimated net share of the Dutch market was approximately 51% based on management's estimates. Our connections increased by more than 1.3 million to approximately 3.5 million as of December 31, 1999. This included over 1.8 million prepaid users.

*Network airtime usage fees.* Net sales from network airtime usage fees in The Netherlands increased by 36.5% to €1,081 million in 1999 from €792 million in 1998. This increase was due to the increase in customer base (both prepaid and post-paid), which increased our total airtime usage by approximately 60% to 4.1 billion minutes in 1999 from 2.6 billion minutes in 1998.

*Fixed monthly subscription fees.* Net sales from fixed monthly subscription fees increased slightly to €339 million in 1999 from €338 million in 1998, reflecting the lower fixed monthly subscription fees paid by post-paid customers and the low rate of growth in the post-paid customer base.

*Equipment sales and other.* Net sales from equipment sales and other increased by 22.1% to €160 million in 1999 from €131 million in 1998. This increase was due to the increased number of new customers in 1999 compared to 1998, which increased revenues from equipment sales and initial connection charges.

### *Other operations*

The following table shows a breakdown of the contributions of Pannon GSM and KPN Orange to our net sales for 1998 and 1999:

	Year ended December 31,	
	1999	1998
	(all amounts in € million)	
Pannon GSM . . . . .	139	—
KPN Orange . . . . .	6	—
Total net sales . . . . .	<u>145</u>	<u>—</u>

Our net sales from other operations in 1999 consisted mainly of our share of Pannon GSM's and KPN Orange's revenues from their respective network airtime usage fees and fixed monthly subscription fees. Pannon GSM has been proportionally consolidated since January 1, 1999. KPN

Orange began generating revenues in the second half of 1999. Our share of Pannon GSM's net sales in 1999 was €139 million, while our share of KPN Orange's net sales in 1999 was €6 million.

***Operating expenses excluding depreciation and impairments***

Total operating expenses, excluding depreciation and impairments, increased by 32.6% to €1,290 million in 1999 from €973 million in 1998. By comparison, net sales increased by 36.8%.

The following table shows the breakdown of the operating expenses incurred by our Dutch and international mobile operations for 1998 and 1999:

	Year ended December 31, 1999		Year ended December 31, 1998	
	Operating expenses	Percentage	Operating expenses	Percentage
	(all amounts in € million, other than percentages)			
The Netherlands . . . . .	1,141	88.4%	954	98.0%
Other operations . . . . .	149	11.6%	19	2.0%
	<u>1,290</u>	<u>100.0%</u>	<u>973</u>	<u>100.0%</u>

The following table shows a breakdown of our total operating expenses for mobile communications, excluding depreciation and impairments, for 1998 and 1999.

	Year ended December 31, 1999 1998	
	(all amounts in € million)	
Cost of materials:		
The Netherlands . . . . .	267	197
Other . . . . .	22	0
Total cost of materials . . . . .	289	197
Work contracted out and other external expenses:		
The Netherlands . . . . .	340	334
Other . . . . .	43	18
Total work contracted out and other external expenses . . . . .	383	352
Salaries and social security contributions:		
The Netherlands . . . . .	75	63
Other . . . . .	24	1
Total salaries and social security contributions . . . . .	99	64
Other operating expenses:		
The Netherlands . . . . .	57	56
Other . . . . .	55	—
Total other operating expenses . . . . .	112	56
Inter-segment recharges . . . . .	407	304
Total operating expenses (excluding depreciation and impairments) . . . . .	<u>1,290</u>	<u>973</u>

Our cost of materials increased by 46.7% to €289 million in 1999 from €197 million in 1998. This increase reflected increased sales of handsets and accessories to meet the needs of the growth in our customer base. The increase was partially offset by the lower prices offered by suppliers of handsets.

Work contracted out and other external expenses increased by 8.8% to €383 million in 1999 from €352 million in 1998. The effect of increased traffic volumes was largely offset by a decline in the prices we paid to other operators for interconnection and network costs.

In The Netherlands, salaries and social security contributions increased by 19.0% to €75 million in 1999 from €63 million in 1998. This increase was primarily due to the addition of an average of 422 full-time employee equivalents in 1999 as our mobile business continued to grow, and a small increase in average salary per employee. The increase in other operations is mainly the result of the proportionate consolidation of Pannon GSM as of January 1, 1999.

Other operating expenses increased by 100% to €112 million in 1999 from €56 million in 1998. This increase was primarily caused by an increase in other operating expenses outside The Netherlands, resulting from the proportionate consolidation of Pannon GSM as of January 1, 1999.

Inter-segment recharges increased by 33.9% to €407 million in 1999 from €304 million in 1998. This increase principally resulted from increased payments to our network operator resulting from higher traffic volumes, programs to improve the performance of our customer care processes and the introduction of a new connection activation process. The roll out of our Dutch network also caused higher maintenance costs.

#### ***Operating profit excluding depreciation and impairments (EBITDA)***

EBITDA from mobile communications increased by 52.2% to €458 million in 1999 from €301 million in 1998. This increase was mainly due a significant increase of traffic volume, which was partially offset by lower prices and increased operating expenses.

#### ***Depreciation and impairments***

Depreciation and impairments for mobile communications increased by 19.8% to €224 million in 1999 from €187 million in 1998. The main cause for this increase was the reduction of the useful lives of certain assets and to write down certain other assets in 1999 which totaled €46 million. These additional charges related to our ERMES paging network and the write-off of certain other obsolete equipment. In our international activities, depreciation and impairment charges increased as a result of the amortization of goodwill related to our purchase of additional shares of Pannon GSM in July and August 1998 as well as depreciation expenses related to KPN Orange's network roll out.

#### ***Operating profit or loss***

Operating profit from mobile communications increased by 105.3% to €234 million in 1999 from €114 million in 1998. The increase in depreciation and impairments only partly offset the improvement in our EBITDA.

## IP/data

### Operating revenues

The following table shows our operating revenues from our IP/data business in 1998 and 1999:

	Year ended December 31,	
	1999	1998
	(all amounts in € million)	
Net sales . . . . .	918	617
Own work capitalized . . . . .	4	—
Other operating revenues . . . . .	577	—
Total operating revenues . . . . .	<u>1,499</u>	<u>617</u>

### Net sales

The following table shows a breakdown of our net sales from our IP/data business for 1998 and 1999:

	Year ended December 31,	
	1999	1998
	(all amounts in € million)	
Benelux . . . . .	835	615
International: KPNQwest . . . . .	80	—
International: Other . . . . .	3	2
Total net sales . . . . .	<u>918</u>	<u>617</u>

### Benelux

The total net sales we derived from our operations in the Benelux countries in 1999 increased by 35.8% to €835 million from €615 million in 1998. This increase was mainly due to an increase in revenues derived from data transmission services.

The following table shows a breakdown of net sales from our four lines of business in the Benelux countries for 1998 and 1999:

	Year ended December 31,	
	1999	1998
	(all amounts in € million)	
Data transmission services . . . . .	635	458
Private network services . . . . .	136	113
Enterprise solutions . . . . .	40	35
Integration services . . . . .	16	—
Other . . . . .	8	9
Total net sales . . . . .	<u>835</u>	<u>615</u>

*Data transmission services.* Our net sales from data transmission services in the Benelux countries increased by 38.6% to €635 million in 1999 from €458 million in 1998. This increase reflected an

increase of over 20% in the number of digital leased lines together with an increase in value-added network services.

*Private network services.* Net sales from private network services increased by 20.4% to €136 million in 1999 from €113 million in 1998.

*Enterprise solutions.* Net sales from enterprise solutions increased by 14.3% to €40 million in 1999 from €35 million in 1998. This increase reflected growth in our enterprise resource planning services, partially offset by lower overall demand as the Year 2000 date change approached.

*Integration services.* Net sales from integration services were €16 million in 1999. We recorded no income for this item in 1998.

#### *International*

*KPNQwest.* Our share in the net sales of KPNQwest in 1999 amounted to €80 million. KPNQwest was formed on April 1, 1999.

*Other.* In March 1999, we increased our interest in the Hungarian IP/data operator PanTel from 49% to 61.7%. PanTel has been fully consolidated in our financial statements since this date. PanTel's net sales in 1999 amounted to €3 million.

#### *Other operating revenues*

Our €577 million other operating revenues in the IP/data segment in 1999 consisted of the increase in value of our shareholdings in KPNQwest and Infonet in connection with their public offerings, together with the proceeds of our sale of a 0.3% interest in Infonet.

#### *Operating expenses excluding depreciation and impairments*

Total operating expenses for the IP/data business segment, excluding depreciation and impairments, increased by 52.7% to €748 million in 1999 from €490 million in 1998.

The table below shows a breakdown of our total operating expenses for our IP/data business, excluding depreciation and impairments, for 1998 and 1999:

	Year ended December 31,	
	1999	1998
	(all amounts in € million)	
Cost of materials:		
Benelux . . . . .	64	64
International . . . . .	—	—
Total cost of materials . . . . .	64	64
Work contracted out and other external expenses:		
Benelux . . . . .	236	150
International . . . . .	65	—
Total work contracted out and other external expenses . . . . .	301	150
Salaries and social security contributions:		
Benelux . . . . .	68	74
International . . . . .	28	—
Total salaries and social security contributions . . . . .	96	74
Other operating expenses:		
Benelux . . . . .	33	5
International . . . . .	25	—
Total other operating expenses . . . . .	58	5
Inter-segment recharges . . . . .	229	197
Total operating expenses (excluding depreciation and impairments) . . . . .	748	490

The increases in operating expense items in the Benelux countries reflect growth in our IP/data business. Work contracted out and other external expenses in the Benelux countries increased by 57.3% to €236 million from €150 million in 1998, principally due to network maintenance carried out by third parties for our data communications business in The Netherlands and our start-up data communications business in Belgium. The 16.2% increase in inter-segment recharges, which totaled €229 million in 1999 compared with €197 million in 1998, related to increased charges from our fixed network operator.

Operating expense items for International in 1999 totaled €118 million, of which €116 million related to KPNQwest, which commenced operations in the first half of 1999.

#### ***Operating profit excluding depreciation and impairments (EBITDA)***

EBITDA from IP/data services increased by €624 million to €751 million in 1999 from €127 million in 1998. This increase was mainly caused by the increase in value of our shareholdings in KPNQwest and Infonet which we recognized at the time of their initial public offerings, and the organic growth of our IP/data business in The Netherlands, offset by start-up costs in Belgium and at KPNQwest.

#### ***Depreciation and impairments***

Depreciation and impairments increased by 169.9% to €386 million in 1999 from €143 million in 1998. This increase was principally caused by the reduction of the useful lives of certain assets and the write down certain other assets of our IP/data business in The Netherlands, including platforms related to our leased lines portfolio, for a total of €208 million.

### ***Operating profit***

Operating profit from IP/data services increased by €381 million to €365 million in 1999 from a loss of €16 million in 1998, due to the increase in value of our shareholdings we recognized on the initial public offerings of KPNQwest and Infonet, offset by the effect of shorter useful lives and write downs of certain fixed assets in The Netherlands.

### **ICM**

#### ***Operating revenues***

The following table shows a breakdown of operating revenues from our ICM business in 1998 and 1999:

	Year ended December 31,	
	1999	1998
	(all amounts in € million)	
Net sales . . . . .	618	516
Own work capitalized . . . . .	—	—
Other operating revenues . . . . .	—	—
Total operating revenues . . . . .	<u>618</u>	<u>516</u>

#### ***Net sales***

The following table shows a breakdown of the principal sources of net sales for our ICM business for 1998 and 1999:

	Year ended December 31,	
	1999	1998
	(all amounts in € million)	
CRM services . . . . .	289	257
I&M services . . . . .	329	259
Total net sales . . . . .	<u>618</u>	<u>516</u>

#### ***CRM services***

The following table shows a breakdown of our net sales from our CRM services business for 1998 and 1999:

	Year ended December 31,	
	1999	1998
	(all amounts in € million)	
Call center services . . . . .	123	110
0800/0900 services . . . . .	155	140
Other . . . . .	<u>11</u>	<u>7</u>
Total net sales . . . . .	<u>289</u>	<u>257</u>

*Call center services.* Our net sales from call center services increased by 11.8% to €123 million in 1999 from €110 million in 1998. This was largely due to a 10% price increase.

*0800/0900 services.* Our net sales from 0800/0900 services increased by 10.7% to €155 million in 1999 from €140 million in 1998, mainly due to an increase in the volume of call traffic.

#### *I&M services*

The following table shows a breakdown of net sales from our I&M services business for 1998 and 1999:

	Year ended December 31,	
	1999	1998
	(all amounts in € million)	
Telephone directories . . . . .	147	125
Consumer ISP services . . . . .	71	30
Premium rate calling services . . . . .	111	104
Total net sales . . . . .	<u>329</u>	<u>259</u>

*Telephone directories.* Our net sales from telephone directories increased by 17.6% to €147 million in 1999 from €125 million in 1998 due to an increase in prices of 9% and a 9% growth in volume.

*Consumer ISP services.* Our net sales from consumer ISP services increased by 136.7% to €71 million in 1999 from €30 million in 1998. This increase was due to our acquisition of XS4ALL in December 1998 and a large increase in our total number of subscribers in the period to 0.8 million at the end of 1999 from 0.3 million at the end of 1998.

*Premium rate calling services.* Our net sales from premium rate calling services increased by 6.7% to €111 million in 1999 from €104 million in 1998. This increase was due to a price increase of 16% which was partially offset by a 9% decrease in the volume of calls.

#### *Operating expenses excluding depreciation and impairments*

The following table shows a breakdown of our total operating expenses for the ICM segment, excluding depreciation and impairments, for 1998 and 1999:

	Year ended December 31,	
	1999	1998
	(all amounts in € million)	
Cost of materials . . . . .	33	29
Work contracted out and other external expenses . . . . .	125	98
Salaries and social security contributions . . . . .	166	146
Other operating expenses . . . . .	84	60
Inter-segment recharges . . . . .	236	186
Total operating expenses (excluding depreciation and impairments) . . . . .	<u>644</u>	<u>519</u>

Our total operating expenses, excluding depreciation and impairments, increased by 24.1% to €644 million in 1999 from €519 million in 1998 due principally to the acquisition of XS4ALL and the net sales growth in CRM and I&M services.

**Operating profit or loss excluding depreciation and impairments (EBITDA)**

EBITDA from ICM services decreased to a loss of €26 million in 1999 from a loss of €3 million in 1998.

**Depreciation and impairments**

Depreciation and impairments for ICM services increased by 26.1% to €87 million in 1999 from €69 million in 1998. This increase was principally due to acquisitions, including XS4ALL.

**Operating profit or loss**

Operating loss increased by 56.9% to a loss of €113 million in 1999 from a loss of €72 million in 1998. This was due to the decrease in our EBITDA and the increase in our depreciation and impairments.

**Other**

The following table shows a breakdown of the operating results of the Other segment in 1998 and 1999:

	Year ended December 31	
	1999	1998
	(all amounts in € millions)	
Total operating revenues . . . . .	1,456	1,558
Intra-segment and inter-segment revenues . . . . .	4,143	3,967
Total revenues . . . . .	5,599	5,525
Operating expenses . . . . .	3,068	2,967
Intra-segment and inter-segment recharges . . . . .	2,705	2,536
Total expenses . . . . .	5,773	5,503
EBITDA . . . . .	(174)	22
Depreciation and impairments . . . . .	415	242
Operating loss . . . . .	<u>(589)</u>	<u>(220)</u>

**Operating revenues**

The following table shows a breakdown of our total operating revenues in the Other segment in 1998 and 1999:

	Year ended December 31,	
	1999	1998
	(all amounts in € million)	
Net sales . . . . .	1,067	996
Own work capitalized . . . . .	335	352
Other operating revenues . . . . .	54	210
Total operating revenues . . . . .	<u>1,456</u>	<u>1,558</u>

Operating revenues, which are revenues derived from external business activities, decreased by 6.5% to €1,456 million in 1999 from €1,558 million in 1998. This decrease was mainly due to a €156 million decrease in other operating revenues, resulting principally from the release of investment grants in 1998. Net sales increased by 7.1% to €1,067 million in 1999 mainly as a result of a growth in satellite communication sales, partially offset by a decrease in sales of our business communications unit.

#### ***Intra-segment and inter-segment revenues***

Our total revenues from the provision of products and services by businesses within the Other segment to each other and by the Other segment to the four core segments increased by 4.4% to €4,143 million in 1999 from €3,967 million in 1998. This increase was mainly attributable to products and services such as network maintenance provided by our network construction business, principally for the Lambda network.

#### ***Operating expenses***

The following table shows a breakdown of our operating expenses in the Other segment for 1998 and 1999:

	Year ended December 31,	
	1999	1998
	(all amounts in € million)	
Cost of materials . . . . .	545	542
Work contracted out and other external expenses . . . . .	1,060	968
Salaries and social security contributions . . . . .	1,212	1,160
Other operating expenses . . . . .	251	297
Total external operating expenses . . . . .	<u>3,068</u>	<u>2,967</u>

Operating expenses, which are costs other than internal recharges, increased by 3.4% to €3,068 million in 1999 from €2,967 million in 1998, mainly due to higher external costs incurred by our network construction business due to increased activity levels.

#### ***Intra-segment and inter-segment recharges***

Our intra-segment and inter-segment recharges in the Other segment consist of the amounts charged by businesses within our Other segment to each other and by our four core business segments for products and services provided to the Other segment. Our intra-segment and inter-segment recharges increased by 6.7% to €2,705 million in 1999 from €2,536 million in 1998.

#### ***Operating profit or loss excluding depreciation and impairments (EBITDA)***

EBITDA in 1999 decreased to a loss of €174 million from a profit of €22 million in 1998 due to the combination of reduced revenues and increased operating expenses.

#### ***Depreciation and impairments***

Depreciation and impairments increased by 71.5% to €415 million in 1999 from €242 million in 1998 due to the effects of the shorter useful lives and write downs of certain assets.

### ***Operating profit or loss***

Operating loss amounted to €589 million in 1999 compared with a loss of €220 million in 1998.

### **Profit or loss of our Group after taxes**

#### ***Financial income and expense***

Our net financial expense in 1999 amounted to €296 million, consisting of interest expenses of €355 million offset in part by interest income of €59 million. Our total financial expense of €212 million in 1998 consisted of interest expenses of €257 million and interest income of €45 million. The €98 million increase in interest expenses between 1998 and 1999 was largely due to the fact that, in 1999, we incurred over €2.1 billion in additional long-term debt. Interest expenses in 1999 also included €19 million in exceptional expenses, most of which are associated with the write-off of loans to minority participating interests.

#### ***Tax on profit or loss on normal operations***

We accrued tax expense of €186 million in 1999 compared with €481 million in 1998. Corporate income tax in The Netherlands was levied at 35% in both periods. In 1999, our effective tax rate was 24.5% compared with 35.3% in 1998. Our lower effective tax rate in 1999 was primarily due to the tax-exempt income we recognized in the amount of €577 million as a result of the public offerings of KPNQwest and Infonet. This was partially offset by non-deductible amortization of goodwill and non-deductible losses from certain of our participations.

#### ***Share in income from participating interests***

Our share in income from participating interests increased to €253 million in 1999 from €42 million in 1998.

The 1999 amount consisted principally of a contribution of €137 million from Unisource, comprising proceeds of €308 million from the sale of Unisource Carrier Services, Unisource Iberia, Unisource Italia, SIRIS and a participating interest in Arcor, and our €6 million share in Unisource's net losses, less a provision of €165 million relating to undertakings which the Unisource shareholders (including our company) made to Infonet in connection with the management of AUCS Communication Services. The 1999 amount also included a contribution of €71 million from eircom, which included €36 million of proceeds from the disposal of Cablelink. Český Telecom contributed €33 million.

The 1998 amount consisted principally of contributions of €31 million from Český Telecom and €30 million from eircom, together with contributions from Telkomsel, UMC and various satellite operators. These contributions were partially offset by the negative contribution of €53 million from Unisource.

#### ***Profit or loss after taxes***

Our profit after taxes increased by 20.3% to €828 million in 1999 from €688 million in 1998. In 1998, we recorded an extraordinary expense of €363 million which consisted of the provision of €159 million for the New KPN reorganization program, €127 million for implementation of the ERP information system, €57 million for relocation and €20 million for adjustments to terms of employment. After accounting for the positive tax effect of €127 million on these items, the net extraordinary expense amounted to €236 million.

**Our results of operations in 1998 and 1997**  
**The Group (without E-Plus)**

**General**

We have not been able to restate our 1997 results of operations to reflect our new segmentation, as it was impracticable to do so, since the organizational structure and management reporting information for this period differs significantly from that available for later periods. The restatement of 1997 results of operations can therefore not be obtained without disproportionate effort. Accordingly, the discussion of our results of operations in 1998 and 1997 below is based upon our previous segmentation.

The following table shows a breakdown of our results of operations for 1997 and 1998:

	<u>1998</u>	<u>1997</u>
	<u>(all amounts in</u>	<u>€ million)</u>
Operating revenues . . . . .	7,944	7,117
Operating expenses (excluding depreciation and impairments) . . . . .	(4,957)	(4,368)
EBITDA . . . . .	2,987	2,749
Depreciation and impairments . . . . .	(1,412)	(1,257)
Operating profit . . . . .	1,575	1,492
Financial income and expense . . . . .	(212)	(232)
Tax on profit or loss on normal operations . . . . .	(481)	(431)
Share in income from participating interests . . . . .	42	49
Profit or loss on normal operations after taxes . . . . .	924	878
Extraordinary expense after tax . . . . .	(236)	—
Profit after taxes . . . . .	<u>688</u>	<u>878</u>

(1) EBITDA represents operating profit (loss) excluding amortization, depreciation and impairment charges. EBITDA is included because management believes it is a useful indicator of a company's ability to incur and service debt. EBITDA should not be considered as a substitute for operating income, net income, cash flow or other statements of operations or cash flow computed in accordance with Dutch or U.S. GAAP or as a measure of a company's results of operations or liquidity.

Our 1998 results showed strong growth in operating revenues and operating profit compared with 1997. Our net profit decreased by 21.6% to €688 million in 1998 from €878 million in 1997, principally due to an extraordinary restructuring charge of €236 million after tax, which more than offset our increase in operating profit.

### *Operating revenues*

The table below shows our total operating revenues by segment for 1997 and 1998:

	Year ended December 31,	
	1998	1997
	(all amounts in € millions)	
Fixed telephony, equipment and other <sup>(1)</sup>	6,309	5,875
Mobile communications <sup>(1)</sup>	1,274	947
International activities <sup>(1)</sup>	1,017	878
Inter-segment sales <sup>(2)</sup>	(656)	(583)
Total operating revenues	<u>7,944</u>	<u>7,117</u>

(1) Includes sales of products and services to the other two business segments.

(2) This figure represents sales of products and services between our three segments.

#### *Fixed telephony, equipment and other*

Total operating revenues from fixed telephony, equipment and other increased by 7.4% to €6,309 million in 1998 from €5,875 million in 1997. This growth was driven primarily by growth in the number of lines and an increase in traffic volume in our fixed telephony business, offset by price reductions and loss of market share in certain activities.

The following table shows a breakdown of the number of channels connected to our network as at the end of 1998 and 1997, based on management estimates:

	As of December 31,	
	1998	1997
	(all data in thousand units)	
PSTN (analog) channels	7,767	8,050
ISDN (digital) channels <sup>(1)</sup>	1,570	810
Total channels	<u>9,337</u>	<u>8,860</u>

(1) ISDN channels include services with two channels per connection and services with 30 channels per connection.

The number of channels increased by 5.4% to 9.3 million at the end of 1998 from 8.9 million at the end of 1997. The growth resulted from the introduction in 1998 of ISDN lines, for which there was high demand driven by the Internet, while the number of analog channels fell by 3.5% to 7.8 million.

The volume of call minutes was 43.1 billion in 1998. The call rate increased by 3.5% to 3.84 calls per line per day. Other value-added services such as voicemail contributed positively to revenues and the higher call rate, together with the increase in mobile penetration, also contributed to growth in traffic volume.

Price reductions, principally due to regulation by OPTA, offset our increased volumes in several areas, such as the interconnect services we provide to other telecommunications providers and outbound international traffic. For outbound international traffic, our aggregate price reductions amounted to 41.9% while our volumes increased by 4.6%.

We also benefited from increased revenues from leased lines, in particular digital leased lines, which carry a higher subscription charge than analog lines.

#### *Mobile communications*

Our total operating revenues from mobile communications increased by 34.5% to €1,274 million in 1998 from €947 million in 1997, principally as a result of strong growth in our customer base and call volumes. Volumes increased by 73%, due in part to the increase of mobile telephone penetration in The Netherlands to approximately 21% at the end of 1998 from approximately 11% at the end of 1997. We were able to add approximately one million customers to our mobile service during the period, bringing the total to approximately 2.2 million at the end of 1998, of which approximately 603,000 were prepaid customers. However, our volume growth was partially offset by a negative price effect of 33.6%.

We also benefited from strong equipment sales in 1998 with an increase of 85.2% to €163 million in 1998 from €88 million in 1997.

#### *International activities*

Our total operating revenues from international activities increased by 15.8% to €1,017 million in 1998 from €878 million in 1997. The increase was primarily the result of the increase in volumes of international leased lines, increased revenues from the Station 12 satellite communications business and increased revenues from our wholesale international network services.

#### *Operating expenses excluding depreciation and impairments*

Our operating expenses excluding depreciation and impairments increased by 13.5% to €4,957 million in 1998 from €4,368 million in 1997. This increase was principally due to purchases of equipment for customers, higher expenses for purchasing interconnect traffic, higher expenses in connection with increased volumes in directories sales and start-up costs at KPN Orange. In addition to these volume-driven price increases, our salary expense increased by €99 million to €1,468 million in 1998 from €1,369 million in 1997 through salary increases under our collective bargaining agreement and a 1.4% increase in headcount on an FTE basis.

#### *Operating profit excluding depreciation and impairments (EBITDA)*

Our EBITDA increased by 8.7% to €2,987 million in 1998 from €2,749 million in 1997.

#### *Depreciation and impairments*

Our depreciation and impairments increased by 12.3% to €1,412 million in 1998 from €1,257 million in 1997. The 1998 charges included an impairment charge of €86 million, of which €58 million related to the closing of our mobile NMT network, together with a €49 million increase in depreciation charges due to our decision in 1997 to shorten the lives of certain assets. The 1997 charges included an exceptional goodwill amortization charge of €44 million relating to the write-off in full of our interest in Bakrie Electronics Company/Ratelindo in Indonesia, together with impairments of €14 million.

#### *Operating profit*

Our operating profit increased by 5.6% to €1,575 million in 1998 from €1,492 million in 1997.

### ***Financial income and expense***

Our net financial expense in 1998 amounted to €212 million, consisting of financial expenses of €257 million and financial income of €45 million. Our total financial expense in 1997 amounted to €232 million, consisting of financial expenses of €263 million and financial income of €31 million. The slight reduction in interest expense reflected lower interest expense added to pension provisions and a reduction in expense related to the reversal of a writedown of loans to our affiliated companies in the Ukraine. These factors more than offset the increases in interest expense incurred as a result of our refinancing of long-term debt in connection with the demerger of TNT Post Group from us and a new DM2 billion debenture incurred in 1998.

### ***Tax on profit or loss on normal operations***

We accrued tax expense of €481 million in 1998 and €431 million in 1997. Corporate income tax in The Netherlands was levied at 35% in both periods. In 1998, our effective tax rate was 35.3% compared with 34.2% in 1997. In 1998, our tax burden was increased by a non-deductible goodwill amortization charge and losses incurred by non-Dutch participations that were not included in our tax group. These factors were partly offset by the effect of tax-free grants. The 1997 tax burden benefited from the tax exempt results of participating interests, offset in part by non-deductible goodwill amortization charges.

### ***Share in income from participating interests***

Our share in income from participating interests decreased by 14.3% to €42 million in 1998 from €49 million in 1997.

### ***Profit or loss after taxes***

Our profit after taxes decreased by 21.6% to €688 million in 1998 from €878 million in 1997. However, excluding the €236 million net effect after tax of the extraordinary expense in 1998, our profit after taxes in 1998 would have amounted to €924 million, an increase of 5.2% compared with 1997.

## **Liquidity and cash flow information**

### ***Sources and uses of funds***

#### ***In 1999***

During the year 1999 our long-term interest bearing liabilities increased by approximately €1,934 million to €5,405 million from €3,470 million. Short-term debt and our current portion of long-term debt increased to €1,834 million from €1,587 million in the same period. Through August 31, 2000 our long-term interest bearing liabilities decreased by €3,151 million to €12,802 million, and our short-term debt and current portion of long-term debt increased to €15,719 million. Our significant increase in indebtedness in 2000 was caused primarily by our acquisition of a 77.49% indirect interest in E-Plus and to a lesser extent by our investments in UMTS licenses in The Netherlands and Germany. Our liquid assets as of August 31, 2000 were €4,988 million compared to €2,625 million as of December 31, 1999.

In 1999 we issued two Eurobonds under our Euro Medium Term Note, or EMTN, program, totaling €1.7 billion, which was used to refinance existing loans, to repay loans from the State of The Netherlands, domestic investments and general corporate purposes. The remaining increase in long-term liabilities was mainly related to borrowings from proportionally consolidated group companies, including KPNQwest and KPN Orange, and an increase of approximately €200 million in other long-term debt. In June 1999, KPNQwest issued two series of senior notes amounting to €340 million and

\$450 million, respectively. KPN Orange arranged a syndicated project finance facility of €595 million of which, at the end of 1999, an amount of €145 million was drawn.

On December 9, 1999 we entered into a €13,000 million credit facility which was arranged in order to finance the E-Plus acquisition and to refinance loans provided to E-Plus by its former shareholders. On February 24, 2000 we completed the E-Plus acquisition with a cash payment of approximately €9,100 million and the refinancing of shareholders' loans amounting in aggregate to approximately €1,400 million. During February 2000 the credit facility was reduced to €11,500 million. Initially we drew an aggregate amount of approximately €10,500 million under the credit facility, which during the first half of 2000 increased to a maximum amount of approximately €10,900 million, including accumulated interest.

#### *2000 to date*

During the first half of 2000 we refinanced part of the €10,900 million drawn under the E-Plus acquisition credit facility. On June 13, 2000 we issued \$1,000 million principal amount of floating rate step-up notes due June 2001, or Series 1 Notes, €1,000 million principal amount of notes due June 2001, or Series 2 Notes, €2,500 million principal amount of notes due June 2002, or Series 3 Notes, and €1,500 million principal amount of step-up notes, or Series 4 Notes. As of June 30, 2000 an amount of €4,912 million remained outstanding under the E-Plus acquisition credit facility. In addition, in June 2000, we completed a private placement of Yen 100 billion with an investor in Japan. This was drawn under our EMTN program, and has a maturity of one year. The proceeds were used to refinance short-term debt.

Following the E-Plus acquisition we have also seen an increase of debt among our joint ventures, which are consolidated on a proportional basis. Our proportional share of total borrowings at the subsidiary level have increased by €1,554 million, mainly as a result of a syndicated project financing at E-Plus. In particular, the proportional consolidation of this E-Plus debt has led to an increase of our consolidated debt of €1,498 million. The remaining increase was caused by the effect of our proportional consolidation of the borrowings of KPN Orange, Pannon GSM and KPNQwest.

During the first half of 2000 we also repaid an aggregate amount of €592 million of our Group debt, in particular loans provided by the State of The Netherlands and Unisource. Following these transactions, as of June 30, 2000, our total consolidated interest-bearing debt amounted to €20,090 million.

During July and August 2000 we repaid the remaining €4,912 million previously drawn under the E-Plus acquisition credit facility through the following transactions:

- On July 6, 2000, we completed a second private placement in Japan which consisted of two elements: a transaction of approximately Yen 85,000 million swapped into €870 million with a maturity of one year and approximately Yen 30,000 million swapped into €307 million with a maturity of 17 months.
- On August 2, 2000, we received an amount of €4,002 million from DoCoMo in connection with its subscription for new shares in KPN Mobile. From these proceeds, an amount of €1,433 million was used to repay part of the E-Plus acquisition credit facility and the remaining €2,569 million remained as cash on our balance sheet, on behalf of KPN Mobile.
- On August 2, 2000 a total amount of €2,320 million was drawn under two credit facilities provided by Morgan Stanley Senior Funding Inc. and UBS AG. This amount was used to repay the final part of the E-Plus acquisition credit facility. The total amount of €2,320 million was equally divided between the two facilities, which each have a maximum of €1,500 million.

On August 4, 2000, we paid a total amount of €711 million for our UMTS license in The Netherlands, which was funded by a drawdown of €680 million under the two credit facilities provided by Morgan Stanley Senior Funding, Inc. and UBS AG and financing in the money markets of approximately €31 million.

On August 10, 2000 we issued an additional €1,000 million principal amount of floating rate step-up notes which are consolidated and form a single series with the €2,500 million floating rate step-up notes due June 2002, or Series 3 Notes. The net proceeds of this issue amounted to approximately €1,007 million. These funds remain as cash on our balance sheet.

Besides the two credit facilities with Morgan Stanley and UBS we have three other credit facilities available with an aggregate amount of €13,300 million. These facilities have been provided by Citibank N.A., ABN AMRO Bank N.V. and Goldman Sachs Credit Partners, L.P., in amounts of respectively €5,000 million, €5,000 million and €3,300 million. As of August 31, 2000 we had drawn a total amount of €6,600 million under the three credit facilities which we have loaned to KPN Mobile, which in turn has loaned that amount to E-Plus for the acquisition of the German UMTS license. This drawdown was equally divided among the three credit facilities, an amount of €2,200 million each.

The balance of the proceeds remaining from DoCoMo's subscription for new shares in KPN Mobile, namely €2,569 million, is being used by KPN Mobile to finance further expansion, including the completion of KPN Mobile's acquisition of a 15.0% interest in Hutchison 3G UK Holdings Limited, the owner of a UMTS license in the U.K., for approximately £900 million (approximately €1,500 million, based on an average exchange rate between pounds sterling to euro of £0.62). Completion took place on September 21, 2000. We met this obligation from our cash resources, which we believe are sufficient to fund our operations during the remainder of the year.

On September 1, 2000, Standard & Poor's, or S&P, announced that it had lowered our long-term corporate and senior unsecured ratings to single-"A"-minus from double-"A". S&P also announced that it had lowered our short-term rating from "A-1 plus" to "A-2". S&P stated that the downgrades reflected the impact on our risk profile of the E-Plus acquisition, investment in UMTS licenses and heightened competitive pressure in our domestic fixed telephony business. S&P also stated that its outlook for us remains negative. On September 7, Moody's Investors Service, or Moody's, announced that it had downgraded to A3 from Aa2 our senior unsecured debt ratings, and had downgraded to Baa1 from Aa3 our subordinated long-term debt ratings. Moody's stated that the downgrades reflect what Moody's described as the substantial increase in financial risk associated with our recent debt financed investments to enhance our international strategy. Moody's also stated that the downgrades reflect the significant challenges ahead to reduce debt in the short-term, and that it had taken into account what it sees as gradually increasing competitive pressure in The Netherlands and its expectation of further pressure on operating margins as the revenue mix shifts to lower-margin businesses. We aim to maintain a credit rating in the single A category.

We believe that our cash flow from operations and available capacity under our existing bank facilities, together with our liquid assets and the proceeds of contemplated debt and equity financings, are sufficient to meet our present working capital needs. We expect that both we and our subsidiaries will incur additional indebtedness in connection with the implementation of our strategies. We and our subsidiaries also may incur new debt to refinance existing debt. In addition to the five credit facilities of €16.3 billion we have committed short-term credit facilities in place amounting to approximately €907 million, which have been increased from €600 million in the third quarter of 1999. Financing and refinancing conditions will depend principally upon future market conditions, our credit ratings and our future prospects. We cannot offer any assurance that financing will be available on favorable terms.

### *Cash flow information*

The following table sets out information on our cash flow for the first half of 1999 and 2000 and for the full years 1998 and 1999:

	Six months ended June 30,		Year ended December 31,	
	2000	1999	1999	1998
	(all amounts in € million)			
Cash flow from operating activities . . . . .	486	1,603	2,455	2,305
Cash flow used in investing activities . . . . .	(11,720)	(1,055)	(2,658)	(2,947)
Cash flow from financing activities . . . . .	9,952	1,297	2,350	444
Change in cash and cash equivalents . . . . .	<u>(1,282)</u>	<u>1,845</u>	<u>2,147</u>	<u>(198)</u>

#### *First half of 2000 compared to the first half of 1999*

Cash flow from operating activities decreased by over €1 billion in the first half of 2000 compared with the same period of 1999. The major factor contributing to this decrease was the increase in our net working capital of €444 million in the period from January 1, 2000 to June 30, 2000 compared with a decrease in net working capital of €334 million in the same period of 1999, reflecting timing differences in payments and receipts, unusually high accounts receivable in certain of our business segments, the effect of our increased operational activities in our mobile communications and IP/data and ICM segments in 2000 as well as our higher financing expenses.

Our cash flow used in investing activities includes the acquisitions of shares in E-Plus, PanTel, SNT and Euroweb. In addition, higher capital expenditure and an additional payment of approximately €860 million for eircom, which was already accounted for under investments and commitments in 1999, added to the significant cash flow used in investing activities.

The increase in cash flow from financing activities is mainly attributable to loans obtained to finance the acquisition of E-Plus, partially offset by the 1999 final dividend payment.

The final dividend of 1999 was paid in June and amounted to approximately €258 million.

#### *Full year 1999 compared to full year 1998*

Cash flow from operating activities in 1999 increased slightly compared to 1998 as a result of an increase in net income and activities to €828 million in 1999 from €688 million in 1998.

Cash flow from investing activities decreased, principally due to the decrease in our investments in intangible fixed assets, such as licenses for mobile telecommunications, networks and goodwill paid on acquisitions and expansions of interests in participations.

Cash flow from financing activities in 1999 increased significantly compared to 1998. In 1999, we paid an interim dividend totaling €127 million, while we paid a final dividend in 1998 totaling €248 million. In 1999 we issued two Eurobonds under our EMTN program totaling €1,727 million. We also increased our long-term liabilities through borrowings from proportionally consolidated companies, including KPNQwest and KPN Orange.

#### *U.S. cross border lease transactions*

We intend to engage in U.S. cross border lease transactions in respect of our fixed and mobile telecommunications equipment which we expect to be completed in the coming months.

## Capital expenditures

The following table sets out information on our capital expenditures in the first half of 1999 and 2000 and for the full years of 1998 and 1999:

	Six months ended June 30,		Year ended December 31,	
	2000	1999	1999	1998
	(all amounts in € million)			
Transmission . . . . .	493	484	1,047	673
Data exchanges . . . . .	246	191	518	551
Other network . . . . .	56	25	147	98
Total network . . . . .	795	700	1,712	1,322
Other . . . . .	735	246	812	698
Total tangible fixed assets . . . . .	1,530	946	2,524	2,020
Intangible fixed assets . . . . .	175	637	1,019	596
Investment in E-Plus . . . . .	20,154	—	—	—
Total intangible fixed assets . . . . .	20,329	637	1,019	596
Financial fixed assets . . . . .	32	3	193	226
Total . . . . .	21,891	1,586	3,736	2,842

### *First half of 2000 compared to the first half of 1999*

Our total network expenditure increased by 13.6% to €795 million in the first half of 2000 from €700 million in the first half of 1999. In the first half of 2000 our expenditure of €493 million on our transmission network accounted for more than half of our total investment in our networks. This expenditure was necessary to enable us to meet the increased demand for capacity and subscriptions, as well as to improve the efficiency of our fiber network. We invested €246 million in our data exchanges in the first half of 2000, approximately one-third of which related to enhancing the capacity of our cellular network in The Netherlands in part to cope with our growing customer base. We also invested in the expansion of our ISDN number capacity as we continued to add a large number of customers to our ISDN services, and increased switching capacity for the fast growing Internet traffic and wholesale traffic on our network.

Our other expenditure increased by 199% to €735 million in the first half of 2000 from €246 million in the first half of 1999 principally due to the effect of our consolidation of the results of KPNQwest.

The decrease in our intangible fixed assets (other than our investment in E-Plus) to €175 million in the first half of 2000 from €637 million in the first half of 1999 was due largely to the establishment of KPNQwest in the first half of 1999 and the goodwill arising from our investment. In February 2000, we invested €20,154 million in the acquisition of a 77.49% share of E-Plus, of which €9,119 million was cash consideration, €9,890 million was non-cash consideration and €1,085 million represented a negative net asset value of E-Plus' assets. Since June 30, 2000 we have adjusted our determination of the consideration to €20,347 million following an adjustment of our valuation of E-Plus' license.

### *Full year 1999 compared to full year 1998*

Our total network expenditure increased by 29.5% to €1,712 million in 1999 from €1,322 million in 1998. Our expenditure on our transmission network increased by 55.6% to €1,047 million in 1999 from €673 million in 1998 as we accelerated the expansion of our long-distance infrastructure and continued the construction of our new fiber optic network, the Lambda network. Our expenditure on telephone

exchanges for the fixed network was somewhat lower in 1999, due to a reduction in the number of analog channels connected to our network. However, we made additional investments in our data exchanges and in our mobile network to cater for the increasing mobile customer base and the enhancement of applications such as voicemail and fax services. In 1999, our other network capital expenditure increased significantly to €147 million from €98 million in 1998 as we expanded our transmission capacity through the acquisition of synchronous digital hierarchy equipment and our capacity in local and long-distance access networks.

Our other expenditure increased by 16.3% to €812 million in 1999 from €698 million in 1998 principally due to the effect of our consolidation of the results of KPNQwest.

Our total investment in intangible fixed assets increased by 71.0% to €1,019 million in 1999 from €596 million in 1998. In 1998, we paid a total of €233 million for mobile telecommunications licenses in The Netherlands and Belgium. We also recognized goodwill of €363 million in respect of our acquisition of an increased stake in Pannon GSM, Český Telekom and the acquisition of the Internet service provider, XS4ALL. In 1999, our expenditure included an amount of €971 million in respect of the goodwill which arose on our acquisition of increased stakes in eircom and PanTel, together with the establishment of the joint ventures KPNQwest and WiproNet, an Internet service provider in India.

### ***Planned capital expenditure***

For the year 2000 we budgeted a total amount of approximately €3,125 million in capital expenditure, of which we have spent €1,530 million during the first half of 2000. This capital expenditure involves investments in transmission equipment, data exchanges and other fixed assets. In 2001 and 2002 we expect our capital expenditure to be somewhat higher as we will start to roll out UMTS in our core markets. In the years 2001 to 2005 we currently anticipate investing approximately €3,000 million in UMTS. (We anticipate commencing UMTS rollout in 2002.) Furthermore we plan to invest an amount of approximately €5,000 million in our fixed and IP/data network over the next three years.

We continuously evaluate potential acquisitions and business opportunities and will make investments on a selective basis where they match our strategic plans. Going forward, we intend to emphasize acquisitions which allow us to exercise a degree of control over the companies in which we invest, and which are within our four core business areas.

## **Quantitative and qualitative disclosure about market risk**

### ***General***

Our treasury department manages our market risk exposures. In addition, our treasury department provides cash management and funding services to group companies. Our treasury department aims to reduce our risk profile.

As a result of our international activities, we are exposed to market risk resulting from changes in foreign currency exchange rates relative to the euro. In order to reduce exposure, our treasury policy provides for the use of derivative financial instruments, including forward exchange contracts, currency swap transactions and the use of foreign exchange options. Furthermore, the treasury policy provides for the use of interest rate swaps and forward rate agreements to manage our interest rate profile.

Derivative financial instruments are used solely for the purpose of hedging underlying exposures. Contracts related to derivative financial instruments are entered into for periods consistent with the underlying exposures and do not constitute positions independent of these exposures. None of these financial instruments are leveraged, used for trading purposes or taken as speculative positions.

In addition to market risks arising from foreign currency and interest rate exposure, we face other risks including legal risks, country risk and credit risk. These risks are not presented in this analysis.

#### ***Foreign currency exchange rate risk***

Given our activities, we have limited exposure to foreign exchange rates outside the euro block currencies. Foreign currency exchange rate exposure mainly results from settlement of international telecommunications traffic, purchase of goods and equipment, investments in other countries and funding denominated in other currencies.

Group companies are obliged to report foreign currency exposures to our treasury department. Our treasury department then matches and manages all intercompany and external exposures. In order to reduce the exposures, and after taking account of natural hedges provided by other balance sheet items, hedges are generally applied on a full coverage basis. Non-freely convertible currencies are hedged if and when prevailing market conditions allow us to do so. It is our policy only to consider transactional exposures of firm commitments for hedging purposes, whereas translational exposures are only hedged when feasible via a natural hedge and if there are no constraints.

As of December 31, 1999 we performed a sensitivity analysis with regard to our foreign currency exchange exposure. The analysis included, all other things being equal, a 10% adverse change in the value of the euro, compared to the currencies relevant for us as of December 31, 1999. According to this analysis such an adverse change would not result in a material hypothetical loss on the fair value of our foreign exchange rate-sensitive instruments.

#### ***June 30, 2000***

As of June 30, 2000 we updated the sensitivity analysis with regard to our foreign currency exchange exposure. The analysis included, all other things being equal, a 10% adverse change in the value of the euro, compared to the currencies relevant for us as of June 30, 2000. According to this analysis such an adverse change would not result in material hypothetical loss on the fair value of our foreign exchange rate-sensitive instruments.

#### ***Interest rate risk***

We incur debt to support business operations including capital expenditures. Our interest rate risk policy is to match funding structures with the risk profile of the underlying assets. Adjustments of the interest rate profile or lower interest rates given a risk profile can be achieved by use of forward rate agreements and interest rate swaps.

Excess available cash is invested in money market instruments whereby credit risk is mitigated by strict policies on counterparty limits.

As of December 31, 1999, 89% of our total interest-bearing debt had a fixed interest profile. In addition we entered into swap contracts to fix interest rates for an amount of €603.1 million (9% of the total interest-bearing debt).

As of December 31, 1999, we carried out a sensitivity analysis with regard to our interest rate risk. The analysis included, all other things being equal, an adverse change of 100 basis points of the debt with a variable interest profile. This analysis resulted in a hypothetical loss of €1.6 million per year.

As of June 30, 2000, 32% of our total interest-bearing debt had a fixed interest profile as a result of the additional borrowings at variable rates during the first half of 2000. In addition we entered into swap contracts in order to achieve fixed interest rates for an amount of approximately €603 million (3% of the total interest-bearing debt).

As of June 30, 2000, we carried out a sensitivity analysis with regard to our interest rate risk. The analysis included, all other things being equal, an adverse change of 100 basis points of the debt with a variable interest profile. This analysis resulted in a hypothetical loss of €130 million per year.

### ***Equity Risk***

We believe our market risk exposure with regard to our marketable equity securities is limited to changes in quoted market prices for such securities. Based on the composition of our marketable equity securities as of June 30, 2000, we performed a sensitivity analysis with regard to our equity risk. The analysis included, all other things being equal, a 10% adverse change in quoted market prices. This analysis resulted in a hypothetical loss of €134 million.

### **Fair value of financial instruments**

The following table shows a breakdown of the fair value and book value of certain of our financial instruments for 1999 and the first half of 2000:

	As of June 30, 2000		As of December 31, 1999	
	Book value	Fair value	Book value	Fair value
	(all amounts in € millions)			
Marketable securities and other financial interests . . . . .	1,304	1,340	1,281	1,951
Current liabilities . . . . .	4,137	4,392	1,451	1,464
Long-term liabilities . . . . .	15,953	15,312	5,411	5,295

The book value of the financial instruments not referred to in this table does not materially differ from their fair value.

Marketable securities and other financial interests consist mainly of our investment in eircom, which we intend to dispose. The fair values are based on market prices as of June 30, 2000.

Our current liabilities include short-term debts to banks and short-term loans contracted from institutions other than banks. The fair value of our current liabilities is approximately the same as their market value as a result of the short terms of the instruments in question.

The fair value of our long-term liabilities is estimated by calculating the net present value of the loans based on an estimated yield curve appropriate to the terms of the contracts. The estimated yield curve is the interpolated zero coupon yield curve of the German Bund plus the market credit spread of KPN.

In addition, in connection with the E-Plus acquisition, we have attributed a fair market value of €9,890 million to BellSouth's exchange rights and warrant.

The following table shows a breakdown of our forward exchange contracts and interest rate swaps for 1999 and the first half of 2000.

	As of June 30, 2000		As of December 31, 1999	
	Contract volume	Estimated market value	Contract volume	Estimated market value
	(all amounts in € millions)			
<b>Forward exchange contracts</b>				
Term shorter than 1 year . . . . .	1,724	(4)	501	11
Term longer than 1 year . . . . .	131	2	317	—
<b>Total</b> . . . . .	<u>1,855</u>	<u>(2)</u>	<u>818</u>	<u>11</u>
<b>Interest rate swaps</b>				
Term shorter than 1 year . . . . .	13	—	—	—
Term longer than 1 year . . . . .	590	(11)	603	40
<b>Total</b> . . . . .	<u>603</u>	<u>(11)</u>	<u>603</u>	<u>40</u>

The estimated market values in the table above represent the amount payable or receivable in exchange for termination of the relevant contracts as of December 31, 1999 or June 30, 2000, as appropriate without any further obligations. The credit risk is minimized by a strict policy as to the choice of potential counter parties. In accordance with this policy, we have set strict limits for maximum positions and investment periods. Separate limits have been set for counter parties with credit ratings, for Dutch government institutions and for a number of well-known Dutch institutions. We update these limits on a regular basis.

#### U.S. GAAP reconciliation

Generally accepted accounting principles in the United States, or U.S. GAAP, differ in some respects from Dutch GAAP applied by us. Our net profit under U.S. GAAP would have amounted to €559 million in 1998 (compared with €688 million under Dutch GAAP), €719 million in 1999 (compared with €828 million under Dutch GAAP) and €2,407 million in the first half of 2000 (compared with a loss of €19 million under Dutch GAAP).

Our accounting policies are outlined in our consolidated financial statements which are included elsewhere in this offering circular. Our accounts are prepared under the historical cost convention, based on Dutch GAAP. The main differences between Dutch and U.S. GAAP arise in the following areas:

#### *Valuation of financial instruments in connection with the E-Plus acquisition*

The acquisition of E-Plus shares involved cash payments as well as the issue of exchange rights and a warrant to BellSouth. The issuance of the exchange rights and warrant to BellSouth is accounted for as part of the purchase consideration to acquire the interest in E-Plus. Our equity has been credited for the fair value of the warrant under Dutch GAAP and U.S. GAAP. The fair value of the exchange right has been accounted for as a long term liability under Dutch GAAP and U.S. GAAP. Under Dutch GAAP, the fair value of the exchange right and the warrant has been based on the fair value as of February 24, 2000, the date of closing of the acquisition. Under US GAAP, the fair value of the exchange right is marked to market with gains or losses included in income in the period as of the date of the financial statements.

### *Accounting for joint ventures*

Under Dutch GAAP, joint ventures in which we, together with other parties, exercise joint control are consolidated on a proportional basis. This means that the respective percentage of all assets, liabilities, costs and expenses and cash flows of the joint venture, corresponding to our percentage ownership, is included in our balance sheet, statement of income and cash flow statement. US GAAP does not generally allow proportional consolidation but would require equity method accounting for these investments. This difference does not affect equity net income under US GAAP as compared to Dutch GAAP.

### *Pensions*

Under Dutch GAAP, pension costs consist of the premiums paid to our pension funds and the addition to certain pension provisions carried in our balance sheet. Under U.S. GAAP (SFAS No. 87), pension charges and related liabilities are based on a specific methodology that reflects the concepts of accrual accounting, systematically processing certain amounts reflected in the statement of income over the service lives of the employees covered by the plan. Amounts charged to expense are typically different from amounts funded. The calculation of the statement of income charge is more comprehensive and detailed than in The Netherlands, particularly as to the use of actuarial assumptions.

### **Introduction of the euro**

On January 1, 1999, 11 member states of the European Union adopted a common currency known as the euro. Their previous national currencies became denominations of the euro for a transitional period expected to end on January 1, 2002, and the exchange rates between these currencies and the euro were fixed. The transition to the euro consists of three principal periods:

- Commencing January 1, 1999, the euro was introduced for use in the banking and financial sectors.
- On January 1, 2002, the euro is expected to become the official currency for all administrative purposes and banknotes and coins in euro are expected to enter circulation; and
- By July 1, 2002, at the latest, banknotes and coins of the previous currencies are expected no longer to be legal tender. In The Netherlands, this is expected to occur in late January 2002.

The first phase is particularly important for the business market. To enable payments to be made in euro, we provide translations of amounts stated on invoices. Although the euro will not become the official currency for administrative purposes until January 1, 2002, we realize that market demand and the activities of competitors may require us to introduce the euro earlier. As a result, we are exercising maximum flexibility in relation to the introduction of the euro. Where possible, we will provide customers and suppliers who request them with invoices and offers denominated in euro.

### *Management of the transition*

We set up a project group in 1996 to oversee the introduction of the euro within our organization. The thrust of our efforts is directed towards changes that must be made before 2002, including preparing our customers, employees, processes and systems for the switch to the euro. From January 1, 2002 onwards, the euro will be our standard currency for sales, purchasing and intra-group billing. The preparation of contingency plans forms part of these preparations.

### ***Revenues, costs and operating income***

The introduction of the euro is thought to have increased price transparency between countries in euro zone, particularly for consumer goods. It is not yet clear to us whether introduction of the euro will affect our financial performance.

### ***Third party systems***

We continuously review the impact of systems operated by third parties on the way we conduct our business. The purpose of these reviews is to reduce risks to our business associated with third parties' systems. On the basis of our reviews to date, we currently expect all relevant third party systems to have made all essential changes before January 1, 2002.

### ***Continuity of contracts***

We believe that the introduction of the euro should not require the provisions contained in agreements or other legal documents to be amended and that parties to a contract may not use the introduction of the euro as a pretext for setting aside contractual provisions or for unilaterally amending or terminating a contract.

### **Expectations**

As we announced on August 30, 2000, we expect our EBITDA for 2000 to fall somewhat short of our previously announced target, mainly due to our decision to benefit from the accelerated growth of the German market (leading to high customer acquisition costs for mobile telecommunications customers) and our decision to commence Internet service provider activities in Germany. The August 30, 2000 announcement is available on our website: [www.kpn.com](http://www.kpn.com). Due to DoCoMo's participating interest in KPN Mobile, we will recognize an increase in the value of our shareholding of approximately €2 billion. In accordance with Dutch GAAP we will account for this increase as operating revenues in the second half of 2000.

Other than as disclosed above, there has been no material adverse change in our financial position since June 30, 2000, being the date of our most recent unaudited interim financial statements.

### **Recently issued accounting pronouncements**

#### ***Dutch GAAP***

The Dutch Council for Annual Reporting recently issued new guidelines, which will be effective for the fiscal year 2000. The following is a summary of the new guidelines.

A new guideline on accounting for foreign currencies requires exchange gains on long-term transactions to be recorded as incurred rather than recorded over the term of the transactions. The guideline also recommends that accumulated translation differences relating to a foreign entity should be recognized in the profit and loss account on disposal; however, the new guideline permits the alternative of recognizing such differences in shareholder's equity.

A new guideline on accounting for interests in joint ventures was issued and applies to the accounting and reporting of all joint ventures regardless of the structures of forms under which the joint venture activities take place. Activities that have no arrangement to establish joint control are not joint ventures for the purposes for this guideline. The financial statements of the venturer's interests in jointly controlled operations should include the proportion that it controls and the liabilities and expenses that it incurs as well as its share of the income that it earns from the sale of goods or services by the joint venture.

A new guideline on accounting for employee option plans requires additional disclosure in the annual report about our share options. The new guideline requires disclosure of the aggregate amount of options granted by us in the financial year to the managing board members and other staff and a description of the principal conditions of the options. The new guideline also requires disclosure of the number of options exercised during the year, the number of options granted by the legal entity during the year and the number of options outstanding at year-end.

A new guideline on accounting for taxation on profit requires a full provision for deferred income taxes and adopts a balance sheet approach in calculating the provision. Except in limited circumstances, the guideline requires a deferred tax liability (deferred tax asset) to be recognized if it is probable that recovery or settlement of the carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences.

A new guideline on accounting for per share earnings requires disclosure of both earnings per share and diluted earnings per share and provides instructions on how these figures should be calculated.

A new guideline on accounting for segmented information establishes principles for reporting financial information by segment. The guideline places reliance on our internal organizational and management structure and its system of internal financial reporting as the basis for identifying different segments.

A new guideline on criteria for deconsolidation was issued. The guideline relates to companies that are no longer consolidated especially as it relates to the timing of control of subsidiaries, which are acquired and their subsequent disposal is expected soon thereafter. Previously under Dutch GAAP, companies were deconsolidated beginning when the company's board approved the disposal of the subsidiary. The new guideline requires consolidation until the time that the subsidiary is disposed of.

We do not believe the impact of the adoption of these changes on our reporting requirements will have a material effect on our financial condition and results of operations.

#### ***U.S. GAAP***

In December 1999, the SEC issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements," which will be adopted by us in the fourth fiscal quarter of 2000. SAB 101 provides additional guidance on revenue recognition as well as criteria for when revenue is generally realized and earned, and also requires the deferral of incremental direct customer acquisition costs. Our management is currently considering the impact that SAB 101 will have on our results of operations and cannot currently determine its expected impact.

In June 2000 the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments, and Hedging Activities," which was amended in June 2000 by SFAS No. 138. SFAS No. 133 is effective, for all fiscal quarters of all fiscal years beginning after June 15, 2000 (January 1, 2001 for KPN). SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their current value. Changes in current value of derivatives are recorded in the statement of income or as comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and, if it is, the type of hedge transaction. Our management is currently considering the impact of SFAS 133 and cannot currently determine its expected impact.

## Overview—E-Plus

### General

In February 2000, we indirectly acquired a 77.49% interest in KPN/BLS Holding GmbH, which owns (directly and indirectly) 100.0% of E-Plus. We share control of E-Plus with BellSouth, which owns a 22.51% interest in KPN/BLS Holding GmbH. We have included a discussion of E-Plus' financial results in this offering circular because we believe that this discussion is helpful to developing an understanding of the factors that will contribute to our overall financial condition and results of operation following our acquisition of E-Plus and its proportional consolidation in our financial statements.

E-Plus is the third entrant in the German mobile telecommunications market. Although Germany has one of the highest populations in Western Europe and a high per capita GDP, it has a relatively low mobile penetration rate. E-Plus will invest substantial resources to continue building out its network. E-Plus' customer base increased by 83.9% from approximately 2.1 million as of December 31, 1998 to approximately 3.8 million as of December 31, 1999. Its customer base increased further to approximately 5.0 million as of June 30, 2000.

E-Plus' financial statements were prepared in accordance with German GAAP, which is different from U.S. GAAP. A discussion of these differences and a reconciliation of these financial statements to U.S. GAAP is provided below under “—U.S. GAAP reconciliation” and Note VII to E-Plus' historical financial statements.

As of June 30, 2000 E-Plus' liabilities exceeded its assets. However, under German law E-Plus was not required to file for insolvency because of existing agreements with its shareholders. These agreements consist of subordinated shareholder loans and shareholders commitments to provide funding in the future.

### Revenues

E-Plus' principal source of revenues is from the sale of mobile telecommunications services, a large part of which consists of network airtime usage fees. The following are its principal sources of revenues:

- *Sales:* Sales revenues are calculated net of promotional discounts and customer acquisition costs such as (1) discounts on network airtime usage fees, fixed monthly subscription fees, equipment and initial connection charges and (2) commissions and bonuses paid to distributors. Revenues from the sale of mobile telecommunication services include:
  - *Network airtime usage fees:* These fees are based on minutes of actual airtime usage. Airtime tariffs may vary depending on the user's service package, the service provider used, the destination of the call and the time at which a call is placed.
  - *Termination fees:* These fees are collected from other telecommunications operators for calls originating from their networks and terminating on E-Plus' network.
  - *Roaming fees:* These fees are collected from other network operators for calls by their customers made on E-Plus' network and from E-Plus' customers for calls they make on other networks.
  - *Value-added services:* These fees include charges for E-Plus' value-added mobile voice and data services such as E-Plus Online, a WAP-based multi-access Internet portal, and SMS information services.
  - *Fixed monthly subscription fees:* These fees are collected from E-Plus' post-paid customers each month for access to its network without regard to actual usage.

- *Initial connection charges*: These are one-time charges to new customers when they subscribe to E-Plus' services.
- *Sales of SIMs to independent service providers*: These are charges related to the sale of SIM cards to independent service providers which enables them to repackage and resell airtime on E-Plus' network.
- *Equipment sales*: Equipment sales include revenues from sales of handsets and accessories.
- *Own work capitalized*: This includes the capitalized salaries of E-Plus' employees who work on the construction of its network.
- *Other operating income*: This includes revenues from non-core related activities such as revenues from fees charged for re-debiting customers who had insufficient funds, leasing base station sites and rebates received from handset suppliers with whom E-Plus places advertisements.

The growth in E-Plus' customer base was the main factor in the growth of E-Plus' revenues during the three-year period ended December 31, 1999. The growth in revenues during this period, however, was partially offset by declining tariff rates and declining average usage per customer. E-Plus' average revenue per customer has decreased because the growth in the retail mobile penetration rate in Germany occurs primarily among those segments of the population with relatively low usage rates.

The following table shows E-Plus' main sources of revenues as a percentage of its total operating revenues for the year ended:

	December 31, 1999		December 31, 1998		December 31, 1997	
	Revenues (€ in millions)	Percentage of total operating revenues	Revenues (€ in millions)	Percentage of total operating revenues	Revenues (€ in millions)	Percentage of total operating revenues
Sales . . . . .	1,214.8	96.4%	690.7	91.3%	417.6	88.1%
Own work capitalized . . . . .	13.1	1.0%	15.7	2.1%	33.2	7.0%
Other operating income . . . . .	32.1	2.6%	50.2	6.6%	23.4	4.9%
Total operating revenues . . . . .	<u>1,260.0</u>	<u>100.0%</u>	<u>756.6</u>	<u>100.0%</u>	<u>474.2</u>	<u>100.0%</u>

## Expenses

E-Plus' principal operating expenses are:

- *Cost of materials*:
  - *Cost of supplies and of purchased merchandise*: These are mainly from purchasing handsets and accessories.
  - *Cost of purchased services*: This consists mainly of network access costs which are paid to Deutsche Telekom for calls by E-Plus' customers that terminate on Deutsche Telekom's fixed line network and other mobile networks through Deutsche Telekom's fixed line network.
- *Personnel expenses*: These include salaries and social security and pension contributions.
- *Depreciation on intangible fixed assets and tangible assets*: These include depreciation of property, plant and equipment (primarily related to E-Plus' network), amortization of licenses, impairments, write-offs and effects of changes in useful life.
- *Other operating expenses*: These include advertising, maintenance and repairs, base station site rentals and rental of network, customer care and office equipment.

The following table shows E-Plus' principal operating expenses as a percentage of total operating expenses for the years ended:

	December 31, 1999		December 31, 1998		December 31, 1997	
	Expenses (€ in millions)	Percentage of total operating expenses	Expenses (€ in millions)	Percentage of total operating expenses	Expenses (€ in millions)	Percentage of total operating expenses
Cost of materials . . . . .	490.9	39.2%	284.9	29.2%	208.6	25.7%
Personnel expenses . . . . .	160.4	12.8%	145.2	14.9%	129.2	15.9%
Depreciation on intangible fixed assets and tangible assets . . . . .	175.2	14.0%	161.4	16.5%	137.8	17.0%
Other operating expenses . . . . .	425.3	34.0%	385.5	39.4%	335.9	41.4%
Total operating expenses . . . . .	<u>1,251.8</u>	<u>100.0%</u>	<u>977.0</u>	<u>100.0%</u>	<u>811.5</u>	<u>100.0%</u>

## Churn

E-Plus monitors its customer turnover by calculating gross churn. Gross churn includes those customers who disconnect from E-Plus' network either because E-Plus has initiated the disconnection for non-payment of bills or suspected fraud (known as involuntary churn) or because the customer has chosen to terminate the use of E-Plus' services, to switch to a competing network or to migrate to a different independent service provider, regardless of whether the customer may remain with E-Plus' network (known as voluntary churn). Gross churn also includes those customers with prepaid connections who have not recharged their call credits within the last 12 months, as these prepaid customers are deemed to have left the network. E-Plus does not include in gross churn those customers who it knows have switched from one E-Plus package to another.

E-Plus' annual rate of gross churn, calculated as described above, was approximately 42% in 1997, 23% in 1998 and 20% in 1999 and 7% for the first six months of 2000.

E-Plus experienced a high churn rate in 1997 mainly because it disconnected many customers in 1997 for reasons including non-payment of bills. Since disconnecting these customers, E-Plus has improved its credit risk management and has successfully reduced its involuntary churn rate. We believe that the further decrease in its gross churn rate to 20.0% in 1999 was a product of the introduction of 24-month post-paid contracts in 1997, the improvement of its image and the progress it made in customer relationship management.

We believe that E-Plus' introduction of prepaid connections in July 1997 and the switching of customers from post-paid plans to prepaid plans without informing E-Plus (even while remaining with the E-Plus network) have also contributed to the churn rate. Furthermore, the increase in competition in the prepaid consumer market has had a significant impact on E-Plus' churn rate. We believe that E-Plus' churn rate results from a number of other factors, including the existence of three competitors in the German market, the constant development and promotion of new handsets, particularly the offer of handset subsidies by other operators, and special offers on subscription packages by competitors. Handset subsidies from competing operators encourage customers to terminate existing subscriptions and to enter into new contracts to obtain more modern handsets at subsidized rates. E-Plus takes various steps to minimize its churn rate. These steps include completing tougher credit checks before accepting new customers, designing promotions to encourage customers to renew their contracts (such as by offering new handsets at reduced fees), improving its network quality and ensuring that its customer service meets the needs and expectations of E-Plus' customers. The success of any customer retention or cost recovery measures, however, will depend partially upon competitive factors beyond E-Plus' control, including its competitors' tariff structures, service offerings and incentive programs.

## **Taxes**

E-Plus has had a net loss for each period since inception. In accordance with German GAAP, no deferred tax assets, including net loss carry forwards, have been recognized on E-Plus' balance sheet.

## **E-Plus' results of operations in 1999 and 1998**

### ***Revenues***

#### ***Sales***

Sales revenues increased by 75.9% to €1,214.8 million in 1999 from €690.7 million in 1998. This increase was mainly due to an 83.9% growth in customer base which resulted both from E-Plus' increased market share and the higher penetration of the German mobile telecommunications market. However, while total airtime increased by 90.2% to approximately 3.3 billion minutes in 1999 from approximately 1.7 billion minutes in 1998, the increased proportion of prepaid customers (who are lower usage customers compared to post-paid customers) in E-Plus' customer mix and the decline in average airtime per post-paid customer caused the average airtime per customer to decrease. The increase in airtime revenues, however, was partially offset by a 7.9% decline in the average price for services, mainly reflecting decreased tariffs.

#### ***Own work capitalized***

Revenues from own work capitalized decreased by 16.6% to €13.1 million in 1999 from €15.7 million in 1998. This decrease was due to the reduced network construction speed after the roll out required by E-Plus' license had been completed.

#### ***Other operating income***

Other operating income decreased by 36.1% to €32.1 million in 1999 from €50.2 million in 1998. This decrease was primarily due to the absence of one-time revenue recognition events such as the signing of a site-sharing agreement with Viag and the adjusted capitalization of E-Plus' Class 1 license (DCS 1800 standard). The absence of these revenues was offset in part by increases in redebiting charges and rental income from base station sites.

#### ***Total operating revenues***

Overall, E-Plus' total operating revenues increased by 66.5% to €1,260.0 million in 1999 from €756.6 million in 1998. This increase resulted from the factors discussed above.

### ***Costs and expenses***

#### ***Cost of materials***

Cost of materials increased by 72.3% to €490.9 million in 1999 from €284.9 million in 1998. This increase was due to an increase in the cost of supplies and purchased merchandise and the cost of purchased services. The increase in the cost of supplies and purchased merchandise primarily resulted from the sale of more handsets and accessories to meet the needs of the growth in customer base, and was partially offset by the lower prices offered by suppliers of handsets. The cost of purchased services increased due to the growth in customer base and a shift from fees for fixed line termination to termination on the networks of other mobile operators, which is more expensive than fixed line termination. This increase was partially offset by a decrease in fixed line termination rates.

#### *Personnel expenses*

Personnel expenses increased by 10.5% to €160.4 million in 1999 from €145.2 million in 1998. This increase was primarily due to the addition of employees in 1999.

#### *Depreciation on intangible fixed assets and tangible assets*

Depreciation on intangible fixed assets and tangible assets increased by 8.6% to €175.2 million in 1999 from €161.4 million in 1998. E-Plus' depreciation and amortization expense in 1999 reflected the further build out of its network, the depreciation of plant and equipment and the amortization of licenses.

#### *Other operating expenses*

Other operating expenses increased by 10.3% to €425.3 million in 1999 from €385.5 million in 1998. This increase was primarily due to the increased marketing expenses spent to increase E-Plus' customer base.

#### *Extraordinary expenses*

Extraordinary expenses decreased by 81.0% to €15.2 million in 1999 from €79.8 million in 1998. Extraordinary expenses in 1999 were due to the non-scheduled amortization of deferred commission fees related to E-Plus' project financing and in 1998 this item was due to the write-off of start-up and business expansion expenses, which were previously capitalized.

#### *Total financial income (expenses)*

##### *Other interest and similar income*

Other interest and similar income decreased by 45.0% to €1.1 million in 1999 from €2.0 million in 1998 primarily due to the reduction of cash balances.

##### *Interest and similar expense*

Interest and similar expense increased by 5.2% to €171.8 million in 1999 from €163.3 million in 1998 primarily due to additional loans provided by E-Plus' shareholders.

#### *Consolidated loss for the year*

Consolidated loss for the year was €177.7 million in 1999, a decrease from a loss of €461.5 million in 1998. This decrease was primarily due to the factors discussed above.

### **E-Plus' results of operations in 1998 and 1997**

#### **Revenues**

##### *Sales*

Sales revenues increased by 65.4% to €690.7 million in 1998 from €417.6 million in 1997. This increase was mainly due to the 96.7% growth in customer base which resulted both from E-Plus' increased market share and the higher penetration of the market. However, while total airtime increased by 93.8% to approximately 1.7 billion minutes in 1998 from approximately 0.9 billion minutes in 1997, the increased proportion of prepaid customers (who are lower usage customers compared to post-paid customers) in E-Plus' customer mix caused the average airtime per customer to decrease.

This revenue increase, however, was partially offset by a 1.6% decline in the average price for services, mainly reflecting decreased tariffs.

### ***Own work capitalized***

Revenues from own work capitalized decreased by 52.7% to €15.7 million in 1998 from €33.2 million in 1997. This decrease was primarily due to the reduced network construction speed after the roll out required by E-Plus' licenses was completed.

### ***Other operating income***

Other operating income increased by 114.5% to €50.2 million in 1998 from €23.4 million in 1997. This increase was primarily due to revenues received from a site sharing agreement with Viag and the capitalization of E-Plus' Class 1 license (DCS 1800 standard). Other operating income in 1997 also included €5.3 million of government grants given for the purpose of supporting investment in the former East Germany. These grants were repaid in 1998 after they were disallowed by the European Commission and were accounted for as other operating expense in 1998.

### ***Total operating revenues***

Overall, E-Plus' total operating revenues increased by 59.6% to €756.6 million in 1998 from €474.2 million in 1997.

### ***Costs and expenses***

#### ***Cost of materials***

Cost of materials increased by 36.6% to €284.9 million in 1998 from €208.6 million in 1997. This increase was due to an increase in the cost of supplies and of purchased merchandise and in the cost of purchased services. The increase in the cost of supplies and of purchased merchandise was due to the sale of more handsets and accessories to meet the needs of the higher rate of growth in customer base, which was partially offset by the lower prices offered by suppliers of handsets. The cost of purchased services increased due to the higher rate of growth in customer base and a shift from fixed line termination to mobile network termination, which is more expensive than fixed line termination. This increase was partially offset by a decrease in fixed line termination rates.

#### ***Personnel expenses***

Personnel expenses increased by 12.4% to €145.2 million in 1998 from €129.2 million in 1997 primarily due to the addition of employees in 1998.

#### ***Depreciation on intangible fixed assets and tangible assets***

Depreciation and amortization increased by 17.1% to €161.4 million in 1998 from €137.8 million in 1997. E-Plus' depreciation and amortization expense in 1998 reflected the depreciation of plant and equipment and the amortization of licenses.

#### ***Other operating expenses***

Other operating expenses increased by 14.8% to €385.5 million in 1998 from €335.9 million in 1997. This increase was primarily due to the increased marketing expenses to reposition the E-Plus brand and the repayment of a €5.9 million German government grant in 1998.

#### ***Extraordinary expenses***

Extraordinary expenses were €79.8 million in 1998 relating to the write-off of start-up and business expansion expenses, which were previously capitalized. There were no extraordinary expenses in 1997.

**Total financial income (expenses)*****Other interest and similar income***

Other interest and similar income decreased by 23.1% to €2.0 million in 1998 from €2.6 million in 1997 primarily due to lower cash balances throughout the year.

***Interest and similar expense***

Interest and similar expense increased by 34.7% to €163.3 million in 1998 from €121.2 million in 1997 primarily due to additional loans provided by E-Plus' shareholders.

**Consolidated loss for the year**

Consolidated loss for the year increased by 0.6% to €461.5 million in 1998 from €458.9 million in 1997. This increased loss was primarily due to the factors discussed above.

**Cash flow**

Historically, E-Plus has funded its capital expenditure needs through additional funding. The following table sets forth certain information about E-Plus' net cash flow for the years ended:

	<u>December 31, 1999</u>	<u>December 31, 1998</u>	<u>December 31, 1997</u>
		(€ in millions)	
Net cash from (used in) operating activities . . . . .	35.6	(269.4)	(294.3)
Net cash used in investing activities . . . . .	(298.3)	(224.0)	(311.5)
Net cash from financing activities . . . . .	258.0	452.4	596.8

***Net cash from operating activities***

Net cash from operating activities increased €305.0 million in 1999 and €24.9 million in 1998. Cash from operating activities was primarily generated from customer revenues. The increases in 1999 and 1998 were mainly due to the growth in E-Plus' customer base.

***Net cash used in investing activities***

Net cash used in investing activities increased €74.3 million in 1999 and decreased €87.5 million in 1998. The increase in 1999 was mainly due to the roll out of its network and its investments in information technology. The decrease in 1998 was mainly due to the reduced network construction speed after the roll out required by E-Plus' licenses was completed.

***Net cash from financing activities***

Cash from financing activities decreased €194.4 million in 1999 and €144.4 million in 1998 due to a lower need for financing in connection with lower operational and investing net cash requirements.

**U.S. GAAP reconciliation**

E-Plus' financial statements are prepared in accordance with German GAAP which differs from U.S. GAAP. These differences relate mainly to the accounting treatment of start-up and business expansion expenses, indirect cost capitalization and deferred financing costs. Under U.S. GAAP, E-Plus' net loss for 1999 and 1998 would have been €132.5 million and €383.0 million, respectively. E-Plus' shareholders' deficit in accordance with U.S. GAAP would have been €1,642.3 million and €1,509.9 million in 1999 and 1998, respectively.

For a further explanation of these differences see Note VII to E-Plus' historical financial statements.

## BUSINESS

### Overview

We are the leading telecommunications company in The Netherlands, offering a wide range of telecommunications services within The Netherlands and to, from and in other countries for business and residential customers. We have maintained our position as the market leader in the major segments of the Dutch telecommunications market notwithstanding the early and rapid development of full competition for telecommunications in The Netherlands.

Our four core business activities are fixed network services, mobile communications, IP/data and ICM. Each of our businesses in these segments operates substantially autonomously with its own management, business plan and strategic objectives while benefiting from our networks and group sales organization.

We intend to grow each of our businesses in a converging world. Our customer base is our most valuable asset and the linchpin of our strategy. As we feel that the markets we target are in their early phases, speed is of the essence. Our goal is to create a far-reaching dynamic telecommunications business through the integration of fixed and mobile telecommunications, IP/data and ICM services.

- *Fixed network services.* We are the largest provider of fixed line telephony services in The Netherlands. Based on management estimates, we supplied approximately 9.8 million access channels to customers as of June 30, 2000, including 2.7 million ISDN channels. In late 1999 we installed a new fiber-optic network covering major urban areas in The Netherlands, which we call the Lambda network. We are the leading provider of interconnection and other wholesale carrier services in The Netherlands to other telecommunications companies. Due primarily to the early liberalization of the telecommunications sector in The Netherlands, our home market has, we believe, become one of the most competitive telecommunications markets in Europe.
- *Mobile communications.* KPN Mobile, our 85.0%-owned subsidiary, is the largest mobile telecommunications provider in The Netherlands with approximately 4.2 million customers connected to its network, representing an estimated 49% share of the total Dutch mobile telecommunications market as of June 30, 2000. E-Plus, in which we own a 77.49% indirect interest, is Germany's third largest mobile network operator with approximately 5.0 million customers and approximately a 15% market share as of June 30, 2000. In Belgium, we have a 50.0% ownership interest in KPN Orange, the third mobile telecommunications provider in Belgium and the first to provide DCS 1800 services. Based on management estimates, KPN Orange had approximately 243,000 customers as of June 30, 2000.
- *IP/data.* We are the leading provider of IP/data services in The Netherlands in terms of revenues and, through KPNQwest, our joint venture with Qwest, a leading provider of IP/data services to business customers in Europe. In The Netherlands we have constructed several networks to handle the rapidly increasing volumes of data communications efficiently. These networks will use capacity available on our Lambda network. Through KPNQwest, we are in the process of building interconnected EuroRings consisting of advanced high-capacity fiber-optic cables throughout Europe. We are the exclusive distributor of products for KPNQwest in the Benelux countries.
- *ICM.* Through our ICM segment, we operate as a provider of customer relationship management and Internet and media services. Our offerings range from Internet services to customized services for e-commerce. As of June 30, 2000, we were ranked first in The Netherlands in terms of registered ISP subscribers. We believe that we are the second largest ISP in Belgium in terms of the number of registered ISP subscribers. Based on management estimates, our ISPs had an aggregate registered subscriber base of 1.6 million in The

Netherlands and Belgium. We are the leading provider of outsourced call center services in The Netherlands and also provide many Internet-related services (such as hosting), directory assistance, toll-free number services (0800), paid information services (0900) and telephone directory services.

## **Strategy**

Our goal is strong growth of enterprise value. We plan to achieve this goal by pursuing the specific strategic steps set out below to generate organic growth and growth through acquisitions, joint ventures or partnerships. We are not a financial portfolio investor. We aim to have sufficient operational control in our ventures to influence value creation and convergence between our businesses. We bundle activities in separate companies—some of which are listed on stock exchanges—if we believe this will enhance our market strength, speed, transparency and value creation.

We intend to excel in each of our core business areas. In fixed network services, we aim to retain market leadership in The Netherlands and achieve, both directly and, through KPNQwest, a leading position in Europe in selected segments, including digital subscriber line, or DSL services. We aim to achieve fast growth and become one of Europe's top operators in mobile communications, IP/data (both directly and through KPNQwest) and ICM. Substantial competition exists in all of these areas, and large-scale operations are essential to justify new investments in products and services. We therefore sometimes cooperate with other companies.

We will continue to adapt our organization to meet the ever-changing wishes of our customers and market circumstances. Part of this adaptation is our evolution from a traditional incumbent operator focused on the Dutch telephony market into a pan-European operator offering a wide variety of communications and related services to selected segments. Through our focus on growing market segments and cooperation with other companies, we expect to be able to strengthen our position in the European telecommunications market.

We continuously evaluate existing and new investments using criteria such as the level of management control obtainable, economic growth forecasts, market penetration levels, prospects for demand for services and the degree of market saturation. We focus on high growth markets in a stable political, social and regulatory environment.

We intend to implement a program to increase the effectiveness of our organization and obtain a cost leadership position in The Netherlands. In particular, we aim to implement cost reduction programs, including rationalization of our network architecture, reduction of distribution and sales costs, disposal of non-core assets and reduction of our head-office overhead. We encourage our management teams actively to leverage the strengths of different business areas within our organization, in particular by cross-selling and coordination of relationships across business areas. We also have centralized production, sales and service units that support each of our businesses. We evaluate each step, and contributions to and benefits of joint ventures and partnerships, in the context of the benefits for our whole group.

### ***Fixed network services***

In order to retain our leadership in the fixed network market in The Netherlands we intend to:

- *leverage our large customer base.* Our fixed network services target residential and business customers, and, based on management estimates, offers 7.1 million analog lines (both single and multiple) and 2.7 million digital channels (both ISDN 2 and ISDN 30) as of June 30, 2000. We intend to leverage this large customer base to market our new range of broadband services. For example, our Mxstream branded product line uses asymmetric digital subscriber line, or ADSL, technology. We have developed the Mxstream brand for the Dutch market. Our broadband

strategy is coordinated with KPNQwest and is designed to reach a pan-European market. KPNQwest is part of our IP/data segment.

- *roll out broadband services.* We aim to become the broadband leader in The Netherlands by providing end-to-end broadband services. We plan to compete in both the retail and wholesale markets in order to take advantage of the potential future growth of broadband services. We intend to exploit open-access platforms. We will offer broadband access, transport and home networking services on a wholesale basis. In order to accommodate these services we are investing in a new broadband service business which will focus on providing these broadband services to the Dutch wholesale market. We believe that this realigned focus on new broadband markets will add value to our existing fixed network services business. In addition, we are aiming to deliver end-to-end broadband services to business and residential customers through our fixed network services, IP/data and ICM businesses. They will provide the packages and solutions that suit the communication needs of their different business and residential customers.
- *focus on operational excellence.* We have initiated a program to replace the first generation of computer-controlled local exchanges in order to cope with increasing Internet usage and to channel this type of traffic where feasible into our dedicated high-capacity packet switched Lambda network. We expect this to allow more efficient handling of traffic without causing capacity problems in the existing network.
- *enhance the capacity of our networks.* We intend to enlarge the capacity of our networks in both the backbone and the local loop to respond to customer needs. We also intend to create cost-effective capacity, using fiber networks and wavelength division multiplexing, or WDM, technologies.
- *improve our cost efficiency.* We intend to initiate a cost-reduction program to enhance our overall cashflow. We plan to offer our customers more cost-effective and higher capacity network access to help us retain our strong position in the Dutch telecommunications market.

### ***Mobile communications***

In our mobile communications business, our strategy is to become one of the leading pan-European mobile telecommunications providers by leveraging KPN Mobile's existing leading market position in The Netherlands and E-Plus' position in Germany. Our strategy is focused on building a profitable pan-European customer base through:

- *our volume growth proposition.* We plan to establish a pan-European presence through organic growth and acquisition and partnership opportunities to achieve benefits of scale and scope.
- *our value growth proposition.* We intend to leverage our customer base to position KPN Mobile as a leader in mobile voice and data services in Europe.

A key part of our strategy for mobile communications is to offer multi-access Internet portal services to our customers to capitalize on the growth potential we believe arises from the convergence of mobile telecommunications and the Internet. We believe we can accomplish this objective by leading the development of innovative mobile telecommunications products and services, for example through our pan-European strategic cooperation with DoCoMo.

In fulfilling our strategy for mobile telecommunications, we intend to:

- *capitalize on our strong position in The Netherlands.* We plan to use this position as a platform for expansion into other European mobile telecommunications markets.
- *build strong positions in our other core European markets.* We plan to build strong positions in key European markets, such as Germany and Belgium.

- *participate in the ongoing consolidation of the European mobile telecommunications industry.* We intend to play an active role in this process through potential acquisitions, partnerships or significant investment opportunities.
- *capture growth opportunities from mobile-Internet convergence.* We plan to accomplish this by:
  - selectively pursuing, alone or in partnership, UMTS licenses across Europe as they become available;
  - participating in the development of UMTS technology; and
  - offering personalized and value-added content and mobile commerce services through partnerships, either directly or via our ICM business, with leading content providers or by creating our own Internet portals, either alone or in conjunction with other parties.
- *provide attractive, differentiated and customer-tailored products and value-added services.* We plan to use marketing and branding carefully targeted to identified customer segments.
- *strengthen our customer loyalty.* We intend to accomplish this through quality customer care and service.
- *provide superior network infrastructure and information systems.* We intend to maintain a superior network infrastructure that will enable increased traffic levels and the introduction of technologically sophisticated products and services to an expanded customer base.

#### ***IP/data***

In the IP/data services market, our goal is to maintain leadership in the Dutch market and, through KPNQwest, to become one of the leading pan-European providers of Internet Protocol-based data transmission and other value-added telecommunications services.

In order to maintain our leadership in the Dutch market, we intend to:

- *expand our portfolio of services.* We plan to introduce new broadband access services targeting the small and medium-sized enterprise market.
- *create closer customer relationships.* We are developing standardized service packages, based on low-cost connectivity, to make our services well-known and attractive.
- *offer international connectivity.* We intend to provide our international customers with an international service portfolio through KPNQwest and Infonet.
- *offer reliable, high-capacity bandwidth.* We intend to provide our business customers access to reliable, high capacity bandwidth, using our CityRings network.
- *introduce innovations in our service delivery platforms.* We are building an IP-virtual private network platform to allow us to accommodate large volumes of different types of access and transport services used by several customer groups, for example ISPs.
- *leverage our business line “Enterprise Solutions Nederland.”* We intend to develop further this business which we believe is currently the leading application service-provider in The Netherlands.

In the international IP/data services market, KPNQwest's goal is to become one of the leading pan-European providers of IP-based services and other value-added telecommunications services. In fulfilling its strategy to achieve a leading pan-European position in the the IP/data market, KPNQwest intends to:

- *provide an advanced, pan-European fiber network.* KPNQwest plans to deploy and operate a technologically advanced, high-capacity fiber-optic network that will connect 50 cities throughout Europe with a uniform network architecture.
- *offer enhanced connectivity.* KPNQwest's network is designed to provide enhanced connectivity through interconnection with our fiber optic network in Belgium and The Netherlands, and with Qwest's fiber-optic network in the United States and Mexico.
- *target the market for secure high bandwidth data transmission.* KPNQwest is focusing on meeting the expected increasing demand by European telecommunications carriers, ISPs and other businesses for secure high bandwidth data transmission.
- *offer high value-added services.* KPNQwest intends to offer services such as dedicated and complex web and application hosting through its planned 18 mega-CyberCentres in Europe.

### **ICM**

Our ICM business offers a wide range of interactive media services. These include ISPs, portals, premium-rate calling services and directories (which we refer to as our I&M services). These also include facilities for businesses to communicate with their customers, such as 0800/0900 services, call center services and e-commerce services such as transaction handling and other interactive applications (which we refer to as our customer relationship management, or CRM, services). The aim of our ICM business is to become a major European player in interactive media based on the following criteria: number of customers; number of page views; number of agent positions; number of calls handled by our call centers; and number of 0800/0900 numbers in service.

We believe that success in the interactive media market will primarily be determined by three factors. The first is "richness," or the ability to enrich the experience of the end user by offering personalized content. The second is "number" of contacts—that is, the ability to offer a large number of contacts per end user via several media (such as television and mobile telecommunications). The third is "reach," or the ability to extend our services to a wider audience. Our goal is to increase the richness, number of contacts and reach of our ICM business.

In order to grow our I&M services we intend to:

- *add more value to service.* We intend to offer an extended range of services to consumers, including personal portals, entry portals, portals for target groups and those organized around specific themes. We intend to set up portals with partners in specific sectors, including key areas such as finance, travel, gaming, lifestyle and entertainment.
- *extend contact with users.* We plan to make our content and services widely available by using several media, such as mobile voice services, and multi-channel formats, including magazines and television channels.
- *extend our reach.* We intend to increase our ISP subscriber base and acquire or create ISPs in other countries. For example, on August 30, 2000 we announced that we intend to introduce consumer Internet services in Germany. We aim to cooperate closely with KPN Mobile to derive synergies from our respective customer bases with a view to treating the customer bases of our ICM business and KPN Mobile as one customer base.

- *implement a consistent branding strategy.* We intend to strengthen our “Planet” brand by using it consistently for all of our portals and ISPs. We plan to distinguish specific portals through names such as “Travel Planet.”

In order to grow our CRM services we intend to:

- *expand our business product portfolio.* We plan to use interactive media to extend our product portfolio for businesses that require facilities to communicate with their customers. Specifically, we plan to take the following steps:
  - upgrade call center services to full multimedia contact (including e-mail, chat and video via the Internet, in addition to voice contact);
  - add additional functionality such as guided support, reporting, trouble ticketing and routing;
  - provide hosting services to service providers that offer mobile media services; and
  - provide facilities to service providers to allow them to register data about their consumers.

### **Competitive strengths**

We believe we have a number of competitive strengths that position us to achieve our strategic objectives. We believe our competitive strengths are as follows:

#### ***Fixed network services***

*Strong brand name.* We are the oldest and best-known telecommunications provider in The Netherlands and as a result enjoy wide domestic brand awareness. We intend to leverage our strong brand name with the aim of achieving a long-term strategic advantage over competitors in terms of customer acquisition cost and speed of adoption of new services.

*Large customer base.* We have the largest fixed telephony customer base in The Netherlands. We believe we can obtain strategic advantages by virtue of our ability to leverage this customer base to roll out and spread the costs of new services. We also believe this large existing customer base makes us an attractive partner for possible strategic alliances.

*Modern, cost-effective network.* We are constantly investing in our network further to improve quality and efficiency and to enhance capacity. If we are successful, this will help us to remain a leader in terms of product and service innovation.

*Well developed sales and distribution network.* We have a large and comprehensive sales and distribution network which targets both business customers and consumers through outlets such as our Business Centers and Primafoon stores as well as online through KPN.com. Although this distribution network is exploited by all of our business segments it is of particular importance to our fixed network services.

#### ***Mobile communications***

*Strong brand names.* We believe that our mobile telecommunications brands are widely recognized in the Dutch and German markets, and that this gives us competitive advantages in sustaining customer loyalty and increasing our customer base.

*A leading European operator with attractive scale and scope.* As of June 30, 2000, based on management estimates, through our subsidiary KPN Mobile, we operate in markets that rank as fourth in Europe based on the populations of the markets in which it currently operates, and we had the seventh largest controlled customer base, that is, customers who buy their services directly from KPN Mobile rather than through resellers. We believe that through the creation of a pan-European platform

with strategic partners we have the potential to develop industry-leading services and applications, to exploit the benefits of scale in research and development, and to achieve economies of scale in procurement. In addition, we believe that KPN Mobile has the potential to become a distribution channel of choice for major providers of hardware, content and e-commerce. By sharing knowledge across members of our group and with strategic partners, we believe KPN Mobile will be able to provide more rapid deployment of tariff packages, products and applications to our customer base. As the mobile telecommunications market in Europe becomes populated by a number of large operators, we believe that these operating benefits and revenue and cost opportunities will become increasingly important competitive advantages.

*Partnered to exploit third generation mobile telecommunications.* Our pan-European strategic alliances with Hutchison and DoCoMo give us the potential to operate in a wide variety of European markets. We believe that these alliances provide KPN Mobile with the following benefits:

- they establish an operational advantage in key markets while retaining operational flexibility;
- they allow us to accelerate the roll out of UMTS networks and the introduction of third generation mobile telecommunications services by leveraging DoCoMo's expertise in mobile-Internet technology, access and content;
- they provide additional resources in research and development and in new product and service development; and
- they spread the costs of acquiring UMTS licenses and rolling-out networks across several parties.

We believe our strategic alliances with DoCoMo and Hutchison differentiate us from competitors and leave us well-positioned to attract European customers with high usage levels.

*Market leader in The Netherlands, well-positioned in Germany and Belgium.* We are market leaders in the Dutch mobile telecommunications market, both in terms of the size of our customer base and the number of net additions. As of June 30, 2000, we had approximately 4.2 million customers connected to our network, which was the equivalent of an estimated 49% market share. As of June 30, 2000 E-Plus' customer base has increased substantially and it is well positioned in the German mobile telecommunications market.

#### ***IP/data***

*Strong brand.* We believe that the KPN brand is strong in the market for IP/data services. We have an extensive service portfolio consisting of data communication services (including leased lines), local area networks and application service provisioning.

*Advanced backbone in The Netherlands.* We have installed the Lambda network to absorb the expected growth of voice and data (including Internet) traffic. The Lambda network is designed to provide the capacity needed for the rapidly growing IP/data traffic. This transmission network is an important part of the IP/data backbone. This network, which will be connected to the KPNQwest network, is jointly used by our several segments but is expected to play a major role in absorbing the growing demand for capacity from our ICM business as well.

*CityRings in The Netherlands.* We have built advanced metropolitan area networks, or CityRings, in the main cities in The Netherlands that enable us to provide business customers access on a high quality/high bandwidth basis.

*High penetration.* We believe we have high penetration among larger companies, currently the major users of IP/data services. We also have a footprint in the fast growing market for application service provisioning through our subsidiary Enterprise Solutions Nederland, which has about 890 square meters of Cyber Center in place.

*Pan-European backbone through KPNQwest's EuroRings.* KPNQwest anticipates that its network, when completed, will consist of seven interconnected EuroRings and will extend almost 20,000 kilometers across 14 countries and 50 cities throughout Europe. This network is being planned and constructed initially to operate at speeds of 10 gigabytes per second (or Gbps) on the network backbone and 2.5 Gbps at the router level. KPNQwest has announced that construction of this network is on time and within budget, and KPNQwest expects it to be completed by the end of 2001.

*End-to-end connectivity to other parts of the world.* KPNQwest's EuroRings will connect to the Qwest fiber optic network. When the EuroRings network is completed, we expect that KPNQwest will offer connectivity between Europe and the United States on a secure, scalable, high-bandwidth, high-quality and seamless network. Qwest is part of a consortium of communications companies building a 13,125 mile submarine fiber optic cable system connecting the United States to Japan. When this system is completed, we expect that KPNQwest will be able to offer connectivity to Japan via Qwest's network.

*Early mover in the European web hosting market.* Currently, KPNQwest operates 12 CyberCentres of approximately 100-200 square meters each and provides web hosting and colocation services in several European countries. In addition, KPNQwest recently announced a strategic partnership with IBM to build up to 18 regional mega-CyberCentres of at least 10,000 square meters each.

*KPNQwest's strong market position.* KPNQwest is a leading facilities-based, pan-European IP services provider. Its service offerings include a broad range of IP-based services such as connectivity, remote access, web hosting, Internet broadcast and other value-added services.

## **ICM**

*Strong brands.* We believe Planet is the leading brand in the consumer market for paid Internet access, services and content in The Netherlands, and SNT is the leading outsourced call center brand in The Netherlands.

*Quality ISPs.* We believe XS4ALL, Planet Internet and Het Net are among the best ISPs in their class in The Netherlands in terms of quality of service.

*Customer database.* We have a large database relating to the small and medium sized enterprise market. We use this information for selling Internet advertising space, establishing arrangements relating to revenue sharing of e-commerce transactions and for selling services like hosting, call center services and e-commerce activities.

*Telephone directory on Internet.* Our telephone directory Internet site is one of the more frequently visited sites in The Netherlands. This gives us an opportunity to generate advertising revenues and revenue sharing of e-commerce transactions resulting from services and products offered on this site.

*Content provision.* We are building a diverse portfolio of Internet content, including:

- Disney Planet: In cooperation with Disney, we offer a site specifically aimed at children;
- Entertainment portal: Planet Internet has entered into a memorandum of understanding with “@fun”, a joint operation of SBS6 and Endemol;
- Sport Planet: Planet Internet has entered into a memorandum of understanding with Weekbladpers Groep B.V. to establish a sports portal; and
- Multi-language gaming platform: On September 1, 2000, we launched the first multi-language service on a multi-user Internet gaming in Europe. Languages available are Dutch, German, French and English.

*Service provision.* We have also reached agreement with several partners to provide Internet services, including:

- Money Planet: We have concluded a memorandum of understanding with the Dutch international bank, ABN AMRO, for the joint operation of a financial portal. We intend that this portal will offer the account, brokerage and credit card services of ABN AMRO, as well as financial services of other banks and financial information services; and
- Travel Planet: Planet Media Group has entered into a memorandum of understanding with one of the largest Dutch travel agencies, TUI Nederland N.V., for the joint establishment and operation of a travel portal, which will enable consumers to make travel arrangements online. We launched the Travel Planet portal on August 3, 2000.

*Know-how of software applications for ISP and e-commerce services.* We operate and sometimes develop software applications required for ISP services, such as e-mail, news and homepage hosting applications. We believe we have valuable know-how of many systems and processes needed by a company to use the Internet as a medium to communicate with its customers. Further, with SNT, the leading call center operator in The Netherlands, we believe we also have valuable know-how on using callcenters for the handling of calls and e-mail, which we can offer to other companies.

## **Business segments**

KPN was incorporated on January 1, 1989 with two main subsidiaries: PTT Telecom B.V., offering telecommunications services, and PTT Post B.V., serving as the primary postal company in The Netherlands. In the period from incorporation until the listing of our shares on the Amsterdam Stock Exchange, now Euronext Amsterdam N.V., in June 1994, the State of The Netherlands was the sole shareholder. We completed the listing of our shares on the New York Stock Exchange in 1995.

The demerger of our mail, express and logistics business operations to TNT Post Group N.V. became effective on June 28, 1998, with retroactive effect from January 1, 1998. As part of that transaction, we also demerged our cable television activities to Vision Networks Holdings B.V.

Our four core business activities are fixed network services, mobile communications, IP/data and ICM. Each of our businesses in these segments operates substantially autonomously with its own management, business plan and strategic objectives while benefiting from our networks and group sales organization.

### ***Fixed network services***

Fixed network services, or the provision of fixed line telephony services, continues to be the main contributor to our consolidated revenues and profits. Fixed telephony includes access services through analog and digital lines, and local, national long distance and international calling services as well as calls to mobile and online service providers. Other related services such as the supply of telephones are included in other business segments. Fixed network services also includes wholesale carrier services, namely the provision of access, interconnection and integrated wholesale transmission services to other telecommunications operators, and wholesale international network services, such as the handling of international calls on and through our network.

We continue to be the main provider of domestic telephone traffic, outbound international telephone traffic and fixed network services in The Netherlands. Our objective is to retain market leadership in The Netherlands and to acquire, both directly and through KPNQwest, a leading position in Europe in selected segments, including DSL services. We believe that we can accomplish this objective by expanding the quality of our fixed telecommunications network in The Netherlands, developing attractive value-added products and services for our customers and building new quality infrastructure networks. For example, we have established a strategic alliance with Nokia to develop

and pilot wireless broadband home networking products and services, based on ADSL and wireless LAN technologies. In addition, the commercial roll out of our new ADSL-based broadband service, called Mxstream, due to be fully underway before the end of 2000, is aimed at bringing us a leading position in the broadband access market. We intend to reach most populated regions of The Netherlands (potentially including up to four million customers) by the end of 2001.

#### *Fixed telephony*

Our network connects more than 90% of the total households in The Netherlands.

The opening of the fixed public voice telephony market to competition in July 1997, the growth of Internet traffic, the development of domestic cable competitors with upgraded networks that can provide Internet and telephony services, increased competition due to unbundled local loop, fixed-mobile substitution, and changes in the regulatory framework have together led to significant changes in the fixed line telecommunications environment in The Netherlands. Our fixed network services business has continued to generate moderate revenue growth, despite increased competition and price cuts. Traffic volume growth for fixed telephony continues to be strong, mainly as a result of the accelerating usage of the Internet and the growing number of fixed-mobile calls. The penetration of mobile communications is also affecting business conditions for fixed telephony in that competition between fixed and mobile is intensifying.

*Access services.* Our access services include providing homes in The Netherlands with public switched telephone network (mainly analog) lines, or PSTN lines, ISDN (digital) access lines and various supplementary services.

PSTN lines are connected to our network through digital exchanges. Each PSTN line provides a single telecommunications channel. We offer both basic ISDN access lines with two channels and primary ISDN access lines with 30 channels. ISDN, unlike a PSTN line, allows a single access line to be used for a number of purposes, including voice, video telephony, data and facsimile transmission. ISDN also provides higher-quality voice connections and a larger bandwidth which increases the overall capacity of the access network.

As of June 30, 2000, based on management estimates, we provided over 7.1 million PSTN lines. In addition, based on management estimates, we had installed approximately 1.03 million basic ISDN access lines and 20,000 primary ISDN lines, representing a total of 2.7 million channels. In 1999, we achieved overall ISDN channel growth of 45.2%.

We have also initiated the roll out of our broadband product, Mxstream, which is based on ADSL technology in combination with PSTN lines. Two product lines will be marketed: Mxstream Basic and Mxstream Extra. This product range will gradually be extended to include products offering higher speeds, support of ISDN and wireless home networking facilities. ISPs will be able to package our Mxstream products in a complete broadband Internet offer. We currently charge customers fixed monthly charges for these services.

The following table is based on management estimates and provides more detailed information relating to access channels and penetration for PSTN and ISDN lines as of December 31, 1997, 1998 and 1999, and as of June 30, 2000:

	As of June 30,	As of December 31,		
	2000	1999	1998	1997
<b>Access channels:</b>				
Total access channels (millions) . . . . .	9.8	9.6	9.4	8.9
<i>Of which:</i>				
PSTN lines (millions) <sup>(1)</sup> . . . . .	7.1	7.3	7.8	8.1
ISDN				
Basic access lines (thousands) <sup>(2)</sup> . . . . .	1,029	862	570	263
Primary access lines (thousands) <sup>(2)</sup> . . . . .	20	19	14	10
Total ISDN channels (millions) <sup>(2)</sup> . . . . .	2.7	2.3	1.6	0.8
<b>Penetration:<sup>(3)</sup></b>				
PSTN access channels . . . . .	45	46	50	52
ISDN access channels . . . . .	17	15	10	5
Total penetration rate of access channels . . . . .	62	61	60	57

(1) Each PSTN line provides one access channel.

(2) A basic ISDN line provides two access channels and a primary ISDN line provides 30 access channels.

(3) Number of subscriber lines per 100 population, assuming a population of 15.6 million in 1997, 15.7 million in 1998, 15.8 million in 1999 and 15.9 million in the first half of 2000.

*Value-added services.* We continue to develop new, value-added services for the fixed network with a strong focus on customer care. We offer various services in The Netherlands that facilitate the use of fixed telephones, such as voicemail, call waiting, call forwarding, calling line identification and call back features. More recent new services include tailor-made business packages, number portability, multimedia kiosks, billing for 0900 paid information services provided by other operators, reduced rate numbers and electronic billing. We have also responded to changing usage patterns by offering services that integrate fixed with mobile and/or the Internet. Examples include call forwarding from fixed to mobile phones, a combined voice mailbox and automatic call back when the line is busy.

We intend to introduce further products and services based on our Mxstream broadband platform that are designed to be attractive to both ISPs and end users. We aim to connect as many ISPs as possible to our network so that our customers have a wide choice of service providers while at the same time offering ISPs a large potential customer base, a strong supporting brand and low costs due to economies of scale. We also intend to introduce retail and wholesale originating access services using a special prefix, 0676, for Internet access to accommodate special tariff plans, to relieve pressure on our exchanges and to allow Internet traffic to be handled efficiently as data calls.

*Calling services.* Since July 1997, the provision of fixed line voice telephony services in The Netherlands has been open to full competition. In 1999, competition concentrated on international calls, in which our competitors have made considerable inroads into the market, and domestic long-distance. Fixed terms for interconnection, which particularly favor competitors that have not invested heavily in infrastructure, have enabled our competitors to benefit from our infrastructure investments at low prices.

In The Netherlands, telephone customers are free to choose providers either through preselection—selecting a carrier to handle any domestic long distance or international call on a default selection basis—or through call-by-call selection—selecting a carrier for each call by dialing the carrier’s numeric prefix before dialing the telephone number. We have responded to the challenge posed by our competitors with reduced tariffs and innovative, customer-oriented products and services.

The following table is based on management estimates and summarizes certain data for our calling services for the three years ended December 31, 1999 and for the first half of 1999 and 2000:

	Six months ended June 30,		Year ended December 31,		
	2000	1999	1999	1998	1997
Total number of calls (in millions) . . . . .	6,926	6,691	13,309	12,792	11,755
Call rate (average number of calls per line per day) . . . . .	3.92	3.93	3.84	3.84	3.71
Average call duration (seconds) . . . . .	243	214	219	204	198

*Traffic.* We market the following types of traffic:

- local telephone traffic: call minutes for calls within a call area or to the adjacent call area; this includes most of the call minutes for dial-up to ISPs;
- domestic long-distance traffic: call minutes for calls between customers in different local call areas in The Netherlands;
- fixed-mobile traffic: call minutes for calls from a KPN fixed line to a mobile telephone; and
- outbound international direct dialing.

The following table is based on management estimates and sets out certain of our traffic statistics for the two years ended December 31, 1999, and for the first half of 1999 and 2000:

	Six months ended June 30,		Year ended December 31, <sup>(1)</sup>	
	2000	1999	1999	1998
	(in billions of minutes per period)			
Domestic telephony . . . . .	17.7	17.8	34.9	34.9
Internet usage . . . . .	8.5	4.7	10.6	6.1
Fixed-mobile calls . . . . .	1.1	0.8	1.7	1.1
International telephony . . . . .	0.7	0.7	1.4	1.3
Total telephony traffic . . . . .	<u>28</u>	<u>24</u>	<u>48.6</u>	<u>43.4</u>

(1) Comparable information is not available for 1997.

*Tariffs.* Our tariffs for fixed line voice telephony services are subject to regulatory approval. Under the regulatory framework that applies to the Dutch telecommunications sector, these tariffs will continue to be subject to regulation for as long as we are determined to have significant market power. In 1999, tariffs for our public fixed line voice telephony services became subject to a price-cap regime. See “Licensing and Regulatory Issues.”

As a result of our tariff initiatives and discount plans, the average tariff for calls, based on management estimates, has declined, as illustrated by the following table:

	As of June 30,		As of December 31,	
	2000	1999	1999	1998
€ per minute <sup>(1),(2)</sup>				
Local <sup>(3)</sup> . . . . .	0.026	0.027	0.026	0.027
Domestic long distance . . . . .	0.045	0.052	0.048	0.052
Fixed to mobile . . . . .	0.222	0.327	0.286	0.327
International . . . . .	0.180	0.234	0.220	0.276

- (1) Revenues for each type of service divided by corresponding number of minutes.
- (2) Our charges are shown exclusive of value added tax. We expect our tariffs to be subject to an increase in value added tax from 17.5% to 19.0% as of January 2001. This could affect our future prices.
- (3) Substantially all Internet calls are charged at local rate.

*Connection and subscription fees.* These revenues consist principally of monthly subscription fees charged to customers for providing access lines as well as one-time initial connection fees. The level of monthly subscription fees generally is higher for ISDN access lines than for standard analog access lines. Revenue from ISDN access lines accounted for approximately 18% of total access revenues in 1999, and for 23% in the first half of 2000.

*Traffic charges.* All traffic charges are based on per second charges plus a call set up charge. Prices are set according to the distance called, the time of day and whether the day is a business day, a weekend or a public holiday. Customers are charged per second for the time they use the network and according to the day of the week and the time of day.

*Competition.* Carrier select and preselect operators are very active in The Netherlands. Major competitors in this field are Tele2 and OneTel. Both companies are targeting the residential and small and medium sized enterprise markets. Also, several fixed operators with their own networks are active in our market. They mainly focus on business customers and offer a wide range of services, from voice to IP/data and bandwidth services. A competing direct access offer is crucial in their market strategy.

A third group of important competitors is the cable operators. Most visible in the Dutch market are Essent, Casema and UPC. They primarily offer our residential customers an alternative for broadband Internet access. Also, UPC (via its subsidiary Priority Telecom) offers cable telephony services. In this regard cable connections are an alternative for both our fixed lines and our telephony services.

Finally, a new category of competitors, xDSL operators, have entered the Dutch market. Using unbundled access to our local network, or main distribution frame access, and colocation facilities, they are starting to introduce a competing portfolio of xDSL-based services. So far, VersaPoint (a company funded by VersaTel and NorthPoint) and Cistron appear to be the most visible in this market. We expect more competitors in this important new market segment.

#### *Wholesale carrier services*

The wholesale carrier services we provide include network access services, transmission services and (by the end of 2000) IP services, each for the wholesale market.

*Network access services.* We offer access, interconnection and transit services in The Netherlands to a range of telecommunications companies including other national and regional fixed operators,

mobile telecommunications operators, carrier select operators and ISPs. As of June 30, 2000, the number of carrier services customers had grown to approximately 55 customers. We expect that demand for our wholesale carrier services will continue to grow as the use of the Internet expands and demand for Internet-based services, and therefore access to the Internet, rises. We are currently developing services to meet this anticipated demand.

We offer a comprehensive range of network access services that give other telecommunications companies access to our fixed telephony network, including:

- *terminating services.* Callers from other telecommunications operators' networks calling users of our fixed telephone network.
- *originating services.* Carrier preselect and select operators, who offer callers the choice of call carrier on a default basis or on a call-by-call basis by dialing a short prefix code prior to the number being called, or another method of preselecting their call carrier, have access to calls originating on our network. We also offer callers on our network interconnection with premium rate numbers (with prefixes of 0800 or 0900) and pagers or virtual private networks. We expect to offer callers on our network interconnection with Internet dial-up numbers (with the 0676 prefix) in the fourth quarter of 2000.
- *transit services.* We route incoming and outgoing international and other calls between other telecommunications operators' networks, for example mobile telecommunications operators, through our network.
- *main distribution frame access.* Competing telecommunications operators may request a connection through our main distribution frame to their customers. We have been offering such main distribution frame access since June 1, 2000. As of July 31, 2000 we had seven customers with main distribution frame access service contracts using approximately 2,600 lines (based on management estimates).
- *other services.* We also offer other services, such as transit handling and billing services.

The following table is based on management estimates and sets out the traffic generated from our network access services for the three years ended December 31, 1999 and for the first half of 1999 and 2000:

	Six months ended June 30,		Year ended December 31,		
	2000	1999	1999	1998	1997
	(in millions of minutes per period)				
Terminating services . . . . .	3,939	2,634	5,825	3,476	2,400
Originating services . . . . .	2,359	1,084	2,679	878	39
Transit services . . . . .	2,466	680	2,363	724	405
Total traffic . . . . .	<u>8,764</u>	<u>4,398</u>	<u>10,867</u>	<u>5,078</u>	<u>2,844</u>

Overall, the total traffic per year derived from network access services has risen by 114.0% from 1998 to 1999. The total traffic generated in the first half of 2000 represents approximately 80.6% of the total traffic generated for the whole of 1999 and increased by 99.3% compared with the first half of 1999. This increase was caused primarily by strong growth in mobile-to-mobile traffic, higher Internet usage and the introduction of carrier preselect services.

The traffic derived from terminating services grew by approximately 67.6% in 1999. This lower rate of growth compared with other services reflects the increasing use of mobile telephones. Carrier select services and the increase in Internet access have increased traffic derived from originating services by

205.1% between 1998 and 1999. The increase in mobile-to-mobile calls on our network is reflected in the increases in traffic derived from transit services over the period: approximately an 78.8% increase in 1998 and a further 226.4% increase in 1999.

*Wholesale transmission services.* We offer wholesale transmission services that provide telecommunications companies the capacity to transmit voice and data traffic between fixed points and transmission routes for network operators and service providers who do not wish to install their own network. We offer these services through our mobile transmission network service and our broadband transmission network service. Our mobile transmission network service is designed to offer fixed transmission for mobile telecommunications operators in The Netherlands. Our mobile transmission network service gives national coverage and uses the latest technologies to deliver high reliability, flexibility in capacity and relatively low prices. We plan to introduce a broadband transmission network service by the end of 2000 which is designed to meet the increasing data traffic resulting mainly from the rise in Internet-based communication and which will be targeted at fixed telecommunications operators and service providers. Our broadband transmission network service will use dense wavelength division multiplexing, which is designed to increase the transmission capacity of optical fibers.

*IP services.* We are currently developing other services for Internet-based communications, such as a permanent broadband data channel to the end user of a wholesale customer and global Internet connectivity via an IP-based transit service.

#### *Wholesale international network services*

We are an internationally active network operator that provides wholesale international telecommunications services. These services comprise:

- *international bandwidth services.* These services include international leased lines, submarine cable access and transit services. We provide these services across 51 countries to approximately 750 customers. We face significant competition from new carriers who provide full circuit transmission services at low rates.
- *international wholesale services.* These global switched services include voice hubbing and telex. Based on management estimates, we handled over 600 million minutes of calls from more than 100 customers worldwide for the year ended December 31, 1999. During the first half of 2000, we handled approximately 540 million minutes of calls, despite increasing competition arising from the continuing liberalization of international telecommunications markets and increasing competition from full service operators, such as Concert and Worldcom, who provide both voice and data services.

We have established a relationship for the provision of switched services with approximately 300 carriers. We are rapidly expanding our entire portfolio by introducing new services throughout Europe. Most of these services are based on the European voice platform developed by us, which utilizes transmission services supplied by KPNQwest.

#### *Mobile communications*

We were the sole provider of mobile telecommunications services in The Netherlands during the 1980s and the first half of the 1990s through our analog networks. In 1994, we began building out our GSM 900 network and providing digital mobile telecommunications services. In November 1999, we transferred our mobile communications business to a separately incorporated subsidiary, KPN Mobile. In April 2000, we announced a delay to our plans to conduct an initial public offering of shares in KPN Mobile. We sold a 15.0% interest in KPN Mobile to DoCoMo in August 2000 for approximately €4 billion. KPN Mobile functions as a commercially independent company, while retaining a working relationship with our other businesses.

During the past several years, we have pursued a strategy of expansion into other attractive mobile telecommunications markets, primarily in Europe. Our core mobile telecommunications markets are currently The Netherlands, Germany and Belgium. In February 2000, we completed our acquisition of a 77.49% indirect interest in E-Plus, Germany's third largest mobile network operator. We share control of E-Plus with BellSouth, which holds a 22.51% indirect interest. In 1998, we also established KPN Orange, a 50:50 joint venture with a wholly owned subsidiary of Orange plc, to provide mobile telecommunications services in Belgium. Outside our current core markets, we also have a 44.66% interest in Pannon GSM Telecommunications Rt., or Pannon GSM, in Hungary; a 16.33% economic interest in UMC in Ukraine; and a 22.28% interest in Telkomsel, in Indonesia.

We provide a range of mobile telecommunications services, from standard voice services and value-added services (such as call waiting, call forwarding, voicemail and short text messaging services, or SMS) to advanced data applications. E-Plus was the first mobile network operator to introduce high-speed circuit switched data services in Germany and we intend to introduce general packet radio service, or GPRS, by the end of 2000 in The Netherlands and in Germany. We view mobile data services as a major source of future growth and we place a strong emphasis on the further development of our existing wireless application protocol, or WAP, based portal services, currently known as Finfo and E-Plus Online. We also offer our customers the ability to use mobile telecommunications services outside of their home countries through international roaming agreements with other network operators.

We believe that our European mobile partnership with DoCoMo and our joint venture with Hutchison will facilitate our strategy of developing KPN Mobile into a leading pan-European mobile telecommunications provider, particularly through the accelerated provision of value-added mobile data services utilizing second and third generation technologies and an acquisition-led expansion of the business into new key European markets. Obtaining UMTS licenses in our core markets is a cornerstone of our strategy.

We include in our market share and customer data all users who are connected to our networks.

#### *The Netherlands*

Based on management estimates, our mobile network provides over 99.5% population and 96.7% geographic coverage in The Netherlands. We believe that our well-known brands, network quality, extensive distribution network, commitment to customer care and successful introduction of a range of innovative products and services have contributed to our leading role in both the business and consumer categories of the Dutch mobile telecommunications market.

On August 4, 2000, we paid for and acquired one of five UMTS mobile telecommunications licenses in The Netherlands for a price of approximately €711 million.

The opening of the mobile telecommunications market to competition in 1995, the introduction of prepaid connections during December 1997 and the subsequent launch of three competitive new GSM networks between September 1998 and February 1999, in combination with reduced call charges per minute which have resulted from this competition, have led to significant growth of the mobile telecommunications customer base in The Netherlands. Throughout this period, based on management estimates, we believe we have continued to win the largest share of net additions each year, with market shares of net additions of approximately 54%, 59%, 39% and 40% in 1997, 1998, 1999, and the first half of 2000, respectively. As of December 31, 1999, we had a total of approximately 3.5 million mobile customers (based on management estimates), representing approximately 52% of the total mobile telecommunications customer base in The Netherlands. This has risen to approximately 4.2 million customers as of June 30, 2000, representing approximately 49% of the total mobile telecommunications customer base in The Netherlands. Based on management estimates, the number of prepaid customers as of June 30, 2000 was approximately 2.6 million and the number of post-paid customers as of that same date was over 1.6 million.

Our current system is based on both the GSM 900 and DCS 1800 standards, which are the dominant digital standards in Europe. We believe that we have the largest mobile network in The Netherlands, with more spectrum availability than any of our competitors.

*Products and services.* We offer a range of standard and value-added mobile voice and data services such as voicemail, SMS and call waiting. We also offer data and fax transmission, virtual private networks for business customers and an increasing number of multimedia services. Our customers also have the ability to use mobile telecommunications services outside of The Netherlands in approximately 90 countries. In the first half of 2000, KPN Mobile had signed international roaming agreements with approximately 177 mobile telecommunications operators.

The growing demand for mobile data services, particularly those which implement the latest Internet technologies, is further stimulating the use of mobile telecommunications. We have developed many innovative mobile data services, such as our EasyInfo information service, which allows users to receive news from CNN, weather, traffic and share price information via voice messages or SMS, and our FaxMail service, which allows customers to receive and store faxes.

In addition, we are now enhancing our data services with Internet-based technologies. We intend to develop further our provision of Internet-based mobile multimedia and mobile commerce services principally in conjunction with our ICM business.

We have also developed several other innovative products and services, such as Grip, which enables our business customers to integrate their fixed and mobile networks. We also provide a range of other mobile telecommunications services, including public access mobile radio and paging. These services include both voice and data telecommunications services. We have committed substantial resources to the development of new services and applications for mobile telecommunications users, including the commercialization of UMTS, the third-generation mobile technology. We are currently in negotiations with manufacturers for the production of appropriate handsets to exploit GPRS and WAP-based services.

*Customers.* The following table is based on management estimates and provides certain market and customer data for our services as of December 31, 1997, 1998 and 1999 and June 30, 2000:

	As of June 30, 2000	As of December 31,		
		1999	1998	1997
Number of mobile network operators . . . . .	5	5	3	2
KPN Mobile customers: total <sup>(1)</sup> . . . . .	4,219,054	3,479,134	2,162,319	1,185,672
KPN Mobile customers: post-paid <sup>(2)</sup> . . . . .	1,626,918	1,614,794	1,559,589	1,185,672
KPN Mobile customers: prepaid . . . . .	2,592,136	1,864,340	602,730	N/A
KPN Mobile's total market share, % of customers	49%	52%	64%	69%
of which post-paid . . . . .	39%	46%	72%	100%
of which prepaid . . . . .	61%	54%	28%	—
KPN Mobile net additions . . . . .	739,920	1,316,815	976,647	379,293
KPN Mobile share of total net additions <sup>(3)</sup> . . . . .	40%	39%	59%	54%
Post-paid, % of KPN Mobile's net additions . . . . .	1.6%	4.2%	38.3%	100%
Prepaid, % of KPN Mobile's net additions . . . . .	98.4%	95.8%	61.7%	N/A

(1) The total number of customers connected to KPN Mobile's network.

(2) Includes customers who previously subscribed to our analog network, which was closed in October 1999.

(3) Figures for the six- or 12-month period ending on the date indicated.

During the period since December 31, 1997, three new network operators have entered the Dutch mobile telecommunications market. However, in the same period, our net additions (the number of new customers we added to our network less the number of customers disconnected from our network) grew from 379,293 in 1997, representing a market share of 54% of total net additions for the year, to 976,647 in 1998, an annual net additional increase of 157.5%, representing a 59% share of total net additions for the year. In 1999, the number of our net additions had grown by approximately a further 35% to 1,316,815, representing approximately a 39% share of net additions for the year. During the first half of 2000 our net additions were 739,920, representing an approximately 40% share of total net additions for the period. Based on management estimates, as of June 30, 2000 approximately 31% of our customer base was business customers, showing our strength in the Dutch mobile business market.

As of December 31, 1999, we had a total of approximately 1.6 million post-paid subscriptions in the business and consumer markets, representing 46% of our total customer base. This figure remained constant at 1.6 million post-paid subscriptions as of June 30, 2000, representing 39% of our total customer base.

We estimate that during 1999, the total number of prepaid users in the Dutch mobile telecommunications market as a whole grew by approximately 259% from an estimated 1.1 million to 3.9 million users. We estimate that the total number of prepaid users in the Dutch mobile telecommunications market grew by a further 40% to approximately 5.5 million by June 30, 2000. We were able to capture approximately 46% of that growth.

*Churn.* Churn represents the number of our mobile customers who disconnect from our network. We differentiate between two types of churn: gross churn and net churn.

Gross churn includes those customers who disconnect from our network either because we have initiated the disconnection for non-payment of bills or suspected fraud (known as involuntary churn) or because they have chosen to terminate the use of our services or to switch to a competing network or service provider (known as voluntary churn). We also include in gross churn those customers with prepaid connections who have not recharged their call credits within the last 13 months, as we deem those customers to have left our network. We do not include in gross churn those customers who at the time we know have switched from one of our post-paid packages to another post-paid package.

We also calculate net churn, which we believe is unique in the Dutch market and gives us a competitive advantage in helping us better to understand and predict customer trends. We use a sampling technique to measure the impact on our gross churn rate of those customers who switch from one of our packages to another without notifying us. We commission detailed market research from *Nederlands Instituut voor Publieke Opinie*, a Dutch market research institute, known as NIPO, every month to estimate the number of customers who appear to have left our network but who actually have remained on our network by virtue of a new post-paid contract or prepaid connection. These customers are excluded from gross churn data to arrive at a net churn figure.

The following table provides management estimates of our churn rates for the three years ended December 31, 1999 and for the first half of 2000:

	Six months ended	Year ended December 31,		
	June 30, 2000	1999	1998	1997
Gross churn . . . . .	18.8%	22.3%	23.5%	18.6%
Net churn . . . . .	13.5%	14.0%	12.9%	13.2%

The introduction of prepaid connections to the Dutch mobile telecommunications market in December 1997, the subsequent increase in competition in the prepaid consumer market, and our promotion of our own prepaid packages has had a significant impact on our churn rates. In addition, our churn rates are influenced by a number of factors, including the existence of four competitors in

the market; the constant development and promotion of new handsets, particularly the handset subsidies offered by other operators; and special offers on subscription packages by competitors. Handset subsidies from competing operators encourage customers to terminate existing subscriptions and to enter into new contracts to obtain more modern handsets at subsidized rates. The introduction of number portability may also have an effect on customers' propensity to migrate from one mobile network to another. We take various steps to minimize our churn rate, including emphasizing quality customer care, which is tailored for different types of customers, and introducing innovative service offerings, particularly for business customers.

*Traffic and ARPU.* The following table is based on management estimates and sets out certain of our mobile traffic statistics for the three years ended December 31, 1999 and for the first half of 2000:

	Six months ended	Year ended December 31,		
	June 30, 2000	1999	1998	1997
Total traffic (millions of minutes per period) <sup>(1)</sup> . . . . .	2,711	4,125	2,552	1,678
Total traffic outgoing (millions of minutes per period) . . . . .	1,654	2,565	1,615	1,095
Total traffic incoming (millions of minutes per period) . . . . .	1,057	1,560	937	583
Average monthly minutes per customers				
prepaid . . . . .	54.3	53.4	48.0	N/A
post-paid . . . . .	207.0	175.3	145.2	140.8
incoming . . . . .	46.3	46.9	47.3	48.9
outgoing . . . . .	72.4	77.1	81.6	91.9
Monthly average revenues per user (post-paid customers) (€) .	62.6	60.8	59.9	64.9
Monthly average revenues per user (prepaid customers) (€) . .	13.2	13.2	15.4	N/A
Monthly average revenues per user (all customers) (€) . . . . .	34.0	40.8	52.6	64.9

(1) Excluding international roaming on our network.

Outgoing traffic generated by our customers rose by approximately 47% between 1997 and 1998. The rate of growth between 1998 and 1999 was approximately 59%. The total incoming traffic per year increased approximately 61% from 1997 to 1998 and 66% from 1998 to 1999. Growth in total traffic on our network since 1997 has been principally due to the rapid growth of our customer base, particularly through the rise in prepaid connections. In addition, traffic per connection is increasing in each customer target group as usage is stimulated through the increased use of, and the continued expansion of, our value-added services. The average monthly minutes of calls for post-paid customers rose from 140.8 to 145.2 from 1997 to 1998 and further increased to 175.3 in 1999 and 207.0 for the first half of 2000, whereas the increase for prepaid customers has been significant also, rising from 48.0 minutes in 1998 to 53.4 minutes in 1999 and to 54.3 minutes for the first half of 2000. The growing use of SMS on both prepaid and post-paid services is adding significantly to the overall traffic levels. Also, the heavily advertised tariff reductions in March 1999 boosted traffic significantly. The introduction of new value-added data and Internet services will continue to boost traffic levels but should also provide a more consistent rate of use throughout the day which we expect will even out the peaks in the traffic pattern which we currently experience during each 24-hour period.

The decline in the average monthly minutes of outgoing and incoming calls and the fall in monthly average revenues per user, or ARPU, is primarily due to the shift of our customer mix from post-paid to prepaid customers and tariff reductions.

*Competition.* Our competitors, all of whom have obtained UMTS licenses, are Libertel (majority owned by Vodafone AirTouch plc), Telfort (a subsidiary of British Telecommunications plc), Dutchtone (an affiliate of France Télécom) and Ben (a joint venture between Belgacom, TeleDanmark and, in connection with the UMTS license it has acquired in The Netherlands, Deutsche Telekom). There are a

number of independent service providers in The Netherlands who package and sell the products and services of the various network operators. Some of these service providers operate exclusively with one network operator, others offer competing products and services. In all cases the service providers sell to both the business and consumer markets.

We sell our products and services to service providers such as ANWB Travelcom (a partnership in which we have a 95% interest), debitel, Talkline and Intercity Mobile Communications, who resell our offerings, either as our own brands or re-branded as their own.

### *Germany*

E-Plus is our joint venture that is jointly controlled with BellSouth. All information concerning E-Plus in this section reflects 100.0% of E-Plus' business, even though we own only 77.49% of E-Plus.

E-Plus is the third largest mobile telecommunications operator in Germany. It has experienced substantial growth in its customer base as both the mobile penetration rate in Germany and the size of E-Plus' market share has increased in recent years. We estimate E-Plus' customer base increased from approximately 1.0 million customers, representing a 12% market share, as of December 31, 1997 to approximately 3.8 million customers, representing approximately a 16% market share, as of December 31, 1999. The rapid expansion of the German mobile telecommunications market has continued in 2000. We estimate, as of June 30, 2000, E-Plus' customer base had increased a further 33% to approximately 5.0 million. This represented a slight decrease in E-Plus' market share to approximately 15%.

Through a subsidiary of E-Plus, we won one of six UMTS licenses in Germany for which we paid on August 31, 2000 approximately €8.4 billion. BellSouth has loaned approximately €1.4 billion to E-Plus and loaned us an additional €465 million, reflecting its 22.51% share in E-Plus, while we have loaned E-Plus the balance of approximately €7.0 billion (including the €465 million BellSouth loaned to us). E-Plus plans to build out the network components required to exploit the 10 MHz of paired spectrum and 5 MHz of unpaired spectrum of frequencies made available under the license. We intend to provide third generation mobile telecommunications services in Germany through E-Plus.

E-Plus offers a broad range of mobile voice and data communications services in the German market under the brand name "E-Plus", and is playing a leading role in introducing innovative products and services in that market. Based on management estimates, E-Plus offers its customers the ability to use mobile telecommunications services outside of Germany in approximately 70 countries and, as of June 30, 2000, had signed international roaming agreements with approximately 100 mobile telecommunications operators. We anticipate that by the end of 2000, E-Plus' network will cover approximately 98% of the German population.

E-Plus' head office is in Düsseldorf, and it employs approximately 3,500 people.

*Products and services.* In addition to its standard mobile telecommunications services, E-Plus offers a wide range of value-added mobile voice and data products and services, together with fixed and mobile Internet applications.

In March 2000, E-Plus launched E-Plus Online, an ISP and integrated fixed and mobile Internet portal for E-Plus customers and other fixed line Internet users. Registered E-Plus customers can access E-Plus Online, and thereby use E-Plus services, through a fixed telephone line or a WAP-enabled mobile device using WAP technology.

*Customers.* There were approximately 23.1 million mobile telecommunications customers in Germany as of December 31, 1999, representing a mobile telecommunications penetration rate of 28.2% of the population. By June 30, 2000 the number of mobile telecommunications customers had increased to 34.0 million, a penetration rate of 41.5%.

E-Plus differentiates between two customer target groups: business customers and consumers. As of June 30, 2000, based on management estimates, E-Plus plans to enhance its position in each of the consumer and business markets by continuing its directed advertising and marketing programs and by introducing new products. E-Plus also plans to enhance its position in the business market by leveraging its experience in the German business market and KPN Mobile's experience in the Dutch business market.

As of December 31, 1999, based on management estimates, E-Plus had a total of 2.5 million post-paid customers, representing approximately 67% of its total customer base. By June 30, 2000, based on management estimates, E-Plus had 2.8 million post-paid customers, an approximate 56% share of its total customer base. In 1999, based on management estimates, E-Plus' average revenues per post-paid customer, including monthly fees, were €46.0 per month, which decreased to €36.00 per month by June 30, 2000 reflecting a decrease in tariffs.

We estimate that during 1999, the total number of prepaid users in the German mobile telecommunications market as a whole grew by approximately 225% from approximately 1.6 million as of December 31, 1998 to approximately 5.3 million as of December 31, 1999. E-Plus was the first German mobile telecommunications operator to introduce a prepaid service without a minimum contract period. As of December 31, 1999, based on management estimates, E-Plus had a total of 1.3 million prepaid customers, representing approximately 33% of its customer base. By June 30, 2000, based on management estimates, E-Plus had 2.2 million prepaid customers, representing approximately 44% of its customer base.

The following table is based on management estimates and provides certain market and customer data for E-Plus' services as of December 31, 1997, 1998 and 1999 and June 30, 2000:

	As of June 30,	As of December 31,		
	2000	1999	1998	1997
E-Plus customers: total . . . . .	5,032,000	3,779,000	2,055,000	1,045,000
E-Plus customers: post-paid . . . . .	2,807,000	2,519,000	1,481,000	780,000
E-Plus customers: prepaid . . . . .	2,225,000	1,260,000	574,000	265,000 <sup>(1)</sup>
E-Plus' total market share, % of customers . . . . .	15%	16%	14%	12%
of which, post-paid . . . . .	56%	67%	72%	75% <sup>(1)</sup>
of which, prepaid . . . . .	44%	33%	28%	25%

(1) E-Plus began acquiring prepaid customers after launching its prepaid services in July 1997.

Net additions represent the number of new customers connected to the E-Plus network less the number of customers who disconnected from the E-Plus network. The following table provides management estimates of E-Plus' market position in relation to net additions for the three years ended December 31, 1999 and for the six months ended June 30, 2000:

	Six months ended	Year ended December 31,		
	June 30, 2000	1999	1998	1997
E-Plus net additions . . . . .	1,253,000	1,724,000	1,010,000	542,000
Post-paid, % of E-Plus' net additions . . . . .	23.0%	60.2%	69.4%	51.0%
Prepaid, % of E-Plus' net additions . . . . .	77.0%	39.8%	30.6%	49.0%

*Churn.* The following table provides management estimates of E-Plus' annual churn rates for the three years ended December 31, 1999 and for the first half of 2000:

	Six months ended	Year ended December 31,		
	June 30, 2000	1999	1998	1997
Gross Churn . . . . .	7%	20%	23%	42%

E-Plus experienced a high churn rate in 1997 because it disconnected many customers in 1997 for non-payment of bills. Since clearing out these customers, E-Plus has improved its credit risk management and has successfully reduced its involuntary churn rate. We believe that the further decrease in E-Plus' gross churn rate to 20% in 1999 was a product of the introduction in previous years of 24-month post-paid contracts, the improvement of E-Plus' image and the progress it made in customer relationship management.

We believe that E-Plus' introduction of prepaid connections in July 1997 and the subsequent switching of customers from post-paid plans to prepaid plans without informing E-Plus (even while remaining with the E-Plus network) has also contributed to its churn rate. Furthermore, the increase in competition in the prepaid customer market has had a significant impact on E-Plus' churn rate. We believe that E-Plus' churn rate results from a number of factors, including the existence of three competitors in the German market; the constant development and promotion of new handsets, particularly the offer of handset subsidies by other operators; and special offers on subscription packages by competitors. E-Plus takes various steps to minimize its churn rate. These steps include completing tougher credit checks before accepting new customers, designing promotions to encourage customers to renew their contracts (such as by offering new handsets at reduced fees), improving its network quality and ensuring that its customer service meets the needs and expectations of E-Plus customers. The success of any customer retention or cost recovery measures, however, will depend partially upon competitive factors beyond E-Plus' control, including its competitors' tariff structures, service offerings and incentive programs.

*Traffic and ARPU.* The following table is based on management estimates and provides certain traffic statistics of E-Plus for the three years ended December 31, 1999 and for the first half of 2000:

	Six months ended	Year ended December 31,		
	June 30, 2000	1999	1998	1997
Total traffic (minutes in millions per period) <sup>(1)</sup> . . . . .	2,204	3,302	1,736	896
Total traffic outgoing (minutes in millions per period) . . .	1,276	1,972	1,039	546
Total traffic incoming (minutes in millions per period) . . .	928	1,330	697	350 <sup>(1)</sup>
Average minutes per month per customer (outgoing and incoming) <sup>(2)</sup> . . . . .	83	101	100	111
prepaid . . . . .	46	58	61	48 <sup>(1)</sup>
post-paid . . . . .	107	118	115	126
incoming . . . . .	35	41	40	43
outgoing . . . . .	48	60	60	68
Monthly average revenues per user post-paid (including SMS) (€) <sup>(1)</sup> . . . . .	36	46	52	57
Monthly average revenues per user prepaid (€) <sup>(1)</sup> . . . . .	19	23	23	N/A
Monthly average revenues per user total (€) <sup>(1)</sup> . . . . .	35	39	44	57

(1) Excluding international roaming on the E-Plus network.

(2) The average minutes per month per customer is calculated by taking the weighted average of the average minutes per customer per month in a 12-month period. The average minutes per customer

for each month is calculated by dividing the total number of minutes each month by the average number of customers at the beginning of the month and the number of customers at the end of the month. Each month is weighted according to the average number of customers in that month.

The outgoing traffic generated by E-Plus customers has risen by 91.0% and 89.4% in each of 1998 and 1999, respectively. The outgoing traffic in the first half of 2000 represents 64.7% of the total outgoing traffic generated in 1999. The total incoming traffic per year has increased over 98.0% between 1997 and 1998 and 91.4% between 1998 and 1999. The incoming traffic in the first half of 2000 represents 69.8% of the total incoming traffic in 1999. Growth in total traffic on E-Plus' network since 1997 is principally due to the rapid growth of the German mobile telecommunications customer base, particularly through the increase in prepaid connections.

The average monthly minutes per post-paid customer for outgoing and incoming calls increased from 115 to 118 between 1998 and 1999 and decreased to 107 for the first half of 2000. The average monthly minutes per prepaid customer for outgoing and incoming calls decreased from 61 to 58 between 1998 and 1999 and to 46 for the first half of 2000. This shift in customer mix, in addition to a decline in market tariffs, also had a negative impact on the monthly average revenues per user.

*Competition.* Four mobile network operators, all of whom have acquired UMTS licenses, currently compete in the German mobile telecommunications market: Deutsche Telekom's T-Mobil (D-1), Mannesmann Mobilfunk (D-2) (owned by Vodafone AirTouch plc), E-Plus and Viag Interkom (owned by British Telecommunications plc). In addition we anticipate that other parties, who are not yet present as operators or license holders in the German market may choose to enter the market as mobile virtual network operators. We may consider allowing such a party to use our network in the future if we consider it commercially viable to do so.

#### *Other participations*

*Belgium.* Belgium represents one of our core European markets. We believe the Belgian mobile telecommunications market offers significant growth potential for KPN Orange, a 50:50 joint venture between us and a wholly owned subsidiary of Orange plc. KPN Orange launched its commercial operations in April 1999 and its prepaid service in November 1999. KPN Orange's customer base is growing rapidly. Based on management estimates, KPN Orange had approximately 80,000 customers as of December 31, 1999, which number reached approximately 243,000 as of June 30, 2000. We believe KPN Orange is winning an increasing share of penetration growth in Belgium. We believe that KPN Orange's network currently covers more than 92% of the Belgian population.

In connection with France Télécom's acquisition of Orange plc, France Télécom has undertaken to the European Commission to divest its interest in KPN Orange because of its controlling interest in Mobistar, a competing mobile telecommunications operator in Belgium. KPN Mobile has a right of first refusal in respect of any proposed sale of shares by Orange. KPN Mobile may either elect to purchase the shares itself or to nominate a third party to purchase any shares offered for sale. We have had preliminary discussions with France Télécom concerning this situation but we have not yet reached any agreement on a possible outcome. In the meantime, an independent trustee has been appointed to exercise France Télécom's voting interest in KPN Orange.

*Hungary.* We hold a 44.66% stake in Pannon GSM, the second largest mobile telecommunications operator in Hungary by number of customers. We share control of Pannon GSM with Telenor (25.78%), Sonera (23.0%) and TeleDanmark (6.56%). We may decide to increase our stake in Pannon GSM in the future if a commercially viable opportunity arises. Based on management estimates, Pannon GSM's customer base increased by 59.0% in 1999 to approximately 667,000 customers as of December 31, 1999 and by a further 27.0% to approximately 842,000 customers as of June 30, 2000, which we estimate represents a share of approximately 40% of the Hungarian GSM market.

*Ukraine.* We own a 16.33% stake in UMC, which we believe is the leading mobile telecommunications operator in Ukraine. Based on management estimates, UMC had a customer base of approximately 185,000 customers as of December 31, 1999, representing approximately a 70% market share. This represented an annual growth rate of more than 95% in terms of customer base since the end of 1998. Based on management estimates, UMC's customer base has increased to 228,000 as at June 30, 2000. We may decide to dispose of some or all of our stake in UMC in the future if a suitable opportunity arises.

*Indonesia.* Our interest in Telkomsel presents us with an investment which, although it is not within our core target market of Europe, nevertheless presents us with a foothold in an expanding Asian market. In the second half of 2000, we increased our interest in Telkomsel from 17.28% to 22.28%. We believe Telkomsel is the leading mobile operator in Indonesia and had obtained an approximate 45% share of the total customer base by the end of 1999. Based on management estimates, the total number of the company's customers increased by approximately 127% in 1999 to over 1.0 million as of December 31, 1999, compared to a total customer base in Indonesia of 2.2 million (an increase of 110.0% from the end of 1998).

### *IP/data*

We expect the demand for secure, high-quality bandwidth data transmission to increase rapidly over the next few years, driven by:

- the liberalization of the telecommunications market in Europe;
- the arrival of technologies allowing easier broadband access;
- the development of high bandwidth applications; and
- digitization of the business environment, leading to demand for higher capacity leased lines.

We expect this high growth in volumes to be offset by falling prices.

In the Benelux countries, we have increased our sales in data transmission services with our broad portfolio of services and tailored systems solutions which we offer through our network. Our goal is to offer customized information and communications solutions to customers in need of integrated services. The recently announced strategic partnership of KPNQwest and IBM is intended to strengthen our competitive position internationally in this area. Another growth area in which we intend to develop a strong market position through KPNQwest is web hosting. Demand for web hosting services is driven by an increasing number of corporations and organizations which require the assistance of web hosting companies to set up their web sites. KPNQwest plans to develop 18 mega CyberCentres by year 2001 to provide these services.

In addition to our IP/data operations in the Benelux countries, our IP/data segment comprises our interests in KPNQwest and Infonet, and our fully consolidated majority-owned subsidiaries KPN Belgium, PanTel and Euroweb.

### *Benelux*

*Value-added services.* We are the leading provider of IP/data connectivity services in the Dutch corporate market. We also operate in Belgium through KPN Belgium and in Luxembourg. Our strategy is to consolidate our position in a fast-growing market by building and integrating an extensive IP/data services portfolio, which we expect will also enable us to play a leading role in developing the small and medium sized enterprise market.

In the Benelux countries, our IP/data services comprise four lines of business with the following service portfolios:

- *Data transmission services.* We provide leased or private line services (analog and digital lines in several bandwidth categories) and value-added network services to businesses that wish to build their own networks.
- *Private networks services.* We provide local area networks for intranet sites which are also marketed as wide area networks to achieve local area network capabilities in several sites. We also provide large business customers with closed mobile networks.
- *Enterprise solutions.* Through our business line Enterprise Solutions Nederland, or ESN, we manage applications for business customers in conjunction with partners such as Oracle and SAP. We also offer application service provisioning.
- *Integration services.* We offer tailor-made integrated data transmission and private network services for business customers.

We supply the international component of our IP/data business through KPNQwest, Infonet, PanTel and Euroweb.

We expect that the Lambda network, jointly used by all of our business segments, will enable us to respond quickly to changes in capacity demand in the future. This network is connected with KPNQwest's EuroRings and therefore offers our customers a European and North American reach.

We aim to build a strong position in business processes by developing standardized service packages, based on low-cost connectivity. We are investing in new broadband access services and are building an IP—Virtual Private Networks platform designed to enable us to provide large volumes of different types of access and transport services and to remain an attractive network provider for service providers. We expect the IP-Virtual Private Network platform to be operational by the second half of 2001. We further intend to expand intranets and extranets with services to facilitate teleworking and mobile working.

We intend to generate new business in application service provisioning through our Enterprise Solutions Nederland business line. We seek strong partners to allow us to deliver applications such as business intelligence and other business-enabling software which we do not produce ourselves. We have been successful in attracting strong distribution and service partners and we expect that we will be able to find suitable partners in the future.

We have a substantial market share in the leased line business in The Netherlands.

*Charges.* Pricing for data transmission services is provided under monthly flat fee schemes based on the amount of capacity provided, and for leased lines also on distance of communication. Customers are typically billed for capacity made available to them on a monthly basis. The leased line business is regulated, and accordingly, our charges are based on prescribed cost-plus formulae. For other services, including value-added networks, we compete on the basis of service quality and apply a premium pricing strategy.

*Competition.* We have many competitors in the data transmission services market which include multinational companies, such as Telfort, MCI Worldcom, Colt, Energis and Versatel. Our competitors are investing in building backbone infrastructure in The Netherlands and in building local networks in large Dutch cities, comparable to our CityRings network. Our competitors offer services ranging from digital leased lines to value-added network services. Competition in this market focuses on how to deliver reliable, flexible, high-quality bandwidth for a reasonable price.

## *International*

*KPNQwest.* We supply the international component of our IP/data products and services mainly through KPNQwest. In cooperation with us, KPNQwest is developing and operating a dense fiber optic network that is expected eventually to interconnect 50 European cities. We connect our major customers directly to this network.

KPNQwest was formed on April 13, 1999 (effective April 1, 1999). Our economic share in KPNQwest is 44.3%, another 44.3% is owned by Qwest and 11.4% is owned by the public. Our share of KPNQwest's voting rights, like Qwest's share, is approximately 49.4%.

KPNQwest is a leading facilities-based, pan-European provider of IP-based services to business customers. KPNQwest has joined the advanced European long-haul fiber optic network that was being developed by us with the European Internet and value-added data products and services of Qwest.

KPNQwest is deploying a technologically advanced fiber optic network which we expect will enable it to provide a reliable high bandwidth multi-service and other advanced high-quality data-centric Internet Protocol-based services and other advanced telecommunications services at competitive prices.

*KPNQwest products and services.* KPNQwest currently provides a broad range of IP-based services and other advanced telecommunications services, including a pan-European digital subscriber line service, web hosting, application hosting and telehousing services. KPNQwest distributes its IP-based services through its ownership of the operating subsidiaries previously owned by EUnet International Limited, a provider of IP-based access, virtual private networks and other value-added services in Europe, and Xlink Internet Service GmbH, a corporate Internet Service Provider in Germany.

KPNQwest's products and services are divided among the following categories:

- *Infrastructure sales.* KPNQwest sells various network infrastructure including sales of dark fiber and ducts.
- *Managed broadband services.* KPNQwest offers telecommunications carriers, value-added resellers and large multinational corporations city-to-city broadband capacities of 2 megabits per second, or Mbps, 34 Mbps, 45 Mbps and 155 Mbps, with bandwidths of up to 2.5 Gbps available on request. KPNQwest has also introduced a new class of managed broadband services, known as "colors" or "wavelengths", which provides 2.5 Gbps or 10 Gbps wavelengths to carriers requiring very large transport capacity between cities. KPNQwest continuously manages these services for our customers.
- *IP transit.* KPNQwest also offers bandwidth capacity at access speeds of 2 Mbps, 34 Mbps, 45 Mbps and 155 Mbps to ISPs and Internet content providers, with access speeds of up to 2.5 Gbps available on request.
- *Value-added Internet Protocol products and services.* Through EUnet and Xlink, KPNQwest provides Internet connectivity and value-added products and services, including consulting, hosting, virtual private networks and the broadcasting of live or recorded events to our customers over the Internet. KPNQwest has stated its intention to capitalize on EUnet's and Xlink's capabilities by developing and offering additional IP-based value-added products and services in the future, including high speed wireless access and the ability to send voice communications and faxes over the Internet.
- *Digital Subscriber Line services.* KPNQwest has stated its intention to implement DSL technologies in 65 cities in 12 countries. KPNQwest announced that by June 2000 it had colocated its facilities in 155 central offices or local exchanges in 14 cities in six countries.

*KPNQwest distribution capabilities.* We believe KPNQwest has significant distribution capabilities for its products and services. KPNQwest has an approximately 240 person direct sales force throughout

Europe. KPNQwest also entered into distribution agreements with Qwest and us under which Qwest is the exclusive distributor of KPNQwest's services in the United States, Canada and Mexico, and we are the exclusive distributor of KPNQwest's services in The Netherlands, Belgium and Luxembourg. We believe KPNQwest's existing distribution capabilities are a significant competitive advantage.

*Construction of the KPNQwest network.* KPNQwest has made significant progress in the construction of its pan-European fiber optic network in the first half of 2000. KPNQwest has announced that it is operating three rings that span 6,200 km connecting 23 cities, nearly half the total number of cities to be linked in its planned seven EuroRing network. The lighting of the German ring was announced in June 2000 on time and on budget. The German ring connects 16 cities in a 2,700 km route with 120 fibers. The Southern ring, which adds 11 cities in Southern France, Switzerland and Northern Italy is under construction and scheduled to be completed by the end of 2000. The Nordic and Eastern rings are scheduled to be completed by mid-2001. KPNQwest announced in January 2000 that it intends to invest up to approximately €300 million to construct an Iberian ring, which is scheduled for completion by the end of 2001. KPNQwest announced in June 2000 that it intends to increase network investment in France, adding four additional French cities along the western Atlantic coast. When complete, according to KPNQwest, the entire network is planned to reach 50 European cities and cover approximately 20,000 kilometers.

KPNQwest has announced its intention to migrate EUnet's and Xlink's traffic to its network as the EuroRings are completed and existing capacity leases with third parties expire. We believe that the migration of KPNQwest's products from a relatively high-cost, leased network to its low-cost, owned network will significantly lower the per unit cost of those services. We also believe that EUnet and Xlink will be able to grow their revenue more quickly than in the past, when limited network capacity constrained their sales efforts.

*Comm2000 acquisition.* In April 2000, KPNQwest announced that it had agreed to acquire Comm2000, an Italian ISP focused on the business market. The integration of Comm2000 into KPNQwest's existing network of 14 business ISPs across Europe represents a key development in KPNQwest's Internet assets.

The acquisition anticipates the completion of two major network construction milestones: the construction of the Southern ring linking Milan and Turin into the EuroRings network and the building of a 10,000 square meter KPNQwest CyberCentre in Milan, which is expected to deliver large hosting and e-commerce service opportunities for Italian businesses. The Southern ring and the Milan CyberCentre are due for completion by the end of 2000.

*Construction of the KPNQwest CyberCentres.* KPNQwest's web hosting and colocation services are currently provided through twelve CyberCentres.

In April 2000, KPNQwest announced that it had entered into an alliance with IBM to build, manage and provide operational support for up to 18 new 10,000 square meter regional KPNQwest mega-CyberCentres to be connected to KPNQwest's EuroRings network. IBM will occupy 25.0% of the available space in the centers to host their customers' e-business and business-to-business initiatives. The mega-CyberCentres will enable KPNQwest to provide web hosting and site design, applications hosting and electronic commerce services to its customers.

The first six KPNQwest mega-CyberCentres are expected to be in Frankfurt, Paris, Munich, Stockholm, Milan and London. The first mega-CyberCentre in Munich opened on July 31, 2000, and KPNQwest has announced that it plans to complete the other five centers by the end of 2000.

*Infonet.* We have a voting stake of 17.4% and an economic stake of 17.7% in Infonet, which provides worldwide data communications and multimedia services. Infonet does not have a controlling shareholder. Infonet focuses mainly on large business customers. On December 16, 1999, Infonet

completed its initial public offering and obtained a listing on the New York and Frankfurt stock exchanges. Through the initial public offering and the sale of a small part of our share in Infonet we realized a total profit of €163.4 million in 1999. In addition to our stake in Infonet, we own 100% of Infonet Nederland B.V., the reseller of Infonet services in The Netherlands.

Infonet has connectivity with 180 countries, and its services are supported in more than 60 countries. This global reach is significant for offering global IP/data services to its customers.

We and the other former shareholders of Unisource, a joint venture between us, Swisscom AG and Telia AB (publ.), which has now been wound up, have granted Infonet a call option for the tangible assets of AUCS vof, or AUCS, a provider of various data and voice communications services. The option is exercisable by Infonet at any time between September 1999 and September 2002 and allows Infonet to purchase any and all of the AUCS tangible assets at fair market value up to \$130 million.

*KPN Belgium.* We hold a 100% interest in KPN Belgium, which offers a wide range of telecommunications and business services. These services include IP/data services (Internet, leased lines), international frame relay, voice services (voice, service numbers) and value-added services, such as call center services. KPN Belgium is also the distributor of KPNQwest's and AUCS's services in Belgium. KPN Belgium focuses on the small and medium sized business market, the corporate market (top business market, multinationals) and the carrier market (carriers, operators, resellers, wholesale).

KPN Belgium has its own backbone network which consists of two rings. The backbone network is directly connected to the EuroRing network of KPNQwest.

*PanTel.* We hold a 75.2% interest in the Hungarian telecommunications operator, PanTel, through our wholly owned subsidiary, Pansource B.V. We also have management control of PanTel.

PanTel was established on April 1, 1998. We acquired a 49.0% share in PanTel in 1998 which we increased to 61.7% in 1999 and to 75.2% in 2000. PanTel has obtained a license to install and operate a fixed telecommunications network and to market data transmission services. It has a nationwide fiber network, constructed along railway lines in Hungary, on which it plans to deliver services based on IP technology. Services offered by PanTel include voice and fax over IP, virtual private networks, international frame relay (or data transmission service between networks using conventional analog lines) and ATM (or asynchronous transfer mode technology for high-speed digital communications between networks). PanTel is aiming to increase its share of corporate data clients and to become a leading wholesale service provider in Hungary by extending its range of products and services. It is also aiming to conclude distribution agreements with KPNQwest and Infonet in 2000. PanTel owns 51.0% of Euroweb Hungary Rt., a leading business ISP in Hungary.

*Euroweb.* Euroweb is a NASDAQ-listed company with interests in leading Internet access providers for business customers in the Central and Eastern European market. It has subsidiaries and operations in Hungary (through Euroweb Hungary Rt.), the Czech Republic, Slovakia and Romania. We made a cash bid for 51.0% of the shares of this company which was approved by Euroweb's shareholders in February 2000. It is our objective for Euroweb to become a leading ISP in eight Central and Eastern European countries by the end of 2001.

## **ICM**

Our ICM business segment consists of our Internet and Media, or I&M Services, and customer relationship management services, or CRM services. Our I&M services consist of ISPs, Internet portal content, telephone directories and premium rate calling services. Our CRM services consist of operating call centers and customer interaction centers for businesses and providing call center services. All ICM services are aimed at facilitating and exploiting transactions and relationships between businesses and their customers.

Our I&M services are operated by KPN Media B.V., or KPN Media. KPN Customer Relations Management B.V., or KPN CRM, operates our CRM services.

As part of the carve out process, we have transferred the following infrastructure-related services to the IP/data segments:

- *IP dial-in service:* transporting Internet traffic coming from a telephone network to a server of an ISP and vice versa.
- *Internet access services:* accessing an Internet backbone by businesses using a leased line, frame relay or other network connection.
- *Cyber center services:* housing services that allow companies to place their servers at one of our locations, and hosting services that give companies the opportunity to run their software on our servers.
- *Call center solutions:* selling of telephone switches, automatic call distribution software to companies running their own call centers and the applications required for the call center applications to interface with a company's inhouse systems. Call center solutions also comprise middleware that allows the integration between the call center and the inhouse applications of the company.

#### *I&M services*

*Consumer ISP services.* We provide portal facilities and Internet content through the following businesses:

- *Planet Internet (Netherlands).* This is a leading paid consumer ISP in the Dutch market, in terms of number of registered customers, and also offers a wide variety of products and services for small and large companies ranging from standard subscriptions to tailor-made facilities.
- *Planet Internet (Belgium).* We believe this is the second consumer ISP in Belgium. Planet Internet (Belgium) offers paid and free access, both using the Planet brand.
- *Het Net.* We believe this is one of the leading free ISPs in The Netherlands. Het Net offers customers their own e-mail address, the ability to create their own home page and more than 100 communities.
- *XS4ALL.* Established in 1993, this was one of the first ISPs in The Netherlands, with a focus on quality and heavy Internet users and on the small and medium sized enterprise market. XS4ALL has a subsidiary in Belgium that offers ISP services to the Belgian market.
- *HCC Net.* We acquired a 70.0% share in HCC Net on March 1, 2000. HCC Net is a community-based ISP with strong ties in the computer community in The Netherlands.

Together, our ISPs provide us with an approximately 33% share of the ISP market in The Netherlands, and we estimate our ISP market share in Belgium as of June 30, 2000 to be approximately 20%.

On August 30, 2000, we announced our intention to introduce consumer Internet services throughout Europe under our Planet Internet brand starting in Germany.

*Telephone directories.* We sell yellow pages business directories and advertisements, white pages residential directories, electronic and CD-ROM directories and sales of database information.

*Premium rate calling services.* We provide premium rate call services for mass calling events, such as television shows and number information services (8008/8118/8418).

### *CRM services*

*Call center services.* We provide call center outsourcing services, including in- and outbound call- and e-mail centers, which offer information services, sales support services and directory assistance services.

We are transforming call centers from old-style “phone factories” to modern customer relations facilities. We are also introducing “web-enabled” call centers that deliver voice- and data-based communication and information services. In March 2000, we acquired a majority stake in SNT Group N.V., or SNT, concurrently with the initial public offering of the shares of SNT on the stock market of Euronext Amsterdam N.V. SNT is a customer care provider that handles inbound and outbound telephone, fax and e-mail traffic for companies. We believe SNT is well positioned for expansion in the rapidly growing customer care market in Europe. SNT aims to become a preferred supplier in Europe for international companies. As of June 30, 2000, SNT had a 30% share of the call center outsourcing market in The Netherlands and a 17% share in Belgium.

We transferred our call centers business on January 1, 2000, to one of our wholly owned subsidiaries, KPN Callcenters B.V. KPN Callcenters’ clients are our group companies.

*0800/0900 services.* We also provide businesses with toll free (0800) and paid information (0900) national and international telephone service numbers for use by their customers.

*Other services.* We offer e-commerce facilitating and conferencing services, an employment agency for call centers and training services.

### *Other*

Our other segment comprises our business communications activity (which delivers, installs and services communications equipment for business customers), Station 12 (a satellite communications joint venture with Telstra), certain international investments, together with all our fixed network construction and operation activities, our sales and distribution activities, our head office functions and KPN Research (our research and development department).

### *Business communications*

We provide a range of business communications solutions for the Dutch business market. We also sell a wide variety of voice communications equipment for use at business premises, while also offering complementary consultancy, implementation, outsourcing and maintenance and support services. We estimate that approximately 33% of the revenues derived from our Business Communications area for the six months ended June 30, 2000 were derived from services, while the remaining 67% were derived from sales of customer premise equipment, 80% of which was attributable to sales of private branch exchanges.

Three business lines carry out our business communications activities: Large and Medium Business Systems, Small Business Systems, and Cablecom. We focus on businesses with more than 10 extensions on a private branch exchange and we believe we are market leaders in the sale of private branch exchanges in The Netherlands. In the year ended December 31, 1999, based on management estimates, we were responsible for approximately 50% of sales of private branch exchanges in this target market.

We aim to expand our business communications portfolio by:

- introducing new value-added services, such as network management;
- deploying new lower-cost means of distributing our products and services, particularly through KPN.com; and

- introducing products and services which facilitate the convergence of fixed, mobile, Internet and data communications.

There are currently few suppliers who offer customers combined voice and data solutions. As an integrator of all communications flows at customer premises, we intend to develop and market such solutions, including web-enabled call centers and IP-based private branch exchanges that accommodate voice-over-IP transmissions.

Large and Medium Business Systems provides, installs and services private branch exchanges and related equipment for medium and large enterprises. This business line operates an advanced remote-service and maintenance center. The Large and Medium Business Systems portfolio is built from products of suppliers such as Ericsson, Nortel, and Philips. We also hold strong positions in the market of dealing and trading equipment for financial institutions and the Dutch call center market.

The activities of our Small Business Systems operations are similar to those of the Large and Medium Business Systems area but are fully focused on the small- and medium-sized enterprise market. Small Business Systems delivers mainly integrated equipment for voice communications and is developing integrated voice and data solutions.

Cablecom is a market leader for in-company cabling systems, for both voice and data communication, including wireless LAN. For large enterprises with complex private cable networks, Cablecom offers on-premise maintenance, repair and network management services.

In the near future, the Communication Services business line will be added to business communications. Communication Services is an existing operation within the “Other” business segment, and manages voice networks for companies. Several of the largest companies in The Netherlands have outsourced their voice networks to Communication Services.

### *Station 12*

On November 30, 1999, we, together with Telstra, announced our plans to merge our global mobile satellite businesses in order to strengthen our position as a market leader in mobile satellite communications. With effect from April 1, 2000, we combined our business with Telstra’s mobile satellite business in a new company called Station 12 B.V. in which we hold 65.0% of the shares through our wholly owned subsidiary, KPN Satcom B.V., or KPN Satcom, and Telstra holds 35.0%. The company is headquartered in The Hague in The Netherlands.

Station 12 offers mobile satellite communication services in the maritime and land mobile telecommunications markets under the “Station 12” brand name. Most of its customers are maritime customers or are located in areas with unreliable terrestrial networks or none at all. Station 12 operates its own land earth station and provides worldwide Inmarsat satellite services and business networks under its own name. During 1999 and the first half of 2000, Station 12 has been the market leader for Inmarsat services and its sales currently represent approximately 23% of Inmarsat’s wholesale revenues. Station 12 currently holds a 5.9% interest in Inmarsat. KPN Satcom also currently holds a 5.3% interest in Eutelsat, a 1.1% interest in Intelsat and 0.9% of New Skies Satellites.

### *Network Bouw*

Network Bouw constructs telecommunications network infrastructure for us and for other telecommunications operators. We are in the process of carving this business out into a separate company, to be called KPN Network Bouw B.V. We initially plan to hold a 100.0% interest in this company.

### *Distribution and sales*

Each of our businesses uses a different mix of both our own and external distribution channels. Some of our business units also stimulate sales by wholesale distribution to independent service providers. The majority of sales of our products and services in The Netherlands are generated through our own distribution channels, principally our dedicated group sales teams.

*KPN distribution channels.* We have four sales units, each of which is dedicated to selling the products and services of all of our business units to different market segments. Our four sales units are:

- *Corporate Accounts.* This unit targets the top 50 companies in The Netherlands.
- *Major Accounts.* This unit targets 5,700 large business clients in The Netherlands, which are categorized by a high revenue potential.
- *Business Market.* This unit targets all small and medium sized businesses in The Netherlands.
- *Residential Market.* This unit targets the Dutch consumer market.

Some of our businesses, such as KPN Mobile and our wholesale carrier services business, supplement the efforts of our sales units with their own dedicated sales teams.

We have also established our own retail stores that sell the various products and services of our business units for the residential market—Primafoon shops—and the business market—Business Centers. As of June 30, 2000, there were approximately 140 Primafoon shops and approximately 30 Business Centers in operation. Primafoon shops are either run by us or operated on a franchise basis. Both types of stores are currently being transformed into information communications technology outlets. In addition to traditional end user equipment like ordinary telephones, faxes and mobile telephones, they will sell a growing range of personal computers, Internet-related products and services and data communication equipment and networks. We may choose to dispose of some or all of our retail stores, or enter into a strategic partnership to operate these stores.

*External distribution channels.* We have our own sales unit focused on sales through external distribution channels. It is critical for some of our business units to promote sales of their products and services through third-party retailers and dealers to enable them to realize sales targets. External telecommunications specialists in retailing mobile products in physical outlets are expanding their portfolios to Internet and fixed network-related portfolios. Furthermore, business operators in telecom-related industries (IT soft- and hardware) are expanding their portfolios with telecommunications products and services.

KPN Mobile employs its own sales force to cover third-party retailers and dealers.

*Internet distribution.* We are developing the Internet as a key low cost distribution channel for our businesses products and services. Our main Internet distribution channel is KPN.com which helps to generate subscriptions, sales and to provide information to customers. Our businesses have also developed a range of product specific Internet sites and portals, particularly KPN Mobile (e.g., its Hi.nl prepaid customer website and its mobile portals, Finfo and E-Plus Online).

*Wholesale distribution.* KPN Mobile has a dedicated sales team which focuses on wholesale distribution of its products and services to independent service providers. The service providers sell our post-paid subscriptions under our brands and also under their own brands. They also sell our own brand prepaid packages. We also have a dedicated sales team within the fixed network services business, which focuses on sales to other licensed operators.

### *International participations*

*eircom.* Comsource B.V. is a joint venture between us (60.0%) and Telia of Sweden (40.0%), through which we hold an indirect stake in eircom, the incumbent operator in Ireland. On July 7, 1999, we increased our interest in eircom from 12.0% to 21.0% when the Irish government decided to sell off its shareholding in eircom and eircom was publicly floated. Eircom provides fixed and mobile services. In the fourth quarter of 1999, we decided to pursue the sale of our interests in eircom. Our total book value of the investment in eircom (including goodwill) amounts to about €1.3 billion as of June 30, 2000. Based on the share price as of June 30, 2000, the market value of our stake in eircom at that date was slightly above book value.

*Český Telecom.* Český Telecom is the incumbent operator in the Czech Republic and provides fixed and mobile services. The company is listed on the Prague and London stock exchanges. Český Telecom's wide range of fixed services includes broadband solutions and its monopoly on fixed service runs until 2001.

We hold a 20.3% interest in Český Telecom (formerly known as SPT Telecom). This amount includes a 13.8% share through our TelSource joint venture with SwissCom and a direct shareholding of 6.5%.

The Czech Republic has announced that 51.1% of the shares in Český Telecom held by the Czech Government are to be sold. We have announced that we do not currently intend to extend our participation in Český Telecom. The fulfilment of the development objectives as agreed under the shareholders agreement between us and the Czech Government is subject to discussion between us and the Czech Government.

*Unisource/AUCS.* We, Swisscom and Telia established Unisource N.V. (known as Unisource) in 1993 as a pan-European telecommunications service provider. Since 1998, different strategic views among the stockholders on international telecommunications and the shareholders' own cooperation through Unisource led to the sale of all of Unisource's subsidiaries, except for AUCS vof and WorldPartners. Earlier this year, Unisource was demerged into three companies, each 100.0% owned by us, Swisscom and Telia, respectively.

AUCS provides data communication, outsourcing, voice and international virtual private network services as well as a range of services for international business customers, including Internet and intranet services. WorldPartners offers global telecommunications services under the WorldSource service brand and engages in technology planning and design in support of these services. AUCS distributes WorldPartners services in Europe.

AUCS was established in 1996 as a joint venture between AT&T (40.0%) and Unisource (60.0%). AT&T withdrew from the joint venture in 1999 and AUCS is now wholly owned by the three acquiring companies—us, Swisscom and Telia. Also in 1999, Infonet entered into an agreement with Unisource and its shareholders whereby Infonet has the sole and exclusive right to manage AUCS and its subsidiaries for a period of three years commencing October 1, 1999.

We, along with Swisscom and Telia own a 20.0% interest in WorldPartners, a U.S. general partnership also involving AT&T, KDD of Japan and Singapore Telecom. As of December 31, 1999, the original terms and conditions of the partnership agreement were terminated. The owners agreed to a wind-up business plan which will provide the WorldSource customers alternative solutions and result in the termination of WorldSource services by December 31, 2001, and of WorldPartners by mid-2002.

### *KPN Research*

KPN Research is our primary R&D department where technological, socio-cultural and business concepts are developed. New initiatives are assessed in terms of their customer value and economic

feasibility. KPN Research focuses on the following areas: the Internet, mobile communication, corporate networks, upgrading the fixed network, and international opportunities for us. In addition, KPN Research is constantly seeking ways to reduce costs and improve quality.

Our research and development expenditures totaled €55.8 million in 1999, €56.7 million in 1998, €53.1 million in 1997 and €30.6 million in the first half of 2000.

### **Network infrastructure**

In the three years ended December 31, 1999, we have invested approximately €4.5 billion in our fixed and mobile networks. During the first half of 2000, we have invested a further €820 million. We have a program of continuous roll out, maintenance and installation of network technology and infrastructure. We deploy the latest technologies in our networks including asynchronous transfer mode and wavelength division multiplexing technology. We have entered into a strategic partnership with Lucent which is designed to help us to introduce a broadband multi-service network.

#### ***Fixed telephony***

Our public switched telephone network and ISDN network in The Netherlands consists of approximately 1,300 access areas and 40 trunk exchanges connected by a long-distance transmission network. As of June 30, 2000, our network connects over 90% of the total households in The Netherlands. Our network is also connected to networks of other operators.

Customers access the network mainly through our twisted pair copper access network. In some areas, ISDN-30 connections are realized through the fiber optic CityRings network.

Each customer line ends in one of 1,300 access areas and is connected to one of our 550 local exchanges. Each local exchange is connected through independent transmission routes to two out of 40 independent trunk exchanges located at 18 sites in The Netherlands. These trunk exchanges are then interconnected in a mesh network so that two independent networks of trunk exchanges cover The Netherlands.

We have managed to have a low percentage of unannounced outage time per subscriber line, and our telephony network is designed and engineered to have an internal blocking rate during the peak hour of 3.0% end-to-end. The percentage of calls on the network that were unsuccessful due to a technical reason amounted to 2.1% in total and to 2.4% for national calls only in 1999.

#### ***Transmission networks***

Transmission services are provided mainly on the basis of synchronous digital hierarchy and digital wavelength division multiplexing technology. Older technologies, such as plesiochronous digital hierarchy, or PDH, are gradually being phased out.

*Synchronous digital hierarchy network.* Our current transmission network consists primarily of a countrywide network linking 18 backbone locations and providing transmission capacity to connect 1,300 access network areas to the backbone. The eight main locations on the backbone are all interconnected with 2.5 gigabit per second synchronous digital hierarchy rings. Each of the access network areas is connected to two backbone locations.

*Lambda network.* The fast growth in demand for high speed transmission, defined as 155 megabit per second and higher, has caused us to implement a new fiber optic network, which we call the Lambda network, with synchronous digital hierarchy and dense wavelength division multiplexing based transmission technology. The Lambda network became operational in its basic form at the end of 1999. By mid-2000 it spanned 4,400 track kilometers. The Lambda network already serves as the core IP/data services backbone and will play a central role in the implementation of our IP/data services strategy.

### ***International network***

For the supply of international voice services, we operate an international network, consisting of transmission infrastructure, that includes land and sea cables and satellite transmission systems, which, based on management estimates, directly connects approximately 150 telecommunications operators worldwide. The main access points of the network are Amsterdam and Rotterdam. The network is a circuit-switching network with the capacity of approximately 175,000 voice circuits, with three international switches in The Netherlands, 11 points of presence in Europe (Frankfurt, Düsseldorf, Paris, London, Brussels, Antwerp, Milan, Madrid, Geneva, Zurich and Vienna), a switch in New York, and a point of presence in Asia.

Switches outside The Netherlands have been prepared for asynchronous transfer mode packet switching, known as ATM. This new technology will be implemented throughout the network during 2002. Most of the switches are supplied by Ericsson, except for a small number of special services switches in The Netherlands which are supplied by Nortel.

We also operate an international network that contains AXE10 switches and muxes for connectivity and which, in particular, supports our wholesale business. This network is largely leased from KPNQwest.

### ***Mobile networks***

*The Netherlands.* We believe we have the most extensive and advanced mobile telecommunications network in The Netherlands, allowing us to offer high-quality services with extensive coverage. As of June 30, 2000, our network covered 96.7% of the geographic area of The Netherlands and 99.5% of the Dutch population. In the metropolitan areas the outdoor coverage level is almost 100.0%. Also, important traffic tunnels, subway stations and railway lines are covered.

The further development of our networks is an ongoing process. We intend to continue building new base stations, adding cells to existing base stations and updating the technology of our existing networks. We are continuously increasing the capacity of the network. We aim to increase capacity mainly in metropolitan areas and along motorways and we are currently improving our coverage inside buildings in urban areas. In addition, we are improving hundreds of antennae so as to increase network quality. We are aware of a growing resistance within municipalities to build more antennae on the basis that the construction of antennae requires planning permission.

*Germany.* E-Plus has set up five regional service monitoring centers, four of which operate two shifts per day, while the fifth operates 24 hours a day, seven days a week, monitoring the entire network when the other centers are closed.

A significant challenge for E-Plus is increasing its coverage of the indoor population and main roads. In 1999, E-Plus added 618 base stations to its network. By the end of 2000, E-Plus expects to have added a further 526 base stations to cover indoor areas, 292 base stations to cover high mobile traffic areas and 180 base stations to improve geographical coverage.

### ***Data networks***

#### ***Natvan***

We operate a frame relay network, known as Natvan, to provide a large number of data services, including:

- Internet access services to connect Internet dial-in platforms to ISPs;
- LAN interconnect services;
- X25 services through leased lines as well as through ISDN channels; and
- frame relay (64 Kbits through 2 Mbits).

### *ATM network*

Our ATM network is used to provide flexible leased line services and as a carrier network for our frame relay network and the connection of ADSL customers to our IP/data services backbone.

### *IP backbone*

Our IP/data services backbone deploys the Lambda network. This network connects our IP/data services backbone routers in four locations as of December 31, 1999 and eight locations as of June 30, 2000. The backbone is designed in such a way that it can be extended to cope with the strong growth in data traffic. Our national IP/data services network is connected to the international EuroRings and the transatlantic connections of KPNQwest.

### *Access network*

Our access network consists primarily of twisted pair copper, providing nearly all of the eight million Dutch homes with two pairs of copper wire in the tertiary part of the access network. The percentage of these double pairs that is connected to the secondary and primary level of the access network depends on the period in which the particular portion of the network was constructed. The access network is terminated in 1,300 access areas.

By the end of 1999, 78 access areas were also accessed by fiber, together forming our CityRings network. Fiber access usually permits speeds above two Mbits.

In certain cases wireless transmission systems are used in the access network, for example, as back up or if fiber access is not available. By mid-2000 approximately 250 wireless transmission systems were deployed in the access network.

### *Evolution of the telephony network*

The Internet has created major changes in the way the fixed telephony network is being used. Based on management estimates, the principal consequences of the growth of Internet traffic for us are as follows:

- currently 30.0% of traffic minutes on our domestic fixed telephony network is Internet traffic, and this percentage is expected to grow; and
- whereas the average voice session now lasts approximately 3.5 minutes, the average Internet session now lasts about 4.5 times as long.

These trends in Internet access traffic have caused serious problems in our telephony network, including notably a sharp increase in failed connections during busy periods for a portion of the network.

To allow for growth and support of Internet dial-up services, we plan to update and expand our telephony platform.

*Developments in PSTN/ISDN.* Depending on the development of voice traffic on the fixed telephony network, we plan to introduce various modernizations:

- we plan to replace local exchanges with stored program control but analogue switching fabric with full digital exchanges over several years.
- to prevent disturbance of voice traffic handling in the trunk network, we aim to remove Internet traffic from the fixed telephony network at the local exchange level. Using a separate set of trunk exchanges, we intend to feed this traffic to dial-in platforms and hence into the data network. We expect to implement this plan by the end of 2002 by using specialized technology at the local exchange level and introducing an Internet dial-in prefix.
- as of mid-2001 we expect to exploit ATM technology for the efficient handling of voice traffic in the trunk network.

- in response to growing interconnection capacity in recent years, we expect to increase the number of regional access switches.
- by the end of the first quarter of 2001, we expect to have 215 colocation sites, making xDSL services available to approximately 47% of the Dutch population.

*Voice over IP.* We currently deliver voice services primarily on the basis of PSTN, ISDN and GSM. In the coming years we expect that the importance of voice services originating from or delivered over IP networks will increase. The development of voice over IP started mainly in the business environment and is confined mostly to voice services in closed business domains. We believe that a market will emerge for interconnection between existing public platforms for voice services and voice over IP. The cost structure of voice services based on IP connectivity can be very different from that of traditional switch based voice services, allowing price differentiation. When market developments are favorable we intend to provide interconnection services for IP-based originating voice traffic seeking termination on traditional voice platforms.

### ***Evolution of the data network***

To carry the exponential growth in volume and bandwidth associated with the advent of multi-media services, we foresee major developments in our data communications network. We have already begun the development of this new data-centric network. It is designed to be able to handle busy hour volumes up to several terabits per second of data traffic offered throughout The Netherlands on our access and core networks.

The larger building blocks in this evolution of the data network are:

- *broadband access systems.* We expect that ADSL will quickly become a mainstream technology for us, providing broadband access to large numbers of customers using the copper access network. In areas with major business activity, we will aim to employ fiber to office systems, predominantly based on our CityRings network. Our access networks built after June 2000 will in general be prepared for fiber to the home.
- *multi service concept.* We believe that our IP backbone will become our core transport platform. We anticipate that our frame relay and ATM networks will develop into feeder networks for our IP backbone and that the Natvan network will be mainly used for X.25 services and frame relay service up to 2 Mbits. The ATM network is designed to provide access at 150 Mbits and higher speeds will be provided directly on IP.
- *the Lambda network.* We believe that the Lambda network will carry the majority of our traffic in the future. Using the 2x14 core locations as hubs, the network is designed to be extended to 300 smaller locations to provide 2.5 Gbits SDH connections as market demand arises. Starting in 2001, new DWDM devices will be installed that allow a ten-fold multiple of ten Gbits connections on a single fiber.

### **Intellectual Property**

We maintain an active strategy to develop and protect our intellectual property rights. Our current portfolio of intellectual property rights consists of approximately 2,000 registered trademarks, 150 design right registrations and 500 patent families. We intend to invest in the growth of our intellectual property rights portfolio, to take steps to protect these rights, and to generate revenue from these rights where appropriate (for example, through licensing arrangements).

### **Employees**

Our average number of full time equivalents increased from 34,753 at December 31, 1999 to 41,704 at June 30, 2000. This increase is mainly due to the acquisition of a 77.49% indirect stake in E-Plus through KPN Mobile and the increase to a 51.0% controlling stake in SNT.

### ***Collective pay and conditions agreement***

We entered into a new collective pay and conditions agreement with the trade unions in April 2000 that expires on April 1, 2001. Under the agreement, employees' salaries were raised by 3.75% effective April 1, 2000. An important element of the agreement was the further modernization of the conditions of employment.

The collective agreement includes an option system that allows employees to save or buy extra days off. Moreover, employees in the higher pay scales of the collective agreement may choose to work on new-style job-related contracts that add greater flexibility to work time and free time based on need. Furthermore, employees can work from home through office-linked electronic facilities, known as teleworking. We have substantially expanded career and personal growth opportunities for employees.

The collective agreement also includes a social policy, expiring on December 31, 2000, which provides for rules and compensation arrangements in the event of a reorganization (as defined). The policy is specifically aimed at preventing forced dismissals. Reorganization is defined in the labor agreement to include, among other things, the closure of a department or business unit as well as the abolition of a separate function.

### ***Collective pay and conditions agreement for KPN Callcenter agents***

We have also entered into a collective labor agreement with the trade unions which covers the employees of KPN Callcenters B.V. who joined the company after January 1, 2000. The salaries and allowances of employees who were employed by KPN Callcenters B.V. prior to January 1, 2000 are still partly governed by the labor agreement. The provisions of the Callcenter agreement provide for customary conditions of employment in the fast growing call-center industry.

### ***New pension scheme***

In November 1999, we reached a definitive agreement to introduce a new pension scheme which includes greater flexibility as of April 1, 2000. Important elements of the scheme are:

- a switch to an index-linked average pay system combined with a disposable premium arrangement;
- reduction of the pension premiums paid by employees;
- flexible retirement between the ages of 60 and 67;
- reduction in the part of the income exempted from contribution;
- risk-based partner pension; and
- extensive possibilities for personalized pensions.

The new pension scheme conforms to the objectives that employers' organizations and unions defined in the Voluntary Agreement on Pensions in 1997. This agreement sets out arrangements for modernizing pension schemes, controlling costs and expanding opportunities for joining pension schemes in The Netherlands.

In addition, a new pension scheme has been in place since July 1, 2000 for employees to whom our collective labor agreement does not apply, which largely corresponds with the scheme described above.

### ***Works council***

Our works council elections were held in March 1999, and for the first time employees cast votes by telephone. In April 1999, the respective management representatives installed 21 new works councils and one service committee (for Call Center Services). The newly composed Central Works Council started work in May 1999. The service committee for Call Center Services is now part of the works council for KPN Callcenters.

The new distribution of powers and responsibilities resulting from the many new developments within our organization led to a higher number of requests for advice. The Central Works Council also advised on strategically important matters such as the creation of KPN Mobile as a separate legal entity and the acquisition of a majority interest in E-Plus. We have entered into an agreement with our Works Council which provides for further arrangements and consultation requirements to be observed by us in respect of the joint venture between KPN Satcom B.V. and Telstra Ltd. and other international transactions.

#### ***Employee share option schemes***

The employee share option scheme came into effect on January 4, 1999, for a five-year term. Under the scheme, each employee was given an opportunity to take an option on 100 of our shares. The exercise price was equal to the opening rate of our shares on January 4, 1999, *i.e.*, €42.50 (approximately NLG 93.66). About 14,000 employees (44.0% of our staff) joined the plan. Giving effect to the two-for-one share split in the summer of 2000, the participating employees now have an option on 200 of our shares at an exercise price of €21.25. A second share option scheme came into effect on April 28, 2000. Under this scheme approximately 21,500 employees have each taken up an option on up to 68 of our shares, with an exercise price of €114.85. Giving effect to the two-for-one share split, each option now amounts to an option on 136 of our shares with an exercise price of €57.425.

#### **Properties**

We had approximately 2,286 buildings as of June 30, 2000, the majority of which are owned in freehold and located principally throughout The Netherlands. Approximately 1,787 of our buildings house telephone exchange equipment, necessary for our operations, and cannot readily be adapted to alternative uses. The remainder of the properties comprise offices, shops, storage facilities, residential properties and buildings for other miscellaneous uses. As of June 30, 2000, our land and buildings had a book value of €1,060 million and our plant and equipment had a total book value of €9,737 million. The only material portion of our property, plant and equipment which is subject to any encumbrances is the majority of the assets of E-Plus which are subject to security interests granted to lenders under the terms of a credit facility entered into by E-Plus in 1995.

#### **Legal and regulatory proceedings**

We are involved in a number of legal proceedings in the ordinary course of our business. These lawsuits primarily involve claims arising out of commercial law issues. We are also involved in administrative proceedings relating principally to competition law and consumer protection issues. Except for the legal and regulatory proceedings described in "Licensing and Regulatory Issues," we are not involved in any legal, arbitration or regulatory proceedings, which, if adversely decided, could reasonably be expected to have a material adverse effect on our financial condition or results of operations.

However, the possibility of claims by competitors or other proceedings, particularly in reliance on competition law, cannot be ruled out, and such claims or proceedings could have a material adverse effect on our results of operations and financial condition. In particular, claims have been made in the past against online service providers and networks for defamation, negligence, copyright or trademark infringement, obscenity, illegal gambling or other theories based on the nature and content of information that was posted online. In addition, the telecommunications industry has experienced litigation based on allegations of patent infringement or other violations of intellectual property rights. We could be subject to similar claims in the future and could incur substantial costs in their defense.

## STRATEGIC ALLIANCES

We have a number of important strategic alliances with major participants in the telecommunications industry. The most significant of these alliances are with BellSouth, DoCoMo, Hutchison, and Qwest. Each of these alliances is discussed below.

### **Strategic alliance with BellSouth**

#### ***Introduction***

On December 9, 1999, we, KPN Mobile, BellSouth and several of BellSouth's indirect wholly owned subsidiaries entered into agreements to create a joint venture between KPN Mobile and BellSouth in respect of E-Plus. All of these agreements, as amended, were entered into on December 9, 1999, and became unconditional on completion of the contemplated transactions, which occurred on February 24, 2000. A summary of certain provisions of these agreements is set out in "Material Contracts—Contractual arrangements relating to KPN Mobile's acquisition of E-Plus."

#### ***Joint venture between KPN Mobile and BellSouth and acquisition of E-Plus***

Prior to February 24, 2000, BellSouth, through BellSouth Holding, its indirect wholly owned subsidiary, held the entire issued share capital of E-Plus. On February 24, 2000, KPN Mobile, through certain subsidiaries, acquired 77.49% of the share capital of BellSouth Holding which was subsequently renamed to KPN/BLS Holding, and thus, indirectly, of E-Plus. As consideration for our 77.49% stake in E-Plus, we made a cash payment to BellSouth of €9.1 billion, we assumed €1.4 billion of shareholder loans, we granted BellSouth the right to exchange its remaining 22.51% share in E-Plus for shares in either our company or KPN Mobile in certain circumstances, and we issued to BellSouth a warrant entitling it to subscribe for a fixed number of shares in our company in certain circumstances. BellSouth retains a 22.51% shareholding in KPN/BLS Holding.

During June 2000 we, together with KPN Mobile and BellSouth, commenced a restructuring of E-Plus. In the course of this restructuring E-Plus was converted from a limited liability company to a limited liability partnership, E-Plus. The limited partner of E-Plus is KPN/BLS Holding and the general partner is a wholly-owned subsidiary of KPN/BLS Holding, E-Plus Mobilfunk Geschäftsführungs GmbH. We anticipate that during 2000 KPN/BLS Holding will also be converted into a partnership.

#### ***Financing the acquisition of E-Plus***

KPN Mobile initially financed the E-Plus acquisition by drawing a total of approximately €10.5 billion under a €13.0 billion credit facility entered into by us and KPN Mobile. We have subsequently repaid all sums, including interest, due under the credit facility. As a result, KPN Mobile owes us approximately €9.4 billion by way of intercompany loan. See "Related-Party Transactions—Inter-company indebtedness—KPN Mobile and E-Plus."

#### ***KPN/BLS Holding shareholders' agreement***

We are party to a shareholders' agreement with KPN Mobile, BellSouth, BellSouth Enterprises Inc. (an indirect wholly owned subsidiary of BellSouth), German Mobilfunk Investments, Inc (known as BellSouth Investment) and KPN/BLS Holding which, among other things, includes certain management and governance provisions relating to both E-Plus and KPN/BLS Holding. This shareholders' agreement also places certain restrictions on us, KPN Mobile and BellSouth operating wireless businesses in Germany or in certain territories which are exclusive to either us or BellSouth. These restrictions will generally not expire until June 8, 2003.

Any transfer of shares by KPN Mobile or BellSouth in KPN/BLS Holding is subject to the consent of the other shareholder and a right of first refusal. Furthermore, if the shareholders in KPN/BLS

Holding fail to resolve certain fundamental matters or attain a quorum in shareholder meetings or shareholder committee meetings, a deadlock procedure may be commenced. This procedure may generally only be started after June 9, 2001. This may result in KPN Mobile purchasing BellSouth's interest in KPN/BLS Holding for full market value plus a specified premium or BellSouth exchanging its interests in KPN/BLS Holding for an interest in KPN Mobile. See "Material Contracts—Contractual arrangements relating to KPN Mobile's acquisition of E-Plus—Shareholders' agreement."

### ***Exchange rights***

We are party to a reorganization agreement with KPN Mobile, BellSouth and BellSouth Investment which gives BellSouth the right to acquire either 200,000,000 newly issued shares in our company or 499,631,269 newly issued A shares in KPN Mobile, in exchange for BellSouth's 22.51% interest in KPN/BLS Holding. The number of shares to which BellSouth is entitled may be adjusted in response to certain events which dilute BellSouth's interest in our company or KPN Mobile. These rights may be exercised between June 9, 2001 and December 8, 2003, except in certain circumstances such as a lack of consent from the State of The Netherlands, as holder of the special share, to issue shares in our company. So far, the State of The Netherlands, as holder of the special share in our company, has not yet given its approval for the issue by us of our shares to BellSouth. However, we anticipate that this approval will be forthcoming, once a schedule for the sale by the State of any of its interest in us has been determined.

On June 30, 2000, KPN, KPN Mobile, BellSouth and BellSouth Investment, among others, entered into a tax agreement in which KPN agreed to indemnify BellSouth against certain potential tax liabilities which may arise in connection with the exercise by BellSouth of its exchange rights pursuant to the reorganization agreement by exchanging its indirect shareholding in E-Plus into shares in KPN or KPN Mobile.

In the tax agreement KPN also has covenanted to BellSouth that if BellSouth exercises its exchange rights pursuant to the reorganization agreement, KPN, KPN Mobile and their respective subsidiaries and affiliates (referred to as the KPN Group): (a) will for two years from such exercise by BellSouth refrain from certain transactions which may result in BellSouth being subject to U.S. income tax; and (b) will not undertake certain other transactions following the exercise of the exchange rights and prior to the end of the calendar year occurring after the fifth anniversary of the date BellSouth exercises its exchange rights under the reorganization agreement (at the latest) that would cause BellSouth to recognize a gain for U.S. income tax purposes.

### ***Subordinated loan facility and warrant***

On December 9, 1999, we and BellSouth entered into a subordinated loan facility under the terms of which at our request, and upon the satisfaction of certain conditions, BellSouth will purchase notes from us up to a maximum value of \$3.0 billion until March 1, 2004. We have drawn approximately €465 million under this facility, which we have subsequently lent to E-Plus, in connection with the acquisition of a UMTS license in Germany by E-Plus. The maturity, interest rates, currency and type of borrowing will be determined upon each request. All proceeds under this facility must be lent by us to KPN Mobile for use in KPN Mobile's European mobile telecommunications business or such other purpose we and BellSouth may agree upon. We have granted BellSouth a warrant enabling BellSouth to acquire 92,634,066 newly issued shares in our company against either a set-off of amounts due under the subordinate loan facility and/or a payment in cash. The warrant may be exercised between June 9, 2001 and December 8, 2003, or earlier in certain exceptional circumstances. If we are not able to issue shares to BellSouth due to a lack of consent from the State of The Netherlands as holder of our special share, or some other legal or regulatory impediment, BellSouth may instead elect to acquire A shares in KPN Mobile. KPN Mobile has independently agreed to issue shares to BellSouth in these circumstances. See "Material Contracts—Contractual arrangements relating to KPN Mobile's

acquisition of E-Plus—Subordinated loan facility and warrant.” So far, the State of The Netherlands, as holder of the special share in us, has not yet given its approval for the issue by us of our shares to BellSouth. However, we anticipate that this approval will be forthcoming, once a schedule for the sale by the State of any of its interest in us has been determined.

#### ***Restrictions on share dealings and registration rights***

BellSouth has agreed to certain restrictions (in a lock-up and standstill agreement) on any future shareholding in our company, including a maximum percentage shareholding. The State of The Netherlands, as holder of our special share, has advised us that its approval for the issue by us of shares in our company in exchange for BellSouth’s interest in KPN/BLS Holding, or under the warrant, is subject to further clarification by us. We believe that an amendment of the lock up and standstill agreement between us and BellSouth may be required in order to provide the State of The Netherlands with priority for the sale of its ordinary shares in our company.

We and BellSouth have agreed various restrictions relating to our respective interests in KPN Mobile, which will apply should BellSouth acquire an interest in KPN Mobile. These are set out in the reorganization agreement and a registration rights agreement between us, KPN Mobile, BellSouth and DoCoMo. The restrictions include a right of first refusal in respect of our A shares in KPN Mobile, a ceiling on BellSouth’s interest in KPN Mobile and a restriction on issues of A shares other than to us and BellSouth (other than in accordance with the terms of the KPN Mobile shareholders’ agreement between us, KPN Mobile, BellSouth, BellSouth Investment and DoCoMo, see “—Strategic alliance with DoCoMo—KPN Mobile shareholders’ agreement”). The registration rights agreement also provides that, following an exercise of its exchange rights under the reorganization agreement, BellSouth may require that we or KPN Mobile (depending upon which entity it is then a shareholder in) take any steps necessary to register BellSouth’s shares in our company or KPN Mobile, as the case may be, to allow those shares to be publicly traded in the United States and The Netherlands. This right may generally only be exercised after June 9, 2001. DoCoMo also has rights under the registration rights agreement in respect of its shares in KPN Mobile. Both the shareholder committees of KPN/BLS Holding and of E-Plus’ general partner, E-Plus Mobilfunk Geschäftsführungs GmbH, comprise the same six members: four appointed by KPN Mobile and two appointed by BellSouth. Decisions of both shareholder committees can only be passed with a majority vote of at least five of the six members. See “Material Contracts—Contractual arrangements relating to KPN Mobile’s acquisition of E-Plus—Reorganization agreement” and “Material Contracts—Contractual arrangements relating to DoCoMo’s investment in KPN Mobile—Registration rights agreement.”

#### **Strategic alliance with DoCoMo**

##### ***Introduction***

We and KPN Mobile entered into various agreements with DoCoMo and BellSouth in connection with DoCoMo’s subscription for A shares in KPN Mobile constituting 15.0% of the voting rights in KPN Mobile. A subscription agreement and shareholders’ agreement were entered into on July 12, 2000 while certain ancillary agreements were signed at completion of the transaction on August 2, 2000. A summary of certain provisions of these agreements is set out in “Material Contracts—Contractual arrangements relating to DoCoMo’s investment in KPN Mobile.”

##### ***Subscription of shares by DoCoMo***

DoCoMo has subscribed for 176,470,589 A shares constituting 15.0% of the voting rights in KPN Mobile for an aggregate amount of approximately €4 billion. The subscription agreement between us, KPN Mobile and DoCoMo lists a limited number of specific reserved matters which are subject to DoCoMo’s approval. DoCoMo has undertaken not to dispose of its shares in KPN Mobile until

August 2, 2003, although this restriction may terminate in certain circumstances. DoCoMo has also undertaken that until August 2, 2004 it will not acquire shares in our company nor shares representing more than 15.0% of the voting rights in KPN Mobile.

DoCoMo has agreed to non-competition restrictions in certain countries, including KPN Mobile's core European territories of The Netherlands, Germany and Belgium, together with the United Kingdom, subject to certain conditions. DoCoMo and KPN Mobile will endeavor jointly to pursue investment opportunities in mobile telecommunications within Europe, subject to certain limitations. KPN Mobile has agreed not to compete with DoCoMo in Brazil, Japan or Hong Kong and to consult with DoCoMo in respect of any planned competing investment elsewhere in Asia.

#### ***KPN Mobile shareholders' agreement***

We are party to a shareholders' agreement with KPN Mobile, BellSouth, BellSouth Investment and DoCoMo with respect to their interests, or, in the case of BellSouth, potential interests, in KPN Mobile.

The agreement gives BellSouth and DoCoMo certain minority shareholder protections including representation on the supervisory board of KPN Mobile, which in the case of BellSouth applies only once BellSouth holds A shares in KPN Mobile pursuant to an exercise of its exchange rights under the reorganization agreement.

The agreement also gives the shareholders tag-along rights, the right to sell their shares if a holder of the majority of the A shares sells its shares. BellSouth may exercise its exchange rights under the reorganization agreement to take advantage of its tag-along rights in the event of a proposed sale of A shares by another shareholder. The parties also have top-up rights entitling them to further A shares to maintain their respective percentage voting rights in the case of certain issues of shares in KPN Mobile which would otherwise dilute their voting rights. BellSouth may in certain circumstances exercise top-up rights prior to holding any A shares in KPN Mobile by making convertible loans to KPN Mobile which may convert to A shares in the future. In addition, the parties have granted various rights of first refusal over their respective shares in KPN Mobile and certain of its subsidiaries.

We have undertaken to consult with BellSouth over any regulatory or strategic concerns of BellSouth in the event of certain investments by us, KPN Mobile or our respective affiliates in any Central or South American country where BellSouth already has a substantial interest.

#### ***Cooperation in the development and licensing of technology***

We have agreed with KPN Mobile and DoCoMo to conduct joint technology development projects and to exchange know-how and intellectual property within certain areas of cooperation, including in relation to DoCoMo's proprietary technology known as "Camesse" and "i-mode." We have agreed to license to each other existing and new technology for an exclusive period within certain jurisdictions upon request.

#### ***Strategic alliance with Hutchison***

In July 2000, we and KPN Mobile entered into agreements with respect to various potential joint ventures in connection with the acquisition of UMTS licenses in Germany, the United Kingdom, France and Belgium.

In respect of Germany, we had entered into a joint venture agreement with Hutchison to bid jointly for a UMTS license through its Luxembourg based subsidiary, Auditorium, in which KPN Mobile acquired a 50.0% stake. Auditorium was subsequently renamed E-Plus Hutchison. E-Plus Hutchison won one of six UMTS licenses in Germany for which it paid on August 31, 2000 approximately €8.4 billion. At the time the license was won, we announced that Hutchison had

exercised its contractual right to withdraw from the joint venture. Accordingly, on August 29, 2000 E-Plus acquired the interests of both KPN Mobile and Hutchison in E-Plus Hutchison, which has been renamed E-Plus 3G Luxembourg.

KPN Mobile has entered into an agreement to acquire a 15.0% interest in Hutchison 3G UK Holdings Limited, the owner of a UMTS license in the U.K., for approximately €1.5 billion which is expected to close, subject to conditions, in late September. KPN Mobile has certain board representation rights. It also has certain obligations to provide shareholder funds to the company in certain circumstances if requested to do so. KPN Mobile and Hutchison also have certain preemptive rights in respect of transfers of shares, and top up rights in the case of issues of new shares. In addition, KPN Mobile has certain tag along rights in the event of a proposed transfer of shares by Hutchison. See “Material Contracts—Contractual arrangements with Hutchison and DoCoMo—United Kingdom.”

KPN Mobile also entered into an agreement with Hutchison in July 2000 giving them the option to pursue jointly the acquisition of a UMTS license in Belgium. KPN Mobile also entered into a similar agreement with Hutchison and DoCoMo giving the three parties the option to form a consortium (possibly with a French operator) to pursue the acquisition of a UMTS license in France. See “Material Contracts—Contractual arrangements with Hutchison and DoCoMo—Belgium” and “—France.”

#### **Strategic alliance with Qwest**

We formed KPNQwest, our joint venture with Qwest, in April 1999. We provide IP/data services outside the Benelux countries through KPNQwest. KPNQwest conducted an initial public offering in November 1999. Our economic share in KPNQwest is 44.3%, another 44.3% is owned by Qwest and 11.4% is owned by the public. Our share of KPNQwest’s voting rights, like Qwest’s share, is 49.4%.

Under the terms of an amended and restated joint venture and shareholders’ agreement, we and Qwest currently each have the right to nominate three members of KPNQwest’s supervisory board. Certain actions of KPNQwest require either the prior approval of those nominees or the prior approval of ourselves and Qwest. In addition, we and Qwest have each agreed to certain restrictions on specific activities which may compete with those of KPNQwest.

Our agreement with Qwest also place certain restrictions on our respective abilities to transfer our shares in KPNQwest. There is also a detailed buy/sell arrangement with respect to our shares in the event of a deadlock between us or a change of control of one of us. See “Material Contracts—Contractual arrangements relating to our joint venture with Qwest.”

## LICENSING AND REGULATORY ISSUES

### Introduction

The current regulatory framework in the EU and in the principal countries in which we provide our services or intend to provide our services is briefly described below. There can be no assurance that future regulatory, judicial and legislative changes will not have a material adverse effect on us, or that national or international regulators or third parties will not raise material issues with regard to our compliance or non-compliance with applicable regulations.

### European Union

#### *Telecommunications directives*

One of the aims of the EU is to create a free and open market for telecommunications. All Member States are required to comply with EU legislative instruments and to enact national law giving effect to EU legislation. The EU has adopted a number of directives and other legislative instruments designed to liberalize and harmonize the provision of telecommunications services throughout Europe. Despite the existence of these EU laws, not all Member States have transposed or enforced them, and the European Commission has begun legal proceedings in several cases to require them to do so.

In 1990, the Open Network Provision, or ONP, Framework Directive (90/38/EC), and the EC Services Directive (90/388/EC) were enacted. These two directives set forth the basic rules for access to PTT public networks and the liberalization of the provision of all telecommunications services within the EU, except for voice telephony.

The fundamental requirements of ONP are that access to the network be provided on objective, transparent and fully publicized criteria. In addition, tariffs were required to be cost-oriented, properly publicized and applicable to all on a non-discriminatory basis.

The EC Services Directive abolished the existing monopolies on, and permitted the competitive provision of, all telecommunications services, with the exception of voice telephony.

In 1992, the EC enacted the ONP Leased Line Directive (92/44/EC), which required Member States to ensure the provision by public telecommunications network operators of a minimum set of leased lines and required that tariffs for leased lines followed the basic principles of cost orientation and transparency.

Both the ONP Framework Directive and the Leased Lines Directive have been amended so that operators determined to have significant market power are required to make available a minimum set of leased lines at tariffs supervised by the relevant national regulatory authority.

The ONP Voice Telephony Directive (95/62/EC), adopted in 1995, deals with access by the public to fixed public telephone networks. In February 1998, the EU Council adopted the Revised Voice Telephony Directive (98/10/EC) which replaced the earlier ONP Voice Telephony Directive and extended some of its provisions to mobile services, including (1) the requirement to provide directory services, operator assistance, directory inquiry services and emergency services; and (2) provisions requiring terms and conditions of customer contracts to be publicly available, and to specify supply times for initial connections, types of maintenance, compensation and refund arrangements and the means of settling disputes. The Revised Voice Telephony Directive also requires that certain services be provided at affordable rates, in particular for users in high cost or rural areas or vulnerable groups (*i.e.*, universal service).

In 1996, the Commission adopted the Full Competition Directive (96/19/EC) which extends the scope of the Services Directive to public voice telephony services and fully liberalizes the provision of network infrastructure. It requires EU Member States to permit alternative infrastructure providers,

such as existing networks of cable companies, railroads, electric and other utility companies, to resell capacity on these networks for the provision of services other than voice telephony from July 1996.

The Mobile Directive (96/2/EC) was also adopted in 1996, amending the scope of the Services Directive with regard to mobile services. It required Member States to abolish all exclusive and special rights in mobile telecommunications and to establish open and fair licensing procedures for the launch of GSM and DCS 1800 digital services.

The Licensing Directive (97/13/EC) was enacted in April 1997. Most importantly, it requires that license conditions be objectively justified, non-discriminatory, proportionate and transparent and that the number of licenses granted by a Member State in respect of a particular type of service may be limited only to the extent required to ensure the efficient use of radio spectrum or for as long as is necessary to make available sufficient numbers.

The Interconnection Directive (97/33/EC), enacted in 1997, provides a framework of rights and obligations for interconnection. Member States are required to impose obligations on organizations to negotiate interconnection agreements. A provider of public networks or services, including mobile operators, that is determined to have significant market power must meet all reasonable requests for access to its networks, must provide detailed information relating to that interconnection, and must provide interconnection in a manner which does not discriminate between third-party operators and other divisions of its own business or its partners. Fixed line and leased line operators that have been determined by the relevant national regulatory authority to have significant market power in a relevant market must also offer interconnection services at cost-oriented rates on a non-discriminatory basis. A determination of significant market power will be presumed where the relevant organization holds more than a 25.0% share of the relevant telecommunications market, but may also take into account the operator's ability to control market conditions.

The Interconnection Directive has been amended to provide for carrier selection (ensuring that end users can select the long distance or international carrier of their choice on a call-by-call basis) as of January 1, 1998, and carrier preselection (ensuring that end users can select the long distance or international carrier of their choice prior to the time calls are made) and number portability (the ability of end users to keep their numbers when changing operators) by January 1, 2000. Carrier selection and carrier preselection are required to be made available by carriers with significant market power, as above.

Finally, the EU has also adopted the Telecommunications Data Protection Directive (97/66/EC) addressing the processing of personal data and the protection of privacy in the telecommunications sector. This Directive includes provisions on the security of networks, prohibitions on tapping and intercepting calls without consent, restrictions on the manipulation of traffic data, an obligation to provide non-itemized bills, and provisions on calling and called line identification.

### ***The Internet***

Few current laws and regulations specifically regulate communications on the Internet. European and U.S. Government authorities and agencies are considering laws and regulations issues such as user privacy, pricing, on-line content regulation and taxation of on-line products and services. In November 1995, the E.C. adopted a general directive called the Data Protection Directive (95/46/EC) regarding certain privacy rights for citizens of EU Member States, and in December 1997, the EU adopted the Telecommunications Data Protection Directive (97/66/EC). These directives impose restrictions on the collection and use of personal data, and provide for access by data subjects to their data, the right to know where the data originated and the right to recourse in the event of unlawful processing. Although, to the best of our knowledge, no European court has ever held a telecommunications services provider liable for content transmitted over its network, we can give no assurances that no laws or regulations will be adopted that will impose such liability, or that any future court rulings will not

impose such liability. Any future regulation of the Internet could impose restrictions on the way we conduct our business, could seriously affect our business, and could result in financial liabilities resulting from our Internet activities.

Directive 2000/31 of 8 June, 2000 on electronic commerce, which we refer to as the E-commerce Directive, and Directive 97/7 on the protection of consumers in respect of distance selling of 20 May, 1997, which we refer to as Distance Selling Directive, regulate distance selling of goods and services, including services which we provide, by electronic means. The first Directive has to be transposed into EU Member State national law by January 17, 2002, and the second was required to be transposed by June 4, 2000. The regulations set out in these Directives are meant to complement general national contract law.

### *The 2000 Communications Review*

In July 2000, the European Commission introduced a series of draft legislative proposals designed to consolidate and reduce regulation of the communications industry. If enacted, this legislation would largely replace the existing EU telecommunications legislation explained above. The package of new legislative measures proposed by the Commission includes:

- five harmonization directives, including a framework directive, and four specific directives on licensing, access and interconnection, universal service and user rights, and data protection;
- a regulation setting a deadline of January 1, 2001, for unbundling of the local loop; and
- a directive outlining competition guidelines.

At the same time, the Commission published a draft framework directive to ensure harmonized distribution of radio spectrum for a wide range of applications including third-generation mobile phone and satellite communications.

The Commission has stated that it intends to have all of these legislative proposals approved by the Council of Ministers and the European Parliament and transposed into EU member state national law by December 31, 2001.

The aim and scope of the proposed framework directive is to harmonize the regulation of electronic communications networks and services, covering all satellite and terrestrial networks, including both fixed and wireless, including the public switched telephone network, IP networks, cable TV, mobile and terrestrial broadcast networks. It does not cover services such as broadcast content, electronic commerce services or terminal equipment.

As a regulation, the legislative requirement to unbundle the local loop would automatically become law throughout the EU should the Council of Ministers and the European Parliament approve it in the four months after its issue date. The key provisions in the regulation are:

- incumbent operators must provide competitors with full and shared unbundled access to their local copper loops on fair, transparent, and non-discriminatory terms, including the right for competitors to have access on the same terms as those offered to the operators themselves or their associated companies, including with respect to conditions and timescales;
- incumbent operators must grant physical access at any technically feasible point on the copper loop and allow a new entrant to collocate its own network equipment;
- the price for unbundled access to the local loop must be cost-oriented so long as competition is insufficient to prevent excessive pricing; and
- operators must publish a reference offer for unbundled access to the local loop including prices, terms, and conditions.

The proposed data protection directive would replace the existing Telecommunications Data Protection Directive to take into account technological developments, and become technology-neutral. Most significantly, it would include a ban on unsolicited e-mail and other data-based messaging, as well as on the use of data relating to a customer's location, without the specific consent of the customer.

The draft framework directive includes new competition guidelines to be used by both the European Commission and Member State regulatory authorities when determining whether a specific organisation has significant market power, and which specific regulatory obligations should be placed on such an organisation. This could result in the current ONP obligations of non-discrimination, cost orientation and transparency being extended to other electronic communications networks and services.

### ***EU competition law***

We are subject to the competition rules contained in articles 81 and 82 of the EU Treaty. Article 81 prohibits collusion between competitors that may affect trade between Member States and which has the object or effect of restricting competition within the EU. Article 82 prohibits any abuse of a dominant position within a substantial part of the EU that may affect trade between Member States. Furthermore, EU law allows the Commission effectively to block certain concentrations, including mergers, acquisitions and joint ventures, by withholding mandatory clearance of them. These rules are primarily enforced by the European Commission in cooperation with the national competition authorities, which for The Netherlands is the Dutch Competition Authority (*Nederlandse Mededingingsautoriteit*, which we refer to as the NMa), and through national courts. The European Commission and the NMa may impose a penalty on parties that infringe the competition rules. The penalty may amount to a maximum of 10% of the turnover in the preceding fiscal year of each of the organizations involved. In fixing the amount of the penalty the Commission must consider the gravity and the duration of the infringement.

Using its power to conduct investigations, the European Commission decided on July 27, 1999, to initiate a general investigation of the telecommunications industry in the European Union. In particular, the Commission decided to initiate inquiries into the telecommunications sector relating to the provision and pricing of leased lines, mobile roaming services, and the provision of access to and use of the residential local loop. The inquiries involve requesting information from incumbent fixed network operators, mobile network operators, a number of newly authorised fixed telecommunications network operators, as well as large business users and Member States' authorities.

### **ITU—international frequency allocation**

At a global level, frequencies for terrestrial or space radiocommunications are allocated for certain purposes at bi-annual World Radio Conferences (WRC). Within these global level allocations further allocation to specific services can be made at European (e.g. GSM, DCS 1800) or national level. National ITU member states are responsible for authorizing the use of these frequencies, which is usually carried out under licensing regimes.

In June, 2000, ITU decided that governments should make an additional 160 MHz available for UMTS service by 2008 at the latest. The impact of this decision cannot be foreseen at this stage.

## **The Netherlands**

### ***General***

#### ***The Telecommunications Act***

The principal telecommunications regulations in The Netherlands are currently contained in the Telecommunication Act (*Telecommunicatiewet*, which we refer to as TW), which took effect on December 15, 1998. Certain provisions of its predecessor, the Act on Telecommunication Facilities (*Wet*

*op de telecommunicatievoorzieningen*, which we refer to as Wtv), remain in effect, including provisions pertaining to the GSM, DCS 1800 and ERMES licences held by KPN Mobile, all of which were granted under the regulatory regime of the Wtv.

The Minister of Transport, Public Works and Water Management, whom we refer to as the Minister, and the Independent Post and Telecommunications Authority (*Onafhankelijke Post en Telecommunicatie Autoriteit*, which we refer to as OPTA) share supervisory functions under the TW. OPTA's authorities include resolving interconnection, special access and site sharing disputes, administrating and allocating numbers, and maintaining and supervising the various registries required by the TW. The Minister is responsible for issuing licenses for the use of radio frequencies, the enforcement of statutory rules and license conditions for the use of radio frequencies, radio transmission equipment and other forms of spectrum use, and the supervision of safety issues in the telecommunications sector, such as issues of national security and security of information.

Under the TW, only the use of frequencies still requires a license. Anyone may provide public telecommunications or broadcasting networks or offer leased lines or any telecommunications service to the public without prior government approval being required. However, parties offering these facilities or services must register with OPTA.

Certain obligations contained in the TW apply to all providers of public telecommunication networks or of public telecommunications services, including the obligation to provide interconnection or number portability. In line with the EU directives described above, additional obligations are placed on parties which have been designated as having significant market power, as is described in more detail below.

#### *Interconnection principles*

All providers of public telecommunications networks and public telecommunications services in The Netherlands which control the access to network termination points of end users or relevant providers are obliged to provide interconnection to their networks. Both KPN Telecom B.V., or KPN Telecom, and KPN Mobile are relevant providers, and are therefore both obliged and entitled to interconnect with all other relevant providers. Also, all relevant providers must provide for interconnection with the networks of foreign providers of public networks and services which control the access to network termination points of end users.

The term interconnection as used in the TW is understood to only cover call termination services that interconnecting parties provide to each other reciprocally. Services based on call origination, such as carrier selection, are considered a form of special network access.

#### *Significant market power*

Parties having significant market power on one or more of the markets for (1) fixed public telephony networks and services, (2) leased lines or (3) mobile telephony networks and services, shall be designated as such by OPTA. In addition, OPTA shall also designate providers of mobile telephony networks and services which have significant market power on the national market for both fixed and mobile telephony services together. Significant market power is assumed for organizations holding share in the relevant market greater than 25%. All parties designated as having significant market power must comply with reasonable requests for special access to their network and also offer interconnection and special network access on non-discriminatory terms. Providers of fixed public telephone networks, fixed public telephone services or leased lines designated as having significant market power are furthermore required to offer other market players and customers transparent access to their networks and services at cost-oriented prices. Providers with significant market power on the national market for both fixed and mobile telephony together must also charge cost-oriented prices for interconnection.

KPN Telecom has been designated as a provider of fixed public telephone networks and services and of leased lines throughout The Netherlands with significant market power under the transitional provisions of the TW. This statutory designation will last until December 15, 2000. OPTA has announced that it will timely decide on the designation of KPN Telecom after the expiry of this current designation by law.

On October 20, 1999, OPTA designated KPN Mobile as having significant market power in the market for provision of mobile public telephone networks and services. As a result, KPN Mobile must comply with all reasonable requests for special access to its network and also offer interconnection and special network access on non-discriminatory terms. We have not been designated as having significant market power on the national market for both fixed and mobile telephony together and therefore OPTA does not have the authority to regulate KPN Mobile's retail or wholesale tariffs.

#### *Numbering and number portability*

Number allocation is carried out by OPTA in accordance with number plans established by the Minister. OPTA keeps a register of the numbers which it has allocated to providers of telecommunications networks and services, and to end users. The Number Portability Decree requires all providers of public telephony services to offer portability (which allows customers to retain their number if they switch to another provider) to anyone purchasing their services from January 1, 1999. This Decree also prohibits the operator whose customer contract is terminated as a result of this process from charging a fee to the end user for number portability, but allows recovery of reasonable administrative costs by the customer's new provider up to a maximum of €9.07 (NLG 20).

#### *Universal service obligation*

Under the TW, we are obliged to offer services which are designated as universal services, and which must be available to everyone at an affordable price and a certain quality for as long as we can offer these services without claiming that we cannot fulfill them without compensation. These services include the provision of fixed public telephone services subject to a tariff ceiling, public payphones and telephone directories and access to directory enquiry services.

#### *Directory services*

In October 1999, VNU, acting on behalf of its subsidiary De Gouden Gids B.V., which publishes a yellow pages directory, or Gouden Gids, in The Netherlands, filed a complaint against us with the NMa and OPTA, in connection with our conduct in the market for the supply of directory information concerning subscribers to (fixed and mobile) telecoms networks and the market for telephone directories. VNU has requested, among other things, that we be ordered to supply more information and charge lower tariffs. In addition, VNU has requested that we be prohibited from including commercial information (including our pink pages, which compete with the Gouden Gids) in our telephone directories which contain the directory information that we publish pursuant to our universal service obligation. In June 2000, the NMa posed a number of questions, to which we have since responded. OPTA has suspended its investigation pending the handling of the case by the NMa.

#### *Competition law, fair trading*

OPTA supervises compliance with the sector specific rules, including competition rules incorporated in the TW and lower regulations based thereon. The competition rules contained in the Dutch Competition Act also apply to the telecommunications sector in The Netherlands. These general competition rules prohibit agreements and concerted practices restricting competition on a substantial part of the Dutch market as well as abusive exercise of a dominant position in a certain relevant market. They are primarily enforced by the NMa and through national courts.

Since January 1, 1998, a new Competition Act (*Mededingingswet*) has been in force in The Netherlands. Aside from a number of exceptions, it conforms to the system of European competition law, including articles 81 and 82 of the EC Treaty. These general competition rules prohibit agreements and concerted practices restricting competition on a substantial part of the Dutch market as well as abusive exercise of a dominant position in a certain relevant market. They are primarily enforced by the NMa and through national courts. The competition rules contained in the EC Treaty and in the Dutch Competition Act also apply to the telecommunications sector. The NMa regularly becomes involved in regulation of the telecommunications sector, usually in cooperation with OPTA or the Directorate-General of Telecommunications and Post of the Ministry of Transport, Public Works and Water Management, as neither has the independent authority to enforce Dutch competition law in the telecommunications sector.

### ***Fixed services***

#### ***Retail pricing telephony***

Our fixed public voice telephony services are regulated on price. As a provider of a fixed public telephone network and a fixed public telephone service with significant power, we are obliged to offer fixed public voice telephone services at cost-oriented prices. OPTA is required to determine each year whether the prices that we charge meet this requirement. For that purpose, in May of every year we must submit the results over the preceding year of the application of our approved system for the allocation of costs and revenues to the fixed public voice telephone service, including an overview of the costs and revenues determined by means of this system. At the same time, we may submit a statement of what we believe the consequences should be for our prices. Price changes other than those emerging from these reported annual results, must be submitted to OPTA one month prior to their public announcement. We may only introduce these price changes if OPTA has not advised us, within three weeks of receipt of our proposal, of its opinion that the proposed price change is not cost-oriented.

Our telephony charges are currently regulated by means of a price-cap system for the period from July 1, 1999 to June 30, 2002. Under this system, we must in effect reduce by at least 5.3% per year a basket consisting of the prices for telephone subscriptions, local and national phone calls, calls from fixed to mobile phones, standard directory listings and directory inquiry services. In addition, sub-caps apply to the price for a standard PSTN subscription which may not be increased apart from the general consumer price inflation, and the price for a local call which must be reduced by 5.3% each year. The rules do allow us to make corrections for inflation. For the first price-cap year, from July 1, 1999 to June 30, 2000, the net price reduction of 3.3% was required. The price-cap formula requires us to reduce our prices by a further 3.1%, after accounting for inflation, for the period from July 1, 2000 through June 30, 2001.

As of June 15, 2000 we currently charge our fixed line customers a differentiated rate for calls from our fixed telephony network to mobile telephones, depending on the network on which the call terminates. Each of the Dutch mobile telecommunications operators has agreed a different interconnection rate with us for termination of calls originated on our fixed telephony network to the network of a specific mobile operator. OPTA has indicated that it will separately examine “retention” (*i.e.* the amount that we incorporate in our end user prices to cover costs associated with actual use of our fixed network for a fixed to mobile call) in order to decide whether it is cost oriented. These retentions may differ depending on the mobile operator involved. Meanwhile, OPTA continues its review of the method of examining whether the prices of such calls are cost-oriented, including the formula for the determination of the end users prices. OPTA announced that it will decide on this matter in October 2000.

In July 1999 we introduced a surcharge on calls made from lines in our fixed network to users of mobile networks in 21 foreign countries and added four more countries to the list in December 1999. This was necessary to avoid routing calls from foreign countries to mobile networks in other foreign countries via The Netherlands at our expense. It is a potentially rewarding construction because of the substantial reduction of our international call charges. We originally wanted to apply a uniform surcharge but OPTA objected on the grounds that the surcharge had to reflect actual costs. Therefore, we introduced differentiated surcharges. The amounts of these surcharges reflect the direct additional charges which are agreed bilaterally with the foreign network operators concerned for the costs of handling calls to mobile networks in their countries.

Under the TW, we are required to charge uniform tariffs throughout the country, unless OPTA grants an exemption from this obligation once sufficient competition in the relevant market exists. Furthermore, we are only entitled to offer discount schemes which are fully transparent and are published and applied non-discriminatorily. Discount schemes require the prior approval of OPTA. OPTA may grant an exemption from this requirement if it determines that effective competition exists in a certain relevant market. This has not yet occurred.

#### *Leased lines*

As a provider of leased lines with significant market power, we are obliged to offer leased lines at cost oriented prices, which are established in accordance with our system for the allocation of costs and revenues to leased lines. OPTA is required to determine each year whether our prices meet the requirement of cost orientation. For that purpose we must submit the results of application of the system over the preceding year, or an overview of the costs and revenues determined by means of this system, in May of every year. At the same time, we may submit our estimate of the consequences for leased line prices. Price changes other than those emerging from the reported annual results, have to be submitted to OPTA one month prior to their public announcement. We are not allowed to introduce such price changes if OPTA has advised us, within three weeks of receiving our proposal, of its opinion that the proposed price change is not cost-oriented. Under the TW, OPTA must grant an exemption from the obligation to charge cost-based prices where a provider of leased lines designated as having significant market power demonstrates that it does not possess significant market power in a certain geographic area for a specific type of leased line. Furthermore, OPTA may grant exemption if it determines that effective competition exists in a certain market, which it has not done to this date.

One of the matters the European Commission is examining in its industry-wide investigation concerns the provision and pricing of leased lines. The Commission has observed that leased line prices have remained high despite the development of a competitive infrastructure since new entrants came into the market. A price comparison conducted by INTUG revealed that prices of international leased lines in all member states are more than 120.0% higher and in some case 500.0% higher than national prices. The Commission has also received unofficial complaints about alleged discriminatory pricing and treatment, slow deliveries and low quality of service. Therefore, the Commission's investigation will focus on whether present commercial practices and prices violate the EU Treaty's competition rules.

#### *Tariffs for interconnection and special network access*

We have been required since 1997 to charge cost-oriented tariffs for interconnection and special network access services. The Minister ordered us to develop so-called Embedded Direct Costs, or EDC, model. At the same time, OPTA developed a bottom-up model for verification of the EDC model. On July 1, 1998, OPTA issued its decision, based on both models, on the definitive interconnection tariffs for the period July 1, 1997 to July 1, 1998 and on the provisional tariffs for the period July 1, 1998 to July 1, 1999, which we refer to as the 1998 EDC opinion. In its April 28, 1999 decision which we refer to as the 1999 EDC decision, OPTA ordered us to adjust our wholesale tariffs in accordance with the 1998 EDC opinion, to apply an *ex-ante* rate of return on assets of 11.6%. We

filed objections to the 1999 EDC decision, as did other market parties. OPTA's decision on those objections is still pending.

On November 29, 1999 OPTA decided on the provisional interconnection prices for the period of July 1, 1999 to July 1, 2000. Pursuant to this decision, we are entitled to charge wholesale prices which are (in some cases) higher than those set for the previous period in the 1999 EDC decision. We filed objections to this decision, as did other parties. On December 16, 1999, OPTA issued a decision on the definitive interconnection prices for the period of July 1, 1998 to July 1, 1999, setting the definitive prices at the level of the provisional prices for that period. We filed an objection to this decision.

In its December 16, 1999 decision, OPTA also announced that charging for interconnection and special access services based on a bottom-up long run average incremental cost, or BULRAIC, cost accounting system is in the long run more appropriate for encouraging the rapid development of an open and competitive market than charging based on the EDC cost allocation system. OPTA ruled that the EDC cost allocation system should no longer be applied after July 1, 2000. In line with this intention, OPTA decided on June 30, 2000 not to approve the results of application of the EDC system we submitted on April 28, 2000, insofar as these results lead to new provisional interconnection prices for the period of July 1, 2000 to July 1, 2001. However, as the BULRAIC system was yet to be developed, OPTA ruled that the provisional interconnection prices for the period of July 1, 1999 to July 1, 2000 set out in its November 29, 1999 decision are to be used as transitional interconnection prices bridging the period of July 1, 2000 until the moment OPTA has decided on new BULRAIC-based tariffs. A decision on the definitive prices for the period from July 1, 1999 to July 1, 2000 will be taken in conjunction with the further decisions on the application of a BULRAIC-based cost accounting system. The impact of the application of this system is still uncertain. We have filed our objections to this decision.

#### *Carrier preselection*

As from January 1, 2000, we are legally required to ensure that our customers can make use of the switched services offered by other providers via their KPN fixed telephone line by means of carrier preselection. With carrier preselection, our customers who wish to use switched services offered by another provider, can do so by preselecting one or two carriers for national—including fixed to mobile—and/or international traffic; they need no longer enter the four digit access code of the other provider. Customers must be able to change their preselection at any given time. We introduced carrier preselection early in January 2000, enabling our customers to preselect by means of an interactive voice response system. However, we have been confronted with a number of difficulties in the early stages of the voice response system and the platform supporting it affecting the performance of carrier preselection. OPTA has imposed various enforcement measures on us to improve the quality of service. We have submitted a notice of objections against this decision, which is still pending.

Versatel requested OPTA to decree that we should replace the customer controlled application procedure (*i.e.* the voice response system) by an operator controlled system for business users. In its preliminary decision of June 22, 2000, OPTA ruled that whether or not this request is reasonable depends on the efforts that would be required on our part to implement such an alternative application system and the benefits the alternative system would offer Versatel. In response to these questions, we and Versatel have provided OPTA with additional information. OPTA's final decision on this matter is still forthcoming.

One.Tel has initiated civil proceedings against us claiming damages in the amount of approximately €4.5 million. It is alleging that we were late in making the carrier preselection available to it and that it was deficient, and that we thereby acted in breach of our statutory obligations as well as our contractual obligations towards One.Tel.

### *Unbundled access to the local loop*

In a decision of December 17, 1997, OPTA has ruled that it considers a request for unbundled access to our local loop to be a reasonable request for special network access. In March 1999 OPTA published guidelines for MDF access, or unbundled access to copper lines in our fixed network local loop. With this form of access, competing operators can rent out a line to residential and business users even though they do not have a local loop of their own. Telecommunications operators will take advantage of this possibility mainly to offer advanced services like Video on Demand and fast Internet access. OPTA's guidelines seek to stimulate the market for local telecommunications services in the short term and at the same time encourage competitive operators to install their own local loops in the longer term. Under the guidelines, we are obliged to grant access to our local loop, including the main distribution frame of our local exchanges, at a price calculated throughout a five-year transition period according to the EDC cost allocation system. In the first year, the price will be below our standard line rental level. Thereafter, it will rise in annual increments to a level sufficient to encourage other market players to invest in the installation of their own local loops. The guidelines provide that we will in principle be free to set our own price based on commercial considerations at the end of the five-year transition period.

We have filed an appeal against the aforementioned OPTA decision of December 17, 1997, which appeal is currently pending with the Administrative Court in Rotterdam. One of the grounds of this appeal is that we are of the opinion that the current legal framework does not provide a basis for imposing MDF Access obligations on us, at least not until the adoption of the Regulation proposed by the European Commission in July 2000, which would require the provision of the unbundled local loop by January 1, 2001. Although we also disagree with some of the principles underlying the guidelines, we have developed an MDF access offering in consultation with market players which was introduced in the summer of 2000.

We have agreed with competitors on a national roll out plan in stages. This means that competitors will be colocated at some 125 of our MDFs by December 2000. As part of its investigation under the competition rules concerning the provision of access to and use of the residential local loop, the European Commission has sent out formal requests for information to the main incumbent fixed network operators in Europe (including us) in July 2000, in order to obtain information on how access to our local loop network is being implemented and which form of access is made available to new entrants to allow them to offer services on the retail market comparable to our own end-user DSL-offering Mxstream. The purpose of the information request is to enable the Commission to assess the compatibility of our position regarding local loop access with the EC competition rules, in particular the prohibition of abusive exercise of a dominant market position.

During the implementation of the roll out of MDF access and colocation we have confronted a number of difficulties (such as lack of MDF capacity or lack of colocation space) forcing us to adjust the delivery dates or to withdraw an MDF location from the list. Three competitors have initiated dispute proceedings with OPTA on MDF access and colocation. Cistron has requested OPTA to take a preliminary decision requiring us to take up Cistron's requests for MDF access and colocation at a number of our MDFs. Eager Telecom has submitted a similar request, but it also requested OPTA to instruct us to provide an alternative service on the same terms and prices (enabling Eager Telecom to provide services to its customers as if we had provided MDF access). VersaPoint's request for a preliminary decision by OPTA concerns the provision of MDF access and colocation (or alternative services) in accordance with the time schedule submitted by us, on terms which are non-discriminatory, which means that VersaPoint will not be at a disadvantage in comparison with our own Mxstream services. VersaPoint also requested access to our MFD locations to verify the capacity problems alleged by us. Furthermore, VersaPoint requested OPTA to review the number of wire pairs in a main access cable, which we claim can carry ADSL signals without causing problems of interference and to instruct us to make an offer for so-called shared access.

### *Interconnection capacity*

The simultaneous strong growth of fixed telephony, mobile telephony and Internet traffic, has caused shortages of transmission, switching and interconnection capacity in our network. This problem has been aggravated by the geographical imbalance in traffic handling, improper use of geographical numbers and the typical characteristics of Internet traffic. Both retail and wholesale customers have been affected by these shortages. The explosive demand has resulted in delivery problems, quality problems, delayed introduction of new services and bottlenecks in certain geographical areas and network levels. The strong demand for transmission capacity increased working stocks and delivery times for leased lines in 1999 well above the normal level. Energis and Versatal have initiated proceedings relating to this in 1998, which are currently still pending with OPTA.

### *Extracting Internet traffic*

By extracting Internet traffic from the telephone network, it becomes possible to handle Internet traffic more efficiently as data calls which relieves the pressure this type of traffic puts on the exchanges. We believe that the most effective and efficient way of doing this is by using a unique set of telephone numbers for Internet dial-in traffic. We have started preparing and implementing a set of measures to implement such a solution in consultation with market players through the Forum on Interconnection and Special Access or FIST, an industry platform, the Association of Dutch Internet Providers, or NLIP, the Ministry of Transport, Public Works and Water Management and OPTA.

WorldCom has initiated a dispute in which it has requested OPTA to order us to make available to it a metered as well as a flat-rate Internet access call origination wholesale service. In a preliminary decision of May 25, 2000, OPTA held that this constituted a reasonable request for special network access, which we are required to offer. We have asked OPTA to reconsider this position in its final decision, arguing that the integrity of our network will be severely compromised if flat-rate Internet access will be made available to end users. If we are forced to offer wholesale services which would be used to offer unmetered Internet access to end users, this could aggravate the capacity problems we currently experience in our network.

### *Fair trading*

On June 7, 2000, we were informed that InterNLnet B.V. had filed a complaint with the NMa, alleging that we abuse our dominant market position by offering our IP Dial-in Service and the Internet Access Service to our own ISPs at more favorable conditions than to others. The complaint also alleges illegal cross subsidisation by us of our Internet services. On June 28, 2000, we responded to the complaint.

### *Mobile telecommunications*

#### *Use of radio frequencies*

Under the TW, only the use of frequencies still requires a license, which is issued by the Minister. A holder of a license under the TW is not required to register with OPTA in respect of the services provided under that license. Many of the responsibilities of the Minister relating to management of frequencies are carried out by the Radio communications Agency (*Rijksdienst voor Radiocommunicatie*, which we refer to as the RDR) on behalf of the Minister. The tasks of the RDR include enforcement of generally technical statutory and licensing terms for the use of radio transmission equipment and other forms of spectrum use.

The TW provides that licenses for the use of sets of frequencies may be granted by the Minister in the following ways: in the order of receipt of the applications; by means of a competitive test, or beauty parade; or by means of an auction.

The auction method was introduced as a method for allocating frequencies on December 1, 1997, through an amendment to the Wtv (*Veilingwet*, which we refer to as the Auction Act). Subsequently, in February, 1998, two large lots of frequencies for DCS 1800 and GSM 900 as well as sixteen smaller lots of frequencies for DCS 1800 were auctioned off. We acquired seven of the smaller lots and were excluded from bidding on the large lots. In July 2000, five licenses for the third generation mobile telecommunications system, or UMTS, were auctioned.

#### *KPN Mobile's current mobile licenses*

Until September 1, 1994, we had, within the scope of our concession, the exclusive right to install, maintain and operate mobile telecommunications networks and to provide mobile telecommunications services to the public. As of that date, a new licensing system was introduced for mobile telecommunications using new digital pan-European technologies such as GSM 900, DCS 1800 and ERMES. The existing statutory permit system for radio-electric transmission installations was expanded to cover all mobile telecommunications services not subject to the new licensing regime.

The mobile telecommunications services which we were permitted to provide under the existing system were NMT (for analog mobile telephony), SMF (for analog paging) and Traxys (for mobile radio or trunking). The mobile telecommunications services which we were licensed to provide under the new regime were ERMES (for digital paging), GSM (for digital mobile telephony in the 900 MHz frequency band) and DCS 1800 (for digital mobile telephony in the 1800 MHz frequency band). These permits and licenses were issued under the Wtv, and are discussed in more detail below.

Under the TW, the licensing system and the permit system of the Wtv were replaced by a new licensing system, and pursuant to transitional provisions all existing Wtv licenses and permits for mobile telecommunications services were equated with a license granted under the relevant provisions of the TW. However, certain provisions of the Wtv still apply to our GSM 900 and DCS 1800 licenses. These include the ability of the Minister to change the frequencies assigned to the holder of a license during the term of the license. Any costs arising out of this must be borne by the holder of the license.

Licenses may be revoked if, among other reasons:

- the holder of the license does not comply with the applicable rules under the Wtv or the TW, or rules contained in the license;
- the holder no longer meets the rules set for eligibility;
- the efficient use of radio spectrum or the efficient provision of telecommunications in the general public and economic interest so requires; or
- continuation of the license would significantly limit true competition in the relevant market.

Our licenses for GSM, ERMES and DCS 1800 were initially awarded to us and were allowed to be exploited via a subsidiary, as long as certain conditions were met. After the demerger of KPN Mobile, we requested permission to the Minister to transfer these licenses to KPN Mobile The Netherlands B.V. We received this permission on June 28, 2000, and the licenses were transferred on July 21, 2000.

#### *NMT/SMF/Traxys*

We closed our NMT analog network on October 1, 1999. In accordance with decisions taken by the Minister, these frequencies were redistributed and assigned to the two existing GSM 900 operators, Libertel and ourselves. These Ministerial decisions are the subject of several legal proceedings initiated by our competitors, Telfort and Dutchtone. On July 2, 1998, Telfort filed a complaint with the European Commission alleging that the payment it was required to make for its allocation by auction of DCS 1800 frequencies as compared with the allocation, free of charge, of the former ATF 3 frequencies to us and Libertel for use in their GSM networks constitutes a breach of European

competition law. Telfort also complained that the allocation of ATF 3 frequencies to us and Libertel constitutes an unauthorized form of state aid and is therefore a breach of European law.

Dutchtone has lodged administrative proceedings against decisions taken in November 1997 and February 1998 by which we and Libertel were granted additional frequencies in the GSM 900 MHz frequency band, following the closure of our analog network. The administrative court in Rotterdam has rejected the appeals of Dutchtone relating to these decisions on December 21, 1999 and May 2, 2000 respectively. Dutchtone appealed to the first decision to the relevant administrative court of appeal (*College van Beroep voor het Bedrijfsleven*) and may still do so against the second decision. If successful, Dutchtone's appeal may affect the availability of certain of our frequencies in the GSM 900 MHz frequency band or the conditions under which we may continue to use them.

The permits granted to us for SMF and Traxys are due to expire on January 1, 2002 and December 15, 2008, respectively.

### *ERMES*

A national license was granted on August 22, 1996 through a tender procedure for the digital paging system ERMES, to both CallMax and ourselves. Both licenses were granted for 10 years. Our license contains a number of conditions requiring it to provide certain basic and value-added services, and to achieve a certain network roll out. The law allows for a third license to be issued; however, this has not happened yet.

### *GSM 900*

On March 15, 1995, two GSM 900 licenses were granted, one to us (currently for  $2 \times 12.6$  MHz of paired spectrum) and one to Libertel (currently for  $2 \times 12.4$  MHz of paired spectrum). Both licenses were granted for 15 years from April 1, 1995. Our license contains a number of conditions including a requirement to provide mobile telecommunications services 24 hours a day, seven days a week, to provide certain other services, and to meet specific obligations for network roll out and certain quality parameters. We were specifically required to achieve network coverage of 96.0% of the landmass of The Netherlands by December 31, 1996.

### *DCS 1800*

We hold seven DCS 1800 licenses for a total of  $2 \times 17.6$  MHz of paired spectrum granted by the Minister on February 26, 1998 following an auction procedure. The DCS 1800 licenses all expire on February 25, 2013.

Dutchtone has commenced civil proceedings against the State of The Netherlands, demanding either that the Dutch State return the amount paid by Dutchtone under the auction of DCS 1800 frequencies (NLG 600 million) held in 1998, or that the Dutch State take measures in the mobile telecommunications market that adequately compensate Dutchtone for the payment it has made. Telfort has intervened on the side of Dutchtone, while we have intervened on the side of the State. A judgement is unlikely to be issued before late 2000. A judgement is subject to an initial appeal and a further appeal to the Supreme Court. These proceedings may have a material negative impact on our business.

The DCS 1800 licenses granted to us and Libertel restricted us and Libertel from using the acquired frequencies during the first two years of the license term, and allowed this restriction to be extended by a further year. Both we and Libertel lodged administrative proceedings against these restrictions. Our appeal is currently being considered by the relevant administrative court of appeal (*College van Beroep voor het Bedrijfsleven*).

The Minister decided on November 24, 1999 not to extend the period of restriction and decided to allow us and Libertel to commence use of DCS 1800 frequencies with effect from February 26, 2000. Our competitors Ben, Telfort and Dutchtone have all filed objections and a petition for reconsideration, which the Minister has rejected in decisions of June 21, 2000. Ben, Telfort and Dutchtone have not appealed against these decisions.

#### *UMTS*

We acquired one of five UMTS/IMT 2000 third generation mobile telecommunications licenses, giving us  $2 \times 14.8$  MHz of paired spectrum and 5MHz of unpaired spectrum for the provision of UMTS third generation mobile services, which we paid for on August 4, 2000. The terms of the license require us to roll out a network to cover 60.0% of the population by January, 1 2007. The license will expire on December 31, 2016. Versatel announced it has filed a complaint to the European Commission on the way the auction was conducted, because it considers the auction rules to be preferential to the existing mobile operators. Versatel has also filed a notice of objections with the Minister against each of the five licenses awarded in the auction, including ours.

#### *Interconnection*

KPN Mobile's most important interconnection agreement, for both incoming and outgoing traffic, is with the fixed telephony network of KPN Telecom. Currently KPN Mobile is preparing direct interconnection to other operators.

Currently the European Commission is investigating our mobile interconnection tariffs, as the result of a complaint filed by WorldCom on November 15, 1999. WorldCom alleged that a number of European mobile operators, including KPN Mobile, are colluding with competitors and abusing their dominant market positions by excessive and discriminatory pricing, and by anti-competitive cross subsidization. WorldCom has claimed that the European Commission should impose significant fines on us and the other operators. On December 23, 1999, we responded to this complaint. The European Commission is currently processing the complaint and the responses which it has received, and has not stated how it intends to proceed. If it upholds MCI WorldCom's complaint, it may impose fines on us. On June 21 to June 23, 2000 civil servants of the Commission, assisted by civil servants of OPTA and NMa, conducted a verification in our offices to acquire information on the alleged excessive pricing and/or price setting agreements between us and Libertel. It is uncertain in which timeframe the Commission will conduct its investigation.

#### *Special network access to mobile networks*

As a party designated as having significant market power, KPN Mobile must comply with reasonable requests for special network access. The TW does not specify which types of access would be considered as a reasonable request for special network access. KPN Mobile and other market parties initiated a Taskforce Mobile within the Forum for Interconnection and Special Access, or FIST—an Industry Platform, to discuss the initial product descriptions. Disagreement on various issues prompted the Taskforce to write a letter to OPTA of July 21, 2000 requesting OPTA's point of view as a guidance for further discussion.

Pursuant to the EU Interconnection Directive providers of public mobile telecommunications networks or services with significant market power in the national market for interconnection may be required to provide interconnection at cost-oriented prices. See "Risk Factors—Risks relating to regulation." The Netherlands has implemented the directive with the TW, which allows OPTA to determine that an operator has significant market power in the market for both fixed and mobile public telecommunications services. If OPTA would find that KPN Mobile has significant market power in this market, it would be obliged to provide call termination on a cost-oriented basis.

### *Building permits*

To achieve adequate coverage in KPN Mobile's networks we use both masts and existing buildings to install our antennae. For masts, a building permit is required under the Housing Act 1992 (*"Woningwet 1992"*). A building permit will be denied if the relevant zoning plan does not permit it. Certain buildings or structures are exempted from the requirement of a building permit under The Housing Act. Among these are antennae with a maximum height of five meters measured from the bottom of the antenna. In the past KPN Mobile and its competitors have taken the position that as long as our network equipment is placed indoors and the antennae on the roof of an existing building is not higher than five meters, a building permit is not required. Until 1998 this position was never contested by local authorities.

In the beginning of 1999, the municipality of Haarlemmermeer decided to take enforcement measures for the removal of KPN Mobile antennae. KPN Mobile has initiated legal proceedings against these decisions, which are currently pending with the relevant administrative court of appeal (*Raad van State*) and so far have not been successful. The actions of the municipality of Haarlemmermeer prompted a growing number of municipalities to begin requiring building permits for all antennae placed on existing buildings or existing structures. A number of municipalities are also in the process of revising their existing zoning plans in such a way that in future the installation of antennae on residential buildings or in residential areas will either be forbidden or subject to restrictions. A number of municipalities are also anticipating the revision of zoning plans by introducing a policy on antennae which forbids or restricts the installation of antennae on residential buildings or in residential areas. If KPN Mobile cannot obtain building permits for its existing antennae installations, it may be required to remove them. These developments are having and may continue to have a negative impact on the availability to us of locations for placing antennae.

### *Site sharing*

All holders of a license for the use of radio frequencies which are intended for the provision of public telecommunications networks, public telecommunications services or broadcasting transmission networks, are obliged to fulfill reasonable requests to share the use of antennae installation points, or site sharing. Parties obliged to make antennae installation points available to others must do so at a reasonable price. If a dispute arises between holders of licenses on an issue of site sharing, OPTA may, at the request of a party to the dispute, set the terms which will apply between parties.

In a ruling in a site sharing dispute between KPN Mobile and Dutchtone, OPTA set various terms relating to, among other things, information on the location of sites which must be made available to other license holders, the number of site sharing requests and courtesy requests to be processed by holders of licenses and the speed with which this should be done. OPTA's decision is currently being appealed by both KPN Mobile and Dutchtone at the court in Rotterdam. If our grounds of appeal are rejected, we may be forced to disclose to Dutchtone and other operators the locations of all of our antennae installation points and also to increase the speed with which site sharing and courtesy requests from other operators are processed, resulting in an additional burden on our internal organization.

### *Numbering and number portability*

On December 21, 1999, OPTA imposed on all mobile telecommunications operators in The Netherlands specific obligations to shorten timeframes needed to transfer numbers between operators. Failure to meet these obligations as of February 2000 may result in penalty payments up to a maximum amount of €272,268. We have initiated administrative proceedings which are currently pending with the administrative court in Rotterdam. Based upon monthly reports which we must provide, OPTA concluded, however, that we met with their requirements in the first months we had to report.

## *Roaming*

Roaming consists of providing mobile network services to other operators' customers while they are outside the network coverage of their own service operator. At the request of Dutchtone and Telfort, the two DCS 1800 operators who are obliged to provide mobile telecommunication services nationally, the Minister may impose on the GSM 900 operators, ourselves and Libertel, the obligation to provide national roaming by cooperating, for a period to be determined by the Minister, in enabling the requesting operator to provide services via our or Libertel's GSM 900 networks. The purpose of this provision is to enable the new entrants to provide services as early as possible through the existing GSM 900 networks until the roll out of their own DCS 1800 networks is complete. No specific provisions have been included in the TW relating to the provision of roaming to UMTS operators on existing GSM 900 networks. In a policy document, the Minister announced that national roaming is to be considered as a type of special network access, for which we have an obligation to meet reasonable requests. See "—Special network access to mobile networks."

In January 2000, the European Commission opened a sectoral investigation under its competition powers into the international roaming charges of European mobile telecommunications operators. The European Commission has sent requests for information to all European mobile operators seeking to establish whether the level of these charges amount to a breach of EU competition rules under Article 82 of the EC Treaty. The European Commission requested very detailed information to be provided by all European mobile operators within two months, after which it will assess the information before making any further decision on possible breaches. The investigation was prompted by the European Commission's perception that competitive wholesale and retail roaming offerings have not emerged in Europe, and also by complaints alleging that roaming charges continue to be high. The European Commission's investigation into international roaming charges has been addressed to KPN Mobile, as well as to all other European mobile telecommunications operators in the EU.

## *Fair trading*

KPN Mobile is involved in a complaint under competition law with the Dutch Competition Authority or the NMa, filed on December 16, 1999 by Talkline, an independent service provider. Talkline also filed this complaint against us with OPTA. Talkline has alleged, amongst other matters, that our pricing does not allow it to operate profitably. If Talkline's complaints are upheld, fines may be imposed on us, and we be required to amend our tariffs with Talkline to levels which the relevant authority considers reasonable or other penalties may be imposed. In June 2000, OPTA and the Dutch Competition Authority requested us to provide more information. Furthermore, Talkline instituted a claim on similar grounds against KPN Mobile in the Civil Court of the Hague.

## **Germany**

### *Introduction*

The German Telecommunications Act (*Telekommunikationsgesetz*, which we refer to as the TKG) of July 25, 1996, as amended, which entered into force on August 1, 1996, provides the legal framework for Germany's telecommunications markets.

The TKG is complemented by eleven ordinances concerning, among other things, license fees, rates regulation, network access, universal service, fees for the use of radio frequencies, and consumer protection. The authority in charge of implementation and enforcement of telecommunications regulation is the Regulatory Authority for Telecommunication and Post (*Regulierungsbehörde für Telekommunikation und Post*, which we refer to as RegTP), which itself is supervised by the Federal Ministry of Economic Affairs (*Bundesministerium für Wirtschaft*, which we refer to as the BMWi).

Under the TKG, a license is required by any person:

- (1) operating transmission lines beyond the limits of a property and used to provide telecommunications services to the public; and/or
- (2) offering voice telephony over telecommunications networks operated by that person.

The licenses required are divided into four different classes:

- License Class 1: Mobile Radio License—a license for the operation of transmission lines for the provision of mobile radio services to the public by the licensee or other parties;
- License Class 2: Satellite License—a license for the operation of transmission lines for the provision of satellite services to the public by the licensee or other parties;
- License Class 3—a license for the operation of transmission lines for the provision of telecommunications services to the public, by the licensee or other parties, not covered by License Classes 1 or 2; and
- License Class 4—a license for the provision of voice telephony over telecommunications networks operated by that person. This last License Class does not include the right to operate transmission lines.

Persons carrying on other telecommunications activities need only notify RegTP that they are doing so.

### ***Mobile telecommunications***

Provisions of the TKG apply to mobile communications as well. In addition to the current GSM licenses, six UMTS licenses have been awarded by RegTP following an auction in August 2000, one of which was won by a subsidiary of E-Plus. Three out of the four existing GSM licenses for mobile telecommunications operators in License Class 1, were issued before the TKG entered into force. Section 97 para. 5 TKG states that these licenses (*Altlizenzen*, or old licenses) remain valid under the TKG and that, in principle, the provisions of the TKG are applicable to the old licenses. If provisions in the old licenses deviate from provisions of the TKG, the provisions in the old licenses prevail. The E-Plus license for the E1 network, which we describe below, is one of these old licenses.

The German government had begun to liberalize the market for mobile telecommunications services earlier in 1989. On July 1, 1989, the Act on the Restructuring of Posts and Telecommunications (*Gesetz zur Neustrukturierung des Post- und Fernmeldewesens*) allowed for competition in the markets for mobile and satellite networks. Since the operation of telecommunications networks at that time was subject to the government's network monopoly, the private operators of mobile telecommunications networks needed licenses issued under the Telecommunications Installations Act (*Fernmeldeanlagen-gesetz*, which we refer to as the FAG). The German fixed telephony telecommunications market was fully liberalized on January 1, 1998, when the exclusive right of Deutsche Telekom AG to provide voice telephony services was abolished.

On February 15, 1990, Mannesmann Mobilfunk GmbH was awarded a mobile telecommunications license to operate a network under the GSM 900 standard, or the D2-network, which was expanded after German reunification on July 6, 1991, to cover the five newly established East German federal states and Berlin. In order to provide equality of opportunity for Mannesmann, administrative rules were adopted to regulate the existing mobile network of Deutsche Telekom, or the D1-network, which was at that time still Deutsche Bundespost Telekom. On December 23, 1992, the administrative rules for the D1-network were converted into a license for DeTeMobil Deutsche Telekom Mobil Net GmbH, a subsidiary of Deutsche Telekom. Both D-networks, D1 and D2, are based upon the GSM 900 standard, and the licenses to operate them expire on December 31, 2009. Mannesmann and DeTeMobil

have also obtained the right to use some DCS 1800 frequencies together with their GSM 900 frequencies.

On May 4, 1993, E-Plus was awarded a mobile telecommunications license, which we refer to as the E1 License, to operate a network under the DCS 1800 standard, which we refer to as the E1-network, which will expire on December 31, 2012. We expect to be able to renew this license. On May 15, 1997, a second DCS 1800 license was awarded to Viag Interkom GmbH & Co. which will expire on December 31, 2016.

#### *UMTS Auction*

The auction for UMTS licenses in Germany started on July 31, 2000 and proceeded in two phases under the auspices of RegTP. One auction ended on August 17, 2000 and the other on August 18, 2000. In total, RegTP awarded six double-frequency packages ( $2 \times 5\text{MHz}$ ) and five single-frequency packages ( $1 \times 5\text{MHz}$ ) for a total of approximately €50.8 billion. The new UMTS license holders are E-Plus 3G Luxemburg, Group 3G, Mannesmann Mobilfunk, Mobilcom Multimedia, T-Mobil and Viag Interkom. Each license holder must build up and roll out its UMTS networks and the first UMTS services are expected to be offered to end customers by early 2002. The new licenses are subject, among other things, to a coverage obligation to serve 25% of the population by December 31, 2003 and the target of 50% of the population must be met by December 31, 2005. The UMTS licenses will expire after 20 years on December 31, 2020.

On September 21, 2000, the administrative tribunal (*Verwaltungsgericht*) in Cologne, Germany, announced that the German telecom group MobilCom, which successfully bid for a UMTS licence through its affiliate MobilCom Multimedia, had filed a complaint regarding the German license auction. MobilCom is contesting the attribution procedure, and is demanding reimbursement of the sum it has paid as consideration for its UMTS license. However, MobilCom is not contesting the UMTS license granted to itself or the other five mobile operators, including E-Plus. We cannot predict at this time the outcome of this lawsuit or its potential impact on our business and financial condition, given that MobilCom's action could possibly lead to retroactive revocation of some or all German UMTS licenses.

#### ***E-Plus' current licenses***

##### *Class 1 License (DCS 1800 standard and UMTS)*

The E1 License was granted under section 2 of the FAG, which has been replaced by the TKG. Section 97 para. 5 TKG provides that license rights granted under the FAG remain in effect. By administrative orders dated September 11, 1997 and November 12, 1997, RegTP granted E-Plus rights to further frequencies and amended certain minor provisions of the E1-license in order to make it consistent with the TKG.

In addition to E-Plus' existing GSM mobile license, E-Plus, through a wholly owned subsidiary, won a UMTS mobile license consisting of frequency spectra of  $2 \times 5\text{MHz}$  and  $1 \times 5\text{MHz}$  for which it paid on August 31, 2000 approximately €8.4 billion.

##### *Class 3 and 4 Licenses*

E-Plus also holds nationwide licenses under License Classes 3 and 4. E-Plus' Class 3 License was issued on March 4, 1998 and initially covered certain transmission lines in Hannover. It was extended on September 9, 1998 to cover the whole of the Federal Republic of Germany. E-Plus' Class 4 License was issued on December 4, 1997 and initially covered the cities of Düsseldorf and Mönchengladbach. It also was extended on September 9, 1998 to cover the whole of the Federal Republic of Germany.

### ***Key regulatory issues in the German mobile telecommunications market***

The European Commission's investigation into international roaming charges has been addressed to E-Plus, as well as to all other mobile telecommunications operators in the EU.

#### *Site sharing*

In Germany, there are no site sharing obligations that are comparable to the site sharing obligations in The Netherlands. See “—The Netherlands—Mobile telecommunications—Site sharing.” In Germany, only the incumbent carrier, Deutsche Telekom AG, is currently obliged to colocate equipment of other carriers according to Section 3 of The Network Access Ordinance (*Netzzugangsverordnung*). On a voluntary basis, E-Plus has concluded agreements for reciprocal site sharing with Mannesmann Mobilfunk, DeTeMobil and VIAG Interkom.

#### *Number portability*

The TKG requires all network operators to provide number portability. After some initial resistance from the operators of mobile networks for reasons of technical feasibility, RegTP on April 25, 2000 mandated number portability also in the German mobile telecommunications market by February 1, 2002 at the latest. Since this number portability and the introduction of the new UMTS networks will coincide, RegTP expects more price transparency in this market.

#### *Dominant market position*

On August 11, 1998, in a letter to the BMWi, the RegTP communicated its view that none of the four mobile public telecommunications network operators in Germany currently has a dominant market position in the national market for call termination on mobile networks. Dominant market position is a concept derived from German competition law, with similar consequences to a determination of significant market power in The Netherlands. See “—The Netherlands—General—Significant market power.”

#### *Interconnection*

E-Plus' network is interconnected with fixed network operators through Deutsche Telekom's fixed network. E-Plus is required to offer interconnection to each public telecommunications carrier on request. E-Plus has also concluded an interconnection agreement with a third party carrier for direct interconnection to a fixed network. These carriers may seek a reduction in E-Plus' call termination rates.

If E-Plus cannot agree to the terms of this interconnection with third party carriers, The RegTP may determine specific terms under dispute resolution procedures set out in sections 37 and 39 in combination with sections 24 *et seq.*, of the TKG. The law in Germany is unclear whether these procedures allow The RegTP to determine specific call termination charges, and if so, on what basis it may do so. A number of recently abandoned regulatory proceedings did not resolve this issue.

#### *Rates regulation*

Currently, E-Plus' tariffs are not subject to regulation by the RegTP. Tariff regulation only applies to companies with a dominant position in the relevant market, under section 22 of the Act against Restraints of Competition.

## RELATIONSHIP WITH THE STATE

### The ownership interest of the State

#### *General*

The State is involved with us as a shareholder, and its control is achieved primarily through corporate governance mechanisms, its ownership of the special share, options to acquire Class A preferred shares and a longer-term equity interest.

Pursuant to our articles of association, the Minister of Transport has the right to appoint three members of the Supervisory Board.

The involvement of the State has recently been the subject of an agreement between the State and us. This agreement has not yet been implemented to the extent that amendments to our articles of association will be required and the options to acquire our Class A preferred shares need to be terminated. Until such amendments to our articles are implemented and the options to acquire Class A preferred shares are terminated, the special control rights of the State under our articles of association will continue to apply.

Since we are a crucial part of an effective telecommunications system in The Netherlands, at the time of our initial public offering in 1994 the State considered it of a general public interest that the effective telecommunications system in The Netherlands would not be detrimentally affected by control over our company that would be contrary to this general public interest. The government has recently advised the Dutch parliament that due to the changes in the telecommunications environment it believes that this general public interest no longer exists and that it is neither necessary nor desirable that special rules apply to us, other than to preserve the financial interests of the State. The government has expressed the intention to introduce legislation to amend the Enabling Act, with the effect that the rules for large companies (*grote vennootschappen*) as provided for in section 6 (*afdeling 6*), title 4 of book 2 of the Dutch Civil Code will apply to us as they apply to all other large companies. This means that under certain circumstances the rules for large companies may no longer apply to us in full or in part. See “Management.” The government has also announced that it intends to terminate the right to appoint members to our Supervisory Board and also intends to terminate the options to acquire Class A preferred shares. The State will maintain the rights attaching to the special share, as these were created also to protect the financial interests of the State, until the equity interests of the State have been reduced considerably. We have agreed to assist in the reduction of the State’s equity interest. The timing is uncertain and the withdrawal of the State is subject to market conditions. Except to the extent that we can demonstrate to the State, as holder of the special share, apparent overriding interests, during the years 2001 and 2002, the State will have priority over KPN if both KPN and the State intend to sell or issue shares to third parties. In addition, the State, as holder of the special share, has not yet given its approval for the issue by us of our shares to BellSouth. We have concluded a stand still and lockup agreement with BellSouth, containing certain exceptions to the BellSouth lockup that may affect the sale by the State of our shares. See “Material Contracts—contractual arrangements relating to KPN Mobile’s acquisition of E-Plus—Standstill and lock-up agreement.” The government has accepted to take a businesslike approach in the event of any sale or issue of shares, taking into account the financial interests of the State and the justifiable interests of third parties, including our interests. We have agreed with the State, as holder of the special share, that it will support the inclusion of anti take-over devices in our articles of association, to the extent admissible under Dutch law and the listing rules of Euronext Amsterdam N.V.

### *Special control rights under the articles of association*

#### *Special share, Class A preferred shares*

The State holds a special share, which gives it the right to approve decisions that lead to fundamental changes in our group structure such as the issuance of new shares and entering into a merger. The State has committed itself to exercise the rights attached to the special share only to safeguard the general interest in having a telecommunications system which operates effectively and also to protect its financial interest as a shareholder. The State may not exercise its special share to protect us from unwanted shareholder influence. The State may not transfer or encumber the special share without the approval of the management board and the Supervisory Board. Ownership of the special share gives the State certain additional rights.

The State has an option to subscribe for our Class A preferred shares, which carry the same voting rights as ordinary shares. This option may be exercised during or after an increase in our share capital in order to preserve the State's voting rights at a minimum of one-third of our voting capital, and in certain circumstances to increase its voting rights to 51.0% of our voting capital. Under our articles of association, 1,187,499,998 shares of our Class A preferred shares are authorized for issuance. The option strike price is the nominal value of €0.24 per Class A preferred share, although upon exercise only €0.06 per Class A preferred share is required to be paid. The additional €0.18 per Class A preferred share would not be required to be paid by the State until a call for payment was made by us by resolution of the management board. This resolution would be subject to approval of both the Supervisory Board and the State. Beginning one year after the date of issue of any Class A preferred shares to the State, the State would have the right to demand that we propose to our general meeting of shareholders that such Class A preferred shares be cancelled, and the paid up amount returned to the State. If the general meeting of shareholders approved the return of the paid up capital, the State would then be required to lend the required amounts to us. If the State were to make such a demand after two years from the date of issue of the Class A preferred share, the State would not be required to loan the required amounts to us.

The option of the State to acquire Class A preferred shares may only be exercised in the event that:

- neither we nor the Foundation for the Protection of KPN (*Stichting Bescherming KPN*) fully exercise the put option or call option, respectively, which has been granted regarding Class B preferred shares; and
- the State reasonably believes that a person, as described in more detail in the Act on the Disclosure of Holdings 1996 in Listed Companies (*Wet Melding Zeggenschap in ter beurze genoteerde vennootschappen 1996*, the Wmz), has or will acquire an interest which requires notification under the Wmz in us of more than 10.0%, regardless of whether that person has reported acquiring its interest, unless this interest is or will be less than 15.0% and has been acquired with our consent. A person as referred to above includes a number of persons who, in view of their concerted actions, are assumed to have entered into agreements with respect to their interest in us.

We have agreed with the State that we have the right to issue ordinary shares up to a total nominal value of €182,833,785, the capitalization ceiling; subject to the approval of the Supervisory Board and the State as holder of the special share. The State has agreed that it may withhold its approval only if (1) any proposed share issue would take place, or the intention to issue shares would be made public by us, within nine months prior to any offer of our ordinary shares by the State and (2) the State in its reasonable opinion expects that any proposed issue of shares by us would be detrimental to its interests in any of its later offerings of our ordinary shares. However, if we can demonstrate apparent overriding interests, the State, as holder of the special share, will give its

approval to us to issue ordinary shares. Furthermore, we may within a nine-month period make a public announcement of our intention to issue ordinary shares, if (a) the ordinary shares would be issued exclusively or primarily in exchange for the shares of one or more companies with which we or any of our group companies have concluded a cooperation, merger or acquisition agreement, or (b) the announcement is made in relation to a private placement (other than an issue referred to in (a) above), provided that the State in its reasonable opinion determines that the announcement would not be detrimental to its interests in any of its future offering. The State is otherwise required to give its approval within eight business days upon written request for its approval, if the financial conditions of the issue may not reasonably be regarded by the State as adversely affecting the interests of shareholders in general.

In issuing shares, we have agreed to consider the long-term financial interests of the State as the holder of a substantial interest in us.

The State has negotiated the acquisition of this option to prevent, to the maximum extent possible, a third party from acquiring shareholders' influence in the general meeting of shareholders that might possibly damage the State's interest. The State shall not exercise this option on Class A preferred shares for the sole or additional purpose of serving our interest by protecting us from unwanted shareholders' influence.

#### *Long-term equity interest and option to purchase Class A preferred shares*

If the State reduces its interest in us to one-third of our voting capital, and we thereafter wish to issue ordinary shares, the State may preserve its holding one-third of our voting capital by not approving the proposed issuance of ordinary shares or by participating pro rata in such issuance in proportion to its holding of our voting capital. If the State approves a proposed issuance of ordinary shares it may maintain voting rights equal to one-third of our voting capital by using the option to acquire Class A preferred shares. This option will not be exercised for the sole or additional purpose of protecting us from undesirable shareholders' influence.

#### ***The Foundation for the Protection of KPN (Stichting Bescherming KPN) and Class B preferred shares***

The Class B preferred shares may only be issued to protect ourselves from undesirable shareholders' influence.

The issue of Class A preferred shares to the State does not preclude the issue of Class B preferred shares to the Foundation for the Protection of KPN, which may represent greater voting rights than the Class A preferred shares issued to the State. The Foundation for the Protection of KPN was organized to care for our interests, and those of other interested parties, such as shareholders and employees, by, among other things, protecting us from influences which may threaten our continuity, independence and identity. The Foundation for the Protection of KPN is an independent legal person and is not owned or controlled by any other legal person.

The independent members of the Board of the Foundation for the Protection of KPN are H.B. van Liemt (chairman), Professor J.M.M. Maeijer (deputy chairman), O. Hattink and Professor L. Koopmans. The chairman of the Supervisory Board, K. Hubée, is also a member of the Board of the Foundation for the Protection of KPN.

We have a put option to place a number of our Class B preferred shares (which have the same voting rights as ordinary shares) not exceeding the total issued share capital before such issue (or, subject to prior approval by the general meeting of shareholders, such larger number as the parties may agree) with the Foundation for the Protection of KPN, subject to the Foundation's ability to pay the purchase price. In addition, the Foundation for the Protection of KPN has a call option to acquire a number of Class B preferred shares from us not exceeding the total issued amount of ordinary shares,

Class A preferred shares and the special share, minus one share and minus any shares already issued to the Foundation. These arrangements have been entered into to prevent or delay any unwanted shareholder influence or any undesirable acquisition of control of us. The Class B preferred shares may only be issued pursuant to the call and put options to serve these interests.

The strike price with respect to each of the options is the nominal value of €0.24 per Class B preferred share, although upon exercise only €0.06 per Class B preferred share is required to be paid. The additional €0.18 per Class B preferred share would not be required to be paid by the Foundation for the Protection of KPN until a call for payment was made by us by resolution of our management board, which resolution would be subject to approval of the Supervisory Board. Beginning two years after the date of issue of any Class B preferred share to the Foundation for the Protection of KPN, the Foundation would have the right to demand that we propose to our general meeting of shareholders that such Class B preferred shares be cancelled and the paid up amount returned to the Foundation for the Protection of KPN. This would occur upon approval of the general meeting of shareholders. This demand could be made earlier by the Foundation for the Protection of KPN if it had received a demand for the repayment of the credit that it had arranged in order to make payments on the Class B preferred shares.

#### **The State as shareholder**

As of June 30, 2000, the State owned 43.17% of our outstanding ordinary shares. The State also holds the special share and the option to acquire Class A preferred shares.

#### **The State as creditor**

At the time of our incorporation in 1989, we received two long-term loans from the State amounting to approximately €2.9 billion, approximately €2.2 billion of which was 6.4% senior debt and approximately €713.8 million of which was 6.7% subordinated debt. Each of these loans amortizes over time and has a final maturity date of December 31, 2003, or a later date to be agreed by us and the State.

As of June 30, 2000, approximately €146 million of the senior loan and approximately €202 million of the subordinated loan were outstanding.

#### **The State as customer**

The State is a large customer of ours, purchasing services from us on an arm's length basis. In addition, the State may by law require us to provide certain services to the State in connection with domestic security and the detection of crime, including tapping telephone lines and providing and maintaining a special security network for emergencies.

## MANAGEMENT

### Large company rules

We qualify under section 6 (*afdeling 6*) of book 2 of the Dutch Civil Code as a large company (*grote vennootschap*). In addition, the Enabling Act currently provides that the rules applicable to large companies will mandatorily apply to us in full. Consequently, exceptions to these rules, and rules concerning limited application of those exceptions, do not apply to us. As such, we have a mandatory two-tier management structure, including a Supervisory Board with broadened powers. Our Supervisory Board has the power to appoint and remove management board members as well as to adopt our annual accounts after which the general meeting of shareholders may approve them. Some of the resolutions of our management board are also subject to the approval of the Supervisory Board.

### Supervisory Board

The task of the Supervisory Board is to supervise the policies of the management board as well as our general course of affairs. The Supervisory Board also assists the management board by providing advice. Our Supervisory Board has the power to appoint its own members, with the exception of three of its members who are appointed by the Minister of Transport. The general meeting of shareholders, the management board and our central works council, as the representative of our employees, may make non-binding recommendations for candidates to fill vacancies on the Supervisory Board. In addition, if any of the three positions on the Supervisory Board appointed by the Minister of Transport becomes vacant, the Supervisory Board may also make a non-binding recommendation to fill the vacancy. By law, the general meeting of shareholders and the central works council have a right to object to candidates proposed for appointment in certain circumstances and subject to a special procedure before the Amsterdam Court of Appeal. Remuneration for the members of the Supervisory Board is determined by the general meeting of shareholders.

The members of our Supervisory Board are:

Name	Age	Position
K. Hubée . . . . .	70	Chairman
H.J. Bruggink . . . . .	54	Vice Chairman
V. Halberstadt . . . . .	61	Member of Supervisory Board
C.H. van der Hoeven . . . . .	53	Member of Supervisory Board
A.J. Scheepbouwer . . . . .	56	Member of Supervisory Board
W.C.L. Zegveld . . . . .	70	Member of Supervisory Board
D.C. Eustace . . . . .	64	Member of Supervisory Board

**Mr. K. Hubée** was appointed Chairman of the Supervisory Board on June 28, 1998. His term expires in 2002. Mr. Hubée is former Executive Vice President of Royal Philips Electronics N.V. and is currently Chairman of Supervisory Boards of Philips Electronics Nederland B.V., Brabantse Ontwikkelingsmaatschappij, Brabantia N.V. and Simac N.V. He is also a member of the Supervisory Board of Essent N.V.

**Mr. H.J. Bruggink** was appointed Member of the Supervisory Board on May 6, 1997. His term expires in 2001. He is an Information Industry Consultant and is also Chairman of the Leiden University Fund. He was formerly Chairman of the Board of Management of Elsevier N.V. and Co-Chief Executive of Reed Elsevier N.V.

**Professor V. Halberstadt** was appointed Member of the Supervisory Board on May 10, 1995, and re-appointed on April 29, 1999. His term expires in 2003. Mr. Halberstadt is Professor of Public Finance at the University of Leiden, Crown member of the Social Economic Council, Member of the ABP Investment Committee, Chairman of the International Advisory Board of DaimlerChrysler AG and International Advisor to the Goldman Sachs Group Inc. Professor Halberstadt is Chairman of the

Supervisory Boards of Xerox (Nederland) and Xerox Manufacturing (Nederland) and Member of the Supervisory Board of TNT Post Group N.V. and the Concertgebouw N.V. He is a non-executive director of PA Holding Ltd.

**Mr. C.H. van der Hoeven** was appointed Member of the Supervisory Board by the Minister of Transport, Public Works and Water Management on July 10, 1998. His term expires in 2002. Mr. van der Hoeven is Chairman of the Board of Directors of Royal Ahold N.V. and Member of the Supervisory Boards of ABN AMRO N.V. and LVMH N.V.

**Mr. A.J. Scheepbouwer** was appointed Member of the Supervisory Board on June 28, 1998. His term expires in 2004. Mr. Scheepbouwer is Chairman of the Board of Management of TNT Post Group N.V. and member of the Supervisory Board of Postkantoren B.V. He is a former member of our management board.

**Professor W.C.L. Zegveld** was appointed Member of the Supervisory Board by the Minister of Transport, Public Works and Water Management on May 23, 1997. His term expires in 2001. Professor Zegveld is former General Manager of TNO and former Professor of Innovation Policy at the Business Sciences Faculty of Delft University. He is currently Chairman of the Supervisory Boards of Winkelman & Van Hessen, Nethave & Schuttelaar and Partners, Chairman of FENIT Supervisory Committee (Federation of Netherlands IT), Board member at the Center for Telematics and Information Technology (Twente University) and Member of the OOA Supervisory Committee (society of organizational experts and counselors.)

**Mr. D.C. Eustace** was appointed Member of the Supervisory Board by the Minister of Transport, Public Works and Water Management on April 27, 2000. His term expires in 2004. Mr. Eustace is former Vice Chairman of the Board of Management and Chief Financial Officer of Royal Philips Electronics N.V., former member of the Group Council of Royal Philips Electronics N.V. and former Director of Finance at British Aerospace Plc. Mr. Eustace also occupied various positions at Alcan Aluminium Ltd, and was Board member of the Association for the Monetary Union of Europe and member of Wirtschaftsberat Bayerische Landesbank. He is Chairman of the Supervisory Board of Smith & Nephew Plc. and member of the Supervisory Boards of Aegon, KLM, Origin, Hagemeyer and Sonae.com.

All members of the Supervisory Board are Dutch citizens, with the exception of Mr. Eustace who is a citizen of the United Kingdom.

The business address of each of the current Supervisory Board members is Maanplein 5, 2516 CK, The Hague, The Netherlands.

The Supervisory Board has four committees: appointments, remunerations, audit and strategic. The appointments committee consists of Messrs. Hubée, Bruggink, and Halberstadt. The remunerations committee consists of Messrs. Hubée, Bruggink, and Halberstadt. The audit committee consists of Messrs. Bruggink, van der Hoeven, and Eustace. The strategic committee consists of Messrs. Halberstadt, Scheepbouwer, and Zegveld.

### **Management board**

Our management board is responsible for managing our operations and making related policy decisions. Our management board currently consists of six persons, all of whom are our employees. The activities of the management board are supervised by the Supervisory Board, which has the right to appoint, suspend or dismiss members of the management board. The Supervisory Board, however, is required to notify the general meeting of shareholders before appointing a member of the management board and must consult with the general meeting of shareholders before dismissing a member of the management board. Remuneration for members of the management board is set by the Supervisory Board. Certain resolutions of the management board require the approval of the Supervisory Board,

including issuances of securities, certain material capital expenditures and termination of the employment contracts of large numbers of employees.

The current members of our management board are:

<u>Name</u>	<u>Age</u>	<u>Position</u>
P. Smits . . . . .	53	Chairman of the Board and Chief Executive Officer
J.G. Drechsel . . . . .	45	Member of the Board
J.M. Henderson . . . . .	52	Member of the Board and Chief Financial Officer
P. Morley . . . . .	44	Member of the Board
M. Pieters . . . . .	47	Member of the Board
L. Roobol . . . . .	44	Member of the Board

**Mr. P. Smits, Chairman**, was appointed Member of the management board on November 1, 1998 and Chairman of the Board on March 1, 2000. He is former President and CEO of Unisource and former Executive Vice President and COO of PTT Telecom. Prior to that he held various positions at The Netherlands Postal and Telecommunications Services, including the position of Executive Vice President. He held various sales positions at Geveke as well. He is Chairman of the Supervisory Board of Stichting Centrale Discotheek Rotterdam and Member of the Supervisory Boards of Stadion Feijenoord, Travel Unie International and Devote.

**Mr. J.G. Drechsel** was appointed Member of the management board on June 28, 1998 and is responsible for mobile activities and Internet, customer relationship management and media services. He is a former Executive Vice President of PTT Telecom B.V. (renamed KPN Telecom B.V.). Prior to that he spent 15 years working for Shell International Petroleum N.V. in a number of different roles, including Manager of Shell Western Europe Crude Oil Trading, Chief Executive for Shell Companies in Taiwan and Area Head, Central and Eastern Europe. He is a Member of the Board of Directors of TelSource. He is a Member of the Supervisory Board of KPNQwest and Eneco. He is also Chairman of the Supervisory Board of KPN Mobile and Station 12.

**Mr. J.M. Henderson** was appointed Member of the management board on November 9, 1999, and has been the Chief Financial Officer since February 1, 2000. He is a former Member of the Board of Management and Chief Financial Officer of Schmalbach Lubeca A.G., Germany. Before that he spent many years working for subsidiaries of the Philips Electronics Group in a variety of roles. His last position was that of member of the Board of Management and Chief Financial Officer of Philips Kommunikations Industrie A.G. He is also a Member of the Supervisory Board of KPN Mobile and Chairman of the Supervisory Board of E-Plus.

**Mr. P. Morley** was appointed Member of the management board on June 28, 1998 and is responsible for activities in the areas of research, development and information technology. He has held various positions within our company, including Director of Network Architecture, Head of telecommunication management research and Company Secretary. Prior to joining our company, he worked at Schlumberger International and Dublin College of Technology. He is Member of the Board of Directors of eircom and of the Supervisory Board of KPN Ventures. He is also a Member of the Supervisory Board of KPN Mobile.

**Mr. M. Pieters** was appointed Member of the management board on April 27, 2000 and is responsible for IP/data activities and a number of foreign affiliated companies. He has held various positions within our company, including the position of Vice President of International Operations responsible for our affiliated companies and former Director of telecom district Groningen. Prior to that he worked more than ten years in the food industry and held among others the position of Chief Financial Officer in Smilde Holding B.V. He is Member of the Supervisory Board of KPNQwest and Telesource. He is Chairman of the Board of Directors of PanTel and Member of the Board of Directors of Český Telecom, eircom and Euroweb.

**Mr. L. Roobol** was appointed Member of the management board on April 27, 2000 and is responsible for fixed network services. He held various positions within our company, including the position of Director of the Business Unit Fixed Telephony and Director of the telecom district Rotterdam. Before joining our company he held the position of Director at Novell Benelux B.V. and WordPerfect Nederland B.V. Mr. Roobol is former Management Consultant of Deloitte & Touche.

The business address of each of the current management board members is Maanplein 5, 2516 CK, The Hague, The Netherlands.

#### **Senior officers**

Mr. C.P. Bosman (age 46), Head of Fixed Telephony, as of May 1, 2000.

Mr. T.R. Veraar (age 49), Head of Carrier Services, as of January 1, 2000.

Mr. E. Blok (age 43), Head of Corporate Networks, as of January 1, 2000.

Mr. C.H.W.M. van den Heijkant (age 41), Head of Telecommerce, as from October 1, 2000.

Mr. A.C. Oosterman (age 41), Head of Business Communications, as of May 1, 2000.

#### **Discharge of liability**

Pursuant to Dutch law, each member of the Supervisory Board and management board is responsible to us for the proper performance of his or her assigned duties. Our articles of association provide that the general meeting of shareholders approves the annual accounts. A discharge granted to our Supervisory Board and to our management board in respect of the exercise of their duties during the financial year concerned does not extend to actions or omissions not disclosed in or apparent from the approved annual accounts, if these actions or omissions were concealed by the director concerned, while the discharging shareholders could not have known about these actions or omissions. This discharge of liability may be limited by mandatory provisions of Dutch law, such as in the case of bankruptcy.

#### **Management share option plan**

In 1994, the Supervisory Board approved a share option plan adopted by Royal PTT Nederland for a number of senior managers. The plan provided for the issue of a maximum of one million share options to be granted either to members of the management board, as decided by the Supervisory Board, or to other persons, as decided by the management board in consultation with the Supervisory Board. Upon their exercise, share options entitle the holder to one ordinary share per option. All share options are exercisable during a five-year period. The exercise price for each option was originally the market value of an ordinary share on the date the option was issued. In 1997, the Supervisory Board approved a second option plan under the same terms and conditions as the plan described above. This second plan is intended for a larger group than the first plan. As of year end 1999, this latter group comprised about 600 persons. The second share option plan provides for the issue of a maximum of 2.2 million options.

A new management share option plan, implemented in 2000, provides for the issue of a maximum of 2.7 million share options for a three-year period (or 5.4 million as a result of the two-for-one split). These are to be granted to either members of the management board as decided by the Supervisory Board or to other persons as decided by the management board. Grants under the plan give the right to one ordinary share per option or to a share appreciation right or SAR. A SAR is the right to receive payment of the difference between the value of the exercise price of the SAR and the market value of the share at the time of exercise. Upon exercise of the share option, the SAR will lapse and vice versa. The share options are directly exercisable at the date of grant and expire after five years from the date of grant. The SARs become exercisable after three years after the date of grant and expire five years from the date of grant. The exercise price of a share option is 125.1% of the market value of a share

on the date the share option was issued. The exercise price of an SAR is equal to the market value of a share on the date the SAR was issued. According to the plan the share options become taxable on the date of grant.

The 1994, 1997 and the 2000 share option plans provide for interest-free loans by us to the participants with respect to the tax amounts due on the options. The options granted before 1999 entitle the holder to one of our shares and one share in TNT Post Group N.V. As a consequence of our two for one share split, which took effect on June 5, 2000, the holder of one of our share options is as of June 5, 2000 entitled to two of our shares. Currently, the options which were issued in 1999 and 2000 under the management share option plan and employee share option plan, 9,011,704 shares in total, are not covered by shares we own. We anticipate providing for these share options through the issuance of new shares.

### **Compensation of Supervisory Board members**

Our shareholders' meeting determines the remuneration of the members of our Supervisory Board. The remuneration of the chairman is set at €40,840 and is set at €31,765 for the other members. The total amount of remuneration to present and former Supervisory Board members received for the year ended December 31, 1999 was €256,840. We do not grant share options to members of our Supervisory Board. We do not provide our Supervisory Board members with any pension or other retirement benefits.

The only loans outstanding from us to any member of the Supervisory Board are two interest free loans in aggregate principal amount of €25,406.

### **Compensation of management board members**

For the year ended December 31, 1999, the aggregate remuneration and aggregate pension premium paid by us to our management board members in their capacities as our employees were €3.40 million and €1.54 million respectively.

At present, current and former members of our management board have options over an aggregate of 679,560 of our shares. For the year ended December 31, 1999 we granted options over an aggregate amount of 66,700 shares (entitling option holders to 133,400 of our shares due to the two for one share split which took effect on June 5, 2000). These options expire on May 3, 2004. The exercise price is €19.90 per share. On April 28, 2000, 120,000 of those options (entitling option holders to 240,000 shares due to the two for one share split which took effect on June 5, 2000) were issued under the 2000 Management Share Option Plan for board members. The exercise price is €71.84 per share.

## DESCRIPTION OF THE NOTES

The notes will be governed by a document called an indenture. The indenture is a contract entered into between us and Bankers Trust Company, which acts as trustee. A copy of the indenture will be made available upon request to us.

The trustee has two main roles:

- First, the trustee can enforce your rights against us if we default, although there are some limitations on the extent to which the trustee acts on your behalf that are described under “Default and related matters—Events of default—Remedies if an event of default occurs;” and
- Second, the trustee performs administrative duties for us, such as sending interest payments to you and sending notices to you.

The indenture and its associated documents contain the full legal text of the matters described in this section. New York law governs the indenture and the notes.

### General

The 30 year dollar notes will be issued in an aggregate principal amount of \$1,000,000,000 and will mature on October 1, 2030. The 10 year dollar notes will be issued in an aggregate principal amount of \$1,750,000,000 and will mature on October 1, 2010. The 5 year dollar notes will be issued in an aggregate principal amount of \$750,000,000 and will mature on October 1, 2005. The 5 year euro notes will be issued in an aggregate principal amount of €1,000,000,000 and will mature on October 4, 2005. Book-entry interests in the notes will be issued as described below in minimum denominations of \$1,000 or €1,000.

The notes will be unsecured, unsubordinated indebtedness and will rank equally with all of our other unsecured and unsubordinated indebtedness. The notes will rank equally without any preference among themselves and with all our present and future unsecured and unsubordinated indebtedness. Because we are a holding company, the notes will effectively rank junior to any indebtedness of our subsidiaries.

The principal corporate trust office of the trustee in the City of New York is designated as the principal paying agent. We may at any time designate additional paying agents or rescind the designation of paying agents or approve a change in the office through which any paying agent acts. So long as we list any of the notes on Euronext Amsterdam N.V., we will maintain a paying agent in Amsterdam, The Netherlands.

Payment of principal of and interest on the notes, so long as the notes are represented by global securities (as discussed below), will be made in immediately available funds. Beneficial interests in the global securities will trade in the same-day funds settlement system of DTC, Euroclear or Clearstream, Luxembourg in the case of the dollar notes and in the same-day funds settlement systems of Euroclear and Clearstream, Luxembourg in the case of the euro notes, and secondary market trading activity in such interests will therefore settle in same-day funds.

### Interest rate

The notes will bear interest at the applicable initial interest rate per annum shown on the cover page of this offering memorandum, payable semi-annually in arrears on April 1 and October 1 of each year, commencing April 1, 2001 for the dollar notes, and annually in arrears on October 4 of each year, commencing October 4, 2001 for the euro notes. With respect to the dollar notes, if interest is required to be calculated for any period less than a year, other than with respect to regular semi-annual interest payments, it will be calculated based on a 360-day year consisting of twelve 30-day months. With respect to the euro notes, if interest is required to be calculated for any period of less than a year, it

will be calculated on the basis of the actual number of days elapsed since the closing date of the offering or, if more recent, the last interest payment date divided by 365 (or, if any portion of this period falls in a leap year, the sum of (A) the actual number of days in that portion of the period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the period falling in a non-leap year divided by 365).

The effective yields of the notes are 8.398% for the 30 year dollar notes, 8.003% for the 10 year dollar notes, 7.516% for the 5 year dollar notes, and 6.290% for the 5 year euro notes. The effective yield is calculated by adding the re-offer spread to the effective yield of the benchmark. The issue price is the net present value of the coupon and the principal repayment, with the effective yield as a discount factor.

## **Legal ownership**

### ***Street name and other indirect holders***

We generally will not recognize investors who hold notes in accounts at banks or brokers as legal holders of notes. When we refer to the “holders” of notes we mean only the actual legal and (if applicable) record holder of those notes. Holding notes in accounts at banks or brokers is called holding in “street name.” If you hold notes in street name, we will recognize only the bank or broker or the financial institution the bank or broker uses to hold its notes. These intermediary banks, brokers and other financial institutions pass along principal, interest and other payments on the notes, either because they agree to do so in their customer agreements or because they are legally required. If you hold the notes in street name, you should check with your own institution to find out:

- how it handles notes payments and notices;
- whether it imposes fees or charges;
- how it would handle voting if it were ever required;
- whether and how you can instruct it to send you notes and, if the notes are in registered form, have them registered in your own name, so you can be a direct holder as described below; and
- how it would pursue rights under the notes if there were a default or other event triggering the need for holders to act to protect their interests.

### ***Direct holders***

Our obligations, as well as the obligations of the trustee and those of any third parties employed by us or the trustee, under the notes run only to persons who are registered as holders of the notes. As noted above, we do not have obligations to you if you hold in street name or other indirect means, either because you choose to hold notes in that manner or because the notes are issued in the form of global securities as described below. For example, once we make payment to the person in whose name the note is registered, we have no further responsibility for the payment even if that holder is legally required to pass the payment along to you as a street name customer but does not do so.

### ***Global securities***

*What is a global security?* A global security is a special type of indirectly held security. Because we will issue notes in the form of global securities, the ultimate beneficial owners can only be indirect holders. We will deposit the global securities with a financial institution we select.

We require that the notes included in a global security not be transferred to the name of any other direct holder unless the special circumstances described below occur. The financial institution that acts as the sole direct holder of a global security is called the “depository.” Any person wishing to own a

note must do so indirectly by virtue of an account with a broker, bank or other financial institution that in turn has an account with the depositary.

*Special investor considerations for global securities.* As an indirect holder, an investor's rights relating to a global security will be governed by the account rules of the investor's financial institution and of the depositary, as well as general laws relating to securities transfers. We do not recognize this type of investor as a holder of notes and instead deal only with the depositary that holds the global security.

If you are an investor in notes that are issued only in the form of global securities, you should be aware that:

- You cannot get notes registered in your own name.
- You cannot receive physical certificates for your interest in the notes.
- You will be a street name holder and must look to your own bank or broker for payments on the notes and protection of your legal rights relating to the notes, as explained earlier under "Street name and other indirect holders."
- You may not be able to sell interests in the notes to some insurance companies and other institutions that are required by law to own their notes in the form of physical certificates.
- The depositary's policies will govern payments, transfers, exchange and other matters relating to your interest in the global security. We and the trustee have no responsibility for any aspect of the depositary's actions or for its records of ownership interests in the global security. We and the trustee also do not supervise the depositary in any way.
- The depositary will require that interests in a global security be purchased or sold within its system using same-day funds. By contrast, payment for purchases and sales in the market for corporate bonds and other notes is generally made in next-day funds. This difference could have some effect on how interests in global securities trade, but we do not know what effect that will be.

*Special situations in which a global security will be terminated.* In a few special situations described later, a global security will terminate and interests in it will be exchanged for physical certificates representing notes. After that exchange, the choice of whether to hold notes directly or in street name will be up to the investor. Investors must consult their own bank or brokers to find out how to have their interests in notes transferred to their own name so that they will be direct holders. The rights of street name investors and indirect holders in the notes have been previously described in the subsections entitled "Street name and other indirect holders" and "Direct holders."

The special situations for termination of a global security are:

- When the depositary notifies us that it is unwilling or unable to continue as depositary and we do not appoint a successor within 120 days of this notice.
- When an event of default on the notes has occurred and has not been cured. Defaults on notes are discussed below under "—Default and related matters—Events of default."

When a global security terminates, the depositary (and neither we nor the trustee) is responsible for deciding the names of the institutions that will be the initial direct holders. For more information, see "—Procedures for issuing definitive notes" below.

*Special Arrangements for Global Securities.* We will deposit global securities representing the notes with Bankers Trust Company, acting as "depositary," in the case of the dollar Notes and with Deutsche Bank AG London in the case of the euro Notes who will hold the global security.

With respect to the dollar notes, you can hold a beneficial interest in the global security only directly through DTC or indirectly through participants or indirect participants in DTC. These beneficial interests may be held in such denominations as are permitted by DTC. Indirect participants are banks, brokers, dealers, trust companies and other parties, including Euroclear and Clearstream, Luxembourg, that clear through or maintain a custodial relationship with a participant. With respect to the euro notes, you can hold a beneficial interest in the global security through Euroclear or Clearstream, Luxembourg or their participants. Beneficial interests in the global security are called book-entry securities.

In the remainder of this description “you” means direct holders and not street name or other indirect holders of notes. Indirect holders should read the previous subsection entitled “Street name and other indirect holders.”

## **Additional mechanics**

### ***Form, exchange and transfer***

The 30 year dollar notes, the 10 year dollar notes, the 5 year dollar notes and the 5 year euro notes will each be represented by separate global securities in registered form, without coupons. In each case, any notes initially offered and sold in the United States will be represented by a separate global security, which together we refer to as the 144A global securities, and any notes sold pursuant to Regulation S under the Securities Act will be represented by a separate global security, which together we refer to as the Regulation S global securities. The 144A and Regulation S global securities, in each case, will be issued in denominations that in the aggregate equal the outstanding principal amount of notes represented thereby and which are even multiples of U.S.\$1,000 and €1,000.

You may have your notes broken into more notes of smaller denominations or combined into fewer notes of larger denominations, as long as the total principal amount is not changed. This is called an exchange.

You may exchange or transfer your notes at the office of the trustee. The trustee acts as our agent for registering notes in the names of holders and transferring registered notes. We may change this appointment to another entity or perform the service ourselves. The entity performing the role of maintaining the list of registered holders is called the “security registrar.” It will also register transfers of the registered notes. However, you may not exchange registered notes for bearer notes.

You will not be required to pay a service charge to transfer or exchange notes, but you may be required to pay any tax or other governmental charge associated with the exchange or transfer. The transfer or exchange of registered notes will only be made if the security registrar is satisfied with your proof of ownership.

We may designate additional transfer agents. We may cancel the designation of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

### **Payment and paying agents**

We will pay interest to you if you are a direct holder listed in the trustee’s records at the close of business on a particular day in advance of each due date for interest, even if you no longer own the security on the interest due date. That particular day, shown on the cover page, is called the “regular record date.”

We will pay interest, principal and any other money due on global securities to the holder thereof by wire transfer of same-day funds at the corporate trust office of the trustee in New York City. That office is currently located at Four Albany Street, New York, NY 10006. You must make arrangements

to have your payments picked up at or wired from that office. We may also choose to pay interest by mailing checks.

Interest on the global securities will be paid to the holder of the notes by wire transfer of same-day funds.

Holders buying and selling notes must work out between themselves how to compensate for the fact that we will pay all the interest for an interest period to the one who is the registered holder on the regular record date. The most common manner is to adjust the sales price of the notes to prorate interest fairly between buyer and seller. This prorated interest amount is called “accrued interest.”

Street name and other indirect holders should consult their banks or brokers for information on how they will receive payments.

We will also arrange for additional payment offices, and may cancel or change these offices, including our use of the trustee’s corporate trust office. These offices are called “paying agents.” We may also choose to act as our own paying agent. We must notify you of changes in the paying agents for the notes that you hold. As long as the notes are listed on Euronext Amsterdam N.V., we will maintain a paying agent in Amsterdam, The Netherlands. We have initially appointed ING Bank N.V. as paying agent in The Netherlands.

## **Notices**

We and the trustee will send notices only to direct holders, using their addresses as listed in the trustee’s records. As long as the notes are listed on Euronext Amsterdam N.V., and it so requires, we will also publish notices such as to the holders of the notes in a leading newspaper having general circulation in The Netherlands, in the Official Price List (*Officiële Prijscourant*) of Euronext Amsterdam N.V. and in an English language newspaper of general circulation in Europe. Any notice will be deemed to have been given on the date of the publication in the Official Price List.

Regardless of who acts as paying agent, all money that we pay to a paying agent that remains unclaimed at the end of two years after the amount is due to direct holders will be repaid to us. After that two-year period, direct holders may look only to us for payment and not to the trustee, any other paying agent or anyone else.

## **Registration covenant; exchange offer**

We have agreed to use our best efforts to file with the SEC (or to submit to the staff of the SEC on a confidential basis), a registration statement under the Securities Act relating to an exchange offer pursuant to which (i) securities that are substantially identical to the 30 year dollar notes, (ii) securities that are substantially identical to the 10 year dollar notes, (iii) securities that are substantially identical to the 5 year dollar notes and (iv) securities that are substantially similar to the 5 year euro notes, in each case, would be offered in exchange for the then outstanding notes tendered at the option of the holders thereof, and to use our best efforts to cause the exchange offer registration statement to become effective. The exchange notes will also be listed on Euronext Amsterdam N.V.

Under existing SEC interpretations, the exchange notes would in general be freely transferable after the exchange offer without further registration under the Securities Act, except that broker-dealers receiving exchange notes in the exchange offer will be subject to a offering circular delivery requirement with respect to resale of those exchange notes. We have taken the position that these broker-dealers may fulfill their offering circular delivery requirements with respect to the exchange notes (other than a resale of any unsold allotment from the original sale of the notes) by delivery of the offering circular contained in the exchange offer registration statement. Under the exchange and registration rights agreement, we are required to allow these broker-dealers to use the offering circular

contained in the exchange offer registration statement in connection with the resale of such exchange notes.

In the event that due to a change in current interpretations by the SEC, we are not permitted to complete the exchange offer, we will, instead of conducting the exchange offer as contemplated above, use our best efforts to file a registration statement covering resales by the holders of notes and will use our best efforts to cause the shelf registration statement to become effective and remain effective for a period of up to two years after the closing of the offering. If we file a shelf registration statement, we will provide to each holder copies of the offering circular and notify each holder when the shelf registration statement has become effective. A holder that sells notes under a shelf registration statement generally will be required to be named as a selling security holder in the related offering circular and to deliver a current offering circular to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with such sales and be bound by the provisions of the exchange and registration rights agreement that are applicable to such a holder (including certain indemnification obligations). The exchange notes will be issued under the indenture for the notes or under an indenture substantially similar to that indenture, which, in either event, will provide that the exchange notes will not be subject to the transfer restrictions described under “Transfer restrictions.”

We have agreed to use our best efforts to:

- unless the exchange offer would not be permitted by applicable law or SEC policy, file (or submit on a confidential basis) within 120 days of closing of this offering the exchange offer registration statement with the SEC;
- unless the exchange offer would not be permitted by applicable law or SEC policy, have the exchange offer registration statement declared effective by the Commission within 210 days after the closing of this offering;
- unless the exchange offer would not be permitted by applicable law or SEC policy, consummate the exchange offer within 30 business days of the exchange offer registration statement being declared effective, and issue the exchange notes in exchange for all notes validly tendered in accordance with the terms of the exchange offer before the close of the exchange offer;
- if obligated to file the shelf registration statement, to file (or submit on a confidential basis), subject to certain conditions, within the later of (a) 120 days after closing of this offering or (b) 30 days after such filing obligation arises, and cause the shelf registration statement to be declared effective by the SEC on or prior to the later of (a) 240 days after the closing of this offering and (b) 60 days after such obligation arises; and
- if we file the shelf registration statement, we shall use our best efforts to keep such shelf registration statement continuously effective, subject to certain exceptions, (a) until the second anniversary of the closing date of this offering or (b) such shorter period that will terminate when all notes covered by the shelf registration statement have been sold pursuant thereto.

Although we intend to file the registration statement described above, we cannot assure you that the registration statement will be filed or, if filed, that it will become effective.

If we fail to comply with the above provisions, additional interest will accrue on the notes for specified periods at a rate of 0.25% per annum as set forth below:

- (1) if the exchange offer registration statement is not filed (or submitted on a confidential basis) within 120 days following the closing of this offering for any other reason other than a change in law or SEC policy, additional interest will accrue on the notes commencing on the 121st day after the closing of this offering and ending on the day the exchange offer registration statement or shelf registration statement is filed with the SEC;

- (2) if there occurs such a change in law or SEC policy and the shelf registration statement is not filed (or submitted on a confidential basis) as required, additional interest will accrue on the notes commencing on the later of the 121st day after the closing date of this offering and the 31st day after such filing obligation arises and ending on the day the shelf registration statement is filed (or submitted on a confidential basis) with the SEC;
- (3) if an exchange offer registration statement or a shelf registration statement is filed (or submitted on a confidential basis) but is not declared effective on or before the date specified for such effectiveness, additional interest will accrue on the notes for the period starting on the next following day and ending on the day the exchange offer registration statement or shelf registration statement is declared effective by the SEC;
- (4) if we have not exchanged exchange notes for all notes validly tendered on or before 30 business days after the date on which the exchange offer registration statement was declared effective, additional interest will accrue on the notes for the period starting on the 31st business day after the effective day and ending on the day we issue exchange notes for all notes tendered; or
- (5) if, when applicable, the shelf registration statement has been declared effective but it ceases to be effective at any time prior to the second anniversary of the closing date of this offering, assuming that all notes covered by the shelf registration statement have not been sold pursuant thereto, subject to certain exceptions, additional interest will accrue on the notes for the period starting on the day the shelf registration statement ceases to be effective and ending on the day it becomes effective again.

The additional interest rate on the notes may in no event exceed 0.25% per annum. Any amount of additional interest will be payable in cash, on the same original payment dates of the notes. We will be entitled to close the exchange offer once we accepted all notes validly tendered. Notes not tendered in the exchange offer shall bear interest at the same rates in effect at the time of issuance of the notes.

Each series of dollar notes and the corresponding dollar exchange notes and the euro notes and the corresponding exchange euro notes will be considered to be a single class for all purposes under the indenture, including, without limitation, waivers, amendments and redemptions. For purposes of this description of notes, except under this caption “Registration covenant; exchange offer,” all references herein to notes shall refer collectively to such notes and the relevant exchange notes, unless the context otherwise requires.

## **Special situations**

### ***Mergers and similar events***

We are generally permitted to consolidate or merge with another entity. We are also permitted to sell or lease substantially as an entirety our assets to another entity or to buy or lease substantially as an entirety the assets of another entity. No vote by holders of notes approving any of these actions is required, unless as part of the transaction we make changes to the indenture requiring your approval, as described later under “—Modification and waiver.” We may take these actions as part of a transaction involving outside third parties or as part of an internal corporate reorganization. We may take these actions even if they result in:

- a lower credit rating being assigned to the notes; or
- additional amounts becoming payable in respect of withholding tax, and the notes thus being subject to redemption at our option, as described later under “—Optional tax redemption.”

We have no obligation under the indenture to seek to avoid these results, or any other legal or financial effects that are disadvantageous to you, in connection with a merger, consolidation or sale or

lease of assets that is permitted under the indenture. However, we may not take any of these actions unless all the following conditions are met:

- If we merge out of existence or sell or lease substantially as an entirety our assets, the other entity must assume our obligations on the notes, including the obligation to pay the additional amounts described under “Payment of additional amounts.” This assumption may be by way of a full and unconditional guarantee in the case of a sale or lease of our assets substantially as an entirety.
- If such other entity is organized under the laws of a country other than The Netherlands, it must indemnify you against any governmental charge or other cost resulting from the transaction.
- We must not be in default on the notes immediately prior to such action and such action must not cause a default. For purposes of this no-default test, a default would include an event of default that has occurred and not been cured, as described later under “Default and related matters—Events of default—What is an event of default?” A default for this purpose would also include any event that would be an event of default if the requirements for notice of default or existence of defaults for a specified period of time were disregarded.
- If we sell or lease our assets substantially as an entirety and the entity to which we sell or lease such assets guarantees our obligations, the guarantee would be set forth in a supplement to the indenture, in which the entity must promise to be bound by every obligation in the indenture, including the events of default described later. Furthermore, in this case, the trustee must receive an opinion of counsel stating that the entity’s guarantee is valid and that specified U.S. securities laws requirements have been fulfilled. The entity that guarantees our obligations must also deliver certain certificates and other documents to the trustee.
- We must deliver certain certificates and other documents to the trustee.

It is possible that the U.S. Internal Revenue Service may deem a merger or other similar transaction to cause for U.S. federal income tax purposes an exchange of notes for new securities by the holders of the notes. This could result in the recognition of taxable gain or loss for U.S. federal income tax purposes and possible other adverse tax consequences for which we are not responsible.

### ***Modification and waiver***

There are three types of changes we can make to the indenture and the notes.

*Changes requiring your approval.* First, there are changes that cannot be made to your notes without your specific approval. These are the following types of changes:

- change the stated maturity of the principal or interest on a note;
- reduce any amounts due on a note;
- change any obligation to pay the additional amounts described under “Payment of additional amounts;”
- reduce the amount of principal payable upon acceleration of the maturity of a note following a default;
- change the place or currency of payment on a note;
- impair your right to sue for payment once it has become due;
- reduce the percentage of holders of notes whose consent is needed to modify or amend the indenture;

- reduce the percentage of holders of notes whose consent is needed to waive compliance with various provisions of the indenture or to waive specified defaults; and
- modify any other aspect of the provisions dealing with modification and waiver of the indenture.

*Changes requiring a qualified majority vote.* The second type of change to the indenture and the notes is the kind that requires a qualified majority vote. Most changes fall into this category, except for clarifying changes, amendments, supplements and other changes that would not adversely affect holders of the notes. For example, this vote would be required for us to obtain a waiver of all or part of certain covenants or a waiver of a past default. However, we cannot obtain a waiver of a payment default or any other aspect of the indenture or the notes listed in the first category previously beginning above under “Changes requiring your approval” unless we obtain your individual consent to the waiver.

Under the indenture, a qualified majority exists with respect to a series of Notes when at least two-thirds of the aggregate principal amount of outstanding notes of such series are represented or voting pursuant to a written instrument at a meeting of holders of the affected series of notes, also known as a noteholder meeting, and a vote of two-thirds is cast with respect to those outstanding notes. If representation, including representation pursuant to a written instrument, of a particular series of notes does not reach two-thirds at the initial noteholder meeting, a qualified majority will still exist if at a second noteholder meeting a vote of two-thirds is cast with respect to the aggregate principal amount of the outstanding notes of a series irrespective of the amount of notes represented at that meeting.

*Changes not requiring your approval.* The third type of change does not require any vote by holders of notes. This type extends to clarifications, amendments, supplements and any other changes that would not adversely affect holders of the notes in any material respect.

*Further details concerning voting.* Notes will not be considered outstanding, and therefore will not be eligible to vote, if we have deposited or set aside in trust for you money for their payment or redemption. Notes will also not be eligible to vote if they have been fully defeased as described below under “Defeasance and discharge.”

We will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding notes that are entitled to vote or take other action under the indenture. In limited circumstances, the trustee will be entitled to set a record date for action by holders. If we or the trustee set a record date for a vote or other action to be taken by holders of a particular series, that vote or action may be taken only by persons who are holders of outstanding notes of that series on the record date and must be taken within 180 days following the record date or another period that we or, if it sets the record date, the trustee may specify. We may shorten or lengthen (but not beyond 180 days) this period from time to time.

Street name and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the notes or request a waiver.

### ***Noteholder Meetings***

The trustee may call a noteholder meeting for the holders of a particular series of notes at any time. In addition, we or the holders of at least 15% of the aggregate principal amount of the outstanding notes of a particular series may also require the trustee to call a noteholder meeting. A noteholder meeting may be called for any of the following purposes:

- to give any notice to us or the trustee;
- to give any directions to the trustee;

- to consent to the waiving of any default or event of default, or to enforce your rights in case an event of default occurs;
- to remove the trustee and nominate a successor trustee;
- to consent to the execution of an indenture or an indenture supplemental to the one used in this offering;
- to take any other action authorized under the indenture or applicable law on behalf of the holders of a particular series of notes.

If a noteholder meeting is called, the trustee must give, with limited exceptions, written notice to the affected noteholders of the time, place and actions proposed. Notice must be provided by the trustee not less than 14 days but not more than 21 days prior to the date fixed for the proposed noteholder meeting. The trustee has one month to provide notice when a meeting is requested by us or by the required amount of noteholders. If such notice is not given within a month of the trustee receiving the request, we or any noteholders participating in the initial request may call such meeting by mailing the required notice. In addition, we must also give notice of any noteholder meetings through an advertisement that sets out the items on the agenda and contains the contents or location of any documents relevant to such meeting. For a description of how we will publish such notice please refer to the subsection entitled “Notices.”

A minimum number of persons must be represented or voting, including pursuant to written instrument, at a noteholder meeting in order for any decisions to go into effect. This minimum number of persons, or quorum, exists when two-thirds of the outstanding principal amount of the particular series of notes affected are represented or voting, including pursuant to written instrument. If a quorum is not present at an initial meeting, a quorum will be deemed to exist if a qualified majority, as explained above, is obtained with respect to the action voted by the holders of a particular series of notes.

### ***Redemption and repayment***

Your notes will not be entitled to the benefit of any sinking fund—that is, we will not deposit money on a regular basis into any separate custodial account to repay your notes. You will not be entitled to require us to buy your notes from you, before their stated maturity.

The euro notes are not redeemable prior to their majority except as described below under “Optional tax redemption.” We shall have the right to redeem each series of dollar notes, in whole but not in part, at any time, at a redemption price equal to the greater of (i) 100% of the principal amount of the applicable notes plus accrued and unpaid interest to the date of redemption or (ii) as determined by the quotation agent, the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the adjusted treasury rate, plus 25 basis points for the 30 year dollar notes, 20 basis points for the 10 year dollar notes and 15 basis points for the 5 year dollar notes, plus, in each case, accrued and unpaid interest thereon to the date of redemption.

The definitions of certain terms used in the paragraph above are listed below.

“Adjusted treasury rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the comparable treasury issue, assuming a price for the comparable treasury issue (expressed as a percentage of its principal amount) equal to the comparable treasury price for such redemption date.

“Comparable treasury issue” means the U.S. Treasury security selected by the quotation agent as having a maturity comparable to the remaining term of the dollar notes to be redeemed that would be

utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such dollar notes.

“Comparable treasury price” means, with respect to any redemption date, the average of the quotation agent’s quotations for such redemption date.

“Quotation agent” means a reference dealer in obligations issued by the United States Treasury that is a primary U.S. government securities dealer in New York City. The trustee will appoint the quotation agent after consultation with us.

“Quotation agent’s quotations” means with respect to any redemption date, the average, as determined by the trustee, of the bid and asked prices for the comparable treasury issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by such dealer in obligations issued by the United States Treasury at 5:00 p.m. on the third business day preceding such redemption date.

From and after the redemption date, if money for the redemption of the notes called for redemption shall have been made available as provided in the indenture and the notes called for redemption on the redemption date, such notes shall cease to bear interest, and the only right of the holders of such notes shall be to receive payment of the redemption price and all unpaid interest accrued to the date of redemption.

We will give notice to DTC, Euroclear and Clearstream, Luxembourg, as applicable, of any redemption we propose to make at least 30 days, but not more than 60 days, before the redemption date. Notice by DTC, Euroclear or Clearstream, Luxembourg to participating institutions and by these participants to street name holders of indirect interests in the notes will be made according to arrangements among them and may be subject to statutory or regulatory requirements. We will also publish a notice of redemption. For a description of how we will publish such notice, please refer to the subsection “Notices.”

We or our affiliates may purchase notes from investors who are willing to sell from time to time, either in the open market at prevailing prices or in private transactions at negotiated prices. Notes that we or they purchase may, in our discretion, be held, resold or cancelled.

Except as described below under “Optional tax redemption,” we may not redeem any of the euro notes prior to their maturity.

#### ***Optional tax redemption***

We will have the option to redeem any series of the notes, in whole but not in part in the two situations described below. In such cases, the redemption price for the applicable notes will be equal to the principal amount of the notes being redeemed plus accrued and unpaid interest and any additional amounts due on the date fixed for redemption. Furthermore, we must give you between 30 and 60 days’ notice before redeeming the notes.

The first situation is where, as a result of a change in, execution of or amendment to any laws, rules, regulations or treaties or the official application or interpretation of any laws, rules, regulations or treaties, we would be required to pay additional amounts as described later under “Payment of additional amounts.”

This applies only in the case of changes, executions or amendments that occur on or after the date of this offering circular and in the jurisdiction where we are incorporated. If succeeded by another entity, the applicable jurisdiction will be the jurisdiction in which such successor entity is organized, and the applicable date will be the date the entity became a successor.

We would not have the option to redeem in this case if we could have avoided the payment of additional amounts or the deduction or withholding by using reasonable measures available to us.

The second situation is where, following a merger, consolidation or sale or lease of our assets to a person that assumes or, if applicable, guarantees our obligations on the notes, that person is required to pay additional amounts as described later under “Payment of additional amounts.”

We, or the other person, would have the option to redeem the notes in this situation even if additional amounts became payable immediately upon completion of the merger or sale transaction, including in connection with an internal corporate reorganization. Neither we nor that person have any obligation under the indenture to seek to avoid the obligation to pay additional amounts in this situation.

#### ***Payment of additional amounts***

The government of any jurisdiction in which we are incorporated may require us to withhold amounts from payments on the principal or any premium or interest on a note for taxes or any other governmental charges. If the jurisdiction requires a withholding of this type, we may be required to pay you an additional amount so that the net amount you receive will be the amount specified in the note to which you are entitled. However, in order for you to be entitled to receive the additional amount, you must not be resident in the jurisdiction that requires the withholding.

We will not have to pay additional amounts under any of the following circumstances:

- the existence of any present or former connection between you and The Netherlands, other than the mere holding of the notes and the receipt of payments thereon;
- your status as an individual resident of a member state of the European Union;
- a failure to comply with any applicable certification, documentation, information or other reporting requirements concerning your nationality, residence, identity or connection with The Netherlands, if such compliance is required as a precondition to relief or exemption from such taxes or other governmental charges (including, without limitation, a certification that you are not resident in The Netherlands or are not an individual resident of a member state of the European Union);
- a change in law that becomes effective more than 30 days after a payment on the notes becomes due and payable or on which payment thereof is duly provided for, whichever occurs later; or
- the payment would not have been subject to withholding if the note had been presented for payment within 30 days from the relevant payment date.

These provisions will also apply to any taxes or governmental charges imposed by any jurisdiction in which a successor to us is organized.

#### **Restrictive covenants**

##### ***Limitations on liens***

A lien is a preference arrangement on property, such as:

- a mortgage or deed of trust;
- a pledge;
- a hypothecation;
- an assignment;

- a deposit arrangement;
- a security interest;
- a charge;
- a preference;
- a priority;
- a security agreement;
- a capital lease obligation;
- a conditional sale; or
- any other agreement that has the same economic effect as any of the above.

Under the indenture, we may not allow any lien securing capital market indebtedness on any of our property or assets, which includes capital stock, unless the lien secures your notes equally and ratably with or prior to, any other indebtedness secured by such lien, subject to certain exceptions described below. Capital market indebtedness means any obligation to repay money that is borrowed through the issuance of bonds, notes or other debt securities which are capable of being listed or traded on a stock exchange or other recognized securities market; it does not include any off-balance sheet assets and obligations. The indenture excepts from this limitation secured debt which we may issue, assume, guarantee or permit to exist up to 10% of the consolidated net tangible assets as shown on our most recent balance sheet at the time. This limitation will not apply to:

- liens existing at the date of the indenture;
- liens on property that exist when we acquire the property and liens that secure payment of the purchase price of the property;
- liens on shares or stock of any entity that exists when we or a subsidiary acquires such shares or stock;
- liens on property to secure debt incurred for development or improvement of the property;
- liens securing (a) nondelinquent performance of bids or contracts, other than for borrowed money, obtaining of advances or credit or the securing of debt, (b) contingent obligations on surety and appeal bonds and (c) other similar nondelinquent obligations, in each case incurred in the ordinary course of business;
- liens securing capital lease obligations, provided that (a) any such lien attaches to the property within 270 days after the acquisition thereof and (b) such lien attaches solely to the property so acquired;
- liens arising solely by virtue of any statutory or common law provision relating to banker's liens, rights of set-off or similar rights and remedies as to deposit account or other funds, provided that such deposit account is not a dedicated cash collateral account and is not subject to restrictions against our access in excess of those set forth by regulations promulgated by the European Central Bank, the Central Bank of The Netherlands or the Federal Reserve Board and such deposit account is not intended by us to provide collateral to the depository institution;
- pledges or deposits under worker's compensation laws, unemployment insurance laws or similar legislation;
- statutory and tax liens for sums not yet due or delinquent or which are being contested or appealed in good faith by appropriate proceedings;

- liens arising solely by operation of law and in the ordinary course of business, such as mechanics', materialmen's, warehousemen's and carriers' liens and liens of landlords or of mortgages of landlords on fixtures and movable property located on premises leased in the ordinary course of business;
- liens on personal property, other than shares or debt of our subsidiaries securing loans maturing is not more than one year or on accounts receivables in connection with a receivables financing program; or
- extensions, renewals or replacement of any of the liens described above, if limited to all or any part of the same property securing the original lien.

## **Defeasance and discharge**

### ***Full defeasance***

We can legally release ourselves from any payment and other obligations on the notes, except for various obligations described below (called "full defeasance"), if we, in addition to other actions, put in place the following arrangements for you to be repaid:

- We must deposit in trust for your benefit and the benefit of all other direct holders of the notes a combination of money and U.S. government or U.S. government agency notes or bonds in the case of the dollar notes and German government bonds in the case of the euro notes, that will generate enough cash to make interest, principal and any other payments on the notes on their various due dates.
- We must deliver to the trustee a legal opinion of our counsel, based upon a ruling by the U.S. Internal Revenue Service or upon a change in applicable U.S. federal income tax law, confirming that under then current U.S. federal income tax law we may make the above deposit without causing you to be taxed on the notes any differently than if we did not make the deposit and just repaid the notes ourselves.

If we ever did accomplish full defeasance as described above, you would have to rely solely on the trust deposit for repayment on the notes. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever become bankrupt or insolvent. However, even if we take these actions, a number of our obligations relating to the notes will remain. These include the following obligations:

- to register the transfer and exchange of notes;
- to replace mutilated, destroyed, lost or stolen notes;
- to maintain paying agencies; and
- to hold money for payment in trust.

### ***Covenant defeasances***

We can make the same type of deposit described above and be released from all or some of the restrictive covenants (if any) that apply to any of the dollar notes and the euro notes. This is called "covenant defeasance." In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and securities set aside in trust to repay the notes. In order to achieve covenant defeasance, we must do the following:

- We must deposit in trust for your benefit and the benefit of all other direct holders of the applicable notes a combination of money and U.S. government agency notes or bonds in the case of the dollar notes and German government bonds in the case of the euro notes, that will

generate enough cash to make interest, principal and any other payments on such notes on their various due dates.

- We must deliver to the trustee a legal opinion of our counsel confirming that under then current U.S. federal income tax law we may make the above deposit without causing you to be taxed on the notes any differently than if we did not make the deposit and just repaid the notes ourselves.

If we accomplish covenant defeasance, the following provisions of the indenture and/or the notes would no longer apply:

- Any covenants applicable to the notes.
- The events of default relating to breach of covenants and acceleration of the maturity of other debt, described later under “What is an event of default?”

If we accomplish covenant defeasance, you can still look to us for repayment of the notes if there were a shortfall in the trust deposit. In fact, if any event of default occurred (such as our bankruptcy) and the notes become immediately due and payable, there may be such a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

## **Default and related matters**

### ***Ranking***

The notes are not secured by any of our property or assets. Accordingly, your ownership of notes means you are one of our unsecured creditors. The notes will rank equally with all other unsecured and unsubordinated indebtedness.

### ***Events of default***

You will have special rights if an event of default occurs and is not cured, as described later in this subsection.

*What is an event of default?* The term event of default means any one of the following:

- We do not pay the principal or any premium on a note within 14 days of its due date.
- We do not pay interest on a note within 21 days of its due date.
- We remain in breach of any covenant or any other item of the indenture for 30 days after we receive a notice of default stating that we are in breach. The notice must be sent by either the trustee or holders of 25% of the principal amount of the affected notes.
- We fail in the due repayment of indebtedness for borrowed money in an amount which exceeds U.S.\$30,000,000 (or its equivalent in other currency or currencies) and such failure continues for a period of 14 days after we receive notice of such failure or we fail to honor a payment guarantee or payment indemnity in respect of indebtedness for borrowed money for an amount in excess of U.S.\$30,000,000 (or its equivalent in other currency or currencies) and such failure continues for a period of 14 days after we receive notice of such failure except in each case if we are contesting our liability in good faith or have been ordered not to make such payment by a competent court.
- We become bankrupt or subject to a “surseance van betaling” or an order is made or an effective resolution is passed for our winding-up or liquidation (except if such order or resolution is made or passed for the purposes of any merger, consolidation or reconstruction in the case where the surviving or resulting company assumes all of our rights and obligations with respect to the notes).

- We cease to carry on substantially the whole of our business except for the purposes of any merger, consolidation or reconstruction in the case where the surviving or resulting company assumes all of our rights and obligations with respect to the notes.
- The passage of any governmental order, decree or enactment in The Netherlands due to which we are unable to perform our obligations under the indenture and this situation remains uncured for 90 days.

An event of default for each of the 30 year dollar notes, the 10 year dollar notes, the 5 year dollar notes or the 5 year euro notes does not necessarily constitute an event of default for any other of such notes.

For these purposes, “indebtedness for borrowed money” means any present or future indebtedness (whether it is principal, premium, interest or other amounts) for or in respect of:

- money borrowed (including in the form of any bonds, notes, debentures, debenture stock or loan stock); or
- liabilities under or in respect of any acceptance or acceptance credit.

*Remedies if an event of default occurs.* If an event of default has occurred and has not been cured, the trustee or the holders of at least 25% in principal amount of each series of affected notes may declare the entire principal amount of such series of affected notes to be due and immediately payable. This is called a declaration of acceleration of maturity. If an event of default occurs because of certain events in bankruptcy, insolvency or reorganization, the principal amount of such affected notes will be automatically accelerated without any action by the trustee, any holder or any other person. A declaration of acceleration of maturity may be cancelled by the holders of at least a qualified majority in the outstanding notes of a series. See the section entitled “Modification and waiver” above for a definition of qualified majority.

Except in cases of default, where the trustee has some special duties, the trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee satisfactory protection from expenses and liability. This protection is called an “indemnity.” If reasonable indemnity is provided, the holders of a qualified majority in the aggregate principal amount of the outstanding notes of a series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. These qualified majority holders may also direct the trustee in performing any other action under the indenture. Before you bypass the trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the notes the following must occur:

- You must give the trustee written notice that an event of default has occurred and remains uncured.
- The holders of 25% in principal amount of all outstanding notes of the affected series must make a written request that the trustee take action because of the default, and must offer satisfactory indemnity to the trustee against the cost and other liabilities of taking that action.
- The trustee must have not taken action for 60 days after receipt of the above notice and offer of indemnity.
- The holders of a qualified majority in principal amount of outstanding notes of the affected series must not have given the trustee a direction that is inconsistent with the above notice.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your note on or after its due date.

Street name and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and to make or cancel a declaration of acceleration.

We will furnish to the trustee every year a written statement of certain of our officers that will either certify that, to their knowledge, we are in compliance with the indenture and the notes or else specify any default.

#### **Further Issues**

We may from time to time without the consent of the noteholders create and issue further notes of any series having the same terms and conditions as the notes offered hereby in all respects (or in all respects except for the first payment of interest on them) so that such further issue shall be consolidated and form a single series with the outstanding securities of any series or upon such terms as we may determine at the time of their issue.

#### **Regarding the trustee**

We and some of our subsidiaries maintain banking relations with the trustee in the ordinary course of our business.

If an event of default occurs, or an event occurs that would be an event of default if the requirements for giving us default notice or our default having to exist for a specified period of time were disregarded, the trustee may be considered to have a conflicting interest with respect to the notes or the indenture for purposes of the Trust Indenture Act of 1939. In that case, the trustee may be required to resign as trustee under the applicable indenture and we would be required to appoint a successor trustee.

#### **Prescription**

To the extent permitted by applicable law, the notes will become void unless presented for payment within a period of the lesser of three years from the date they become due or, if payments of principal and interest have not been received by the depositary or paying agent on or prior to such date, the date on which notice is given to holders of the notes that payments have been received.

#### **Transfers and transfer restrictions**

Transfers of all or any portion of the book-entry interests may be made only through the book-entry register. No book-entry interest may be transferred except in compliance with the transfer restrictions reflected in the legend that appears on the global note. The Notes are also subject to restrictions on transfer. For more information see “Transfer Restrictions.”

Until and including the 40<sup>th</sup> day after the closing date with respect to the notes, which we refer to as the restricted period, a book-entry interest in a Regulation S global security may be held only through Euroclear or Clearstream, Luxembourg, unless transfer and delivery is made through a 144A global security. Prior to the expiration of the restricted period, a book-entry interest in a Regulation S global security may be transferred to a person who takes delivery in the form of a book-entry interest in a 144A global security only upon receipt by the trustee of written certification from the transferor (in the form provided in the indenture) to the effect that such transfer is being made to person whom the transferor reasonably believes is purchasing for its own account or for an account or accounts as to which it exercises sole investment discretion and that such person and such account or accounts is a qualified institutional buyer within the meaning of Rule 144A, in each case in a transaction meeting the requirements of Rule 144A, and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

A book-entry interest in a 144A global security may be transferred to a person who takes delivery in the form of a book-entry interest in a Regulation S global security, whether before or after the expiration of the restricted period, only upon receipt by the trustee of a written certification from the transferor (in the form provided in the indenture) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S or Rule 144 under the Securities Act and that, if such transfer occurs prior to the expiration of the restricted period, the book-entry interest transferred will be held immediately thereafter through Euroclear or Clearstream, Luxembourg.

Any book-entry interest in a Regulation S global security that is transferred to a person who takes delivery in the form of a book-entry interest in a 144A global security will, upon transfer, cease to be represented by a Regulation S global security and will become represented by a 144A global security and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in a 144A global security for as long as it remains such an interest. Any book-entry interest in a 144A global security that is transferred to a person who takes delivery in the form of a book-entry interest in a Regulation S global security will, upon transfer, cease to be represented by the 144A global security and will become represented by a Regulation S security and, accordingly, will thereafter be subject to all transfer restrictions and other procedures as applicable to book-entry interests in Regulation S global securities for as long as it remains such an interest. For further discussion, see “Transfer restrictions.”

#### **Procedures for issuing definitive notes**

Holders of book-entry interests will receive definitive notes in the situations described earlier under “Legal ownership—Global securities—Special situations in which a global security will be terminated”. Definitive notes issued in exchange for book-entry interests will be issued in registered form only, without coupons. They will be registered in the name or names that Bankers Trust Company, as depositary, specifies to the registrar.

#### **Action by holders of book-entry interests**

Bankers Trust Company, as trustee, must send any notices it receives concerning consents, requests for a waiver or any other action to DTC, Euroclear or Clearstream, Luxembourg, as applicable, as promptly as practicable after receipt. If any of these entities request in writing that Bankers Trust Company take action, it is expected that Bankers Trust Company will take the action when it receives reasonable indemnity.

Bankers Trust Company will not make any independent decisions relating to the global securities.

#### **Additional obligations**

So long as the notes are listed on Euronext Amsterdam N.V., we will comply with the provisions set forth in Article 2.1.20, Sections a-g of Schedule B of the Rules and Regulations (*Fondsenreglement*) of Euronext Amsterdam N.V.

## MAJOR SHAREHOLDER

### General

The table below sets out, as of June 30, 2000, the number of shares of each class of our voting shares held by the only person known by us to own, of record or beneficially, more than 5% of any class of our voting shares, the number of shares of each class known by us to be beneficially owned by the members of the Supervisory Board and our management board and the senior officers.

<u>Title of Class</u>	<u>Identity of Person or Group</u>	<u>Number Owned<sup>(1)</sup></u>	<u>Percentage</u>
Ordinary shares	The State of The Netherlands	414,647,620	43.17%
Special share	The State of The Netherlands	1	100%
Ordinary shares	Members of the management board and the Supervisory Board and our senior officers as a group		Less than 0.01%

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(1) Restated for the effect of the two-for-one share split which occurred on June 5, 2000.

## **RELATED-PARTY TRANSACTIONS**

We have a close relationship with our subsidiaries. In our operations, we rely and we will continue to rely, on a number of services provided by our subsidiaries. In order to ensure the independence of our subsidiaries, we have entered into a number of agreements to structure our ongoing relationship. Our material intra-group agreements are briefly summarized below.

### **KPN Mobile demerger agreement**

The demerger of the mobile telecommunications activities from our main wholly owned operating subsidiary KPN Telecom, referred to as KPN Telecom, was effected by two separate legal demergers. The international mobile telecommunications operations were transferred to KPN Mobile International B.V. and the domestic mobile telecommunications operations to KPN Mobile The Netherlands B.V. The demerger of the domestic mobile activities became effective on November 24, 1999 and the demerger of the international mobile activities became effective on November 18, 1999.

KPN Mobile The Netherlands and KPN Mobile International entered into a demerger agreement with KPN and KPN Telecom, which became effective on the respective dates of their demergers. This agreement regulates the implementation of the demerger of our domestic and international mobile telecommunications activities and the relationship among KPN Mobile The Netherlands, KPN Mobile International, us and KPN Telecom. Under the demerger agreement, we and KPN Telecom agreed to transfer all rights and obligations relating to the domestic and international mobile telecommunications activities including future rights and obligations to KPN Mobile The Netherlands and KPN Mobile International.

KPN Telecom and KPN Mobile International have agreed that, prior to KPN Mobile International being registered as the legal owner of the interests in the international participations transferred to it in the demerger, KPN Telecom will provide KPN Mobile International with all rights and benefits relating to such participations.

### **Interconnection and special network access agreement between KPN Mobile and KPN Telecom**

On January 1, 1999, KPN Mobile renewed its agreement with KPN Telecom on interconnection and special network access to the fixed telecommunications network of KPN Telecom in order to allow traffic between customers of KPN Telecom's fixed and KPN Mobile's mobile networks. The agreement is based on the reference interconnection offer that KPN Telecom is required to publish under the Telecommunications Act.

The term of the agreement is three years from January 1, 1999 with automatic renewal for one year, unless either party gives at least six months' written notice of termination of the agreement at the end of the then current contract period. Most charges are fixed for a period of one year and are set at KPN Telecom's standard rates for these services.

The agreement is subject to applicable national and international telecommunications and privacy regulations and entered into on non-discriminatory terms and conditions. The respective use of the networks is non-exclusive.

### **Framework agreement on MTN transmission connections between KPN Mobile and KPN Telecom**

KPN Mobile entered into a framework agreement with KPN Telecom on the provision of MTN-transmission connections and Micro Links, which was effective as of July 16, 1998. Under the terms of this framework agreement, KPN Mobile is able to enter into individual agreements with KPN Telecom on the use of certain parts of its fixed network and certain of its Micro and/or Mega Links to transmit traffic to and from KPN Mobile's base stations and other network points.

The framework agreement is for an indefinite period of time, but may be terminated by either party with 12 months' prior notice. Individual agreements may be entered into for shorter periods of time. However, the term for individual agreements is five years for Mega Links and three years for Micro Links. The tariffs for the services are based on KPN Telecom's standard rates for these services.

The framework agreement is subject to applicable national and international telecommunications and privacy regulations and entered into on non-discriminatory terms and conditions. The use of MTN-transmission connections and Micro Links is non-exclusive.

#### **Framework agreement for colocation between KPN Mobile and KPN Telecom**

On July 3, 1998 KPN Mobile entered into an agreement with KPN Telecom on colocation in order to install the network equipment that KPN Mobile uses to provide mobile telecommunications and transmission services as well as interconnection and special network access in our buildings.

The framework agreement is entered into for an indefinite period of time, but may be terminated by either party with 12 months' prior notice. Individual agreements may be entered into for shorter periods of time and are generally entered into for a period of five years. Tariffs are based on the amount of square meters used by KPN Mobile and the use of energy.

The framework agreement is subject to applicable national and international telecommunications and privacy regulations and entered into on non-discriminatory terms and conditions. The use of colocation is non-exclusive.

#### **Distribution agreements between KPN Mobile and KPN Telecom**

KPN Mobile has entered into agreements with KPN Telecom on the sale of mobile telecommunications subscriptions, handsets and other equipment and the rendering of services to its customers by KPN Telecom's Primafoon stores, Business Centers and its other distribution channels for large business and corporate account customers.

All of these agreements have a term of one year, with automatic renewal after expiry of this term, unless the contract is terminated within two months before expiry of such term. If we lose direct or indirect control of KPN Mobile (*i.e.*, less than 50.0% of the voting rights and the right to appoint the majority of KPN Mobile's directors), the agreement may be terminated. KPN Telecom is entitled to fees based on the number of its subscription sales. Unless KPN Mobile is in default under the provisions of the agreement, KPN Telecom is not permitted to assign any of its responsibilities under the agreement to a third party and will exclusively conduct the activities under the agreement, unless KPN Mobile has expressly agreed to the contrary and in some cases subject to certain other conditions.

#### **Agreements with KPN Mobile on the use of our intellectual property rights**

KPN Mobile entered into three agreements with us on the use of certain registered and unregistered trademarks, tradenames, patents and other designs and know-how that relate to its mobile telecommunications services. In all cases, for efficiency reasons all future trademarks will be registered in the name of KPN, but KPN Mobile can at all times instruct KPN to request such registration on its behalf.

The basic terms of these agreements are as follows:

##### ***Exclusive license for the use of certain trademarks***

We entered into an exclusive royalty-free license agreement with KPN Mobile on March 15, 2000 with regard to certain trademarks, exclusively used by KPN Mobile. It concerns KPN Mobile's core trademarks, such as Hi and Pocketline. This agreement gives KPN Mobile full power over these trademarks including the right to sue third parties for trademark infringement in its own name and the right to instruct us to cancel one or more of these trademarks. The exclusively licensed trademarks will

remain registered in our name for efficiency reasons only. We have agreed to transfer these trademarks to KPN Mobile automatically in the event that we cease to be a majority shareholder in KPN Mobile. The agreement has been entered into for an indefinite period of time. Both parties can terminate the agreement if the other party commits a material breach of the agreement and, in addition, we can only terminate the agreement if KPN Mobile is declared bankrupt or if KPN Mobile disputes either the validity of the trademarks or our ownership of them. If KPN Mobile decides to license a trademark to another of our subsidiaries, KPN Mobile may ask the licensee to pay a reasonable license fee.

***Non-exclusive license for the use of certain trademarks and other intellectual property rights, excluding patents***

We entered into a non-exclusive license agreement with KPN Mobile dated March 15, 2000 on the use of various intellectual property rights which are used by both us and our other subsidiaries. This agreement has been entered into for an initial period which expires on March 31, 2003, but it will be automatically renewed for periods of one year, subject to termination by either party. The agreement can be terminated if the other party commits a material breach of the agreement and, in addition, we can only terminate the agreement if KPN Mobile is declared bankrupt or if it disputes either the validity of the trademarks or our ownership of them. If we cease to be a majority shareholder in KPN Mobile, the parties have agreed to negotiate a subsequent license agreement on commercial terms.

The agreement distinguishes between our general KPN trademarks and “KPN Corporate Trademarks”. This second category consists of, among other things, our logo, the trademark KPN Telecom and the color trademark “light green.” KPN Mobile may grant sublicenses to third parties with our approval. A royalty fee is payable based on the annual Benelux turnover of KPN Mobile, less our marketing investments relating to the KPN Corporate Trademarks.

If we decide to abandon certain trademarks, with the exception of the KPN Corporate Trademarks, we have agreed first to offer such trademarks to KPN Mobile. We are responsible for taking enforcement action against third parties for infringement of any of these trademarks. KPN Mobile may request us to take such action.

The agreement is valid for the Benelux countries, but can be extended beyond that territory at the request of KPN Mobile, unless we have major business interests which should preclude such extension.

***Non-exclusive license for the use of certain technology and related know-how***

We entered into a non-exclusive license agreement with KPN Mobile dated March 15, 2000 on the use of various patented technologies and related know-how which are used by both us (including our other subsidiaries) and by KPN Mobile. This agreement has been entered into for an initial period of three years expiring on March 31, 2003, but it will be automatically renewed for periods of one year, subject to termination by either party. The agreement can be terminated if the other party commits a material breach of the agreement and, in addition, we can only terminate the agreement if KPN Mobile is declared bankrupt or if KPN Mobile disputes either the validity of the trademarks or our ownership of them. If we cease to be a majority shareholder in KPN Mobile, the parties have agreed to negotiate a subsequent license agreement on commercial terms.

The agreement is valid for those territories in which KPN Mobile exploits a mobile network. For the first three years, we will not grant licenses for the purposes of mobile communications to third parties of our own choice other than our own subsidiaries. The license fee is limited to the costs of maintenance of the patents, insofar as such costs cannot be allocated to third parties, including our subsidiaries.

If we decide to abandon certain patents or patent applications, we have agreed first to offer such patents or patent applications to KPN Mobile. We are responsible for taking enforcement action against third parties for infringement of any of these patents. KPN Mobile may request us to take such actions.

### **Agreements between our subsidiaries on the use of certain offices and facilities**

KPN Telecom, KPN Mobile and some of our other subsidiaries have entered into agreements with KPN Vastgoed & Facilities B.V., our wholly owned subsidiary, for the use of certain offices and facilities and the rendering of certain services including housing, the rendering of facility services (with the exception of computer and telecommunications services), consulting services and project management services with respect to offices and facilities.

The fees due for the rendering of the various services are calculated at arm's length based on the size of the facility used or the actual costs incurred by us for providing the service, along with a service fee.

### **Other service agreements between us and KPN Mobile**

KPN Mobile has also entered into various other agreements with us or our other subsidiaries. These include agreements for:

- the purchase, distribution and repair of systems and equipment;
- billing, information technology and software services;
- staff and other services; and
- outsourcing of call center activities.

### **Distribution agreements between us and KPNQwest**

KPNQwest has entered into distribution agreements with KPN Telecom, Qwest Communications Corporation and KPN Belgium. KPN Telecom, Qwest Communications Corporation and KPN Belgium are the exclusive distributors of KPNQwest's services in The Netherlands, North America, and Belgium and Luxembourg, respectively.

Under the distribution agreements, KPNQwest sells services to these exclusive distributors, and these exclusive distributors sell the services to customers in their distribution territory. KPNQwest generally offers KPNQwest's wholesale and value-added IP services to these exclusive distributors at a discount of 22.0% of KPNQwest's recommended price if the services are sold to carriers or Internet service providers who resell the services to end users or 18.0% of KPNQwest's recommended price if the services are sold to end users. With respect to KPN Belgium only, KPNQwest will offer KPNQwest's value-added IP services at a discount rate of 27.0% in 2000 and 25.0% in 2001. KPNQwest offered these services to KPN Belgium at a discount rate of 29.0% in 1999.

KPNQwest has entered into a general services agreement with KPN Telecom, Qwest Communications Corporation and KPN Belgium. Under the general services agreement, if requested by any of the parties to the agreement, KPNQwest will enter into future agreements to sell the parties KPNQwest's services or otherwise provide the parties with access to KPNQwest's network. The parties have agreed to purchase KPNQwest's services if it can offer competitive prices and meet their service requirements and the service requirements of their customers.

Under the general services agreement, KPN Telecom and KPN Belgium and Qwest have agreed to interconnect their networks with KPNQwest's network. KPN Telecom and KPN Belgium and Qwest will make services on their network available to KPNQwest on the general terms and conditions that they offer these services to third parties. KPN Telecom and KPN Belgium and Qwest also have agreed to sell KPNQwest these services at prices equal to the lowest price KPN Telecom and KPN Belgium or Qwest quotes to any of its customers for comparable services.

### **Trademark license agreement with KPNQwest**

We and Qwest, as co-owners, have registered or intend to register the trademark “KPNQwest” in all of the countries in which KPNQwest operates. KPNQwest has entered into a trademark license agreement with us and Qwest pursuant to which we and Qwest will license to KPNQwest the trademark “KPNQwest” in perpetuity and without royalty.

### **Framework agreement on the use of fiber optic cable network between E-Plus and KPNQwest**

On March 30, 2000, E-Plus entered into an agreement with KPNQwest Services Germany GmbH providing for E-Plus’ access to KPNQwest’s fiber-optic cable network. The agreement was approved by both parties on June 16, 2000. Under the terms of the agreement, E-Plus leases parts of the network and the respective areas for the installation of containers with related transmission equipment from KPNQwest, and KPNQwest grants E-Plus options in respect of further individual lease agreements under the terms of the framework agreement.

The consideration for the leased network parts is calculated per meter and per year. In addition, E-Plus has to pay a lump sum plus an annual rent for each installation area and an annual flat charge for electricity supply. These amounts are all charged on an arms’ length basis.

The framework agreement runs until February 26, 2012 and may be extended by E-Plus for a further four years. After this first extension, E-Plus may extend the contract for a further six years, subject to KPNQwest’s right to demand renegotiation of the terms of the framework agreement if they are no longer in line with market conditions.

### **Inter-company indebtedness**

#### ***KPN Mobile and E-Plus***

As of August 31, 2000, we had loans outstanding to KPN Mobile of €19.2 billion in aggregate. This amount consists mainly of:

#### ***€1.8 billion loan for the initial capitalization of KPN Mobile***

On November 19, 1999 we and KPN Telecom entered into a loan agreement, pursuant to which we granted to KPN Telecom a non-subordinated and unsecured loan in the principal amount of €1.8 million for the initial capitalization of KPN Mobile in relation to its demerger as a separate subsidiary. This agreement and the loan were subsequently assigned to KPN Mobile The Netherlands B.V., KPN Mobile’s Dutch operating company. This agreement was further amended on August 2, 2000 under the terms of our shareholders’ agreement with BellSouth and DoCoMo in respect of KPN Mobile.

The interest payable on the loan is equivalent to Euribor rate plus 0.30%, which may be increased in the event of default. The final repayment date is November 19, 2003.

Under the terms of the KPN Mobile shareholders’ agreement, we may choose to convert the loan and accrued interest into additional A shares in KPN Mobile in the event of an initial public offering of KPN Mobile shares at a price equal to the offer price of B shares in KPN Mobile at the time of such an offering, upon written notice of at least 30 business days prior to the expected date of the initial public offering. If we make no such election, the loan must be repaid in full on the final repayment date, together with any accrued interest.

*€9.4 billion to repay debt in relation to the acquisition of E-Plus*

We have lent KPN Mobile an aggregate loan amount of €9.4 billion pursuant to various loan agreements. These funds have been subsequently lent by KPN Mobile to KPN Mobile Holding GmbH No. 3 at the interest rates set out below plus 0.5% for the repayment of debt in relation to the acquisition of the 77.49% interest in E-Plus.

The loans have been used by KPN Mobile for refinancing of its debt obligations in relation to the acquisition of E-Plus. KPN may at its sole discretion convert the loans into KPN Mobile shares at fair market value.

The amount borrowed and interest rate for each loan between KPN and KPN Mobile is as follows:

<b>Loan number</b>	<b>Loan amount (€ in millions)</b>	<b>Interest rate</b>	<b>Due Date</b>
1.	978.4	Euribor+0.28%	June 13, 2001
2.	1,022.2	Euribor+0.29%	June 13, 2001
3.	2,443.1	Euribor+0.45%	June 13, 2002
4.	1,459.6	6.00%	June 13, 2003
5.	782.4	Euribor+0.37%	July 7, 2001
6.	394.6	Euribor+0.43%	December 19, 2001
7.	2,330	Euribor+0.30%	November 22, 2000

The margin above Euribor in the above interest rates may increase in some circumstances, as specified in each loan agreement.

*€711 million for the Dutch UMTS license*

We have also lent KPN Mobile €711 million (at an interest rate of Euribor +0.30%) in order to fund the acquisition of the Dutch UMTS License.

*€6.9 billion for the German UMTS license*

We have lent KPN Mobile €6.9 billion to fund the acquisition of the German UMTS License. This €6.9 billion consists of the following:

- €465 million at Euribor rate plus 0.50%
- €4,939 million at Euribor rate plus 0.50%
- €1,595 million at Euribor plus 0.50%

This €6.9 billion was subsequently lent by KPN Mobile to E-Plus at the higher of the 1.25% over the E-Plus project finance facility or 2.5% over Euribor. See “Material Contracts—Material indebtedness—E-Plus project finance facility.”

*eircom*

As of August 31, 2000, the following loans had been made to fund our investment in eircom:

- €883 million from us to Comsource Unlimited, our indirectly 60% owned subsidiary, at Euribor plus 0.125%
- €140.5 million from KPN Telecom to Ierland Holding Company B.V., KPN Telecom’s wholly owned subsidiary, at Euribor plus 0.50%
- Irish pounds 121.2 million (€153.9) from KPN Telecom to Ierland Holding Company B.V. at approximately 2.6%
- €155 million from Ierland Holding Company B.V. to Comsource Unlimited at Euribor plus 0.125%.

*KPN Orange*

As of August 31, 2000, we have provided interest free shareholder loans and equity of approximately €225 million to KPN Orange to finance the roll out of KPN Orange’s network.

## MATERIAL CONTRACTS

### Material indebtedness

#### *Bridge Loans*

We have entered into five credit facilities which serve as bridge loans.

On July 25, 2000, we entered into credit facilities with UBS AG and Morgan Stanley Senior Funding, Inc., which we refer to as the Debt Bridge Loans, each for up to €1.5 billion. As part of the terms of these loans, we undertook to appoint the lenders or affiliates of the lenders to serve as joint lead managers and joint book-runners in this offering. These loans were for the purpose of financing the acquisition of UMTS licenses, refinancing existing indebtedness and other corporate purposes.

On July 21, 2000 we entered into a credit facility with Goldman Sachs Credit Partners, L.P., which we refer to as the Goldman Sachs Facility, for up to €3.3 billion at a rate of Euribor plus 0.15% points. We have drawn down €2.2 billion under this facility. The amount must be repaid to the extent sufficient funds are raised by, and as soon as reasonably practicable, following the launch of a future equity offering and in full by November 22, 2000. Our payment obligations under this loan ranks *pari passu* with all of our other current and future payment obligations. We are required under the terms of the Goldman Sachs Facility to appoint Goldman Sachs International as joint book-runner in connection with any equity offering by us or our subsidiaries (other than KPN Mobile) prior to November 22, 2000 at terms as set out in the agreement, and we paid €3.3 million to Goldman Sachs as an arrangement fee in relation to the facility, to be credited against the underwriting fees for a future equity offering.

Finally, on July 21, 2000 we entered into a facility agreement with ABN AMRO Bank N.V. as lender, which we refer to as the ABN AMRO Facility, and a facility agreement with Citibank N.A. as arranger, which we refer to as the Citibank Facility. Each of these facilities was for up to €5.0 billion at a rate of Euribor plus 0.15%. Of the maximum funds of €10.0 billion available under these two facilities, we have drawn down €2.2 billion under each facility. These amounts must be repaid within five business days of receipt of funds from a future equity offering, and repaid, no later than November 22, 2000. If the proceeds from a future equity offering are insufficient to fully pay all outstanding principal amounts under the ABN AMRO Facility, the Citibank Facility and the Goldman Sachs Facility and we have drawdown more than €9.9 billion under these facilities, then we are obligated to first pay down the ABN AMRO Facility and the Citibank Facility on a *pro rata* basis until the total outstanding principal amount is €9.9 billion and thereafter pay all three on a *pro rata* basis. Once repaid, these funds may not be subsequently re-borrowed. Our payment obligations under these loans rank *pari passu* with all of our other current and future unsecured and unsubordinated payment obligations. As part of the terms of the ABN AMRO Facility and the Citibank Facility, we undertook to appoint ABN AMRO and Citibank (or one of their respective affiliates) as joint global coordinators and joint book-runners in a future equity offering. In the event of default, interest on overdue sums will be at the rate of 1.0% above the rate otherwise due. We paid €5.0 million to both lenders as an arrangement fee in relation to the facility, each such fee to be credited against the underwriting fees for a future equity offering. The ABN AMRO Facility was extended for the purpose of financing the acquisition of UMTS licenses, refinancing existing indebtedness and other corporate purposes. The Citibank Facility is for acquisition of UMTS licenses and the UMTS build-up, acquisitions and to refinance an earlier bridge loan facility.

#### *BellSouth shareholder loan agreement*

On August 2, 2000 German Mobilfunk Investments Inc., known as BellSouth Investment, and KPN Mobile entered into a loan agreement pursuant to which BellSouth Investment had the option until September 15, 2000 to lend to KPN Mobile a non-subordinated and unsecured loan in an amount which, when added to the amount of our loan to KPN Mobile of €1.8 billion plus accrued interest, is

equivalent to 33.317% of the aggregate of our loan amount and such amount, known as the BellSouth loan, upon substantially the same terms as our loan. BellSouth has requested an extension of this option, which we are considering. See “Related Party Transactions—Inter-company indebtedness.”

If we choose to convert our loan to KPN Mobile into additional shares in KPN Mobile and if BellSouth Investment has exercised its exchange rights pursuant to the reorganization agreement in exchange for shares in KPN Mobile, then the BellSouth loan will convert into additional A shares in KPN Mobile.

If the BellSouth loan does not convert into shares in KPN Mobile, then the loan becomes due for repayment on the earlier to occur of the date of expiry of the exchange rights of BellSouth under the reorganization agreement, the date of issuance of shares in our company to BellSouth Investment pursuant to the reorganization agreement, or November 19, 2003. If KPN Mobile fails to repay the loan, including any accrued interest, within 60 business days from such date, BellSouth may choose either to convert the loan into an unsecured subordinated loan on standard arm’s length market terms or to subscribe for such number of B shares in KPN Mobile as is equivalent in value to the loan including any accrued interest, calculated on the basis of a discount of 5% to the fair market value of a share in KPN Mobile.

In the event that BellSouth becomes entitled to make top up loans to KPN Mobile pursuant to its top up rights under the shareholders’ agreement with BellSouth and DoCoMo, such loans will be made on the same terms as the BellSouth loan referred to above and may convert into additional A shares in KPN Mobile at the corresponding exercise price at the time the top up rights occurred. If a top up loan is converted into A shares in KPN Mobile then no interest shall be deemed to have accrued on such loan, although an amount equivalent to dividends which would otherwise have been received in respect of the corresponding top up shares shall be paid to BellSouth at the same time as the allotment and issue of such shares.

#### ***BellSouth UMTS funding agreement***

On August 21, 2000, we entered into a funding agreement with BellSouth and KPN Mobile with respect to KPN Mobile’s bid for a German UMTS license through Auditorium S.a.r.l. (or Auditorium), a Luxembourg company formerly owned 50.0% by KPN Mobile and 50.0% by Hutchison. Auditorium was successful in acquiring a license for approximately €8.4 billion. On August 29, 2000 E-Plus acquired 100.0% of Auditorium, now called E-Plus 3G Luxembourg.

Under the terms of the agreement, BellSouth has granted loans totaling approximately €1.9 billion which represent 22.51% of the total cost of the license, reflecting BellSouth’s interest in E-Plus. BellSouth has made two loans: one of approximately €1.4 billion by way of a subordinated shareholder loan on commercial terms to E-Plus and the other of approximately €465 million to us under the terms of the subordinated loan facility and warrant agreement. We have loaned the amount of €465 million to KPN Mobile which has in turn loaned the same amount to E-Plus to partially fund the acquisition of the German UMTS license. See “—Subordinated loan facility and warrant.”

In accordance with the agreement, E-Plus and its shareholders, KPN Mobile and BellSouth, will endeavor to obtain third-party non-recourse funding on mutually acceptable terms. KPN Mobile and BellSouth will ensure that the proceeds of such funding are applied:

- first, to repay E-Plus’ existing project finance facility of €1.5 billion;
- second, to fund the requirements of E-Plus itself to the extent contained in a business plan previously approved by KPN Mobile and BellSouth including, to the extent so approved, the build out of E-Plus’ digital GSM mobile network;

- third, to repay the subordinated note facility and our shareholder loan to KPN Mobile in the ratio of 22.51% towards the subordinated note facility and 77.49% towards our loan until the subordinated note facility has been satisfied in full; and
- fourth, in reduction of BellSouth's shareholder loan and our shareholder loan in the ratio of 22.51% to 77.49% respectively.

If BellSouth exercises its option to convert its E-Plus shares into shares in either our company or KPN Mobile then the amount outstanding under its subordinated loan and any shareholder loans payable to it must be repaid within 120 days of the closing of such conversion. Subject to certain conditions, we may borrow under the subordinated loan facility to pay back these loans. See “—Subordinated loan facility and warrant.”

#### ***E-Plus project finance facility***

The financing of the roll out of the E-Plus network was effected in part by shareholder contributions and the remainder through bank facilities arranged by Deutsche Bank AG. The related credit facility agreement, known as the Project Agreement, of November 8, 1995 was entered into by E-Plus, as borrower, and E-Plus Service GmbH, with the various lenders and Deutsche Bank AG, Düsseldorf Branch as security agent. A syndicate of financial institutions has become party to the Project Agreement. The Project Agreement was amended on October 20, 1997 and July 8, 1999.

The facilities under the Project Agreement total €1.69 billion. The proceeds of the facilities were available to fund part of the planning, construction and operating of E-Plus' network (including expanded network roll out) in Germany, current assets and fixed assets and cost overruns.

Advances made or guarantees issued under the Project Agreement bear interest at a rate of Euribor plus 1.25%, until September 30, 2000. Thereafter, interest is payable at a variable rate (depending upon the debt service cover ratio) of Euribor plus 0.625% and 2.0% per annum.

The first repayment is scheduled for September 30, 2000 with the final repayment on November 17, 2006, although E-Plus may commence repayments at any time after July 10, 1998 if cash flow exceeds the amounts required to be repaid by the minimum repayment schedule. Mandatory prepayments must be made equal to 33.0% of excess cash flow in any calendar half-year, unless the loan life cover ratio is 1.25 or lower when 100.0% of the excess cash flow must be applied.

E-Plus and E-Plus Service GmbH have granted security over all of their assets in favor of Deutsche Bank AG, Düsseldorf Branch as security agent for the lenders. The secured assets include real property, shares in E-Plus Service GmbH, trademarks, claims and collateral rights and network equipment.

#### ***E-Plus shareholders undertaking agreement***

This agreement, dated November 8, 1995, was made between the then current shareholders in E-Plus (Vodafone GmbH, VR and BellSouth) (known as the Shareholders), the parent companies of those shareholders (known as the Parent Companies) (as of November 8, 1995 this was Veba AG, Thyssen Handelsunion AG, BellSouth Enterprises, Inc. and Vodafone Group plc), E-Plus and Deutsche Bank AG as agent for the lenders. On February 9, 2000 KPN acceded to the agreement as a Parent Company in connection with its acquisition of 77.49% of E-Plus. See “—E-Plus project finance facility.”

The agreement provides that the Shareholders and the Parent Companies will provide capital to E-Plus in an aggregate amount of €783.5 million. Upon any acceleration of the facilities under the Project Agreement, any unpaid capital can be called from the Shareholders and shall be paid directly to the lenders. All these loans are required to be subordinated to the loans to E-Plus from the lenders.

The transfer of shares in E-Plus is restricted. Other than certain intra-group transfers to an existing Shareholder, the consent of a majority of the lenders is required for a transfer of shares. If the transferor does not retain at least 5.0% of the shares in E-Plus following the transfer, the consent of all the lenders is required for a release of the transferor from its obligations under the agreement. Any transferee of shares (and its parent company) is required to accede to the agreement in the relevant capacity.

Since the original date of this agreement and prior to KPN's accession to the agreement as a Parent Company, additional capital injections totaling approximately €1.1 billion were provided by the Shareholders.

#### ***KPN Orange facility agreement***

The financing of the roll out of KPN Orange's network is being funded by shareholder contributions and bank facilities arranged by Dresdner Bank AG (facility agent) and JP Morgan. Pursuant to these facilities, dated March 22, 1999, certain banks agreed to grant KPN Orange the following facilities: a €495 million term loan facility and a €100 million revolving credit and overdraft facility. The facilities will be used solely to provide long term funding for capital expenditure, operating expenditure, working capital requirements and other general corporate purposes of KPN Orange in relation to establishing, equipping, building and operating its network.

On June 30, 2000, €200 million was drawn under these facilities. On the same date shareholder contributions were made, totalling approximately €451 million, half of which was contributed by us and the other half by Orange. Advances made under these facilities currently bear an interest rate of Euribor plus a margin of 0.95%, which may decrease over time based on the development of consolidated debt to consolidated EBITDA for KPN Orange. In principle the first repayment under these facilities is scheduled on December 31, 2003, with the final repayment to take place on December 31, 2008.

As of August 31, 2000, approximately €225 million was drawn under these facilities. Based on the existing facility agreement and shareholder support agreement, the shareholders have no further funding obligations. The current shareholders are KPN Mobile International and Orange International Limited, who each own 50% of KPN Orange.

#### ***Euro Medium Term Note (EMTN) program***

In 1997 we launched a \$2.0 billion EMTN program under which we made a first drawn down in May 1997 of approximately €13 million. In November 1998 we issued a DM 2.0 billion Eurobond with a maturity of 2008 and an interest rate of 4.75% which was increased by €477 million in February 1999 into a Eurobond of €1.5 billion.

In June 1999 we increased our EMTN program to \$5.0 billion after which we issued a €1.25 billion Eurobond with a 5 year maturity and an interest rate of 4%.

In June and July 2000 we arranged private placements into Japan amounting to approximately €1.0 billion and €1.2 billion respectively, which were executed under the EMTN program. Currently a total amount of approximately €4.9 billion is drawn under the program.

#### ***Floating rate notes***

On June 13, 2000 we issued \$1.0 billion principal amount of floating rate step up notes due June 2001, or Series 1 Notes (interest rate U.S. Libor plus 0.15%), €1.0 billion principal amount of notes due June 2001, or Series 2 Notes (interest rate Euribor plus 0.15%), €2.5 billion principal amount of notes due June 2002, or Series 3 Notes (interest Euribor plus 0.30%), and €1.5 billion step up notes with a fixed interest rate of 5.75%, or Series 4 Notes, due June 2002.

On August 10, 2000, we issued an additional series of floating rate step up notes of €1.0 billion which will be consolidated and form a single series with the €2.5 billion floating rate step up notes due June 2002, or Series 3 Notes.

### **Contractual arrangements relating to KPN Mobile's acquisition of E-Plus**

In the course of the acquisition of a 77.49% indirect interest in E-Plus, KPN Mobile entered into a variety of agreements with KPN, BellSouth and several of BellSouth's indirect wholly owned subsidiaries. All the agreements, as amended, were entered into on December 9, 1999, and became unconditional on completion, which occurred on February 24, 2000. The description below sets out a summary of certain relevant terms of the amended and restated agreements as executed at completion. See also "Strategic Alliances."

#### ***Formation agreement***

##### ***Introduction***

We entered into a formation agreement with BellSouth, German Mobilfunk Investments, Inc., known as BellSouth Investment, and KPN Mobile on December 9, 1999. The formation agreement provided the framework for the establishment of KPN/BLS Holding GmbH, known as KPN/BLS Holding, as a joint venture between KPN Mobile and BellSouth to act as the holding company of E-Plus. Under the formation agreement, BellSouth, through its indirect wholly owned subsidiary, BellSouth Holding, which later became KPN/BLS Holding, acquired pursuant to a right of first refusal 77.49% of the share capital of E-Plus formerly held by Vodafone and VR Telecommunications. To finance this acquisition and replace the funding provided to E-Plus by shareholder loans from Vodafone and VR Telecommunications, a wholly owned holding company of KPN Mobile, or KPN Mobile Holding, lent KPN/BLS Holding €1.4 billion pursuant to a loan agreement dated December 9, 1999. KPN/BLS Holding repaid this loan by assigning the benefit of the Vodafone and VR shareholder loans to KPN Mobile Holding and by issuing to KPN Mobile Holding shares representing 77.49% of the share capital of KPN/BLS Holding and thus, indirectly, of E-Plus.

We and BellSouth have given continuing cross guarantees to each other and their affiliates in respect of the payment and performance of all amounts and obligations due under the formation agreement and the other agreements entered into pursuant to it.

#### ***Shareholders' agreement***

On December 9, 1999, we entered into a shareholders' agreement with KPN Mobile, BellSouth, BellSouth Enterprises Inc., BellSouth Investment and KPN/BLS Holding, regulating their conduct in relation to KPN/BLS Holding and E-Plus. At completion, KPN Mobile Holding GmbH Nr. 3 and KPN Mobile Holding GmbH Nr. 4 also entered into the amended and revised shareholders' agreement. The shareholders' agreement governs, among other things:

- the management structure of KPN/BLS Holding and E-Plus;
- various non-compete and exclusivity provisions;
- restrictions on share transfers; and
- the procedure to resolve deadlocks between the shareholders.

Following its conversion into a limited partnership, E-Plus is managed by its general partner, E-Plus Mobilfunk Geschäftsführungs GmbH. The general partner is wholly owned by KPN/BLS Holding, which is also the limited partner of E-Plus. The managements of both E-Plus and KPN/BLS Holding are supervised by the shareholder committees of KPN/BLS Holding and the E-Plus general partner. All shareholder meetings, of both KPN/BLS Holding and the E-Plus general partner, and all E-Plus general partner shareholder committee meetings, must be preceded by a meeting of KPN/BLS

Holding shareholder committee, which shall determine how our nominees and the nominees of BellSouth, or their affiliates, shall vote at such meetings.

Both shareholder committees comprise the same six members: four appointed by KPN Mobile and two appointed by BellSouth. Decisions of both shareholder committees can only be passed with a majority vote of at least five of the six members.

#### *Procedure upon deadlock*

In case the E-Plus general partner's shareholder committee, KPN/BLS Holding's shareholder committee or the shareholders of KPN/BLS Holding are unable to reach agreement on matters such as initiating new activities or abandoning existing activities, modifications of the activities or the organization of the companies, acquisition and incorporation of other companies, investments exceeding DM1.0 million, determination of the annual business plan, and other material matters included in the management rules of E-Plus, or are repeatedly unable to attain a quorum at a meeting called to discuss such a matter, then either shareholder may initiate the deadlock procedure.

The deadlock procedure may only be instituted once BellSouth is entitled to exercise its right to exchange its interest in KPN/BLS Holding into our shares or shares of KPN Mobile pursuant to the reorganization agreement and prior to such right being exercised. Any deadlock issue will initially be referred to our chief executive officers and those of BellSouth. Failing a resolution of the issue by the chief executive officers, KPN Mobile will ultimately acquire BellSouth's entire interest in KPN/BLS Holding.

Under the deadlock procedure, BellSouth may elect either, if the election is made prior to December 9, 2007, to exchange its interest in KPN/BLS Holding for shares in KPN Mobile, or to require KPN Mobile to buy BellSouth's entire interest in KPN/BLS Holding for fair market value plus a premium.

In the event of a sale by BellSouth of its 22.51% interest in KPN/BLS Holding, the price payable by KPN Mobile will be 22.51% of the fair market value of KPN/BLS Holding, plus a premium made up of either 222,762,987 of KPN Mobile's A shares or cash consideration.

#### *New mobile telecommunications opportunities*

The members of the shareholder committees may recommend that E-Plus pursue new mobile business opportunities. If the shareholder committee members fail to agree on such a recommendation, the shareholder on whose behalf the shareholder committee members proposed the opportunity shall be entitled to require E-Plus to pursue the opportunity through a special purpose entity, rather than by E-Plus itself, and the shareholder which appointed the proposing members will bear and receive the full burden and benefit of pursuing the new business.

Upon a sale by a shareholder of its shares in KPN/BLS Holding to the other shareholder, all special purpose entities created at the request of committee members appointed by the selling shareholder will be transferred to such selling shareholder. The selling shareholder, and its parent company, will also indemnify the other shareholder against any losses or damages connected to the conduct of such business by E-Plus.

#### *Non-competition provisions*

We have agreed with KPN Mobile and BellSouth upon their respective wireless related interests that subject to certain conditions, all of KPN's wireless interests in KPN Mobile's territory, which includes all European countries, must be held through KPN Mobile. Our indirect investments in eircom (Ireland) and Český Telecom a.s. (Czech Republic) are specifically excluded from this provision.

Furthermore, subject to exceptions, none of the parties to the shareholders' agreement will hold any interest in a wireless business that competes with E-Plus in Germany, and neither we nor KPN Mobile will hold any interest in a wireless business that competes with an existing BellSouth investment in BellSouth's exclusive territory (Denmark and Israel), and BellSouth will not hold any interest in a wireless business that competes with an existing KPN investment in KPN's exclusive territory (The Netherlands, Belgium, Hungary, Ukraine and Indonesia).

The restrictions on competing with E-Plus (but not the obligation to transfer all wireless interests to KPN Mobile) will terminate on June 8, 2003, or earlier upon the occurrence of any one of the following events: (1) an exercise by BellSouth of its exchange rights under the reorganization agreement (see "—Reorganization Agreement" below) which will result in the transfer to BellSouth of shares in KPN Mobile or us in exchange for BellSouth's interests in KPN/BLS Holding, (2) our equity or voting interest in KPN Mobile falling below a threshold of 10.0% of the outstanding equity or voting interests, or (3) upon termination of the shareholders' agreement following a disposal by KPN Mobile or BellSouth of its interest in KPN/BLS Holding.

The restrictions on competing with BellSouth's and our existing investments will also terminate on June 8, 2003 or earlier upon the occurrence of any of the events specified in the preceding paragraph. In addition, these restrictions will also terminate where, after an acquisition of shares in us or KPN Mobile by BellSouth following an exercise of its exchange rights under the reorganization agreement or the warrant, BellSouth would hold less than 10.0% of the equity or voting interest in us or KPN Mobile, or we would hold less than 10.0% of the equity or voting interests in KPN Mobile. See "—Subordinated loan facility and warrant" and "—Reorganization agreement" below.

#### *Restrictions on dealing in shares of KPN/BLS Holding*

Subsequent to June 8, 2001, or prior to that date where required by any governmental or regulatory body, either shareholder may sell its entire interest in KPN/BLS Holding, subject to a right of first refusal in favor of the other shareholder. Prior to any change of control in either of our or BellSouth's subsidiaries (other than KPN Mobile) which derives at least half its revenue from E-Plus and whose assets are made up of its interest in E-Plus, the subsidiary's interest in E-Plus will be transferred to another one of our or BellSouth's subsidiaries controlled by either us or BellSouth or offered to the other shareholder under the terms of the right of first refusal.

#### ***Subordinated loan facility and warrant***

##### *Subordinated loan facility*

On December 9, 1999, we and BellSouth entered into a subordinated loan facility agreement under the terms of which at our request and upon the satisfaction of certain conditions, BellSouth will purchase notes from us up to a maximum value of \$3.0 billion. The maturity, interest rate, currency and type of borrowing will be determined upon each request. All proceeds under this facility must be lent by us to KPN Mobile for use in the conduct or expansion of its European mobile telecommunications business or such other purpose as KPN and BellSouth may agree upon. This agreement terminates on March 1, 2004.

##### *Warrant*

We have granted BellSouth a warrant enabling BellSouth to acquire 92,634,066 newly issued shares in our company in consideration of \$7.2 million against either a set-off of amounts due under the subordinated loan facility and/or a payment in cash. The warrant may be exercised between June 9, 2001 and December 8, 2003, or earlier in certain exceptional circumstances. If we are not able to issue shares to BellSouth due to a lack of consent from the State as holder of our special share, or some other legal or regulatory impediment, BellSouth may instead elect to acquire A shares in KPN Mobile.

KPN Mobile has independently agreed to issue shares to BellSouth in these circumstances. BellSouth has loaned a principal amount of approximately €465 million to E-Plus under this facility to assist in financing the acquisition of E-Plus' German UMTS license.

The warrant may only be exercised between June 9, 2001 and December 8, 2003. This period commences earlier when the voting interest of the State of The Netherlands in us falls below a 25.0% threshold, we or KPN Mobile undergo a change of control, or a party other than BellSouth announces a bid to acquire all of our shares. The warrant expires on December 8, 2003, or earlier should BellSouth require KPN Mobile to acquire BellSouth's indirect interest in E-Plus following a deadlock under KPN/BLS Holding shareholders' agreement.

If, because any applicable consent to BellSouth acquiring our shares is not forthcoming, BellSouth elects to acquire A shares in KPN Mobile, KPN Mobile will issue the number of shares that result from multiplying (1) the number of shares in us which would otherwise have been acquired, by (2) the average closing price of one of KPN Mobile's shares on Euronext Amsterdam N.V. over the previous five trading days, and dividing the product by (3) the price of our share payable had the acquisition of our shares been possible.

BellSouth may acquire 92,634,066 shares in us under the terms of the warrant. A lesser number may be acquired in some circumstances. The price payable per share in KPN is calculated by adding a premium ranging from 25% to 40% to a base price of approximately €31.75.

#### ***Reorganization agreement***

We entered into a reorganization agreement with KPN Mobile, BellSouth and BellSouth Investment on December 9, 1999 which, among other things, grants BellSouth certain rights to acquire KPN shares or A shares in KPN Mobile. The reorganization agreement also imposes a variety of restrictions on the parties to the agreement.

#### ***Exchange rights***

From June 9, 2001 to December 8, 2003, BellSouth has a right to exchange all (but not part) of its shares in KPN/BLS Holding for shares in either us or KPN Mobile. This period commences earlier where the voting interest of the State of The Netherlands in KPN falls below a 25.0% threshold, we or KPN Mobile undergo a change of control, or a party other than BellSouth announces a bid to acquire all the shares in KPN.

If BellSouth elects to exchange its interest in KPN/BLS Holding for our shares, we will issue 200,000,000 shares to BellSouth, subject to certain rights of adjustment. If BellSouth elects to exchange its interest in KPN/BLS Holding for KPN Mobile shares, KPN Mobile will issue 499,631,269 A shares to BellSouth, subject to certain rights of adjustment. The numbers of shares were conclusively agreed in an Agreement on Net Financial Indebtedness entered into by us, on February 24, 2000 KPN Mobile, BellSouth and BellSouth Investment. The number of KPN shares agreed to has subsequently been doubled (from 100,000,000 shares to 200,000,000 shares) following a 2-for-1 share split by us effective on June 5, 2000.

If BellSouth elects to acquire shares in us or KPN Mobile and any required official consent for the acquisition of our shares or A shares in KPN Mobile to comply with applicable laws or regulations is not forthcoming, BellSouth may elect to:

- withdraw its exercise of its exchange right; or
- if the election was for our shares, acquire A shares in KPN Mobile instead; or
- if the election was for A shares in KPN Mobile, acquire shares in us instead; or

- if the election was for our shares, require us to pay to BellSouth cash consideration calculated by multiplying (1) the number of our shares which BellSouth would otherwise be entitled to acquire, by (2) the average closing price of our shares on Euronext Amsterdam N.V. over the previous 10 trading days; or
- if the election was for A shares in KPN Mobile, require KPN Mobile to pay to BellSouth cash consideration calculated by multiplying (1) the number of A shares in KPN Mobile which BellSouth would otherwise be entitled to acquire, by (2) the fair market value of an A share in KPN Mobile (or, should KPN Mobile be listed at such date, the average closing price of one KPN Mobile share on Euronext Amsterdam N.V. over the previous 10 trading days).

#### *Changes to exchange entitlement*

In the following specific situations BellSouth's potential interest in us or KPN Mobile could be diluted or devalued, and accordingly we have agreed that the number of shares which BellSouth may acquire in exchange for its interest in E-Plus will be altered:

- a change in the nominal value of shares in us or KPN Mobile as a result of consolidation or subdivision;
- any payment of a cash dividend by us or KPN Mobile;
- any issue of shares by us or KPN Mobile by way of capitalization of profits or reserves;
- any distribution of capital by us or KPN Mobile;
- any rights issue, or the issue of any right to subscribe for shares in us or KPN Mobile for less than market value, to any class of shareholders;
- any rights of securities (other than shares, options, warrants or other rights for shares) or any right to purchase securities;
- any issue of shares, other than on an initial public offering of KPN Mobile or the exercise of exchange rights, for cash or the grant of any right to subscribe for shares in cash, at less than market value; and
- if we or KPN Mobile or a subsidiary issues wholly for cash any securities (other than on an initial public offering of KPN Mobile) which may be converted into shares in us or KPN Mobile for less than market value.

#### *Change of control in BellSouth*

Where any person or persons gain control over at least 50.0% of the voting rights in BellSouth before any issue of shares by us to BellSouth pursuant to the terms of the reorganization agreement, we may either issue our shares to BellSouth, or acquire BellSouth's interest in KPN Mobile for cash. Should BellSouth elect to acquire A shares in KPN Mobile, no election arises. There is no equivalent provision following a change of control in us.

#### *Restrictions on changes to KPN Mobile's articles of association*

BellSouth's written consent is required for any changes to KPN Mobile's articles of association affecting KPN Mobile's capital structure, the constitution of any body to which authority is delegated, KPN Mobile's corporate governance provisions or business scope. In addition, we will not vote in favor of any change whatsoever to KPN Mobile's articles of association, provided that this latter restriction will terminate should BellSouth fail to exercise any of its rights to acquire shares in KPN prior to December 9, 2003 and at such date has no further right or obligation to acquire any of KPN Mobile's

A shares, including any right or obligation in terms of the deadlock procedure contained in the shareholders' agreement.

#### *Maintenance of interest in KPN Mobile*

Unless by December 9, 2003 BellSouth has not exercised any of its rights to acquire shares in KPN and has no further right or obligation to acquire any A shares in KPN Mobile, the reorganization agreement prohibits the issuance of KPN Mobile's A shares to third parties, the disposal of either party's interest in KPN Mobile without the other's consent and the conclusion of agreements between KPN Mobile and its affiliates on a non-arm's length basis.

Subsequent to an acquisition of shares in KPN Mobile by BellSouth, either we or BellSouth may sell our shares in KPN Mobile subject to a right of first refusal in favor of the other.

We must continue to hold at least 5.0% of all of KPN Mobile's outstanding shares, until such time as BellSouth has acquired A shares in KPN Mobile pursuant to an exercise of the warrant or an exercise of its exchange rights under the reorganization agreement, or such conversion and exchange rights have terminated without being exercised and BellSouth has no further right to acquire at least 5.0% of the outstanding A shares and no obligation to acquire any of KPN Mobile's A shares.

In the event that BellSouth's voting rights ever exceed ours, our C share in KPN Mobile will be converted into a B share.

#### *Standstill and lock-up agreement*

We and BellSouth entered into a standstill and lock-up agreement on December 9, 1999 which regulates BellSouth's dealings in shares in us.

#### *Standstill*

Except in defined circumstances, until December 9, 2003, BellSouth may not acquire shares other than pursuant to the reorganization agreement or the warrant and both before and after this date BellSouth is prohibited from acquiring more than a 24.9% equity interest in us.

The defined exceptions to the standstill limitations are:

- the announcement by a third party of a takeover bid;
- BellSouth may tender for any stake in us which the Dutch government may sell;
- if a non-passive investor (*i.e.*, a competitor) purchases more than 10.0% of our shares and we fail to initiate any takeover defense to dilute such shareholdings below 10.0% then BellSouth has the right to acquire an equal number of shares; and
- BellSouth has the right to "top-up" its investment in us, if its interest is diluted by way of a share issue.

#### *Takeover bids*

Furthermore, BellSouth has agreed not to launch a hostile takeover bid for our shares other than following any takeover bid by a third party. If at any time BellSouth acquires an interest of 50% or more in us otherwise than through a takeover bid, BellSouth must either launch a public bid for all our shares at a price not lower than the highest price it has paid for any of our shares in the previous 12 months, or dispose of sufficient shares in us to bring the shareholding below a 24.9% threshold. We will not mount a defense against a permitted BellSouth takeover bid if it has not mounted a defense against the triggering bid from a third party.

### *Lock-up*

BellSouth is also in general prohibited from disposing of any shares in us prior to December 9, 2003. The defined exceptions to these lock-up arrangements are:

- upon a third party acquiring, or becoming unconditionally entitled to acquire, 50.0% of our shares;
- where a disposal is necessary to comply with the direction of a regulatory authority;
- where BellSouth's existing interest in our capital is below 20% prior to a capital reduction, BellSouth may dispose of sufficient shares to maintain its interest at the same level following the capital reduction;
- upon the later of December 9, 2001 or six months after exercising a right to acquire shares in us, BellSouth may sell up to 5% of its shares in us into the market in any three-month period in an orderly process, provided that the State of The Netherlands is granted a 10 day period prior to an intended sale by BellSouth in which to sell all or any part of its interest. If the State of The Netherlands makes any sale within such 10 day period, BellSouth will refrain from any sales for the next six weeks.

### *Termination of restrictions*

The various shareholding related provisions in the standstill and lock-up agreement terminate on the specific dates stipulated or earlier where:

- BellSouth is no longer entitled to exercise any right to acquire our shares and BellSouth holds less than 10% of our capital; or
- the formation agreement terminates.

### **Contractual arrangements relating to DoCoMo's investment in KPN Mobile**

We and KPN Mobile entered into various agreements with DoCoMo and BellSouth in connection with DoCoMo's subscription for A shares in KPN Mobile constituting 15% of the voting rights in KPN Mobile. The subscription and shareholders agreements were entered into on July 12, 2000 and the ancillary agreements were signed at completion on August 2, 2000. The description below summarizes those agreements. See also "Strategic Alliances—Strategic alliance with DoCoMo."

### *Subscription agreement*

We entered into a subscription agreement with KPN Mobile and DoCoMo on July 12, 2000 relating to DoCoMo's subscription via DCM Capital NL (UK) Ltd for A shares in KPN Mobile. DoCoMo subscribed for and was issued with 176,470,589 A shares for an aggregate price of approximately €4.0 billion.

Most restrictions imposed by this agreement terminate in certain circumstances including, among others, when DoCoMo ceases to own shares representing at least 7.5% of the total number of votes exercisable at a general meeting of KPN Mobile's shareholders or if KPN both ceases to hold the single largest voting interest in KPN Mobile shares and (other than in connection with a takeover by KPN of, or merger with, a third party) ceases to hold its C share in KPN Mobile.

Pursuant to the terms of the subscription agreement, certain actions may be taken by KPN Mobile only with the prior approval of its Supervisory Board, which must include the affirmative vote of any member of the Supervisory Board nominated by DoCoMo. Such reserved matters include among others the issue of certain ordinary shares of KPN Mobile for cash at a price per share which is less than that paid by DoCoMo for a period of one year from completion, except if an investment bank of

international reputation has confirmed that the proposed price per share is fair, and the occurrence of a fundamental change in the nature of KPN Mobile's business. If DoCoMo's Supervisory Board nominees contest the introduction of a fundamental change, KPN Mobile may elect to buy DoCoMo's shareholding at fair market value.

#### *Lock-up and standstill*

DoCoMo may not dispose of any of its shares in KPN Mobile until August 2, 2003 without KPN Mobile's prior written consent, other than to certain wholly owned group companies. DoCoMo also may not, until August 2, 2004, acquire shares in us without our prior written consent, nor acquire shares in KPN Mobile which represent more than 15% of the total number of votes exercisable at a general meeting of KPN Mobile's shareholders, without KPN Mobile's prior written consent.

#### *Exclusivity and restrictive covenants*

DoCoMo and its affiliates may not:

- establish, invest in or control any person who is, or controls, a mobile telecommunications infrastructure operator or a mobile virtual network operator in any exclusive jurisdiction;
- apply for a national IMT-2000 license, or participate in a consortium which will apply for such a license, in any exclusive jurisdiction; or
- otherwise directly compete as a mobile telecommunications infrastructure operator or a mobile virtual network operator in any exclusive jurisdiction.

Currently The Netherlands, Germany, Belgium, Ukraine, Hungary, the Czech Republic and Bulgaria are exclusive jurisdictions, although any of them may cease to be so and others may become exclusive jurisdictions. Pursuant to the terms of a side letter between us, KPN Mobile and DoCoMo dated July 12, 2000, the United Kingdom is also an exclusive jurisdiction so long as certain ownership interests are maintained in the joint venture between KPN Mobile, DoCoMo, Hutchison and Telesystem International Wireless Inc., or TIW. In addition, the side letter stipulates that France will become an exclusive jurisdiction if the joint venture between KPN Mobile, DoCoMo and Hutchison acquires a national IMT-2000 license and provided certain ownership interests are maintained.

DoCoMo and KPN Mobile have agreed that until August 2, 2002 they and their affiliates will not pursue an opportunity to invest in or control a mobile telecommunications infrastructure operator or a mobile virtual network operator or to apply for a national IMT-2000 license in the United Kingdom or France before consulting with each other for making a joint investment. On failure of such consultation, KPN Mobile will have the option of pursuing such opportunity without DoCoMo in which case DoCoMo may not compete with KPN Mobile. If KPN Mobile fails to pursue the opportunity then DoCoMo may do so.

If an investment opportunity to invest in or control a mobile telecommunications infrastructure operator or a mobile virtual network operator or to apply for a national IMT-2000 license arises in any part of Europe (other than an existing exclusive jurisdiction), DoCoMo and KPN Mobile agree to consult with each other in good faith for an appropriate period of time prior to making such investment. If such consultations do not lead to agreement, then either party may pursue the opportunity without the other and potentially in competition with the other.

KPN Mobile and its affiliates may not:

- establish, invest in or control any person who is, or controls, a mobile telecommunications infrastructure operator or a mobile virtual network operator in any of Brazil, Japan or Hong Kong; or
- apply for a national IMT-2000 license, or participate in a consortium which will apply for such a license, in any of Brazil, Japan or Hong Kong; or

- otherwise directly compete as a mobile telecommunications infrastructure operator or a mobile virtual network operator in any such jurisdiction,

in each case provided that a member of the DoCoMo group continues to control an interest in such an entity in that jurisdiction.

KPN Mobile has agreed to consult with DoCoMo prior to taking any of the actions referred to in the preceding paragraph in Asia.

We or our affiliates may not own, operate, manage or otherwise hold, directly or indirectly, any interest in any mobile telecommunications infrastructure operator or a mobile virtual network operator within Europe other than through KPN Mobile, subject to certain exceptions.

Our and KPN Mobile's undertakings are subject to similar limitations to those of DoCoMo.

#### ***KPN Mobile shareholders' agreement***

We along with KPN Mobile, DoCoMo, BellSouth and BellSouth Investment entered into a shareholders' agreement relating to KPN Mobile on July 12, 2000 which governs their relationship as shareholders, or potential shareholders, in KPN Mobile. The agreement also varies certain terms of the contractual arrangements between us, KPN Mobile, BellSouth and BellSouth Investment relating to the acquisition of E-Plus.

#### ***Minority protection rights***

KPN Mobile's Supervisory Board will consist of no more than six members in general or 11, upon the completion of an initial public offering and satisfaction of certain conditions.

BellSouth and DoCoMo may appoint nominees to the Supervisory Board of KPN Mobile, provided their respective shareholding in KPN Mobile is at least 7.5% each. BellSouth may generally appoint one nominee, unless its shareholding exceeds 24% of the votes exercisable at a general meeting of KPN Mobile's shareholders, in which case it may appoint two nominees. DoCoMo may appoint nominees on the basis of the percentage of votes exercisable at a general meeting of KPN Mobile's shareholders held by it. However, following an initial public offering of KPN Mobile and the exercise by BellSouth of its exchange rights under the reorganization agreement, DoCoMo shall appoint one member, provided its percentage will not exceed 15% and the total number of members of the Supervisory Board will be no more than 11.

#### ***Guarantee***

Each of BellSouth, KPN and DoCoMo have agreed to guarantee the obligations of their respective affiliates under the shareholders agreement, the subscription agreement, the registration rights agreement (see below) and the articles of association of KPN Mobile.

#### ***Tag along rights***

A holder of a majority of A shares in KPN Mobile intending to dispose of a number of its shares must, prior to such disposal notify the other shareholders who may participate in the sale of shares by requiring the seller to procure the sale of a proportionate number of shares on behalf of those shareholders being the proportion which each shareholder's total shareholding of each class of shares bears to the seller's total holding of such class of shares.

If we are the proposed seller then we may not be required to comply with the tag along provisions if the number of shares we are proposing to sell is less than 5% of the voting rights exercisable at a general meeting of KPN Mobile's shareholders.

### *Top up rights*

The shareholders' agreement ensures that shareholders may maintain their shareholding (or potential shareholding) upon the occurrence of a dilutive event to the level of percentage voting interests immediately prior to the dilutive event by subscribing for additional A shares in KPN Mobile.

In general, DoCoMo's top up rights in the first instance are only exercisable if its voting interest percentage falls below 15% and BellSouth's top up rights in the first instance are only exercisable if its percentage voting interest (or potential voting interest) falls below 24%. With the exception of an initial public offering of B shares by KPN Mobile or the exercise of the exchange rights pursuant to the reorganization agreement by BellSouth in exchange for A shares in KPN Mobile, we will be entitled to top up its percentage voting interest to the level immediately prior to the occurrence of the dilutive event.

In case of a primary or subsequent public offering of B shares or a private placement of B shares for cash, the exercise price for the exercise of the parties' top up rights to subscribe for A shares will be equivalent to the offer price of such B shares. In all other cases, the parties must pay the fair market value for the A shares issued pursuant to the exercise of the top up rights.

Prior to the exercise by BellSouth of the exchange rights pursuant to the reorganization agreement, BellSouth may exercise its top up rights by making a loan to KPN Mobile of equivalent value to the A shares which it would otherwise have had to subscribe for which will convert into A shares in KPN Mobile if and when the exchange rights are exercised and exchanged for A shares. Such loans are made upon the terms and conditions of the BellSouth shareholder loan agreement (see "—BellSouth shareholder loan agreement").

### *Overlap transactions*

We are required to consult with BellSouth on the terms of any proposed transaction with a third party which may result in us, KPN Mobile or any of our affiliates or KPN Mobile's affiliates holding an interest worth \$100 million or more in a wireless business with a fair market value of \$250 million or more in any Central or South American jurisdiction where BellSouth already owns an interest of the same size in a wireless business in the same jurisdiction which also represents at least 19.99% of the equity or voting interests in such wireless business. If we, KPN Mobile or any of our affiliates or KPN Mobile's affiliates enter into an agreement or make a public announcement of such a transaction prior to the resolution of any regulatory or strategic concerns of BellSouth then BellSouth may exercise the exchange rights pursuant to the reorganization agreement or its rights pursuant to its warrant.

### *Rights of first refusal*

KPN Mobile may not dispose of any shares in KPN/BLS Holding to any third party (other than certain intra-group transfers) before either BellSouth's exchange rights under the reorganization agreement have been exercised and we or KPN Mobile have acquired all interests in KPN/BLS Holding or such exchange rights have expired or been terminated.

If KPN Mobile becomes the sole shareholder of KPN/BLS Holding it will not dispose of any such shares or cause the issue of new shares to any person, other than to KPN Mobile and certain group companies, without granting DoCoMo a right of first refusal in respect of those shares.

KPN Mobile will not dispose of any shares in KPN Mobile The Netherlands B.V. (its Dutch operating company) or cause the issue of new shares to any person, other than to KPN Mobile and certain intra-group transfers, without giving DoCoMo a right of first refusal in respect of those shares.

We may not dispose of our shares in KPN Mobile, other than certain intra-group transfers, without first offering BellSouth a right of first refusal in respect of such shares under the terms of the

reorganization agreement while using its reasonable endeavors to persuade BellSouth to share such right of first refusal with DoCoMo pro rata to the economic interests their respective shareholdings in KPN Mobile represent at that time and, secondly, if BellSouth's right expires without being exercised (or to the extent that it is not exercised), without granting DoCoMo a right of first refusal in respect of those shares. To the extent we do not wish to exercise our right of first refusal in respect of BellSouth's shareholding in KPN Mobile under the terms of the reorganization agreement, we shall offer DoCoMo the opportunity to participate in such right.

DoCoMo may not dispose of any of our shares in KPN Mobile without granting us a right of first refusal and, upon our failing to exercise such right, the opportunity to participate in such right shall be offered to BellSouth.

The foregoing restrictions terminate when DoCoMo's shareholding in KPN Mobile ceases to represent at least 7.5% of the total number of votes exercisable at a general meeting of KPN Mobile's shareholders. In addition, these restrictions do not apply to a disposal by KPN Mobile of shares representing a voting or economic interest of up to 10% in total in the company concerned to a transferee offering added value to that company, which DoCoMo is unable or unwilling to offer on the same or more favorable terms.

#### ***Registration rights agreement***

On December 9, 1999, we along with BellSouth, BellSouth Investment and KPN Mobile entered into a registration rights agreement. On August 2, 2000, the parties agreed to replace the existing registration rights agreement and enter into a new registration rights agreement with DoCoMo pursuant to which BellSouth may require us or KPN Mobile, and DoCoMo may require KPN Mobile to, subject to various limitations and conditions, take all necessary steps to effect a registration of all or a specified number of their respective shareholdings in either us or KPN Mobile, as the case may be, so that such shares can be publicly sold in the United States of America and listed in The Netherlands (if not already listed). Neither BellSouth nor DoCoMo would be obliged to sell such shares following registration. The registration rights agreement also imposes certain standstill and lock-up restrictions on the parties in respect of shares in KPN Mobile (see below).

BellSouth and DoCoMo may only require KPN Mobile to register B shares in any registration or offering. Accordingly, any A shares in KPN Mobile which are the subject of a request for registration must be converted into B shares in accordance with the provisions of the articles of association of KPN Mobile immediately prior to such registration.

BellSouth and DoCoMo may require us (in the case of BellSouth only) or KPN Mobile to file only one registration statement requested by BellSouth and one registration statement requested by each in any 12 month period. Furthermore, BellSouth and DoCoMo may only exercise their registration rights in respect of shares worth at least \$250 million or its euro equivalent.

The registration rights agreement also provides, subject to various limitations and conditions, BellSouth and DoCoMo with the right to participate in any registered offerings of shares by KPN Mobile, whether requested by the other shareholder under the terms of the registration rights agreement or otherwise.

BellSouth may only exercise its rights under the registration rights agreement subsequent to June 9, 2001 or once a third party has gained control of KPN Mobile, and once BellSouth has exercised its right to acquire shares in us or KPN Mobile. DoCoMo can only exercise its rights under the registration rights agreement after the expiry of its lock-up period pursuant to the terms of the subscription agreement. See "—Subscription agreement."

### *BellSouth standstill*

According to the registration rights agreement, BellSouth will not acquire more than 24.9% of KPN Mobile's outstanding shares without our consent, except for any acquisitions pursuant to: (1) the exercise by BellSouth of its exchange rights under the reorganization agreement, (2) BellSouth's warrant, and (3) the terms of any other agreement entered into in relation to KPN Mobile's acquisition of an interest in E-Plus. This standstill will terminate on the later of December 9, 2001 or one year after an initial public offering of shares in KPN Mobile. At the latest, the standstill will terminate on December 9, 2002.

The standstill period will end earlier where a third party acquires a greater equity interest in KPN Mobile than BellSouth currently holds or could hold following an exercise of its exchange rights or its rights under the terms of its warrant; acquires more than 25.0% of KPN Mobile's assets; or makes an offer to acquire an interest in KPN Mobile greater than the interest of BellSouth.

We will consent to any acquisition of shares in KPN Mobile by BellSouth should we at such time hold less than 25.0% of KPN Mobile's outstanding shares.

### *Lock-up*

BellSouth and DoCoMo have agreed that for a period of six months after any initial public offering by KPN Mobile or a listing or registration of shares by KPN Mobile in which BellSouth or DoCoMo sells at least 5.0% of KPN Mobile's outstanding shares, BellSouth or DoCoMo, as the case may be, will refrain from selling any more shares in KPN Mobile other than through any further listing or registration of shares which is conducted in accordance with the terms of the registration rights agreement.

BellSouth and DoCoMo have each given KPN Mobile, or us to the extent KPN Mobile is not permitted by law to act, the option to purchase for cash all of the shares in KPN Mobile which either of them requests to be registered pursuant to the terms of the agreement.

### **Contractual arrangements with Hutchison and DoCoMo**

KPN Mobile entered into a number of agreements in July, 2000 with Hutchison International Limited, known as HIL, in connection with the acquisition of UMTS licenses in the U.K., Belgium and France and with DoCoMo in relation to the U.K. and France. The description below sets out a summary of certain relevant terms of the signed agreements.

### *United Kingdom*

HIL was granted a UMTS license in the U.K. on May 9, 2000 through the mobile telecommunication license auction process. The license is held in the U.K. by Hutchison 3G UK Limited, known as 3G OpCo, whose entire issued share capital is owned by Hutchison 3G UK Holdings Limited, known as 3G HoldCo. Both companies are incorporated in England and Wales.

KPN Mobile, DoCoMo and HIL have entered into a joint venture in the U.K. in order to exploit jointly the UMTS license granted to 3G OpCo and to pursue other agreed commercial objectives in the U.K. DoCoMo has agreed to take a 20% stake in 3G HoldCo and KPN Mobile has agreed to take a 15% stake. KPN Mobile's interest in the U.K. joint venture is documented in two agreements—a subscription agreement and a shareholders' agreement—both dated July 12, 2000.

### *Subscription agreement relating to Hutchison 3G UK Holdings Limited*

#### *Introduction*

We and KPN Mobile entered into a subscription agreement on July 12, 2000 with Hutchison Whampoa Limited, known as HWL, and New Millenium Corp, a wholly owned subsidiary of HIL, for

KPN Mobile to subscribe to 15% of the issued shares in Hutchison 3G UK Holdings Limited, or 3G HoldCo, a subsidiary of New Millenium Corp. Under a similar agreement, DoCoMo has indirectly acquired 20% of the issued share capital of 3G HoldCo. 3G HoldCo is the sole shareholder of Hutchison 3G UK Limited, or 3G OpCo, which has been granted a license to operate a UMTS network in the United Kingdom.

#### *Conditions to Completion*

Completion of the KPN Mobile subscription is conditional upon KPN Mobile fulfilling or waiving a number of matters within 28 weeks from signing. The agreement will become unconditional following:

- receipt of various competition and regulatory approvals for the transaction from the European Commission or the Office of Fair Trading in the U.K.;
- completion of DoCoMo's subscription of a 15% voting interest in KPN Mobile. This was completed on August 2, 2000;
- simultaneous completion of the DoCoMo Sale and Purchase Agreement in relation to 3G HoldCo; and
- KPN Mobile's receipt of written confirmation from HWL and for New Millennium Corp. that the shareholder loans paid directly and indirectly into 3G HoldCo by an indirect subsidiary of HIL to finance the acquisition of the UMTS license have been repaid in full.

In addition, between signing and completion restrictions are imposed on the actions of 3G HoldCo and 3G OpCo's businesses to ensure they are carried on in the ordinary course. KPN Mobile's subscription will be completed 10 business days after the last of the conditions is satisfied or waived.

#### *Subscription*

On completion, KPN Mobile will pay New Millennium Corp. an aggregate amount of £900 million for its 15% stake in 3G HoldCo comprising £666,823,013 in cash for new £1 ordinary shares in 3G HoldCo and £233,176,987 as a premium.

We have guaranteed to New Millennium Corp. and HWL irrevocably and unconditionally KPN Mobile's punctual performance of all its obligations under the agreement and of all obligations under the shareholders' agreement relating to 3G HoldCo. In addition, we have guaranteed and undertaken to New Millennium Corp. and HWL that whenever KPN Mobile does not pay an amount due, we will, on demand, immediately pay the amount as if it were the principal obligor.

#### *Shareholders' agreement relating to Hutchison 3G UK Holdings Limited*

The shareholders' agreement between HWL and KPN Mobile relating to 3G HoldCo sets out each party's rights and obligations in relation to 3G HoldCo and 3G OpCo, together the 3G Group. Under the shareholder agreement, the board of directors of 3G HoldCo are responsible for the day to day operations of the 3G Group, implementing a business plan and achieving their strategic objectives, which include developing a third generation mobile telecommunications network in the United Kingdom, being the leading UMTS operator in the United Kingdom and providing a "best of the class" UMTS network. DoCoMo entered into a similar, but not identical, shareholders' agreement with HWL.

Under the shareholder's agreement, each shareholder is entitled to appoint one director of each of the 3G HoldCo Board and the 3G OpCo Board for each of 10% holding of shares in 3G HoldCo and one additional director if the shareholder holds at least 10% of the shares. As a 15% shareholder, KPN Mobile will be entitled to appoint two directors and DoCoMo, as a 20% shareholder, will be entitled to appoint three directors. For as long as HWL has the largest aggregate holding of shares, it is entitled

to appoint as many directors as is equal to two more than the total number of directors that all other shareholders have collectively appointed. If KPN Mobile's interest in 3G HoldCo falls to less than 5%, KPN Mobile will not have a right to appoint a board director. The 3G OpCo board will ensure that OpCo is operated consistently with 3G HoldCo.

#### *Reserved matters*

The 3G Group cannot decide upon a number of matters without the prior approval of each of HWL, DoCoMo and KPN Mobile, as long as HWL's interest is at least at 50% (directly as shareholder or through their nominated directors). These reserved matters include, among others:

- changing the nature and scope of the business of the 3G Group;
- amending 3G HoldCo's or 3G OpCo's memorandum and articles of association;
- changing 3G HoldCo's or 3G OpCo's authorized or issued share capital or the equity and debt capital structure other than in certain circumstances;
- adopting or amending a business plan;
- any 3G Group member declaring or paying a dividend or distribution, except in certain circumstances;
- any 3G Group member merging, acquiring or disposing of any business or asset or shares except for where such transaction is less than £50 million and the acquisition is in the ordinary course of business, directly necessary in order to roll out the network as anticipated by a business plan;
- a proposal to remove any director appointed to the board by KPN Mobile; and
- any 3G Group member issuing or allotting any securities for non-cash consideration.

If KPN Mobile and HWL reach a deadlock on a reserved matter then a set of internal procedures are followed with the goal to resolve the issue. If there is no resolution, then the matter is not proceeded any further unless the matter relates to the adoption and or amendment of a business plan. In this case, HWL may require KPN Mobile to agree to the deadlocked matter.

#### *Funding*

Funding requirements of the 3G Group are intended to be met by internal cash flow and third-party commercial borrowings. If such funds are insufficient the shareholders will be called upon to give counter indemnities or advance funds to meet any shortfall pro rata to their equity proportions. (KPN Mobile would therefore have to contribute 15% of any funding required. The shareholders may be called upon to provide additional funding up to a maximum additional aggregate amount of £1 billion. KPN Mobile's maximum amount of funding would be £150 million. If a shareholder refuses to meet a funding call, then such shareholder will be treated as being in default of the agreement. See "—Default."

Any shortfalls caused by a defaulting shareholder can be overcome with a pro rata contribution from the other shareholders. Repayment of the shortfall by the defaulting shareholder, including repayment using its equity holdings, will be distributed among the funding shareholders *pro rata* according to their additional contributions. If the defaulting shareholder does not repay its obligation, then the other shareholders may force a sale of the defaulting shareholder's equity stake in 3G HoldCo necessary to satisfy the obligation. The price per share for such a sale would be established by an internationally recognized investment bank.

#### *Preemptive and tag along rights*

If HWL wishes to transfer its shares in 3G HoldCo or the issued shares in the capital of a member of its group to any person (other than a subsidiary or a member of the KPN Mobile Group) and:

- the third party transferee is a mobile telecommunications operator in The Netherlands; or
- as a result of such transfer, HWL will have less than a 35% interest in 3G HoldCo; or
- as a result of such transfer another person will have an interest in 3G HoldCo greater than that of HWL; or
- as a result of such transfer HWL will cease to have an interest in 3G HoldCo; or
- as a result of such transfer HWL will cease to have the power to appoint a majority of directors to the board of 3G HoldCo or 3G OpCo;

then HWL shall ensure that the third party transferee make an offer to KPN Mobile to purchase all of the shares of KPN Mobile in 3G HoldCo in accordance with a specified procedure.

If KPN Mobile proposes to dispose of any 3G HoldCo shares to any person who is not an affiliate of KPN Mobile, but not including any holding company of KPN Mobile, then KPN Mobile may have to give HWL a right of first refusal to purchase such shares on the same terms. If HWL does not exercise such right, then the shares may be otherwise disposed of provided such disposal is on terms no more favorable than those offered to HWL.

If HWL becomes entitled to purchase 3G HoldCo shares of any other existing shareholder or have those shares transferred to it, then KPN Mobile will be entitled to purchase or have transferred to it its equity proportion of such 3G HoldCo shares transferred by such shareholder.

#### *Dividends and top up rights*

The shareholders will ensure that if available cash or cash equivalent held by the 3G Group exceeds the net anticipated cash requirements for the 3G Group for the following 12 months, the excess cash shall be distributed as a dividend and/or repayment of any then-outstanding shareholders' loans.

If 3G HoldCo issues equity securities for cash, the shareholders will be entitled to subscribe for additional shares in cash at the same price and on the same terms so that following such issue each shareholder shall be holding the same proportion of equity it held immediately prior to such issue.

#### *Default*

If HWL or a subsidiary of HWL commits an act constituting an event of default, including a material breach of the agreement or an insolvency event, KPN Mobile has an option to require HWL to purchase its shares (a "default put option"). If KPN Mobile commits such an event of default, HWL shall have an option to require KPN Mobile to sell its shares to HWL (a "default call option"). Where the default call option or default put option is to be exercised an expert shall be appointed to determine a fair price and KPN Mobile shall be bound to sell its shares in 3G HoldCo to HWL at the following prices:

- 140% of the fair price in the case of the default put option; or
- 60% of the fair price in the case of the default call option.

### *Non-competition provisions*

HWL and KPN Mobile have given each other non-compete undertakings in substantially similar form.

KPN Mobile has agreed, subject to some exceptions, that while it holds shares in 3G HoldCo and for a period of nine months after disposing of its shares, neither KPN Mobile nor any of its subsidiaries will enter into an arrangement, or carry on or be interested in the business of any mobile telecommunications infrastructure operator or a mobile virtual network operator operating in the U.K. in competition with 3G OpCo's exploitation in the U.K. of the radio spectrum granted to it under the UMTS license, other than through its holding in 3G HoldCo.

### *Initial public offering undertakings*

The parties have confirmed their intention to list the share of 3G HoldCo within three years from the date of the agreement. The parties will cooperate with each other in assessing whether and under what terms it is in the best interests of 3G HoldCo to initiate the listing.

### ***Belgium***

In anticipation of the Belgian regulator's invitation to apply for a UMTS license in Belgium, HIL and KPN Mobile have agreed to cooperate in determining whether to apply for a license. The parties have agreed to cooperate pursuant to a July 12, 2000 bidding agreement to assess the terms and conditions of the application process. If, after such consideration, the parties decide to submit an application for a license, they will form a joint-venture company in Belgium to hold a license, establish and own the relevant network and provide the relevant services. HIL and KPN Mobile would each own 50% of the joint venture company and have agreed to negotiate in good faith to enter into a shareholders' agreement to determine the control and management of the joint venture. Each party will bear the costs and expenses the joint-venture company incurs in the application for the license according to its equity contribution.

### *UMTS bidding agreement—Belgium*

The parties have agreed to cooperate during the Belgian UMTS license process by:

- evaluating the nature, scope and feasibility of the license's financial and commercial opportunities;
- developing a business plan;
- identifying potential network and service suppliers required for providing third-generation mobile telecommunications services;
- identifying and, subject to agreement on the business plan and execution of a shareholders' agreement, developing content and services to form part of the third-generation mobile telecommunications services and identifying persons to provide such content and services;
- subject to agreement on the business plan, drafting an application for the license; and
- doing all things reasonably necessary, including the formation of a 50-50 joint venture company, to implement the objects of the bidding agreement, to establish the business and to maintain the license in Belgium.

The parties have agreed not to cooperate with any other party until the Belgian regulator has allocated all the UMTS licenses in Belgium, at which time this agreement will automatically terminate.

If at any time the parties agree in writing that they will not jointly submit an application for a license in Belgium or if the agreement is terminated by unanimous written agreement between the parties not to pursue the objectives, then either of the parties may submit an application for a license on its own or with another party. If the agreement is terminated following a default under the agreement, the defaulting party will be bound by the exclusivity provisions and the non-defaulting party may proceed (alone or jointly with another entity) to submit an application for a license. This agreement will automatically terminate if HIL and KPN Mobile fail to agree over a business plan setting out the strategy, structure and financing of the joint-venture company at least ten business days before the deadline set for submission of the application for the UMTS license.

### ***France***

In anticipation of the invitation from the French regulator and Ministry to apply for a UMTS license in France, HIL, KPN Mobile and DoCoMo have agreed to cooperate to determine whether or not to apply for a license together. The parties have agreed to cooperate to assess the terms and conditions of the proposed application process. If, after such consideration, the parties decide to submit an application for the grant of a license, the parties may form a joint venture company in France to hold a license, establish and own the relevant network and provide the relevant services. The parties set out their mutual understanding in a UMTS bidding agreement for France between HIL, KPN Mobile and DoCoMo dated July 12, 2000.

The parties have agreed to form a French joint venture company incorporated under French law. The parties have agreed that the equity in the joint venture company should be held in the following proportions; HIL at least 40%, KPN Mobile at least 40% and DoCoMo not more than 20%. Prior to incorporation of the joint venture company, DoCoMo shall inform the other parties how much equity it wishes to hold, which will not be more than 20%. The parties have agreed to enter into a shareholders' agreement to determine the control and management of the joint-venture. Each party will bear the costs and expenses incurred by the joint-venture company during the application for the license according to its equity contribution.

### ***Exclusivity***

The parties have also agreed not to cooperate with any other party, other than a French partner acceptable to all of them, in the application for a UMTS license and the development of the necessary network until the Ministry in France has allocated the first four licenses in France or the French bidding agreement has automatically terminated. This agreement will automatically terminate if HIL and KPN Mobile fail to agree on a business plan setting out the strategy, structure and financing of the joint-venture company no later than one month before the deadline set for submission of the application for the UMTS license.

If at any time the parties agree in writing not to submit jointly an application for a license in France or if the agreement is terminated by written agreement between the parties not to pursue the objectives (see above) or otherwise in accordance with its terms without default, then any of the parties may submit an application for a license on its own or with another party. If the agreement is terminated following a default under the agreement, the defaulting party will be bound by the exclusivity provisions and the non-defaulting parties may proceed (alone or jointly) to submit an application for a license.

## **Contractual arrangements relating to our joint venture with Qwest**

### ***Introduction***

KPN Telecom and Qwest B.V. ("Qwest"), the wholly owned Dutch subsidiary of Qwest, together with KPNQwest entered into a joint venture and shareholders' agreement dated November 5, 1999

regulating the parties' conduct towards KPNQwest, a joint venture established for the purposes of building, owning and operating a high capacity optical transport network interconnecting the respective networks of KPN and Qwest and developing, marketing, selling and providing any and all services that can be carried on such high capacity optical network. The joint venture and shareholders' agreement replaced the joint venture agreement of February 26, 1999, prior to KPNQwest's initial public offering on November 8, 1999. KPN Telecom owns A shares in KPNQwest and Qwest B shares. The C shares are listed on both Euronext Amsterdam N.V. and NASDAQ. Each A and B share has a nominal value of €0.50 and carries 10 votes while each C share has a nominal value of €0.05 and only one vote per share. 200,000,000 A shares and 200,000,000 B shares are outstanding.

Each of KPN Telecom and Qwest B.V. entered into a subscription and contribution agreement with KPNQwest in connection with its respective contribution of assets to KPNQwest. In the subscription and contribution agreement, each of KPN Telecom and Qwest B.V. made representations and warranties regarding the assets they contributed to KPNQwest.

KPNQwest is also party to distribution agreements with each of KPN Telecom, Qwest Communications Corporation and KPN's Belgian affiliate, KPN Belgium N.V. (formerly known as Unisource Belgium N.V.). KPN Telecom, Qwest Communications Corporation and KPN Belgium act in their respective territories as exclusive distributors of KPNQwest's services pursuant to these agreements.

#### ***Joint venture and shareholders' agreement***

##### ***Supervisory Board***

Each of KPN Telecom and Qwest B.V. have made binding nominations for three members of KPNQwest's eight member Supervisory Board. Under KPNQwest's articles of associations, holders of the A shares and B shares enjoy the right to make binding nominations. If the A shares or the B shares at any time represent less than 5% of KPNQwest's outstanding ordinary shares, the A shares or the B shares, as the case may be, will be converted into C shares and the right of the holder of those shares to make binding nominations will terminate. The chairman of the Supervisory Board alternates annually between A share nominated members and B share nominated members, and does not have a deciding vote. On January 20, 2000, two independent Supervisory Board members were appointed at an Extraordinary Shareholders' meeting.

##### ***Actions requiring approval of our Supervisory Board nominees and Qwest Supervisory Board nominees***

The following specific issues, among others, require the affirmative vote of both a simple majority of the members of KPNQwest's Supervisory Board and at least two of the Supervisory Board members nominated by the holders of the A shares and two of the Supervisory Board members nominated by the holders of the B shares:

- KPNQwest's annual budget and three-year business plan;
- any material financing agreement; and
- KPNQwest's exercise of voting rights on the shares in its subsidiaries.

##### ***Actions requiring approval of holders of A shares and B shares***

The following specific items, among others, require the approval of the holders of the A shares and the holders of the B shares:

- any new business opportunity offered by one of the shareholders to KPNQwest;
- any material acquisition or investment;

- issuance of shares, options or other equity-related securities, and redemption of capital stock or reduction in capital;
- material transactions with us, Qwest, their subsidiaries or any entity that, directly or indirectly, owns at least 10.0% of us or Qwest or has the right to appoint one or more KPN or Qwest board members;
- appointment of any member of KPNQwest's management team; and
- amendment to KPNQwest's articles of association or other constituent documents.

These approval rights are rights of the holders of the A shares and B shares. If the A shares or the B shares at any time represent less than 5.0% of our outstanding ordinary shares, the A shares or the B shares, as the case may be, will be converted into C shares and the approval rights will terminate.

#### *Exclusivity*

We, Qwest and each of our and their subsidiaries may not engage in the following activities or acquire a 25% or greater ownership interest in or otherwise actively participate in the management of an entity that engages in the following activities in any countries within KPNQwest's territory which consists of France, Spain, Portugal, Germany, Switzerland, Austria, Norway, Sweden, Finland, Estonia, Czech Republic, Romania, United Kingdom, Denmark, Italy and Greece. The activities are:

- the ownership, construction or acquisition of additional cross-border fiber optic infrastructure, primarily used for services similar to those identified in KPNQwest's then-current business plan;
- the ownership, construction or acquisition of additional domestic inter-city fiber optic infrastructure, primarily used for services similar to those identified in KPNQwest's business plan, in countries where KPNQwest, according to its business plan, has the intention to build domestic inter-city fiber optic infrastructure; or
- the provision of services substantially similar to the value-added Internet protocol-based services identified in KPNQwest's then-current business plan.

Our and Qwest's investments and activities in KPNQwest's territory that existed at the time of KPNQwest's formation are exempt from the exclusivity provisions and the right of first offer provisions described below.

In addition, if we and Qwest make investments or engage in activities that later become subject to the exclusivity restrictions or the right of first offer restrictions described below because KPNQwest has expanded its services, territory or network, then those investments and activities will not be subject to the exclusivity provisions and right of first offer provisions described below.

We and Qwest can suspend the operation of or terminate any of the non-compete obligations in the joint venture and shareholders' agreement at any time by mutual agreement. KPNQwest's consent to the suspension or termination of the non-compete obligations is not required. The non-compete obligations terminate with respect to KPN when it no longer owns any A shares, and with respect to Qwest when it no longer owns any B shares.

#### *Right of first offer*

We, Qwest and each of our and their subsidiaries may not, without first offering the opportunity to KPNQwest, in any of the countries within KPNQwest's territory, engage in, acquire a 25% or greater ownership interest in or otherwise actively participate in the management of an entity that engages in any of the following activities:

- the operation of a local exchange carrier;

- the operation of a fixed wireless infrastructure, other than infrastructure primarily used, or to be used by a mobile network;
- the provision of systems integration services;
- the supply of other products and services within KPNQwest's current business plan;
- the provision of value-added Internet protocol-based services not in KPNQwest's then-current business plan;
- the operation of a national operator;
- the operation of an Internet service provider business, other than an Internet service provider business acquired incidental to the acquisition of a substantially larger enterprise;
- the ownership, acquisition or construction of additional fiber optic infrastructure in the territory, except:
  - (1) fiber optic infrastructure that will not be used to provide any services identified in KPNQwest's then-current business plan; or
  - (2) fiber optic infrastructure that will be used to provide services identified in KPNQwest's then-current business plan, but those services are only incidental in comparison to the substantially larger number of other services provided on the fiber optic infrastructure;
- the provision of voice services, frame relay services or private line services on a retail basis; and
- business that involves voice hubbing in the territory other than the establishment or internal expansion of a voice hubbing business.

If KPNQwest rejects an opportunity in a country where KPNQwest's network is located or where KPNQwest plans to expand KPNQwest's network under its business plan, then, unless the other shareholder consents, the shareholder who presented the opportunity to KPNQwest may not pursue it if any of its Supervisory Board nominees voted against the opportunity and the Supervisory Board members nominated by the other shareholder voted in favor of the opportunity. If KPNQwest rejects an opportunity in a country in the territory where KPNQwest's network is not located and KPNQwest does not intend to expand the network to that country under KPNQwest's business plan, then the shareholder presenting the opportunity is free to pursue it with the other shareholder's consent.

We and Qwest can suspend the operation of or terminate any of the first offer obligations contained in the joint venture and shareholders' agreement at any time by mutual agreement. KPNQwest's consent to the suspension or termination of the first offer provisions is not required. The first offer obligations terminate with respect to us when we no longer own any A shares, and with respect to Qwest when it no longer owns any B shares.

#### *Transfer restrictions*

The joint venture and shareholders' agreement restricts KPN Telecom's and Qwest's transfer of KPNQwest shares to any third person, other than to one of their affiliates, until April 1, 2004, unless both KPN Telecom and Qwest consent to the transfer. After April 1, 2004, either KPN Telecom or Qwest may sell all of KPNQwest shares to a third person subject to the other shareholder's right of first offer. KPNQwest has entered into a registration rights agreement with KPN Telecom and Qwest in order to facilitate, at their request, sales of their interests in KPNQwest permitted under the joint venture and shareholders' agreement.

*Buy/sell arrangement upon deadlock or change in control and rights to purchase shares upon insolvency or breach*

KPN Telecom or Qwest can force the sale of the outstanding KPNQwest shares held by the other under a buy/sell arrangement so that, as a result, either KPN Telecom or Qwest would acquire the interest in KPNQwest held by the other, in the event that:

- We and Qwest or our and their nominees on KPNQwest's Supervisory Board are unable to decide certain fundamental business matters requiring the approval of holders of A shares and B shares or requiring the approval of two A share Supervisory Board nominees and two B share Supervisory Board nominees, and that inability evidences a repeated and irreconcilable disagreement between KPN and Qwest about significant aspects of KPNQwest's operations or strategy; or
- either we or Qwest repeatedly and systematically withholds its consent to allow the other to pursue an opportunity presented by that shareholder and rejected by KPNQwest; or
- there is a change in the identity of the person or entity that owns, alone or in concert with others, at least 25% of the voting shares and ultimately has the greatest ability to exercise management control of either us or Qwest.

If either we or Qwest invokes the buy/sell provisions of the joint venture and shareholders' agreement, the aggregate opening price for the A shares and B shares for purposes of the buy/sell provision shall be (1) the number of outstanding A shares or B shares subject to purchase or sale, as the case may be, multiplied by (2) the average closing price of the C shares on Euronext Amsterdam N.V. for the 15 trading days ending on the last trading day prior to the day that the buy/sell provision is invoked.

Both shareholders will submit sealed bids to either buy or sell their shares at the opening price. If both shareholders submit bids to "buy" then the price will be increased by 0.5%, and if both shareholders submit bids to "sell" then the price will be decreased by at least 0.5%. The bidding procedure will continue with subsequent price adjustments of at least 0.5% until a round of bidding produces one buyer and one seller.

When the sale is consummated, the shareholder that sells its shares will have a right to acquire from KPNQwest, at fair market value and on terms and conditions based upon precedent transactions with third parties, an indefeasible right of use with respect to dark fiber on KPNQwest's network, related colocation space and transatlantic capacity which depending upon availability, the exercise of such right could involve a dark fiber sale of up to 31.25% of KPNQwest's existing and planned optical fibers.

The transaction would include space in KPNQwest's POPs, nodes, regeneration and amplification sites as offered to third parties in precedent dark fiber transactions and, in addition, KPNQwest has agreed to make available, at fair market value, space at each network node and at any POP on a local fiber ring or linear system, in which the selling shareholder might colocate its equipment and equipment of its customers. The arrangement will apply to KPNQwest's existing network and any network segments that are under construction or the construction of which has been approved by KPNQwest's Supervisory Board at the time the buy/sell arrangement is invoked, including any local fiber rings or linear systems.

KPNQwest has agreed to grant an indefeasible right of use, against payment at fair market value, to the selling shareholder with respect to 25% of KPNQwest's existing and planned transatlantic capacity at the time the buy/sell arrangement is invoked, unless at that time KPNQwest's requirements exceed 75% of KPNQwest's then-existing transatlantic capacity.

In addition to the right to acquire assets at fair market value, the shareholder that sells its shares pursuant to the buy/sell procedure will have the right to access KPNQwest's network and the other founding shareholder's network on terms and conditions not less favorable than offered to third parties, for a period of up to 36 months, and also the right to purchase from KPNQwest transition services in the form of access to KPNQwest's billing, accounting, order entry, provisioning and other operating platform assets (but not KPNQwest's customer information or sales or marketing services). Transition services are to be reimbursed at KPNQwest's cost plus a 6% margin.

The buy/sell arrangement and the related rights to acquire infrastructure, access the network and purchase transition services, will cease to be exercisable when either the A shares or the B shares no longer remain outstanding.

In addition, if either we or Qwest breaches and does not timely cure its obligations under any agreements related to KPNQwest or becomes insolvent, and in either case the breach or the insolvency has a material adverse effect or threatened effect the continuity of the insolvent or defaulting shareholder, the non-defaulting shareholder will have a right to purchase the defaulting shareholder's share KPNQwest shares at a price equal to (1) the number of shares owned by the defaulting shareholder multiplied by (2) the closing price of the C shares on Euronext Amsterdam N.V. on the last trading day prior to insolvency or notice of such breach.

#### ***Registration rights agreement for KPNQwest***

KPNQwest has entered into a registration rights agreement with KPN Telecom and Qwest which provides registration rights, subject to various conditions and limitations, to each of KPN Telecom and Qwest after April 13, 2004, or sooner if both KPN Telecom and Qwest were to waive the contractual restrictions to transfers and the rights of first offer contained in the joint venture and shareholders' agreement. Pursuant to these registration rights, KPN Telecom and Qwest (or their permitted transferees) may require KPNQwest to file a registration statement under the Securities Act in order to register the sale of C shares they hold (or into which their A or B shares, respectively, will convert upon sale). Neither KPN Telecom nor Qwest, however, may require KPNQwest to file more than one registration statement in any one year period or more than five registration statements in the aggregate. The registration rights agreement also provides, subject to various conditions and limitations, KPN Telecom and Qwest with so-called "piggy-back" registration rights, which allow them to participate in registered offerings of C shares initiated by KPNQwest.

#### ***Option agreement***

Pursuant to an option agreement between KPN Telecom, BellSouth and KPN, dated December 9, 1999, BellSouth has (1) the rights to acquire half of any shares in KPNQwest, should KPN Telecom acquire shares from Qwest, referred to as the acquired shares, pursuant to the joint venture and shareholders' agreement, or the joint venture agreement, (2) rights to equally benefit from any retained infrastructure and associated service agreements, or the infrastructure and services agreements, should KPN Telecom sell its shareholding in KPNQwest under the buy/sell procedure set out in the joint venture agreement and (3) a right of first refusal, subject to Qwest's prior rights as described in the joint venture and shareholders' agreement between KPN Telecom and Qwest, should KPN Telecom wish to sell its shares in KPNQwest.

#### ***Initial option***

BellSouth has a right to acquire 50.0% of any B or C shares purchased by KPN Telecom from Qwest pursuant to the buy/sell procedure, its right of first refusal or under any other circumstances where KPN Telecom has purchased shares from Qwest pursuant to the joint venture agreement. The price per share payable by BellSouth to KPN Telecom for this initial 50.0% will be 85.0% of the price

per share paid by KPN Telecom. This option may be exercised at any time on or before January 1, 2005, which period shall, under certain circumstances, automatically be extended to January 1, 2008.

#### *Buy-up option*

BellSouth has a right, for a period of one year, commencing one year after an initial acquisition of 50.0% of the acquired shares, to acquire all of the remaining 50.0%. The determination of the acquisition price will be based on the price of C Shares on Euronext Amsterdam N.V.

#### *Compulsory purchase by KPN*

BellSouth may compel KPN Telecom to exercise its rights of first refusal or other rights to acquire shares from Qwest, but cannot require it to invoke the buy/sell procedure. If KPN Telecom is so compelled, BellSouth is obliged to acquire 50.0% of such shares and KPN Telecom is entitled, within a specified period, to compel BellSouth to acquire the remaining 50.0% of such shares at the same price paid for the first 50.0%.

#### *Maximum price in buy/sell*

BellSouth must stipulate the maximum price at which it will be prepared to acquire shares from KPN Telecom pursuant to the buy/sell procedure. If KPN Telecom acquires Qwest's shares at a level below 117.647% of this maximum price, BellSouth will be bound to purchase 50.0% of such shares, and if higher, BellSouth may (but is not obliged to) acquire 50.0% of such shares. Should BellSouth at a later stage not exercise the right to acquire the remaining 50.0% of such shares, then KPN Telecom is entitled, within a specified period, to compel BellSouth to acquire the remaining 50.0% at the same price paid for the first 50.0%.

#### *Conversion into C shares*

KPNQwest's articles of association and the joint venture agreement provide that any A or B share sold to any party other than KPN Telecom or Qwest must be converted into 10 C shares, 9 of which are to be transferred to KPNQwest, which would result in BellSouth acquiring shares under the option agreement with a lower total nominal value and voting rights. To avoid this, KPN Telecom will endeavour to obtain all necessary consents from Qwest and KPNQwest to prevent such conversion, failing which KPN Telecom will co-operate with BellSouth in alternative arrangements, which would allow BellSouth to enjoy the benefits attaching to such A shares.

#### *Voting agreement*

Upon the first transfer of shares to BellSouth pursuant to the option agreement, KPN Telecom and BellSouth will enter into a voting agreement in respect of KPNQwest which shall endure for so long as KPN Telecom and BellSouth together control more than 50.0% of the votes in the general meeting of KPNQwest. The voting agreement will be conditional upon Qwest's consent or Qwest no longer holding B shares.

While KPN Telecom holds an equivalent or greater number of votes in KPNQwest than BellSouth (in respect of shares acquired under the terms of the various options), BellSouth shall vote in accordance with KPN Telecom's instructions and vice versa.

While KPN Telecom holds at least half as many A shares as BellSouth and KPN Telecom's A shares represent at least 5.0% of the outstanding share capital of KPNQwest, BellSouth shall vote (1) in accordance with KPN Telecom's instructions at meetings of A shareholders, and (2) for supervisory board nominees chosen by the A shareholders and against suspension or dismissal of a

supervisory board chosen by the A shareholders (unless this is specifically requested by KPN Telecom) in shareholders meetings of KPNQwest.

For the purposes of the voting agreement, each C share converted from either an A share or a B share will be afforded 10 votes, and any reference to an A share or a B share includes such converted C shares.

#### *Retained infrastructure*

Should KPN Telecom become the seller in the buy/sell procedure then BellSouth will be entitled to elect, within the same period as the initial option period, to benefit equally from the Infrastructure and Services Agreements, by acquiring 49.9% of the issued shares of a special purposes company, for an amount equivalent to 49.9% of the price payable by KPN Telecom or such company to KPNQwest for the infrastructure and services agreement.

If KPNQwest does not consent to KPN Telecom's rights in the infrastructure and services agreements being transferred to such company, then KPN Telecom will make alternative arrangements to ensure that such company enjoys the benefits of the infrastructure and services agreements.

Should KPN Telecom not wish to exercise its above rights, KPN Telecom will endeavour to assign its rights to BellSouth or transfer the entire share capital of the special purpose company to BellSouth at a price equal to the entire amount payable by KPN Telecom or such company to KPNQwest.

#### *Limitations on transfers to third parties*

Any transfer of the A or B shares prior to April 1, 2004 requires the consent of both the A and B shareholders. KPN Telecom will not consent to any transfer by Qwest of any B shares to any party other than BellSouth during this period.

#### *Right of first refusal*

Subject to Qwest's prior rights as described in the joint venture and shareholders' agreement between KPN Telecom and Qwest, KPN Telecom must first offer any shares in KPNQwest that it wishes to sell to BellSouth. Should BellSouth reject an offer of shares and Qwest's rights lapse, expire or are waived, then KPN Telecom may sell to any bona fide third party provided that the terms of any third party sale (other than to Qwest) shall first be offered to BellSouth.

#### *Consents*

Any rights exercised under the option agreement may be withdrawn or will automatically lapse if any necessary official consents are not obtained within specified time periods.

### **Contractual arrangements relating to KPN's joint venture with Orange**

#### *Consortium agreement*

The agreement, dated February 14, 1998, lays down the rules and conditions upon which KPN Telecom (subsequently replaced by KPN Mobile International B.V.), Orange plc and Orange Overseas Holdings Ltd (subsequently replaced, firstly by Orange Holdings Ltd and thereafter by Orange International Ltd) formed a bidding consortium to win the DCS 1800 license in Belgium. The agreement contains certain principles and procedures relating to the bid phase, pre-award implementation activities and the responsibilities of the consortium members if the DCS 1800 license were not awarded to KPN Mobile. The consortium agreement also contains the rules and procedures that govern the establishment and functioning of KPN Orange.

The agreement provides that the parties will guarantee a total funding of capital up to 18 billion Belgian francs. The agreement lays down certain restrictions on the transfer of shares in the company and contains pre-emptive rights for the existing shareholders with respect to any proposed transfers. The shareholders also have preferential subscription rights, pro rata to their existing shareholdings, with respect to any new issues of shares.

The agreement also stipulates that any intellectual property developed by KPN Orange will be made available to each shareholder and may be used by them on a non-exclusive basis. Any contract or transaction between KPN Orange and either shareholder, or their affiliates, must be conducted at arm's length. In addition, the shareholders have acknowledged the possibility of one or more additional shareholders joining the company, up to an aggregate shareholding of 20.0%.

### ***Management agreement***

#### *Provision of services by Orange*

KPN Mobile also agreed in the consortium agreement that Orange plc would provide certain services to KPN Orange. The services include management and marketing consultancy services and access to Orange material. The management agreement, dated April 16, 1998, sets out the terms and conditions upon which these services will be provided. This agreement remains in force for the duration of the license (including its possible renewals), unless the license is terminated in accordance with the terms of the agreement.

#### *License of the Orange trademark*

KPN Orange has the non-exclusive right to use only in Belgium the trademarks owned and used by Orange and any other signs that are capable of being represented graphically and of distinguishing Orange's goods and services (the "Orange brand") and the Orange logo. KPN Orange has agreed to use these only for the purpose of exploiting its mobile telecommunications license in Belgium.

Orange has agreed not to grant any license with regard to the use of the Orange brand to any other company that is active in mobile telecommunications services in Belgium. KPN Orange has agreed to be registered as a user of the trademarks in Belgium if necessary.

The license took effect on April 16, 1998 and will remain in force for the duration of KPN Orange's license (including its possible renewals) unless terminated in accordance with the terms of the agreement.

The management agreement may be terminated immediately by either party at any time by written notice if any of the following events occur:

- if the other party commits a breach of the terms and conditions of the agreement that is incapable of remedy or, if capable of remedy, has not been remedied within 14 days of receipt of a notice from the other party requiring it to be remedied;
- if the other party commits any act of insolvency;
- KPN Orange ceases for any reason to hold a license in Belgium; or
- if KPN Orange decides not to use the Orange brand.

In the event that KPN Orange ceases to hold a license in Belgium, or to have the right to use the Orange brand in its operations, or if the Orange group of companies ceases to hold at least 10.0% of the voting rights in KPN Orange, KPN Orange will, at the request of Orange, change its name by deleting the word "Orange," on sufficient notice to enable it to minimize expenses directly related to such a change.

### **KPN Mobile's acquisition of additional equity in Telkomsel**

On July 3, 2000 KPN Mobile International B.V., or KPN Mobile International increased its shareholding in Telkomsel, from 17.28% to 22.28% by acquiring an additional indirect interest of 5.0% from Mr. Setiawan Djody through a foreclosure sale.

KPN Mobile and Djody entered into two agreements pursuant to which KPN Mobile International acquired (1) 100% of the share capital of Megacell International B.V., or Megacell, a company organized under the laws of The Netherlands, and (2) 5.0% of the share capital of PT Setdco Megacell Asia, or SMA, a company organized under the laws of the Republic of Indonesia. MI holds the remaining 95.0% of the share capital of SMA and SMA, in turn, holds 5.0% of the share capital of Telkomsel. SMA and MI are holding companies.

The total purchase price for this transaction amounted to approximately \$128 million.

In the case of a listing of Telkomsel, Djody is entitled to 60.0% of the difference between the initial listing price of the 5.0% interest in Telkomsel acquired by KPN Mobile International in this transaction and the total purchase price paid by KPN Mobile International in this transaction.

In case of a private sale by KPN Mobile International of the 5.0% interest in Telkomsel within 36 months following the acquisition date, Djody shall be entitled to 30.0% of the difference between (1) the private sale proceeds and (2) the *pro rata* part of the number of shares in Telkomsel sold in this private sale.

### **Joint venture with Perot Systems Investments B.V.**

On July 27, 2000 we signed a joint venture agreement with Perot Systems Investments B.V., or Perot, pursuant to which we will incorporate a joint venture that will initially focus on the development of software solutions for the telecommunications industry. The strategic goal of this joint venture will be to develop, implement, integrate and maintain front office systems and applications that we and our affiliates use for communication with our customers and to improve the storage of customer data.

We and Perot will each hold a 50.0% interest in the joint venture. Perot will be allowed to consolidate the total revenue of the joint venture for U.S. tax purposes, but we and Perot will each be entitled to 50.0% of the revenues. We will not consolidate any of the revenues of the joint venture.

We intend to enter into a service contract with the joint venture company pursuant to which for at least three years the joint venture will deliver services to us valued at a minimum of \$30 million per year.

## TAXATION

This taxation summary solely addresses the principal Dutch and U.S. tax consequences to investors in connection with the offering of the notes. This summary does not discuss every aspect of taxation that may be relevant to a particular taxpayer under special circumstances or who is subject to special treatment under applicable law and is not intended to be applicable in all respects to all categories of investors. This summary also assumes that KPN is organized and our business will be conducted in the manner outlined in this offering circular. Changes in our organizational structure or the manner in which we conduct our business may invalidate this summary. The laws upon which this paragraph is based are subject to change, perhaps with retroactive effect. A change to such laws may invalidate the contents of this summary, which will not be updated to reflect changes in laws.

### **PROSPECTIVE INVESTORS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THEIR PARTICULAR PERSONAL TAX CONSEQUENCES OF ACQUIRING, OWNING AND DISPOSING OF THE NOTES.**

#### **CERTAIN DUTCH TAX CONSEQUENCES FOR HOLDERS OF NOTES**

This summary describes the principal Dutch tax consequences that will generally apply to a holder of notes under Dutch tax laws in effect as of the date of this offering circular. We have not addressed every potential tax consequence of an investment in notes under the laws of The Netherlands.

##### **Dutch taxation of resident holders of notes**

The summary of certain Dutch taxes set out in this section “Dutch taxation of resident holders of notes” is only intended for the following investors:

- (i) individuals who are resident or deemed to be resident in The Netherlands for purposes of Dutch taxation and who invest in notes, excluding individuals who are so resident or deemed to be resident in The Netherlands and who invest in notes that form part of a substantial interest in us and excluding individuals who are our employees or are deemed to be our employees or employees of any entity related to us (the “Dutch Individuals”); and
- (ii) corporate entities (including associations which are taxable as corporate entities) that are resident or deemed to be resident in The Netherlands for purposes of Dutch taxation and who invest in notes, excluding (a) corporate entities that are not subject to Dutch corporate income tax, (b) pension funds (*pensioenfondsen*) and other entities that are exempt from Dutch corporate income tax and (c) investment institutions (*beleggingsinstellingen*) as defined in the Dutch Corporate Income Tax Act 1969 (the “Dutch Corporate Entities”).

Generally, a holder of notes will not have a substantial interest if he, his spouse, certain other relatives (including foster children) or certain persons sharing his household, do not hold, alone or together, whether directly or indirectly, the ownership of, or certain other rights over, shares representing 5% or more of our total issued and outstanding capital (or the issued and outstanding capital of any class of shares), or rights to acquire shares, whether or not already issued, that represent at any time 5% or more of our total issued and outstanding capital (or the issued and outstanding capital of any class of shares) or the ownership of certain profit participating certificates that relate to 5% or more of our annual profit and/or to 5% or more of our liquidation proceeds. A deemed substantial interest is present if (part of) a substantial interest has been disposed of, or is deemed to have been disposed of, on a non-recognition basis, unless, in the case of an actual disposal, the consideration received forms part of a substantial interest.

### ***Individual and corporate income tax***

#### ***Dutch Individuals not engaged or deemed to be engaged in an enterprise***

As a general rule, a Dutch Individual who holds notes that are not attributable to an enterprise carried on by him or in which he has an interest (a “Dutch Private Individual”) is subject to income tax at progressive rates on income derived or deemed to be derived from notes.

Capital gains realized on the disposal of notes by a Dutch Private Individual are generally exempt from Dutch income tax on the understanding that the accrued portion of the running coupon attaching thereto will be classified as income derived from such notes.

#### ***Dutch Individuals engaged or deemed to be engaged in an enterprise and Dutch Corporate Entities***

Any benefits derived or deemed to be derived from notes (including any capital gains realized on the disposal thereof) that are attributable to an enterprise carried on by a Dutch Individual or to an enterprise in which he has an interest, are generally subject to income tax in his hands. Any benefits derived or deemed to be derived from notes (including any capital gains realized on the disposal thereof) that are held by a Dutch Corporate Entity are generally subject to corporate income tax in its hands.

### ***Withholding tax***

All payments of principal and interest under the notes may be made free of any Dutch withholding tax.

### ***Gift and inheritance taxes***

A liability to gift tax will arise in The Netherlands with respect to an acquisition of notes by way of a gift by a donor who is resident, or deemed to be resident, in The Netherlands. A liability to inheritance tax will arise in The Netherlands with respect to an acquisition or deemed acquisition of notes on the death of an individual, who is resident or deemed to be resident, in The Netherlands.

For purposes of Dutch gift and inheritance taxes, an individual who holds the Dutch nationality will be deemed to be resident in The Netherlands if he has been resident in The Netherlands at any time during the ten years preceding the date of the gift or his death. For purposes of Dutch gift tax, an individual not holding the Dutch nationality will be deemed to be resident in The Netherlands if he has been resident in The Netherlands at any time during the twelve months preceding the date of the gift.

### ***Dutch taxation of non-resident holders of notes***

This section “Dutch taxation of non-resident holders of notes” describes certain Dutch tax consequences for a holder of notes who is neither resident, nor deemed to be resident, in The Netherlands for purposes of Dutch taxation (a “Non-Resident Holder of notes”).

### ***Withholding tax***

All payments of principal and interest under the notes may be made free of any Dutch withholding tax.

### ***Taxes on income and capital gains***

A Non-Resident Holder of notes will not be subject to any Dutch taxes on income or capital gains in respect of:

- payment of any principal or interest under the notes;

- any gain realized on the disposal of notes,

unless:

- such Non-Resident Holder of notes has a substantial interest or a deemed substantial interest in us that does not form part of the assets of an enterprise; or
- such Non-Resident Holder of notes has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of an enterprise, as the case may be, the notes are attributable.

Reference is made to the section “Dutch taxation of holders of notes” for a description of the concepts “substantial interest” and “deemed substantial interest.”

### ***Gift and inheritance taxes***

No liability to gift or inheritance taxes will arise in The Netherlands with respect to an acquisition of notes by way of a gift by, or on the death of, a Non-Resident Holder of notes, unless:

- such Non-Resident Holder of notes at the time of the gift has or at the time of his death had an enterprise or an interest in an enterprise that is or was, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands to which the notes are or were attributable; or
- in the case of a gift of notes by an individual who at the time of the gift was a Non-Resident Holder of notes, such individual dies within 180 days after the date of the gift, while (at the time of his death) being resident or deemed to be resident in The Netherlands.

For purposes of Dutch gift and inheritance tax, an individual who holds the Dutch nationality will be deemed to be resident in The Netherlands if he has been resident in The Netherlands at any time during the ten years preceding the date of the gift or his death. For purposes of Dutch gift tax, an individual not holding Dutch nationality will be deemed to be resident in The Netherlands if he has been resident in The Netherlands at any time during the twelve months preceding the date of the gift.

### **Capital tax**

No Dutch capital tax will be payable in respect of or in connection with the execution (*rondertekening*), delivery (*overhandiging*) and/or enforcement by legal proceedings (including the enforcement of any foreign judgement in the Courts of the Netherlands) of the agreements relating to the issue of the notes or the performance by us of our obligations thereunder or under the notes.

### **Other taxes and duties**

No Dutch registration tax, transfer tax, stamp duty or any other similar documentary tax or duty will be payable in The Netherlands in respect of or in connection with

- the subscription, issue, placement, allotment or delivery of the notes;
- the execution (*ondertekening*), delivery (*overhandiging*) and/or enforcement by legal proceedings (including the enforcement of any foreign judgement in the Courts of The Netherlands) of the agreements relating to the issue of the Notes or the performance by us of our obligations thereunder.

## Dutch Tax Reform 2001

Recently, the Individual Income Tax Act 2001 (*Wet inkomstenbelasting 2001*) was enacted (Act of May 11, 2000, *Staatsblad* 215), to replace the Individual Income Tax Act 1964 (*Wet op de inkomstenbelasting 1964*). In a separate Act, certain transitional provisions were enacted and a number of changes were made to other tax acts (*Invoeringswet Wet inkomstenbelasting 2001*, Act of May 11, 2000, *Staatsblad* 216). The new legislation will become effective as of January 1, 2001. Amendments may still be made before that date, through supplemental Acts. In this section “Dutch Tax Reform 2001” it is assumed that no such amendments will be made. The new legislation will substantially change the taxation of investment income for Dutch Private Individuals. In this section “Dutch Tax Reform 2001,” we have summarized some important changes in Dutch Tax Law applicable as of January 1, 2001. **This discussion does not deal with all aspects of this new legislation. Prospective investors should consult their own tax advisors for more information about how this tax reform will affect them.**

### *Net wealth tax*

The net wealth tax is abolished as of the end of 2000.

### *Income tax*

Under the new legislation, the taxable benefit from a Dutch Private Individual’s savings and investments (*voordeel uit sparen en beleggen*) is set annually at 4% of the average of the so-called “yield basis” (*rendementsgrondslag*) at the beginning and at the end of a year, insofar as the average exceeds the “exempt net asset amount” (*heffingvrij vermogen*). Such taxable benefit is reduced by the portion of the personal allowance of a Dutch Private Individual that has not been taken into account in respect of certain other types of income. As so reduced, the benefit shall be taxed at the rate of 30%.

### *Withholding tax*

Also under the new legislation all payments of principal and interest under the Notes may be made free of any Dutch withholding tax.

## U.S. FEDERAL INCOME TAX

The following is a general summary of the principal U.S. federal income tax consequences that may be relevant with respect to the ownership of the notes. This summary addresses only the U.S. federal income tax considerations of holders that acquire the notes at their original issuance and that will hold the notes as capital assets.

This summary does not purport to address all U.S. federal income tax matters that may be relevant to a particular holder of notes (a “Noteholder”). This summary does not address tax considerations applicable to Noteholders that may be subject to special tax rules including, without limitation, the following: (i) financial institutions; (ii) insurance companies; (iii) dealers or traders in securities or currencies; (iv) tax-exempt entities; (v) persons that will hold the notes as part of a “hedging” or “conversion” transaction or as a position in a “straddle” for U.S. federal income tax purposes; (vi) persons that own (or are deemed to own) 10 per cent. or more of the voting shares of KPN; and (vii) persons that have a “functional currency” other than the U.S. dollar. Further, this summary does not address alternative minimum tax consequences or the indirect effects on the holders of equity interests in a Noteholder.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended, U.S. Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and

available on the date of this offering circular. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.

Prospective investors should consult their own tax advisers with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning or disposing of the notes.

For the purposes of this summary, a “U.S. Holder” is a beneficial owner of notes that is, for U.S. federal income tax purposes: (i) a citizen or resident of the United States; (ii) a partnership or corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia); (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if (x) a court within the United States is able to exercise primary supervision over its administration and (y) one or more U.S. persons have the authority to control all of the substantial decisions of such trust. A “Non-U.S. Holder” is a beneficial owner of notes that is not a U.S. Holder.

### *Payments of Interest*

Interest on a note will be taxable to a U.S. Holder as ordinary interest income at the time it is received or accrued, depending on the U.S. Holder’s method of accounting for U.S. federal income tax purposes.

Payments of interest in euros will be includible under the following rules:

In the case of a U.S. Holder utilizing the cash method of accounting for U.S. federal income tax purposes, the amount of interest income in respect of any interest payment will be determined by translating such payment into U.S. dollars at the spot exchange rate in effect on the date such interest payment is received, regardless of whether the payment is in fact converted into U.S. dollars. No exchange gain or loss will be realized with respect to the receipt of such interest payment, other than exchange gain or loss that is attributable to the actual disposition of the euro received.

In the case of a U.S. Holder utilizing the accrual method of accounting for U.S. federal income tax purposes, the amount of any interest income accrued during any period will generally be determined by translating the accruals into U.S. dollars at the average spot exchange rate applicable to the accrual period. A U.S. Holder will additionally realize exchange gain or loss with respect to any interest income accrued on the date such interest income is received (or on the date the note is disposed of) in an amount equal to the difference between (x) the amount determined by converting the amount of the payment received and (y) the amount of interest income accrued in respect of such payment according to the rule set forth in the prior sentence. Notwithstanding the prior two sentences, a U.S. Holder that is required to accrue interest income prior to receipt thereof may alternatively make an election to apply a “spot accrual convention” that effectively allows the U.S. Holder to translate accrued interest in U.S. dollars at a single spot exchange rate. Under this second accrual method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year. If the last day of the accrual period is within five business day of the date the interest payment is actually received, an electing accrual basis U.S. Holder may instead translate that interest expense at the exchange rate in effect on the day of actual receipt. Any election to use the second accrual method will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder and will be irrevocable without the consent of the U.S. Internal Revenue Service.

Euro received as interest on the notes will have a tax basis equal to its U.S. Holder on a sale or other disposition of that foreign currency will be ordinary income or loss and will generally be income from sources within the United States for foreign tax credit limitation purposes.

We will be required to pay additional cash interest on the notes if it fails to comply with certain obligations under the registration rights agreement (“Special Interest”). We believe that the possible payment of Special Interest should not cause the notes to be treated as having been issued with original issue discount for U.S. federal income tax purposes and that any Special Interest received on the notes should be includible in the gross income of a U.S. Holder as ordinary income at the time it is received or accrued, in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes, under the above rules. It is possible, however, that the U.S. Internal Revenue Service may take a different position, in which case the timing and amount of such income may be different. Prospective purchasers of the notes should consult their own tax advisor regarding the possibility payment of Special Interest and the tax consequences thereof.

Interest income on the notes will be treated as foreign source income for U.S. federal income tax purposes, which may be relevant in calculating a U.S. Holder’s foreign tax credit limitation for U.S. federal income tax purposes. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific classes of income. For this purpose, the interest on the notes should generally constitute “passive income”, or in the case of certain U.S. Holders, “financial services income.”

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on interest received on the notes unless that income is effectively connected with the conduct by that Non-U.S. Holder of a trade or business in the United States.

#### *De Minimis Original Issue Discount*

Although the Notes will be issued at a discount, because such discount constitutes a “de minimis amount” as determined under U.S. Treasury Regulations, the Notes will not be considered as issued with original issue discount (“OID”). However, subject to the election to treat all interest as OID (described below), a U.S. Holder generally must include the amount of such discount (“de minimis OID”) in income as stated principal payments on the Note are made. The includible amount with respect to each such payment will equal the product of the total amount of the Note’s de minimis OID and a fraction, the numerator of which is the amount of the principal payment made and the denominator of which is the stated principal amount of the Note. Any amount of de minimis OID includible in income (including any amount of gain on the sale or exchange of a Note that is attributable to de minimis OID) is treated as capital gain.

A U.S. Holder can make an election to treat all interest, including the de minimis OID, as OID for U.S. federal income tax purposes. In general, such election would result in a U.S. Holder recognizing interest income (including de minimis OID) on a Note under a constant yield method as determined under U.S. Treasury Regulations. This election will generally apply only to the Note with respect to which it is made and may not be revoked without the consent of the U.S. Internal Revenue Service. **Prospective investors should consult their own tax advisers as to the tax consequences of owning a Note with de minimis OID, including the availability and consequences of making an election to treat all interest on a Note as OID.**

#### *Sale, Exchange and Retirement of Notes*

Upon the sale, exchange or retirement of a note, a U.S. Holder will recognize gain or loss equal to the difference between the U.S. dollar value of the amount realized upon the sale, exchange or retirement (less any accrued interest which will be taxable as such) and the U.S. Holder’s adjusted tax basis in the note. A U.S. Holder’s tax basis in a note generally will be the U.S. Holder’s cost therefor. Gain or loss realized by a U.S. Holder on the sale, exchange or retirement of a note will be capital gain or loss and will generally be treated as U.S. source gain or loss. Prospective investors should consult their own tax advisors with respect to the treatment of capital gains (which may be taxed at

lower rates than ordinary income for taxpayers who are individuals, trusts or estates) and capital losses (the deductibility of which is subject to limitations).

If a U.S. Holder receives foreign currency upon a sale or exchange of notes, gain or loss, if any, recognized on the subsequent sale, conversion or disposition of such foreign currency will be ordinary income or loss, and will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. However, if such foreign currency is converted into U.S. dollars on the date received by the U.S. Holder, the U.S. Holder generally should not be required to recognize any gain or loss on such conversion.

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale, exchange, or retirement of a note unless: (i) that gain is effectively connected with the conduct by that Non-U.S. Holder of a trade or business in the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, that holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met.

### ***Backup Withholding and Information Reporting***

Backup withholding and information reporting requirements may apply to certain payments on the notes and proceeds of the sale or redemption of the notes to U.S. Holders made within the United States. KPN, its agent, a broker, or any paying agent, as the case may be, may be required to withhold tax from any payment that is subject to backup withholding at a rate of 31% of such payment if the U.S. Holder fails to furnish the U.S. Holder's taxpayer identification number, to certify that such U.S. Holder is not subject to backup withholding, or to otherwise comply with the applicable requirements of the backup withholding rules. Certain U.S. Holders (including, among others, corporations) are not subject to the backup withholding and information reporting requirements. Non-U.S. Holders who receive payments within the U.S. or from certain U.S.-related payors may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of such information reporting requirements and backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a U.S. Holder generally may be claimed as a credit against such U.S. Holder's U.S. federal income tax liability provided that the required information is furnished to the U.S. Internal Revenue Service. Treasury Regulations, generally effective for payments made after December 31, 2000, modify certain of the certification requirements for backup withholding. It is possible that KPN and/or other withholding agents may request a new withholding certificate from Noteholders in order for the Noteholders to qualify for continued exemption from backup withholding under these Treasury Regulations when they become effective. Noteholders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

## PLAN OF DISTRIBUTION

We have entered into a purchase agreement, dated as of September 27, with respect to the notes. Subject to certain conditions, each initial purchaser has severally agreed to purchase the principal amount of notes indicated in the following table.

<b>Dollar Notes</b>			
<b>Initial Purchasers</b>	<b>Principal Amount of Dollar Notes due 2030</b>	<b>Principal Amount of Dollar Notes due 2010</b>	<b>Principal Amount of Dollar Notes due 2005</b>
Morgan Stanley & Co. Incorporated . . . . .	\$ 425,000,000	\$ 743,750,000	\$318,750,000
UBS Warburg LLC . . . . .	425,000,000	743,750,000	318,750,000
Banc of America Securities LLC . . . . .	30,000,000	52,500,000	22,500,000
Chase Manhattan International Limited . . . . .	30,000,000	52,500,000	22,500,000
Deutsche Bank Securities Inc. . . . .	30,000,000	52,500,000	22,500,000
Bank Brussel Lambert N.V. . . . .	30,000,000	52,500,000	22,500,000
Nomura International plc . . . . .	30,000,000	52,500,000	22,500,000
<b>Total . . . . .</b>	<b><u>\$1,000,000,000</u></b>	<b><u>\$1,750,000,000</u></b>	<b><u>\$750,000,000</u></b>

<b>Initial Purchasers</b>		<b>Principal Amount of Euro Notes due 2005</b>
Morgan Stanley & Co. International Limited . . . . .		€425,000,000
UBS AG, acting through its business group UBS Warburg . . . . .		425,000,000
Bank of America International Limited . . . . .		30,000,000
Chase Manhattan International Limited . . . . .		30,000,000
Deutsche Bank AG London . . . . .		30,000,000
Bank Brussel Lambert N.V. . . . .		30,000,000
Nomura International plc . . . . .		30,000,000
<b>Total . . . . .</b>		<b><u>€1,000,000,000</u></b>

The notes have not been and will not be registered under the Securities Act for offer or sale as part of their distribution and may not be offered or sold within the United States or to, or for the account of benefit of, U.S. persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act.

Each initial purchaser has agreed that it will only offer or sell the notes in the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act. Any offer or sale of notes in reliance on Rule 144A will be made by broker-dealers who are registered as such under the Securities Exchange Act of 1934. We have been advised by the initial purchasers that the initial purchasers, through certain selling agents, propose to resell notes outside the United States in offshore transactions in reliance on Regulation S under the Securities Act and in accordance with applicable law. The note offering price and underwriting discount are the same for the notes sold pursuant to Rule 144A and Regulation S. Terms used above have the meanings given to them by Regulation S and Rule 144A under the Securities Act.

Each initial purchaser has acknowledged and agreed that, except as permitted by the purchase agreement, it will not offer, sell or deliver the notes within the United States or to, or for the account or benefit of, U.S. persons (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering or the original issue date of the notes unless in accordance with Rule 903 of Regulation S or Rule 144A. The initial purchasers will send to each dealer

to which it sells notes during the 40-day period a confirmation or other notice setting forth the restrictions on offers and sales of the notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until the expiration of the 40-day period referred to above, an offer or sale of notes within the United States by a dealer whether or not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The notes are new issues of securities with no established trading market. We have been advised by the initial purchasers that the initial purchasers intend to make a market in the notes but they are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the notes.

In connection with the offering, the initial purchasers may purchase and sell notes in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the purchasers of a greater aggregate principal amount of notes than they are required to purchase in the offering. Stabilizing transactions consists of bids or purchases made of the purpose of preventing or retarding a decline in the market prices of notes while the offering is in progress.

The initial purchasers also may impose a penalty bid. This occurs when a particular initial purchaser repays to the other initial purchasers a portion of the underwriting discount received by it because the initial purchasers have repurchased notes sold by or for the account of this initial purchaser in stabilizing or short covering transactions.

These activities by the initial purchasers may stabilize, maintain or otherwise affect the market prices of notes. As a result, the prices of notes may be higher than the prices that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the initial purchasers at any time. These transactions may be effected on Euronext Amsterdam N.V. in the over-the-counter market or otherwise.

In the ordinary course of their respective businesses Morgan Stanley & Co. Incorporated, Morgan Stanley & Co. International Limited, UBS Warburg LLC and UBS AG, acting through its business group UBS Warburg and their affiliates have engaged and may in the future engage in various banking and financial services for and commercial transactions with us and our affiliates. The proceeds from this offering will be used substantially to repay indebtedness under credit facilities entered into with UBS AG and Morgan Stanley Senior Funding, Inc. See "Use of Proceeds" and "Material Contracts."

We have agreed to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act.

Application has been made to list the notes on Euronext Amsterdam N.V.

Each initial purchaser has agreed that, (i) it has not offered or sold notes and will not offer or sell any notes to persons in the United Kingdom prior to admission of the notes to listing in accordance with Part IV of the Financial Services Act 1986 except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the Financial Services Act 1986; (ii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect of anything done by it in relation to the notes in, from or otherwise involving the United Kingdom; and (iii) it has only issued or passed on, and will only issue or pass on, in the United Kingdom any document received by it in connection with the issue of the notes, other than any document which consists of listing particulars or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be

published by listing rules under Part IV of the Financial Services Act 1986, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1986 (as amended) or is a person to whom the document may otherwise lawfully be issued or passed on.

## CLEARANCE AND SETTLEMENT

### General

The dollar notes will be held through the book-entry systems operated by DTC and its participants, including Euroclear and Clearstream, Luxembourg. The euro notes will be held through the book-entry systems operated by Euroclear and Clearstream, Luxembourg. These systems have established electronic securities and payment transfer, processing, depositary and custodial links among themselves and others, either directly or through custodians and depositaries. These links allow notes to be issued, held and transferred among the clearing systems without the physical transfer of certificates.

Special procedures to facilitate clearance and settlement have been established among these clearing systems to trade notes across borders in the secondary market. Where payments for registered notes in global form will be made in U.S. dollars, these procedures can be used for cross-market transfers and the notes will be cleared and settled on a delivery against payment basis.

Cross-market transfers of notes that are not in global form may be cleared and settled in accordance with other procedures that may be established among the clearing systems for these notes. Investors in notes that are issued outside of the United States, its territories and possessions must initially hold their interests through Euroclear or Clearstream, Luxembourg.

The policies of DTC, Euroclear and Clearstream, Luxembourg will govern payments, transfers, exchange and other matters relating to the investor's interest in notes held by them.

We have no responsibility for any aspect of the actions of DTC, Euroclear and Clearstream, Luxembourg or any of their direct or indirect participants. We have no responsibility for any aspect of the records kept by DTC, Euroclear and Clearstream, Luxembourg or any of their direct or indirect participants. We also do not supervise these systems in any way.

DTC, Euroclear, Clearstream, Luxembourg and their participants perform these clearance and settlement functions under agreements they have made with one another or with their customers. You should be aware that they are not obligated to perform these procedures and may modify them or discontinue them at any time.

The description of the clearing systems in this section reflects our understanding of the rules and procedures of DTC, Euroclear and Clearstream, Luxembourg as they are currently in effect. These systems could change their rules and procedures at any time.

As used in this section, any reference to notes also refers to book-entry interests issued in respect of the notes.

### The clearing systems

#### *DTC*

DTC has advised us as follows:

- DTC is:
  - a limited purpose trust company organized under the laws of the State of New York;
  - a member of the Federal Reserve System;
  - a “clearing corporation” within the meaning of the Uniform Commercial Code; and
  - a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934.
- DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes to accounts of its participants. This eliminates the need for physical movement of certificates.

- Participants in DTC include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. DTC is partially owned by some of these participants or their representatives.
- Indirect access to the DTC system is also available to banks, brokers, dealers and trust companies that have relationships with participants.
- The rules applicable to DTC and DTC participants are on file with the SEC.

#### ***Clearstream, Luxembourg***

Clearstream, Luxembourg has advised us as follows:

- Clearstream, Luxembourg is incorporated under the laws of Luxembourg as a professional depository.
- Clearstream, Luxembourg holds securities for its participants and facilitates the clearance and settlement of securities transactions among them. It does so through electronic book-entry changes to the accounts of its participants. This eliminates the need for physical movement of certificates.
- Clearstream, Luxembourg provides other services to its participants, including lending and borrowing of securities. It interfaces with the domestic markets in several countries.
- Clearstream, Luxembourg participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations.
- Indirect access to the Clearstream, Luxembourg system is also available to others that clear through Clearstream, Luxembourg participants or that have relationships with Clearstream, Luxembourg participants.
- As a professional depository, Clearstream, Luxembourg is subject to regulation by the Luxembourg Monetary Institute.

#### ***Euroclear***

Euroclear has advised us as follows:

- Euroclear is operated by the Brussels office of Morgan Guaranty Trust Company of New York, which is known as the Euroclear Operator. The Euroclear Operator is under contract with Euroclear Clearance Systems, S.C., which is a Belgian cooperative corporation.
- Euroclear holds securities for its participants and facilitates the clearance and settlement of securities transactions among them. It does so through electronic book-entry changes to the accounts of its participants. This eliminates the need for physical movement of certificates.
- Euroclear provides other services to its participants, including lending and borrowing of securities. It interfaces with the domestic markets of several other countries.
- Euroclear participants include banks, including central banks, securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations.
- Indirect access to the Euroclear system is also available to others that clear through Euroclear participants or that have relationships with Euroclear participants.
- All securities in Euroclear are held on a fungible basis. This means that specific certificates are not matched to specific securities.
- The Euroclear operator is the Belgian branch of a New York banking corporation, which is a member bank of the Federal Reserve System. As a member of this system, it is regulated and examined by the Board of Governors of the Federal Reserve System and the New York State Banking Department. It is also regulated by the Belgian Bank Commission.

## Primary distribution

The distribution of notes will be cleared through one or more of the clearing systems that we have described above. Payment for notes will be made on a delivery versus payment or free delivery basis. Customary clearance and settlement procedures are described below.

### *Dollar notes*

Purchasers of the dollar notes pursuant to Rule 144A will hold their beneficial interests under the 144A global securities, and ownership of such interests will be shown on and the transfer of such interests will be effected only through, records maintained by DTC and its participants (with respect to interests of indirect participants, including Euroclear or Clearstream, Luxembourg). Purchasers of the dollar notes pursuant to Regulation S will hold their beneficial interests under the Regulation S global securities and ownership of such interests will be shown on, and the transfer of such interests will be effected only through, records maintained by DTC and its participants (with respect to the interests of indirect participants, including Euroclear or Clearstream, Luxembourg).

Initially, investors may hold their book-entry securities in the Regulation S global securities only through Euroclear or Clearstream, Luxembourg as participants in DTC, either directly, if such investors are account holders in Euroclear or Clearstream, Luxembourg, or indirectly, through organizations which are account holders in Euroclear or Clearstream, Luxembourg. After the expiration of the restricted period described above under “Description of the Notes—Transfers and transfer restrictions” but not earlier, investors may also hold such interests through organizations other than Euroclear and Clearstream, Luxembourg that are participants in DTC. Euroclear and Clearstream, Luxembourg will hold such interests on behalf of their account holders through securities accounts in their respective names on the books of their respective depositories, which, in turn, will hold such interests in securities accounts in the depositories’ names on the books of DTC.

With respect to the dollar notes the relevant codes are:

	Regulation S			Rule 144A		
	30 year Notes	10 year Notes	5 year Notes	30 year Notes	10 year Notes	5 year Notes
Common Code	11862098	11862071	11862047	11867111	11867197	11867260
ISIN	USN7637QAC70	USN7637QAB97	USN7637QAA15	US780641AC08	US780641AB25	US780641AA42
CUSIP	N7637QAC7	N7637QAB9	N7637QAA1	780641AC0	780641AB2	780641AA4

### *Euro notes*

Purchasers of the euro notes pursuant to Rule 144A will hold their beneficial interests under the 144A global securities, and ownership of such interests will be shown on and the transfer of such interests will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg. Purchasers of the euro notes pursuant to Regulation S will hold their beneficial interests under the Regulation S global securities and ownership of such interests will be shown on, and the transfer of such interests will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg.

With respect to the euro notes the relevant codes are:

	Regulation S Notes	Rule 144A Notes
Common Code	011861016	011861059
ISIN	XS0118610160	XS0118610590
ISMA	340713	340944

### **Clearance and settlement procedures—DTC**

DTC participants that hold notes through DTC on behalf of investors will follow the settlement practices applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement System.

Notes will be credited to the securities custody accounts of these DTC participants against payment in the same-day funds, for payments in U.S. dollars, on the settlement date. For payments in a currency other than U.S. dollars, notes will be credited free of payment on the settlement date.

### **Clearance and settlement procedures—Euroclear and Clearstream, Luxembourg**

We understand that investors that hold their notes through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures that are applicable to conventional eurobonds in registered form.

Notes will be credited to the securities custody accounts of Euroclear and Clearstream, Luxembourg participants on the business day following the settlement date, for value on the settlement date. They will be credited either free of payment or against payment for value on the settlement date.

### **Secondary market trading**

#### ***Trading between DTC participants***

We understand that secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC's rules. Secondary market trading will be settled using procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement System.

If payment is made in U.S. dollars, settlement will be in same-day funds. If payment is made in a currency other than U.S. dollars, settlement will be free of payment. If payment is made other than in U.S. dollars, separate payment arrangements outside of the DTC system must be made between the DTC participants involved.

#### ***Trading between Euroclear and/or Clearstream, Luxembourg participants***

We understand that secondary market trading between Euroclear and/or Clearstream, Luxembourg participants will occur in the ordinary way following the applicable rules and operating procedures of Euroclear and Clearstream, Luxembourg. Secondary market trading will be settled using procedures applicable to conventional eurobonds in registered form.

#### ***Trading between a DTC seller and a Euroclear or Clearstream, Luxembourg purchaser***

A purchaser of notes that are held in the account of a DTC participant must send instructions to Euroclear or Clearstream, Luxembourg at least one business day prior to settlement. The instructions will provide for the transfer of the notes from the selling DTC participant's account to the account of the purchasing Euroclear or Clearstream, Luxembourg participant. Euroclear or Clearstream, Luxembourg, as the case may be, will then instruct the common depositary for Euroclear and Clearstream, Luxembourg to receive the notes either against payment or free of payment.

The interests in the notes will be credited to the respective clearing system. The clearing system will then credit the account of the participant, following its usual procedures. Credit for the notes will appear on the next day, European time. Cash debit will be back-valued to, and the interest on the notes will accrue from, the value date, which would be the preceding day, when settlement occurs in New York. If the trade fails and settlement is not completed on the intended date, the Euroclear or Clearstream, Luxembourg cash debit will be valued as of the actual settlement date instead.

Euroclear participants or Clearstream, Luxembourg participants will need the funds necessary to process same-day funds settlement. The most direct means of doing this is to preposition funds for settlement, either from cash or from existing lines of credit, as for any settlement occurring within

Euroclear or Clearstream, Luxembourg. Under this approach, participants may take on credit exposure to Euroclear or Clearstream, Luxembourg until the notes are credited to their accounts one business day later.

As an alternative, if Euroclear or Clearstream, Luxembourg has extended a line of credit to them, participants can choose not to preposition funds and will allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear participants or Clearstream, Luxembourg participants purchasing notes would incur overdraft charges for one business day (assuming they cleared the overdraft as soon as the securities were credited to their accounts). However, interest on the notes would accrue from the value date. Therefore, in many cases, the investment income on notes that is earned during that one business day period may substantially reduce or offset the amount of the overdraft charges. This result will, however, depend on each participant's particular cost of funds.

Because the settlement will take place during New York business hours, DTC participants will use their usual procedures to deliver notes to the depositary on behalf of Euroclear participants or Clearstream, Luxembourg participants. The sale proceeds will be available to the DTC seller on the settlement date. For the DTC participants, then, a cross-market transaction will settle no differently than a trade between two DTC participants.

### **Special timing considerations**

You should be aware that investors will only be able to make and receive deliveries, payments and other communications involving notes through Euroclear and Clearstream, Luxembourg on days when those systems are open for business. Those systems may not be open for business on days when banks, brokers and other institutions are open for business in the United States.

In addition, because of time-zone differences, there may be problems with completing transactions involving Euroclear and Clearstream, Luxembourg on the same business day as in the United States. U.S. investors who wish to transfer their interests in the notes, or to receive or make a payment or delivery of notes, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg or Brussels, depending on whether Euroclear or Clearstream, Luxembourg is used.

## TRANSFER RESTRICTIONS

*The following restrictions will apply to the notes. Prospective purchasers of the notes are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the notes offered hereby.*

The notes have not been registered under the Securities Act and may not, except as provided below, be offered or sold in the United States, or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), except that the notes may be offered or sold by the initial purchasers, through their registered broker-dealer affiliates in the United States, only to “qualified institutional buyers” (as defined in Rule 144A) in accordance with the exemption from the registration requirements of the Securities Act provided by Rule 144A, and to non-U.S. persons in offshore transactions in accordance with Regulation S.

Each purchaser of notes offered and sold in the United States pursuant to Rule 144A will, by its purchase of such notes, be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

- (1) it is (a) a qualified institutional buyer as defined in Rule 144A, (b) aware that the sale of such notes to it is being made in reliance on Rule 144A, and (c) acquiring such notes for its own account or for the account of a qualified institutional buyer;
- (2) it understands that the notes have not been registered under the Securities Act and may not be transferred or sold in the United States except as permitted below; and
- (3) it agrees that if it decides to offer, sell or otherwise transfer such notes, it will do so only in compliance with the Securities Act and all applicable securities laws of the States of the United States and other jurisdictions and only (a) to KPN or one of its affiliates, (b) outside the United States to a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (c) in accordance with Rule 144A to a person whom the seller and any person acting on behalf of the seller reasonably believe is a qualified institutional buyer within the meaning of Rule 144A purchasing for its own account or for the account of a qualified institutional buyer, and to whom notice is given that such offer, sale or transfer is being made in reliance on Rule 144A, (d) pursuant to a registration statement which has been declared effective under the Securities Act or (e) if available, pursuant to the exemption from registration under the Securities Act provided by Rule 144 thereunder, in each case in accordance with any applicable securities laws of any state of the United States and subject, in the case of clause (e), to the receipt by KPN of an opinion of counsel or such other evidence which it may reasonably require that such sale or transfer is in compliance with the Securities Act.

The notes offered hereby will constitute “restricted securities” within the meaning of Rule 144(a)(3) of the Securities Act, and any sale pursuant to Rule 144 will be subject to the requirements of that rule, including its holding period requirements. No representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for the resale of the notes.

The notes will bear a legend to the following effect unless KPN determines otherwise, consistent with applicable law:

**THIS NOTE WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO KONINKLIJKE KPN N.V. OR ONE OF ITS AFFILIATES, (B) OUTSIDE THE UNITED STATES TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S, (C) IN ACCORDANCE**

**WITH RULE 144A TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON BEHALF OF THE SELLER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, AND TO WHOM NOTICE IS GIVEN THAT SUCH OFFER, SALE OR TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, OR (E) IF AVAILABLE, PURSUANT TO THE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, AND SUBJECT, IN THE CASE OF CLAUSE (E), TO THE RECEIPT BY KONINKLIJKE KPN N.V. OF AN OPINION OF COUNSEL OR SUCH OTHER EVIDENCE WHICH IT MAY REASONABLY REQUIRE THAT SUCH SALE OR TRANSFER IS IN COMPLIANCE WITH THE SECURITIES ACT.**

Each purchaser of notes, by such purchase, will also be deemed to acknowledge that KPN, the initial purchaser and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agree that if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of notes are no longer accurate, it shall promptly notify KPN and the initial purchaser. If it is acquiring any notes as a fiduciary or agent for one of more investor accounts, it represents that it has sole investment discretion with respect to each such account, and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Each initial purchaser represents that it has offered the notes and agrees that it will offer and sell the notes, (1) as part of its distribution at any time and (2) otherwise until 40 days after the later of the commencement of this offering and the closing date of this offering only in accordance with Rule 903 of Regulation S or Rule 144A. Neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the notes or in any form of general solicitation or general advertising (as those terms are used in Rule 502(c) under the Securities Act), and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Resales of notes are restricted as described under “Description of the Notes—Transfers and transfer restrictions.”

In addition, until 40 days after the date of delivery of the notes, an offer or sale of the notes within the United States by any dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

## **LEGAL MATTERS**

Allen & Overy, London, England, Amsterdam, The Netherlands and New York, United States, has advised us on various U.S. securities law, U.S. Federal taxation and Dutch law matters in connection with this offering. Various legal matters relating to Dutch tax law will be passed upon for us by Loyens & Loeff, Rotterdam, The Netherlands. Shearman & Sterling, London, England, has passed upon various U.S. securities laws matters regarding this offering for the initial purchasers. Various legal matters relating to Dutch law will be passed upon for the initial purchasers by Clifford Chance Limited Liability Partnership, Amsterdam, The Netherlands.

## **INDEPENDENT ACCOUNTANTS**

The consolidated financial statements of KPN as of December 31, 1999, 1998 and 1997 and for each of the three years in the period ended December 31, 1999 included in this offering circular have been audited by PricewaterhouseCoopers N.V., independent accountants, as stated in their report appearing herein.

The consolidated financial statements of E-Plus as of December 31, 1999, 1998 and 1997 and for each of the three years in the period ended December 31, 1999 included in this offering circular have been audited by PwC Deutsche Revision, independent accountants, as stated in their report appearing herein.

## WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and file periodic reports and other information with the Exchange Commission. We have filed and will continue to file our annual reports on Form 20-F and our interim reports on Form 6-K. All our subsequent annual reports filed on Form 20-F, pursuant to the Exchange Act, prior to the termination of the offering, will be deemed to be incorporated by reference into this offering circular. You may read all or any portion of that information without charge at, and obtain copies thereof at prescribed rates from, the public reference facilities of the Commission's principal office at 450 Fifth Street, N.W., Washington, D.C. 20549, U.S.A. and at the Commission's regional offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661, U.S.A. and 7 World Trade Center, Suite 1300, New York, New York 10048, U.S.A. The public may obtain information on the operation of the Commission's public reference facilities by calling the Commission in the United States at 1-800-SEC-0330.

For so long as any of the notes offered hereby remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, if at any time we are neither subject to Section 13 or 15(d) under the Exchange Act nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, we will be required under the purchase agreement and will covenant for the benefit of holders, from time to time, of notes sold hereunder to furnish to any holder of notes or to a prospective purchaser thereof designated by any such holder, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act upon written request of any such holder.

We will also comply with our obligations under Dutch law to prepare annual financial statements complying with the Dutch Civil Code and to deposit the same at the Commercial Register of the Chamber of Commerce and Industry in The Hague, The Netherlands.

## ADDITIONAL LISTING INFORMATION

This offering has been authorized and approved by our supervisory board at a meeting held on August 30, 2000, by our management board and by our shareholders. All other consents, approvals, authorizations or other formalities required under Dutch law to be obtained or satisfied in connection with this offering have been obtained or satisfied.

We have applied for our notes to be listed in registered form on Euronext Amsterdam N.V.

We have taken appropriate measures to comply with the regulations on insider trading pursuant to the Dutch 1995 Act of the Supervision of the Securities Trade ("*Wet toezicht effectenverkeer 1995*").

The estimated aggregate costs for this offering, including underwriting commissions, advisory fees, discounts and capital taxes, are approximately \$23.5 million.

The latest audited financial information contained in this offering circular is as of and for the year ended December 31, 1999. To the best of our knowledge, since that date, there has been no material change to our financial condition that has not been disclosed in this offering circular.

Copies of our articles of association, the indenture and our annual report are available free of charge upon request or at our offices at Maanplein 5, 2516 CK, The Hague, The Netherlands.

We are registered with the Chamber of Commerce (*Kamer van Koophandel*) of The Hague on number 02045200.

Our agent in the United States is KPN US Inc., 1270 Avenue of the Americas, Suite 2212, Rockefeller Center, New York, NY10020.

#### **PAYING AGENT**

We will, as long as the notes are admitted to Euronext Amsterdam N.V., maintain a paying agent in The Netherlands through which interest shall be paid and/or other measures relating to the notes may be effected. We have initially appointed ING Bank N.V., Býlmerplein 888, 1102 MG Amsterdam as listing and paying agent in The Netherlands.

#### **PUBLICATIONS**

As long as the notes are listed on Euronext Amsterdam N.V., and it so requires, we will also publish notices to the holders of the notes in a leading newspaper having general circulation in The Netherlands, in the Official Price List (*Officiële Prijscourant*) of Euronext Amsterdam N.V. and in an English language newspaper of general circulation in Europe. Any notice will be deemed to have been given on the date of the publication in the Official Price List.

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**INDEX TO HISTORICAL FINANCIAL STATEMENTS  
OF KONINKLIJKE KPN N.V.**

Report of Independent Auditors .....	F-2
Consolidated Balance Sheets as of December 31, 1999, 1998 and 1997 .....	F-3
Consolidated Statements of Income for the years ended December 31, 1999, 1998 and 1997 ...	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 1999, 1998 and 1997	F-6
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 1999, 1998 and 1997 .....	F-7
Notes to the Consolidated Financial Statements as of and for the years ended December 31, 1999, 1998 and 1997 .....	F-8

## **Report of Independent Auditors**

### **Report of Independent Auditors to the Supervisory Board and Shareholders of Koninklijke KPN N.V.**

#### **Introduction**

We have audited the consolidated balance sheets of Koninklijke KPN N.V. and subsidiaries as of December 31, 1999, 1998 and 1997 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These consolidated financial statements are the responsibility of the Management Board. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in The Netherlands.

#### **Scope**

We conducted our audits in accordance with generally accepted auditing standards in The Netherlands which are substantially similar to those followed in the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

#### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Koninklijke KPN N.V. and subsidiaries as of December 31, 1999, 1998 and 1997 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in accordance with generally accepted accounting principles in The Netherlands.

Accounting principles generally accepted in The Netherlands vary in certain respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of net income for each of the three years in the period ended December 31, 1999 and shareholders' equity at December 31, 1999 and 1998 to the extent summarized on pages F-35 through F-44 under the heading "Information on U.S. accounting principles".

The Hague, The Netherlands  
September 27, 2000

PricewaterhouseCoopers N.V.

**Koninklijke KPN N.V.**  
**Consolidated Balance Sheets as of**  
**December 1999, 1998 and 1997**  
**After Appropriation of Net Income**

	<b>Assets</b>		
	<b>Year ended December 31, 1999</b>	<b>Year ended December 31, 1998</b>	<b>Year ended December 31, 1997</b>
		<b>(€ in millions)</b>	
<b>Fixed assets</b>			
<b>Intangible fixed assets [1]</b>			
Goodwill and licences . . . . .	1,032	1,024	489
<b>Property, plant and equipment [2]</b>			
Land and buildings . . . . .	1,075	1,020	1,006
Plant and equipment . . . . .	6,721	6,479	6,153
Other fixed assets . . . . .	675	617	392
Assets under construction . . . . .	425	351	253
	<u>8,896</u>	<u>8,467</u>	<u>7,804</u>
<b>Financial fixed assets [3]</b>			
Participating interests . . . . .	1,042	920	722
Loans to participating interests . . . . .	56	113	27
Loans . . . . .	54	67	22
Prepayments and accrued income . . . . .	224	315	313
	<u>1,376</u>	<u>1,415</u>	<u>1,084</u>
<b>Total fixed assets . . . . .</b>	<b><u>11,304</u></b>	<b><u>10,906</u></b>	<b><u>9,377</u></b>
<b>Current assets</b>			
Inventory [4] . . . . .	211	186	201
Accounts receivable [5] . . . . .	1,507	1,388	1,144
Prepayments and accrued income [6] . . . . .	1,063	715	637
Marketable securities and other financial interests [7] . . . . .	1,281	—	—
Cash and cash equivalents [8] . . . . .	2,625	434	621
	<u>6,687</u>	<u>2,723</u>	<u>2,603</u>
<b>Total current assets . . . . .</b>	<b><u>6,687</u></b>	<b><u>2,723</u></b>	<b><u>2,603</u></b>
<b>Total assets . . . . .</b>	<b><u>17,991</u></b>	<b><u>13,629</u></b>	<b><u>11,980</u></b>

The accompanying notes are an integral part of these statements. The Company has adopted the use of the euro (€) as its reporting currency from January 1, 1999. The Dutch Guilder (NLG) was previously utilized for financial reporting purposes. The fixed exchange rate at January 1, 1999 of €1 = NLG2.20371 was utilized in retroactively restating the financial statements.

Bracketed numbers refer to notes to the consolidated balance sheet

**Koninklijke KPN N.V.**  
**Consolidated Balance Sheets as of**  
**December 1999, 1998 and 1997 (Continued)**  
**After Appropriation of Net Income**

<b>Liabilities</b>			
	Year ended December 31, 1999	Year ended December 31, 1998	Year ended December 31, 1997
		(€ in millions)	
<b>Group equity</b>			
Shareholders' equity [9] . . . . .	6,364	5,913	5,551
Minority interests [10] . . . . .	25	—	—
<b>Total group equity</b> . . . . .	<u><b>6,389</b></u>	<u><b>5,913</b></u>	<u><b>5,551</b></u>
<b>Provisions</b>			
Pension provisions [11] . . . . .	423	407	402
Other provisions [12] . . . . .	372	462	141
<b>Total provisions</b> . . . . .	<u><b>795</b></u>	<u><b>869</b></u>	<u><b>543</b></u>
<b>Long-term liabilities</b>			
State of The Netherlands [13]			
—Ordinary Loan . . . . .	146	146	332
—Subordinated Loan . . . . .	112	236	379
Other debts [14] . . . . .	5,147	3,088	1,402
Accruals and deferred income . . . . .	7	4	90
<b>Total long-term liabilities</b> . . . . .	<u><b>5,412</b></u>	<u><b>3,474</b></u>	<u><b>2,203</b></u>
<b>Current liabilities</b>			
Other debts [15] . . . . .	2,632	2,177	2,530
Accruals and deferred income [16] . . . . .	2,430	865	726
Dividend payable [17] . . . . .	333	331	427
<b>Total current liabilities</b> . . . . .	<u><b>5,395</b></u>	<u><b>3,373</b></u>	<u><b>3,683</b></u>
<b>Total liabilities</b> . . . . .	<u><b>17,991</b></u>	<u><b>13,629</b></u>	<u><b>11,980</b></u>

The capital base (group equity increased by the subordinated loan) totaled €6,501 million as of December 31, 1999 (1998: €6,149, 1997: €5,930).

The accompanying notes are an integral part of these statements. The Company has adopted the use of the euro (€) as its reporting currency from January 1, 1999. The Dutch Guilder (NLG) was previously utilized for financial reporting purposes. The fixed exchange rate at January 1, 1999 of €1 = NLG2.20371 was utilized in retroactively restating the financial statements.

Bracketed numbers refer to notes to the consolidated balance sheet

**Koninklijke KPN N.V.**  
**Consolidated Statements of Income for the years ended**  
**December 31, 1999, 1998 and 1997**

	Year ended December 31, 1999	Year ended December 31, 1998	Year ended December 31, 1997
	(€ in millions except for the per share information)		
Net sales [18] . . . . .	8,100	7,381	6,791
Own work capitalized [19] . . . . .	352	352	226
Other operating revenues [20] . . . . .	680	211	100
<b>Total operating revenues</b> . . . . .	<b>9,132</b>	<b>7,944</b>	<b>7,117</b>
Cost of materials . . . . .	(932)	(833)	(661)
Work contracted out and other external expenses . . . . .	(2,644)	(2,221)	(1,896)
Salaries and social security contributions [21] . . . . .	(1,610)	(1,468)	(1,369)
Depreciation and impairments [22] . . . . .	(2,302)	(1,412)	(1,257)
Other operating expenses . . . . .	(591)	(435)	(442)
<b>Total operating expenses</b> . . . . .	<b>(8,079)</b>	<b>(6,369)</b>	<b>(5,625)</b>
<b>Operating profit or loss</b> . . . . .	<b>1,053</b>	<b>1,575</b>	<b>1,492</b>
Interest and similar income . . . . .	59	45	31
Interest and similar expense [23] . . . . .	(355)	(257)	(263)
<b>Financial income and expense</b> . . . . .	<b>(296)</b>	<b>(212)</b>	<b>(232)</b>
<b>Profit or loss before taxes</b> . . . . .	<b>757</b>	<b>1,363</b>	<b>1,260</b>
Tax on profit or loss on normal operations [24] . . . . .	(186)	(481)	(431)
Share in income from participating interests . . . . .	253	42	49
<b>Net group profit or loss</b> . . . . .	<b>824</b>	<b>924</b>	<b>878</b>
Minority interests . . . . .	4	—	—
<b>Profit or loss on normal operations after taxes</b> . . . . .	<b>828</b>	<b>924</b>	<b>878</b>
Extraordinary expense [25] . . . . .	—	(363)	—
Tax on extraordinary expense . . . . .	—	127	—
<b>Extraordinary expense after taxes</b> . . . . .	<b>—</b>	<b>(236)</b>	<b>—</b>
<b>Profit or loss after taxes</b> . . . . .	<b>828</b>	<b>688</b>	<b>878</b>
Profit or loss on normal operations after taxes per ordinary share and per ADS <sup>(1)</sup> . . . . .	<b>0.87</b>	<b>0.98</b>	<b>0.94</b>
Profit or loss after taxes per ordinary share and per ADS [26] <sup>(1)</sup> . . . . .	<b>0.87</b>	<b>0.73</b>	<b>0.94</b>
Profit or loss after taxes per ordinary share and per ADS on a fully diluted basis [27] <sup>(1)</sup> . . . . .	<b>0.87</b>	<b>0.73</b>	<b>0.94</b>
<b>Dividend per ordinary share and per ADS [28]<sup>(1)</sup></b> . . . . .	<b>0.53</b>	<b>0.53</b>	<b>0.51</b>

(1) The per share information has been retroactively restated to reflect the effects of the two-for-one share split which took place in June, 2000.

The operating profit before amortization, depreciation and impairments (EBITDA) totaled €3,355 million in 1999 (1998: €2,987) (1997: €2,749).

The accompanying notes are an integral part of these statements. The Company has adopted the use of the euro (€) as its reporting currency from January 1, 1999. The Dutch Guilder (NLG) was previously utilized for financial reporting purposes. The fixed exchange rate at January 1, 1999 of €1 = NLG2.20371 was utilized in retroactively restating the financial statements.

The 1997 profit before the demerger was €1,221 million. The effects of this demerger were incorporated in the 1997 financial statements.

Bracketed numbers refer to notes to the consolidated statement of income

**Koninklijke KPN N.V.**  
**Consolidated Statements of Cash Flows for the years ended**  
**December 31, 1999, 1998 and 1997**  
**After Appropriation of Net Income**

	Year ended December 31,		
	1999	1998	1997
	(€ in millions)		
<b>Profit or loss after taxes</b> . . . . .	<b>828</b>	<b>688</b>	<b>878</b>
Depreciation and impairments . . . . .	2,302	1,412	1,257
Investment grants to replace WIR allowances . . . . .	—	(87)	(18)
Changes in provisions . . . . .	(74)	324	(34)
Changes in deferred taxes . . . . .	94	21	82
Income from participating interests including book profits less dividends received . . . .	(276)	(9)	(31)
Effects of public offering of joint ventures/participating interests . . . . .	(555)	—	—
Changes in working capital:			
—Inventory . . . . .	(18)	16	26
—Accounts receivable . . . . .	(101)	(181)	74
—Other current assets . . . . .	(380)	(74)	(97)
—Current liabilities (excluding short-term financing) . . . . .	635	195	(98)
<b>Net cash flow from operating activities [29]</b> . . . . .	<b>2,455</b>	<b>2,305</b>	<b>2,039</b>
Acquired group companies/joint ventures . . . . .	(39)	(159)	(10)
Investments in intangible fixed assets . . . . .	(104)	(520)	(79)
Disposals of intangible fixed assets . . . . .	3	—	10
Investments in tangible fixed assets . . . . .	(2,524)	(1,949)	(1,360)
Disposals of tangible fixed assets . . . . .	59	6	26
Changes in other financial fixed assets . . . . .	(49)	(325)	(123)
Changes in minority interests . . . . .	(4)	—	—
<b>Net cash flow from investing activities</b> . . . . .	<b>(2,658)</b>	<b>(2,947)</b>	<b>(1,536)</b>
Dividend . . . . .	(375)	(458)	(474)
Other changes in shareholders' equity . . . . .	3	32	(181)
Public offering of joint ventures . . . . .	414	—	—
Long-term loans contracted . . . . .	2,171	1,924	142
Repayment of long-term liabilities . . . . .	(678)	(234)	(377)
Changes in interest-bearing current liabilities . . . . .	815	(820)	564
<b>Net cash flow from financing activities [30]</b> . . . . .	<b>2,350</b>	<b>444</b>	<b>(326)</b>
<b>Changes in cash and cash equivalents</b> . . . . .	<b>2,147</b>	<b>(198)</b>	<b>177</b>
<b>Cash and cash equivalents beginning of year</b> . . . . .	<b>434</b>	<b>621</b>	<b>444</b>
Cash and cash equivalents in group companies acquired and disposed of . . . . .	44	11	—
Changes in cash and cash equivalents . . . . .	2,147	(198)	177
<b>Cash and cash equivalents end of year</b> . . . . .	<b>2,625</b>	<b>434</b>	<b>621</b>

The accompanying notes are an integral part of these statements. The Company has adopted the use of the euro (€) as its reporting currency from January 1, 1999. The Dutch Guilder (NLG) was previously utilized for financial reporting purposes. The fixed exchange rate at January 1, 1999 of €1 = NLG2.20371 was utilized in retroactively restating the financial statements.

Bracketed numbers refer to notes to the consolidated cash flow statement

**Koninklijke KPN N.V.**  
**Consolidated Statements of Changes in Shareholders' Equity for the years ended**  
**December 31, 1999, 1998 and 1997**

	Number of Subscribed Share(s) <sup>(1)</sup>	Par Value Per Share	Subscribed Share Capital	Additional Paid-in Capital	Statutory Reserves	Accumulated Translation Differences	Other Reserves	Total
			[31]	[32]	[33]			
(€ in millions except for shares and per-share information)								
<b>Balance as of year ended</b>								
<b>December 31, 1996 . . .</b>	<b>935,429,713</b>	<b>2.27</b>	<b>2,122</b>	<b>2,356</b>	<b>32</b>	<b>8</b>	<b>703</b>	<b>5,221</b>
Exchange rate differences on participating interests . . . . .						(67)		(67)
Issue of stock purchased for option plans . . . . .							31	31
Stock dividend . . . . .	9,050,130	2.27	20	(20)		(10)	150	150
Other changes . . . . .							11	1
Profit or loss after taxes . .					44		834	878
Dividend . . . . .							(663)	(663)
<b>Balance as of year ended</b>								
<b>December 31, 1997<sup>(2)</sup> . .</b>	<b>944,479,843</b>	<b>2.27</b>	<b>2,142</b>	<b>2,336</b>	<b>76</b>	<b>(69)</b>	<b>1,066</b>	<b>5,551</b>
Exchange rate differences on participating interests . . . . .						4		4
Share issue . . . . .	2,100,000		5	22				27
Issue of share purchased for option plans . . . . .							5	5
Share dividends . . . . .	6,488,880		9	(9)			142	142
Other changes <sup>(3)</sup> . . . . .			(1,940)	1,940				
Profit or loss after taxes . .					69		619	688
Dividend . . . . .							(504)	(504)
<b>Balance as of year ended</b>								
<b>December 31, 1998 . . .</b>	<b>953,068,723</b>	<b>0.24</b>	<b>216</b>	<b>4,289</b>	<b>145</b>	<b>(65)</b>	<b>1,328</b>	<b>5,913</b>
Exchange rate differences on participating interests . . . . .						(2)		(2)
Issue of shares purchased for option plans . . . . .							3	3
Share dividends . . . . .	5,662,210		1	(1)			128	128
Other changes . . . . .					646		(646)	
Profit or loss after taxes . .							828	828
Dividend . . . . .							(506)	(506)
<b>Balance as of year ended</b>								
<b>December 31, 1999 . . .</b>	<b>958,730,933</b>	<b>0.24</b>	<b>217</b>	<b>4,288</b>	<b>791</b>	<b>(67)</b>	<b>1,135</b>	<b>6,364</b>

(1) Shares include 1 special share at a par value of €0.48

(2) Shareholders' equity of Royal PTT Nederland N.V. as of December 31, 1997 before the demerger of TNT Post Group was €7,965 million

The 1997 profit before the demerger was €1,221 million. The effects of this demerger were incorporated in the 1997 financial statements

(3) Relates to the financial effect of the reduction in the par value of the shares from €4.50 to €0.45 each as of October 1, 1998

All figures above have been retroactively restated to reflect the effects of the two-for-one share split in June 2000.

The accompanying notes are an integral part of these statements. The Company has adopted the use of the euro (€) as its reporting currency from January 1, 1999. The Dutch Guilder (NLG) was previously utilized for financial reporting purposes. The fixed exchange rate at January 1, 1999 of €1 = NLG 2.20371 was utilized in retroactively restating the financial statements.

**Koninklijke KPN N.V.**  
**Notes to the Consolidated Financial Statements**  
**as of and for the years ended 1999, 1998 and 1997**

**Consolidation and Accounting Principles**

**Introduction**

The financial statements have been prepared in accordance with the provisions of Book 2 of the Dutch Civil Code.

The 1999 financial statements of Royal KPN N.V., having its registered office in Groningen and its principal place of business in The Hague, hereinafter referred to as KPN, are those of KPN and its operating group companies, the most important of these being KPN Telecom B.V. and KPN Mobile N.V.

In the second half of the year, KPN transferred its mobile operations and the related assets and liabilities from KPN Telecom B.V. to KPN Mobile N.V., which conducts both national and international mobile operations.

The consolidated financial statements include the corporate financial statements of KPN and those of the consolidated companies. The corporate financial statements have not been separately presented as allowed by Euronext Amsterdam N.V. rules for this offering document. The complete list of subsidiaries and affiliated companies is available for inspection at the offices of the Commercial Register of the Chamber of Commerce in The Hague. This list has been prepared in accordance with the provisions of Article 379, Paragraph 1 and Article 414, Book 2 of the Dutch Civil Code.

**Consolidation principles**

The financial information of the group companies is consolidated in full, with minority participating interests in group equity and profits and losses being disclosed separately. Group companies are those companies with which KPN forms an organizational and economic entity and in which KPN has a controlling interest. Joint ventures in which KPN and any other party have equal control under an agreement are consolidated proportionally provided that KPN owns a significant percentage of shares. Participating interests to be consolidated are consolidated in the financial statements from the date of their acquisition up to the date of their disposal. If the company has decided to dispose of a participating interest, as a result of which its activities no longer permanently relate to those of the company itself, the participating interest, including the book value of the goodwill, is classified from then on as other financial interest. The accounting principles apply to KPN's balance sheet and statement of income and to the consolidated group companies and joint ventures. Any significant intercompany balances and settlements have been eliminated in consolidation.

**Changes in consolidated interests**

As KPN increased its interest in Pannon GSM, a Hungarian mobile operator, to 44.66% in the second six months of 1998. The company proportionally consolidates this interest with effect from January 1, 1999. KPNQwest, the joint venture between KPN and Qwest, was launched on April 1, 1999. KPN contributed the EuroRings on the same date. As from this date, KPN has proportionally consolidated KPNQwest to its interest. After KPNQwest's public offering, KPN's interest in this company dropped from 50% to 44.4%. At year-end 1999, both KPN and Qwest held 49.5% of the voting rights. In March 1999, KPN increased its interest in PanTel, another Hungarian operator, from 49% to 61.7%. KPN has consolidated PanTel in full with effect from this time.

**Koninklijke KPN N.V.**  
**Notes to the Consolidated Financial Statements**  
**as of and for the years ended 1999, 1998 and 1997 (Continued)**

***Reporting currency***

The Company has adopted the use of the euro as its reporting currency from January 1, 1999. The Dutch Guilder (NLG) was previously utilized for financial reporting purposes. The fixed exchange rate at January 1, 1999 of €1 = NLG 2.20371 was utilized in retroactively restating the financial statements for all periods presented. The comparative financial statements, reported in euro, depict the same trends as would have been presented if the Company had continued to present its financial statements in Dutch Guilders. Additionally, the financial statements for the periods prior to January 1, 1999 will not be comparable to the financial statements of other companies that report in euro and that have restated amounts from a currency different from the one previously used by the Company.

***Foreign currencies***

Transactions denominated in foreign currencies and any resulting receivables, debts, revenue, expenses, profits or losses are recognized in Dutch guilders at the spot rate. If a hedging contract has been concluded, the forward rate is applied. Any exchange differences are recognized in the statement of income under financial income and expense. As of the balance sheet date, assets and liabilities denominated in foreign currencies are restated at the exchange rates prevailing on the balance sheet date or the rate of the hedging transaction where applicable. Any exchange differences are recognized in the statement of income under financial income and expense.

Exchange rate differences relating to capital invested and the accumulated income from foreign participating interests, as well as those pertaining to the profits or losses from related hedging transactions are directly taken to shareholders' equity.

Assets and liabilities of foreign participating interests are restated at the exchange rate prevailing on the balance sheet date. Revenue, expenses, profits and losses generated or incurred by these companies are translated at an average exchange rate. All translation differences are recognized under shareholders' equity. All amounts in euro quoted in these financial statements have been converted at the fixed exchange rate of NLG 2.20371 to one euro.

***Segmentation***

Companies quoted on the New York Stock Exchange are required to present their balance sheets of the last two years and their performance records of the last three years in their financial reporting and to provide insight into their performance. This information must be presented in accordance with the manner in which the company was managed. At the beginning of 2000, KPN grouped its business and responsibilities into four core segments—corresponding to KPN's four areas of strategic focus—and another segment grouping called "other". KPN's results of operations 1999 and 1998 have been restated on the basis of the new segmentation. KPN was not able to restate its 1997 results of operations, as it was impracticable to do so, and as a result, KPN's 1997 results of operations are based on its previous segmentation.

KPN's new segments are as follows:

- *Fixed network services.* This segment includes domestic, fixed-to-mobile and outbound international telephone traffic that KPN provides on its fixed network in The Netherlands to

**Koninklijke KPN N.V.**  
**Notes to the Consolidated Financial Statements**  
**as of and for the years ended 1999, 1998 and 1997 (Continued)**

business customers and consumers. It also comprises wholesale domestic and international network access and transmission services.

- *Mobile communications.* This segment consists of all of KPN's mobile telecommunications business, both in The Netherlands and abroad.
- *IP/data.* This segment consists of the provision of data transmission services (including the provision of leased lines), private network services, data applications solutions and integration services for large business customers (other than telecommunications providers) in the Benelux countries. It also consists of the provision of data transmission services and telecommunications infrastructure sales in other countries through our interests in KPNQwest, Infonet, Euroweb, and PanTel. KPN also acts as the distributor of KPNQwest's services in the Benelux countries.
- *ICM.* This segment consists of KPN's Internet and media, and customer relationship management services. KPN's Internet and media services consist of ISPs, Internet portal content, telephone directories and premium rate calling services. KPN's customer relationship management services consist of operating call centers and customer interaction centers for business and providing call center services.
- *Other.* This segment consists of KPN's business communications activity (which delivers, installs and services communications equipment for business customers), Station 12 (a satellite communications joint venture with Telstra) and KPN's sales and distribution network, including Primafoon stores and Business Centers, together with all of KPN's fixed network construction, operation activities, KPN's head office functions, KPN Research (KPN's research and development department), and KPN's interests in eircom and Český Telecom.

For the purpose of making effective comparisons between KPN's operational activities and those of other companies, KPN decided to introduce the concept of EBITDA from the start of this fiscal year. KPN believes this concept should not replace other performance measures contained in the annual reporting regulations, such as operating profit (EBIT) and profit after taxes, KPN defines EBITDA as operating profit before amortization, depreciation and impairments and points out that this definition may deviate from the definitions used by other companies.

## **Accounting principles**

### ***Introduction***

The accounting policies are based on historical cost. Unless indicated otherwise, assets and liabilities are stated at the amounts at which they were acquired or incurred.

### ***Intangible fixed assets***

Goodwill arising from acquisitions is valued at the lower of historical cost less amortization or permanently lower recoverable value. Amortization is calculated according to the straight-line method based on estimated useful life; the maximum amortization period is 20 years. In determining whether a permanent change in value has occurred, KPN periodically assesses the book values of the fixed assets by comparing them with the future cash flows of the assets concerned.

Licenses are valued at the lower of historical cost less amortization or permanently lower recoverable value. Amortization is calculated according to the straight-line method and is incorporated

**Koninklijke KPN N.V.**  
**Notes to the Consolidated Financial Statements**  
**as of and for the years ended 1999, 1998 and 1997 (Continued)**

as from the date that services are actually being provided under the license. The terms of these licenses are taken as amortization periods.

***Property, plant and equipment***

Property, plant and equipment are valued at the lower of historical cost less depreciation or permanently lower recoverable value. Assets produced in-house are valued at manufacturing cost. This includes direct costs (materials, direct labor and work contracted out), as well as some of the indirect costs which can be attributed to this activity. Depreciation is calculated according to the straight-line method based on estimated useful life, taking into account residual value. Land is not depreciated. In determining whether a permanent reduction in value has occurred, KPN periodically assesses the book values of the property, plant and equipment by comparing them with the future cash flows of the assets concerned. Reductions in value are reversed if they can no longer be justified. Property, plant and equipment that are no longer productive are stated at the lower of book value as of December 31 prior to the year in which they were declared unproductive or net realizable value. Upon retirement or sale, the related historical cost and accumulated depreciation are removed from the accounts and any profits or losses resulting from the sale or retirement of the assets are recognized in the statement of income.

***Participating interests***

Participating interests are included in the financial statements under financial fixed assets from the date on which they were acquired up to the date on which it was decided to dispose of them. These participating interests are carried at net asset value, which is determined based on the KPN accounting principles. If the company has decided to dispose of a participating interest, as a result of which its activities no longer permanently relate to those of the company itself, the participating interest, including the book value of the goodwill, is thereafter classified as another financial interest.

***Inventory***

Inventory of raw materials, consumables and finished goods is valued at the lower of historical cost or net realizable value. Historical cost is based on weighted average prices. Work in process is valued at the cost of materials, the cost of work contracted out and staff costs. Allowance is made for obsolescence.

***Accounts receivable***

Accounts receivable are stated net of an allowance for non-collectibility. Short-term portions of loans to participating interests are included in this item.

***Marketable securities and other financial interests***

Marketable securities and other financial interests are stated at historical cost, unless the market value or estimated net realizable value of the unlisted marketable securities is lower. If a financial interest was formerly classified as a participating interest, it is valued on the basis of its last known net asset value increased by the book value of the recognized goodwill.

**Koninklijke KPN N.V.**  
**Notes to the Consolidated Financial Statements**  
**as of and for the years ended 1999, 1998 and 1997 (Continued)**

***Cash and cash equivalents***

Cash and cash equivalents include cash at bank and in hand. Cash originally tied up for less than three months is considered as a cash equivalent.

***Minority interests***

Minority interests are stated at net asset value, determined in accordance with the KPN accounting principles.

***Provisions***

Pensions, redundancy pay, other pension-related benefits and reorganization provisions are stated at commuted and net present value, respectively. The other provisions are carried at face value.

***Deferred taxes***

Deferred tax assets and liabilities arising from timing differences between the value of assets and liabilities for financial reporting purposes and for tax purposes are calculated on the basis of current corporate income tax rates. Deferred tax assets are recognized if it may reasonably be assumed that they can be offset against taxes payable in the coming years. Deferred tax credits and liabilities with the same terms are offset in the balance sheet.

***Income recognition***

Income is recognized when goods are delivered or services are rendered. Income is determined based on historical cost. Losses are taken as soon as they are foreseeable.

***Net sales***

Net sales represent the revenue from goods delivered and services rendered to third parties, less discounts and sales taxes.

***Other operation revenues***

Other operation revenues include income not generated by the company's core activities. Profits generated by public offerings of participating interests, as well as book profits on the sale of participating interests are recognized as other operating revenues.

***Research expenses***

Research expenses are directly recognized as costs.

***Income from participating interests***

This item includes the share in the net income of KPN's direct or indirect participating interests. Income from participating interests acquired during the fiscal year is recognized with effect from the date of acquisition. Income from sold participating interests is recognized up to the date of disposal. Dividends distributed by other financial interests are also recognized under this heading.

**Koninklijke KPN N.V.**  
**Notes to the Consolidated Financial Statements**  
**as of and for the years ended 1999, 1998 and 1997 (Continued)**

***Taxation on profit***

The corporate income tax charge recognized in the statement of income is based on the income for financial reporting purposes in accordance with the prevailing provisions and rates, taking into account permanent differences between income for tax purposes and income for financial reporting purposes.

***Financial instruments***

KPN and its group companies neither hold, use nor issue financial instruments for trading purposes. The financial instruments included in the balance sheet are carried at face value unless otherwise stated. Off-balance sheet financial instruments, i.e. derivatives, used to hedge currency and interest rate risks, are stated in line with the hedged position. Income from derivatives is recognized simultaneously with the income from the hedged position.

***Risks and uncertainties associated with compiling the financial statements***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used when accounting for certain items such as the allowance for doubtful accounts, depreciation and amortization, taxes, valuation of equity investments and asset impairment and restructuring charges.

***New reporting requirements***

***Dutch GAAP***

The Dutch Council for Annual Reporting recently issued new guidelines, which will be effective for the fiscal year 2000. The following is a summary of the new guidelines.

A new guideline on accounting for foreign currencies requires exchange gains on long-term transactions to be recorded as incurred rather than recorded over the term of the transactions. The guideline also recommends that accumulated translation differences relating to a foreign entity should be recognized in the profit and loss account on disposal; however, the new guideline permits the alternative of recognizing such differences in shareholder's equity.

A new guideline on accounting for interests in joint ventures was issued and applies to the accounting and reporting of all joint ventures regardless of the structures of forms under which the joint venture activities take place. Activities that have no arrangement to establish joint control are not joint ventures for the purposes for this guideline. The financial statements of the venturer's interests in jointly controlled operations should include the share that it controls and the liabilities and expenses that it incurs as well as its share of the income that it earns from the sale of goods or services by the joint venture.

A new guideline on accounting for employee option plans requires additional disclosure in the annual report about our share options. The new guideline requires disclosure of the aggregate amount of options granted by us in the financial year to the managing board members and other staff and a description of the principal conditions of the options. The new guideline also requires disclosure of the

**Koninklijke KPN N.V.**  
**Notes to the Consolidated Financial Statements**  
**as of and for the years ended 1999, 1998 and 1997 (Continued)**

number of options exercised during the year, the number of options granted by the legal entity during the year and the number of options outstanding at year-end.

A new guideline on accounting for taxation on profit requires a full provision for deferred income taxes and adopts a balance sheet approach in calculating the provision. Except in limited circumstances, the guideline requires a deferred tax liability (deferred tax asset) to be recognized if it is probable that recovery or settlement of the carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences.

A new guideline on accounting for per share earnings requires disclosure of both earnings per share and diluted earnings per share and provides instructions on how these figures should be calculated.

A new guideline on accounting for segmented information establishes principles for reporting financial information by segment. The guideline places reliance on our internal organizational and management structure and its system of internal financial reporting as the basis for identifying different segments.

A new guideline on criteria for deconsolidation was issued. The guideline relates to companies that are no longer consolidated especially as it relates to the timing of control of subsidiaries, which are acquired and their subsequent disposal is expected soon thereafter. Previously under Dutch GAAP, companies were deconsolidated beginning when the company's board approved the disposal of the subsidiary. The new guideline requires consolidation until the time that the subsidiary is disposed of.

We do not believe the impact of the adoption of these changes KPN's reporting requirements will have a material effect on our financial condition and results of operations.

*U.S. GAAP*

In December 1999, the SEC issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements," which will be adopted by us in the fourth fiscal quarter of 2000. SAB 101 provides additional guidance on revenue recognition as well as criteria for when revenue is generally realized and earned, and also requires the deferral of incremental direct customer acquisition costs. Management is currently considering the impact that SAB 101 will have on its results of operations and cannot currently determine the expected impact.

In June 2000 the Financial Accounting Standards Board (FASB) issued SFAS No. 138, Accounting for Certain Derivative Instruments, an amendment of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000 (January 1, 2001 for KPN). SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their current value. Changes in current value of derivatives are recorded in the statement of income or as comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and, if it is, the type of hedge transaction. Management is currently considering the impact that SFAS 133 will have on its results of operations.

## Notes to the Consolidated Financial Statements

### Notes to the consolidated balance sheet

#### *Fixed assets*

[1] Intangible fixed assets: €1,032 million (1998: 1,024)

#### Statement of Changes in Intangible Fixed Assets

	<u>Licenses</u>	<u>Goodwill</u>	<u>Total</u>
	(€ in millions except for percentages)		
Amortization rate . . . . .	2–7	5–20	
Historical cost . . . . .	233	1,007	1,240
Accumulated amortization . . . . .	—	(216)	(216)
<b>Balance as of year ended December 31, 1998 . . . . .</b>	<b><u>233</u></b>	<b><u>791</u></b>	<b><u>1,024</u></b>
<b>Changes in 1999</b>			
Investments . . . . .	48	971	1,019
Disposals . . . . .	(2)	—	(2)
New consolidations . . . . .	27	—	27
Amortization . . . . .	(7)	(154)	(161)
Other changes . . . . .	—	(875)	(875)
<b>Balance of changes . . . . .</b>	<b><u>66</u></b>	<b><u>(58)</u></b>	<b><u>8</u></b>
Historical cost . . . . .	306	1,005	1,311
Accumulated amortization . . . . .	(7)	(272)	(279)
<b>Balance as of year ended December 31, 1999 . . . . .</b>	<b><u>299</u></b>	<b><u>733</u></b>	<b><u>1,032</u></b>

At year-end 1999, the licenses capitalized by KPN consisted of licenses for mobile frequencies in The Netherlands, Belgium and Hungary and fixed network licenses in Hungary.

In the first half of the fourth quarter of 1999, KPN and its Swedish partner Telia decided to terminate the strategic participation in eircom. As a result of this decision, KPN's interest in eircom is now qualified as a current other financial interest, rather than as a participating interest. The goodwill relating to eircom was recognized under marketable securities and other financial interests as of year-end 1999, and incorporated into other changes in the statement of changes in intangible fixed assets.

## Notes to the Consolidated Financial Statements (Continued)

[2] Property, plant and equipment: €8,896 million (1998: 8,467)

### Statement of Changes in Property, Plant and Equipment

	Land and Buildings	Plant and Equipment	Other Fixed Assets	Fixed Assets Under Construction	Total
		(€ in millions)	except for	percentages)	
Depreciation rate . . . . .	0–10	5–33	10–33		
Historical cost . . . . .	1,614	11,610	1,040	351	14,615
Accumulated depreciation . . . . .	(594)	(5,131)	(423)	—	(6,148)
<b>Balance as of December 31, 1998 . . . . .</b>	<b><u>1,020</u></b>	<b><u>6,479</u></b>	<b><u>617</u></b>	<b><u>351</u></b>	<b><u>8,467</u></b>
<b>Changes in 1999</b>					
Additions . . . . .	158	1,958	376	33	2,525
Disposals . . . . .	(25)	(14)	(1)	(12)	(52)
<b>Balance of additions . . . . .</b>	<b><u>133</u></b>	<b><u>1,944</u></b>	<b><u>375</u></b>	<b><u>21</u></b>	<b><u>2,473</u></b>
New consolidations . . . . .	11	102	12	54	179
Cancelled consolidations . . . . .	—	(80)	—	—	(80)
Depreciation and impairments . . . . .	(90)	(1,723)	(328)	—	(2,141)
<b>Balance of changes . . . . .</b>	<b><u>54</u></b>	<b><u>243</u></b>	<b><u>59</u></b>	<b><u>75</u></b>	<b><u>431</u></b>
Historical cost . . . . .	1,678	11,441	995	425	14,539
Accumulated depreciation . . . . .	(603)	(4,720)	(320)	—	(5,643)
<b>Balance as of December 31, 1999 . . . . .</b>	<b><u>1,075</u></b>	<b><u>6,721</u></b>	<b><u>675</u></b>	<b><u>425</u></b>	<b><u>8,896</u></b>

Historical cost includes the value of the property, plant and equipment contributed to Royal PTT Nederland when that company was established in 1989. In calculating the depreciation charge of those assets, account is taken of the useful lives that had already elapsed when the assets were contributed to Royal PTT Nederland. The book value as of December 31, 1999 of the assets contributed to Royal PTT Nederland on January 1, 1989, stated at the current value prevailing at the time, was €819 million, after deduction of an accumulated depreciation charge of €2,591 million. The property, plant and equipment are primarily located in The Netherlands.

## Notes to the Consolidated Financial Statements (Continued)

### [3] Financial fixed assets: €1,376 million (1998: 1,415)

	Participating Interests	Loans to Participating Interests	Loans	Prepayments and Accrued Income	Total
	(€ in millions)				
<b>Balance as of December 31, 1998</b> . . . . .	<b>920</b>	<b>113</b>	<b>67</b>	<b>315</b>	<b>1,415</b>
<b>Changes in 1999</b>					
Exchange rate differences . . . . .	(2)	—	—	—	(2)
Acquisitions/additions . . . . .	193	49	11	4	257
Disposals . . . . .	(29)	—	—	—	(29)
Withdrawals/repayments . . . . .	—	(95)	(56)	(2)	(153)
New consolidations . . . . .	(23)	—	36	1	14
Cancelled consolidations . . . . .	2	—	—	—	2
Income . . . . .	253	—	—	—	253
Dividend . . . . .	(14)	—	—	—	(14)
Decrease in deferred tax assets . . . . .	—	—	—	(90)	(90)
Other changes . . . . .	(258)	(11)	(4)	(4)	(277)
<b>Balance of changes</b> . . . . .	<b>122</b>	<b>(57)</b>	<b>(13)</b>	<b>(91)</b>	<b>(39)</b>
<b>Balance as of December 31, 1999</b> . . . . .	<b>1,042</b>	<b>56</b>	<b>54</b>	<b>224</b>	<b>1,376</b>

The line “Acquisitions/additions” under the heading participating interests includes the increase in KPN’s interest in eircom. Other changes include the increase in market value of Infonet at the time of its listing (€140 million) and the reclassification of the interest in eircom to marketable securities and other financial interests.

### **Vision Networks Holdings B.V.**

In anticipation of the sale of the cable activities, Royal PTT Nederland decided to hive off Vision Networks N.V. in 1997. This was realized in 1998 by means of a legal demerger whereby a sum of €772 million was debited from Royal PTT Nederland’s shareholders’ equity and deployed for the new company called Vision Networks Holdings B.V. (VNH). This was achieved by incorporating the shares of Vision Networks N.V. into VNH with additional funding of €363 million. VNH is financially independent and can operate without guarantees or financial support from KPN. After the sale of the cable interests in the United Kingdom in 1998, 1999 saw the sale of the cable interests in France and Germany. VNH intends to sell the remaining interests in Poland and the Czech Republic in the near future. In 1999, VNH booked a net loss of €27 million (1998: (100)) (1997: (100)). The losses of VNH for the years 1996-1999 have not yet been incorporated into KPN’s income.

VNH’s shareholders’ equity as of December 31, 1999 amounted to €645 million. VNH has been recognized at cost (€18,151) in KPN’s 1999 financial statements.

Should VNH have a positive shareholders’ equity after the future sale of the remaining cable operations, this will directly accrue to the shareholders’ equity of KPN as part of the reserves available for free distribution.

## Notes to the Consolidated Financial Statements (Continued)

### [3] Financial fixed assets: €1,376 million (1998: 1,415) (Continued)

#### Subsidiaries and participating interests as at December 31, 1999

The complete list containing the information about subsidiaries and participating interests, as referred to in Articles 379 and 414 Book 2 of the Dutch Civil Code, has been filed with the office of the Chamber of Commerce in The Hague.

#### *Current Assets*

### [4] Inventory: €211 million (1998: 186)

	Year ended December 31, 1999	Year ended December 31, 1998
	(€ in millions)	
Work in process . . . . .	52	36
Assets, parts, tools and measuring instruments . . . . .	100	118
Finished goods . . . . .	33	15
Other . . . . .	26	17
<b>Total . . . . .</b>	<b><u>211</u></b>	<b><u>186</u></b>

### [5] Accounts receivable: €1,507 million (1998: 1,388)

	Year ended December 31, 1999	Year ended December 31, 1998
	(€ in millions)	
Accounts receivable trade . . . . .	1,194	1,282
Deferred tax assets . . . . .	91	95
Other . . . . .	222	11
<b>Total . . . . .</b>	<b><u>1,507</u></b>	<b><u>1,388</u></b>

Accounts receivable trade are stated net of an allowance for bad debts to the amount of €98 million as of December 31, 1999 (1998: 42).

### [6] Prepayments and accrued income: €1,063 million (1998: 715)

This item relates to prepayments to cover costs that will be charged against income in future years and amounts to be invoiced.

### [7] Marketable securities and other financial interests: €1,281 million (1998: nil)

This item relates to KPN's share (21%) in the net asset value of eircom as of September 30, 1999 increased by the book value as of September 30, 1999 of the goodwill paid by KPN. KPN no longer exercises significant influence in eircom in relation to the latter's public offering and KPN's announcement that it wishes to sell its interest in this company. As from the fourth quarter of the year, KPN has not received any information about the company's performance. The interest in eircom was valued based on the company's external interim financial statements for the period ended September 30, 1999. The market value of this interest was approximately €1,951 million as of December 31, 1999.

## Notes to the Consolidated Financial Statements (Continued)

### [8] Cash and cash equivalents: €2,625 million (1998: 434)

The total amount is freely available.

### *Group Equity*

### [9] Shareholders' equity: €6,364 million (1998: 5,913)

For a breakdown of shareholders' equity, please refer to the statement of changes in shareholders' equity.

### [10] Minority interests: €25 million (1998: nil)

This item relates to the minority interests in PanTel held by other shareholders.

### *Provisions*

### [11] Pension provisions: €423 million (1998: 407)

#### Statement of Changes in Pension Provisions

	<u>Prepension</u>	<u>Redundancy Pay</u>	<u>Other</u>	<u>Total</u>
		(€ in millions)		
<b>Balance as of December 31, 1998</b> . . . . .	<b>290</b>	<b>108</b>	<b>9</b>	<b>407</b>
Withdrawals . . . . .	(51)	(23)	(3)	(77)
Additions . . . . .	68	6	1	75
Interest . . . . .	13	5	0	18
<b>Balance as of December 31, 1999</b> . . . . .	<b>320</b>	<b>96</b>	<b>7</b>	<b>423</b>

Pension provisions are stated at commuted value using an average interest rate of 4.5% (1998: 6%). The composition of these provisions is as follows: €81 million has a term of less than one year, €55 million is intended for prepensions, €24 million for redundancy pay and €2 million for other provisions.

The prepension provision relates to commitments by virtue of prepensions in payment and to commitments by virtue of future payments to employees who wish to take early retirement.

The redundancy pay provision relates to the entitlement to redundancy pay of employees who worked as civil servants for The Netherlands Postal and Telecommunications Services (PTT) before January 1, 1989 and were made redundant before January 1, 1996.

## Notes to the Consolidated Financial Statements (Continued)

### [12] Other provisions: €372 million (1998: 462)

#### Statement of Changes in Other Provisions

	<u>Reorganization</u>	<u>Self- Insurance</u> (€ in millions)	<u>Other</u>	<u>Total</u>
<b>Balance as of December 31, 1998</b> . . . . .	<u><b>367</b></u>	<u><b>66</b></u>	<u><b>29</b></u>	<u><b>462</b></u>
Withdrawals/reclassifications . . . . .	(97)	(5)	(8)	(110)
Additions . . . . .	17	—	3	20
Interest . . . . .	—	—	—	—
<b>Balance as of December 31, 1999</b> . . . . .	<u><b>287</b></u>	<u><b>61</b></u>	<u><b>24</b></u>	<u><b>372</b></u>

#### Reorganization Provision

In 1998, €363 million was allocated to a provision for the “New KPN” reorganization, which aimed to reduce the workforce by 4,000 FTEs. An amount of €179 million was reserved for post-employment benefits, retraining and continuing education, and competitive terms of employment.

Motivated by its growth figures and a tight job market, KPN succeeded in deploying redundant employees in other group divisions after retraining and continuing education. In 1999, a total of 1,768 employees, who were faced with redundancy, were redeployed in other KPN divisions.

In order to make the terms of employment of certain KPN divisions fall in line with the market, the Company decided to increase the provision to include salary differences for certain periods.

Approximately 2,000 employees were faced with redundancy at year-end 1999. KPN will attempt to prevent compulsory redundancies by offering retraining and continuing education opportunities. At year-end 1999, the provision also included amounts payable for differences in the terms of employment offered by KPN and those customary in the market.

An amount of €51 million was withdrawn from, while an amount of €17 million was allocated to the employee provision in the reporting year. The provision amounted to €145 million as of December 31, 1999.

In addition to employee-related constituents at year-end 1998, the reorganization provision consisted of a provision for the additional cost relating to the implementation of Enterprise Resource Planning (€127 million) and the relocations following from the reorganization (€57 million). The withdrawals for these purposes were made according to plan and totaled €17 million and €27 million, respectively. The provisions remaining at December 31, 1999, amounted to €110 million and €30 million, respectively.

## Notes to the Consolidated Financial Statements (Continued)

### [12] Other provisions: €372 million (1998: 462) (Continued)

#### Composition of the New KPN Reorganization Provision

	Year ended December 31, 1999	Year ended December 31, 1998
	(€ in millions)	
Staff reductions, retraining and continuing education and competitive terms of employment . . . . .	145	179
Implementation of ERP software . . . . .	110	127
Other reorganization costs . . . . .	32	61
<b>Total . . . . .</b>	<b><u>287</u></b>	<b><u>367</u></b>

Of the reorganization provision, €146 million has a term of less than one year.

#### Other

The other provisions relate to a number of diverse risks and liabilities. Most of these provisions have a term of less than five years. €5 million has a term of less than one year.

## Notes to the Consolidated Financial Statements (Continued)

### LONG-TERM LIABILITIES

[13] State of The Netherlands: €146 million and €112 million, respectively (1998: 146 and 236, respectively)

#### Statement of Changes in Long-term Debt to the State of The Netherlands

	Ordinary Loan A	Subordinated Loan B	Total
	(€ in millions)		
<b>Debt as of December 31, 1998</b>			
Long-term portion . . . . .	146	236	382
Short-term portion . . . . .	186	143	329
<b>Total debt as of December 31, 1998 . . . . .</b>	<b>332</b>	<b>379</b>	<b>711</b>
Repayments in 1999 . . . . .	186	143	329
<b>Total debt as of December 31, 1999 . . . . .</b>	<b>146</b>	<b>236</b>	<b>382</b>
Of which the short-term portion is . . . . .	—	124	124
<b>Long-term debt as of December 31, 1999 . . . . .</b>	<b>146</b>	<b>112</b>	<b>258</b>

The interest rate for loan A is 6.37%. The last installment to the amount of €146 million is due on December 31, 2003 or at a later date to be agreed upon by the State and KPN.

The interest rate for loan B is 6.72%. Repayment is to take place in quarterly installments of €124 million in 2000 and €112 million on December 31, 2003 or at a later date to be agreed upon by the State and KPN. The claim for repayment of loan B has been subordinated to all existing and future claims against KPN, including all claims by the State.

The last installments of loans A and B may not be repaid early. The State has the right to demand payment of the remaining amounts in full or in part at any time in order to use the amount thus repayable to pay up Class A preferred shares to be issued by KPN to the State at that time. If the State exercises its option to subscribe for Class A preferred shares, at least 25.0% of the par value of these shares must be paid up upon issue.

## Notes to the Consolidated Financial Statements (Continued)

[14] Other debts: €5,147 million (1998: 3,088)

### Other Debts

	Balance as of December 31, 1999	Balance as of December 31, 1998	(Average) Interest Rate
	(€ in millions, except for percentages)		
<b>Debenture loans</b>			
Eurobond 1996-2006 . . . . .	590	590	6.5
Eurobond 1998-2008 . . . . .	1,022	1,022	4.8
Eurobond 1999-2008 . . . . .	477	—	4.8
Eurobond 1999-2004 . . . . .	1,250	—	4.0
Zero-coupon loans . . . . .	51	47	8.1
<b>Other loans</b>			
Syndicated loan . . . . .	590	590	4.9
European Investment Bank . . . . .	227	227	4.9
Private loans . . . . .	345	612	7.0
Senior notes 1999-2009 . . . . .	340	—	7.7
Senior notes 1999-2004 . . . . .	56	—	7.8
Other long-term debts . . . . .	199	—	5-20
<b>Total</b> . . . . .	<b><u>5,147</u></b>	<b><u>3,088</u></b>	

In 1999, KPN issued two Eurobonds totaling €1,727 million (NLG 3,807 million). Of this amount, €1,250 million (NLG 2,755 million) is repayable in full in 2004, whereas the remaining amount is repayable in full in 2008.

The zero-coupon loans relate to two loans with face values of €68 million and €9 million, which are repayable in full in 2005 and 2007, respectively. As of balance sheet date, these loans were recognized at the net present value of the amounts borrowed (€46 million and €5 million).

An amount of €611 million of other loans consists of loans contracted from group companies and proportionally consolidated joint ventures (in particular from KPNQwest, KPN Orange and Pannon GSM).

The short-term portion of these long-term liabilities totals €50 million (1998: 207). This amount has been recognized under current liabilities.

The amounts of the long-term loans described above and in note 13 and the years in which they are repayable can be broken down as follows:

	Loans From the State	Bonds	Zero- coupon Loans	Other Loans	Total
	(€ in millions)				
2001 . . . . .	—	—	—	176	176
2002 . . . . .	—	—	—	163	163
2003 . . . . .	258	—	—	442	700
2004 . . . . .	—	1,250	—	192	1,442
Subsequent years . . . . .	—	2,089	75	784	2,948
<b>Total</b> . . . . .	<b><u>258</u></b>	<b><u>3,339</u></b>	<b><u>75</u></b>	<b><u>1,757</u></b>	<b><u>5,429</u></b>

KPN did not furnish securities for these loans.

## Notes to the Consolidated Financial Statements (Continued)

### CURRENT LIABILITIES

#### [15] Other debts: €2,632 million (1998: 2,177)

	As of December 31, 1999	As of December 31, 1998
	(€ in millions)	
Bank overdraft . . . . .	154	201
Accounts payable trade . . . . .	798	589
Debts to participating interests . . . . .	1,122	472
Short-term portion of long-term liabilities . . . . .	174	536
Other debts . . . . .	384	379
<b>Total . . . . .</b>	<b><u>2,632</u></b>	<b><u>2,177</u></b>

Debts to participating interests include a debt of €621 million to Vision Networks Holdings B.V. (1998: 472) and a debt of €501 million to Unisource (1998: nil).

The short-term portion of long-term liabilities comprises the short-term portions of the loans granted by the State to the sum of €124 million (1998: 329), and the short-term portions of other long-term loans to the sum of €50 million (1998: 207).

#### [16] Accruals and deferred income: €2,430 million (1998: 865)

	As of December 31, 1999	As of December 31, 1998
	(€ in millions)	
Vacation days/vacation pay . . . . .	86	64
Other . . . . .	2,344	801
<b>Total . . . . .</b>	<b><u>2,430</u></b>	<b><u>865</u></b>

Other accruals and deferred income relate to amounts received in advance for revenue that will be recognized in future years, outstanding invoices and other amounts payable.

The increase in other accruals and deferred income includes an amount payable of approximately €860 million in relation to an additional payment in respect of eircom. KPN and the government of the Republic of Ireland have agreed that Comsource (a 60% interest of KPN) will make this additional payment if the return on KPN's investment in eircom exceeds a certain level. The additional payment was made in February 2000.

#### [17] Dividend: €333 million (1998: 331)

During the Annual General Meeting of Shareholders, which was held on April 27, 2000, the Board of Management presented a proposal to the effect that the stockholders will be given the choice between payment of the final dividend for 1999 in cash or in ordinary shares. The 1999 dividend payable includes the maximum 1999 final dividend that would be distributed by KPN should shareholders opt exclusively for cash dividend. As regards the final dividend for 1999, €248 million was paid in cash and 1,811,163 shares of 3,622,326 shares were issued.

## Notes to the Consolidated Financial Statements (Continued)

### OFF-BALANCE-SHEET COMMITMENTS

	As of December 31, 1999	As of December 31, 1998
	(€ in millions)	
Commitments for:		
— capital expenditures . . . . .	697	201
— rental and lease contracts . . . . .	536	389
— guarantees . . . . .	335	443
— purchasing commitments . . . . .	442	223
— other . . . . .	44	3

Of these off-balance-sheet commitments, €1,588 million can be designated as short-term commitments (1998: 741).

#### Capital expenditure

These commitments mainly relate to additions to property, plant and equipment.

#### Rental and lease contracts

In 1999, the costs of operating leases (including rent) totaled €103 million (1998: 92).

Future minimum annual operational lease installments are as follows:

	Falling Due in the Fiscal Year
	(€ in millions)
2000 . . . . .	170
2001 . . . . .	122
2002 . . . . .	95
2003 . . . . .	70
2004 . . . . .	54
In subsequent years . . . . .	25
<b>Total</b> . . . . .	<b><u>536</u></b>

These operating lease and rental commitments mainly relate to buildings and other fixed assets.

#### Guarantees

As of year-end 1999, KPN had assumed the obligation to contribute an amount of €31 million as a subordinated loan as security for a non-recourse loan contracted by KPN Orange in 1999.

In the scope of Unisource's sale of participating interests, KPN has guaranteed any obligations incurred by Unisource to the buyers of these participating interests for an amount of €124 million.

In order to acquire a larger stake in Telkomsel, KPN agreed to an arrangement with a trading bank enabling the bank to sell 5% of Telkomsel's outstanding shares to KPN through a put option. KPN Mobile International acquired through a foreclosure sale an additional 5% interest in Telkomsel, as a result of which the aforementioned put option was cancelled. On December 31, 1999, the option

## **Notes to the Consolidated Financial Statements (Continued)**

### **OFF-BALANCE-SHEET COMMITMENTS (Continued)**

had an exercise price of USD 113 million, including accumulated interest and costs. The option, which was provided to KPN by a third party for the purpose of acquiring a 50% interest in Telkomsel, was terminated at year-end 1999.

KPN has guaranteed the liabilities of satellite organizations Eutelsat and Intelsat up to an amount of €75 million.

KPN has issued a declaration of joint and several liability for several group companies, in compliance with Article 403, Book 2 of the Dutch Civil Code.

### **Purchase obligations**

Most of these obligations have a term of less than a year.

### **Legal proceedings**

KPN is involved in several legal proceedings relating to normal operations. KPN does not expect any liabilities to result from these proceedings which will have a material effect on its financial position. KPN has provided for any likely liabilities arising from claims by third parties.

### **Credit facilities**

In the third quarter of 1999, KPN increased its existing committed credit facility of €681 million with various banks to €908 million (with a term of less than one year). For the acquisition of a majority interest in E-Plus, KPN took out a new facility of €13 billion (NLG 28.6 billion) in December 1999, with a term of one year. For €5 billion, KPN may convert this facility into a loan with a term of one year from the date of conversion. At December 31, 1999, no amounts had been withdrawn from this facility. KPN reduced the credit facility to €11.5 billion (NLG 25.3 billion) in February 2000, and further to nil in August 2000.

### **Forward exchange contracts**

Forward exchange contracts have been concluded for a number of receivables and payables denominated in foreign currencies. As of December 31, 1999, 61% of the forward exchange contracts related to 2000. The terms to maturity of the other contracts are longer.

### **Conditional commitments excluding funding**

Under contractual arrangements with a third party, KPN may have the possibility or obligation to obtain control in one of its participating interests. The amounts payable by KPN in that case depend largely on the future market value of the shares concerned. Therefore, it is impossible at this time to give a reliable estimate of these amounts, but they are likely to be substantial and will be recognized in the balance sheet entirely or partly as goodwill. The contractual arrangements do not at this stage necessitate performance of this obligation.

In July 1999, KPN and OTE, the Greek national operator, concluded a provisional agreement with the Bulgarian government regarding the purchase of a majority interest in BTC, the Bulgarian national operator, and the purchase of Bulgarian mobile licenses. While the initial purchase cost for KPN would have amounted to approximately €250 million, the company also assumed a capital expenditure

## Notes to the Consolidated Financial Statements (Continued)

### OFF-BALANCE-SHEET COMMITMENTS (Continued)

commitment of approximately €91 million, divided over three years. In mid 2000, KPN decided not to pursue these acquisitions.

It was agreed on December 9, 1999 that KPN Mobile would acquire from BellSouth 77.49% of the shares in KPN BLS Holding GmbH, the 100% shareholder of E-Plus, hereafter referred to as the joint venture, for which the cash sum of €9.1 billion was paid. The acquisition was effectuated on February 24, 2000.

At the same time, BellSouth was granted the right to convert its remaining 22.51% share in the joint venture to KPN or KPN Mobile shares, or to continue its participation. In addition, KPN granted a warrant, as described below, to BellSouth. KPN BellSouth GmbH has taken over loans of approximately €1.4 billion issued by former shareholders of E-Plus.

BellSouth's exchange right may be exercised in the period between June 9, 2001 and December 8, 2003. It has the right of earlier conversion if the State's voting rights drop below 25%, or if KPN or KPN Mobile undergo a change in control, or if another company makes a bid to gain control of KPN. Upon conversion, BellSouth will be entitled to approximately 499.6 million Class A shares in KPN Mobile, or 200 million shares (after taking into account KPN's two-for-one share split in June 2000) in KPN. The customary anti-dilution clauses apply to this exchange right. On February 24, 2000, the value of the right was €7.56 billion.

BellSouth and KPN have agreed on a subordinated loan facility under which BellSouth will obtain KPN notes up to a maximum value of USD 3 billion. KPN may use this facility solely for financing KPN Mobile's European mobile activities. KPN has granted BellSouth a warrant that allows BellSouth to obtain 92,634,066 newly-issued shares in KPN (after taking into account KPN's two-for-one share split in June 2000) in exchange for cash payment or for the amount owed under the notes. The warrant may be exercised between June 9, 2001 and December 8, 2003. The same exceptions apply as to the conversion right. The customary anti-dilution clauses apply to the warrant. The value of the warrant on February 24, 2000, was approximately €2.33 billion.

The price payable per KPN share upon exercise of the warrant will be determined by adding a premium to a basic price of approximately €31.75. Initially, a premium of 25% will apply if the warrant is exercised before December 9, 2000. Thereafter, the premium will rise by 5% per year on December 9 of each year following 2000 until a maximum of 40% has been reached.

### Fair value of financial instruments

	Book Value as of December 31, 1999	Fair Value as of December 31, 1999	Book Value as of December 31, 1998	Fair Value as of December 31, 1998
	(€ in millions)			
Marketable securities and other financial interests . . . . .	1,281	1,951	—	—
Current liability . . . . .	1,451	1,464	1,502	1,517
Long-term liability . . . . .	5,412	5,295	3,453	3,793

The book value of the financial instruments not referred to in this table does not materially differ from their fair value.

## Notes to the Consolidated Financial Statements (Continued)

### Fair value of financial instruments (Continued)

The item marketable securities and other financial interests consists of the investment in eircom (inclusive of the book value of the goodwill), whose sale KPN has announced. The fair value is based on the market price on December 31, 1999.

The current liabilities include short-term debts to banks and short-term loans contracted from institutions other than banks. The fair value of the current liabilities is virtually the same as their market value as a result of the short terms of the instruments in question.

The fair value of the long-term liabilities is estimated by calculating the net present value of the loans based on an estimated yield curve appropriate to the terms of the contracts in effect at the end of the year. The estimated yield curve is the interpolated zero coupon yield curve of the German Bund plus the credit market spread of KPN.

	1999 Contract Volume	1999 Estimated Market Value	1998 Contract Volume	1998 Estimated Market Value
	(€ in millions)			
<b>Forward exchange contracts</b>				
Term shorter than 1 year . . . . .	501	11	294	—
Term longer than 1 year . . . . .	317	—	44	(3)
<b>Total . . . . .</b>	<b>818</b>	<b>11</b>	<b>338</b>	<b>(3)</b>
<b>Interest rate swaps</b>				
Term shorter than 1 year . . . . .	—	—	—	—
Term longer than 1 year . . . . .	603	40	603	49
<b>Total . . . . .</b>	<b>603</b>	<b>40</b>	<b>603</b>	<b>49</b>

The estimated market value represents the amount payable or receivable in exchange for termination of the contracts as of balance sheet date without any further obligations. The credit risk is minimized by a strict policy as to the choice of potential opposite parties. Pursuant to that policy, KPN has set strict limits for maximum positions and investment periods. Separate limits have been set for opposite parties with credit rating, for Dutch government institutions and for a number of well-known Dutch institutions. KPN updates these limits on a regular basis.

## Notes to the Consolidated Statement of Income

### [18] Net sales: €8,100 million (1998: 7,381) (1997: 6,791)

After a comparison with other mobile operators, KPN has chosen the recognition method more commonly used in the telecommunications sector for compensations paid to service providers. As from 1999, these compensations have been charged against net sales. For 1998, the net sales and costs of Mobile have been reduced by €73 million (1997: 44). In addition, the 1998 net sales of Mobile have been reduced by €24 million (1997: 10) in order to eliminate intercompany sales. These adjustments have been recognized in the comparative figures included in the statement of income.

### [19] Own work capitalized: €352 million (1998: 352) (1997: 226)

This item consists of capitalized wage costs and indirect costs incurred as a result of in-house manufacturing of property, plant and equipment.

### [20] Other operating revenues: €680 million (1998: 211) (1997: 100)

Other operating revenues include an amount of €555 million for the effects of the stock exchange listing of KPNQwest, a joint venture, and Infonet, a participating interest, and a book profit of €23 million in relation to the partial sale of a 0.3% interest in Infonet. In 1998, this item also included an amount of €86 million on account of the release of investment grants to replace WIR allowances.

### [21] Salaries and social security contributions: €1,610 million (1998: 1,468) (1997: 1,369)

	1999	1998	1997
	(€ in millions)		
Salaries . . . . .	1,333	1,220	1,183
Pension charges . . . . .	123	121	123
Social security contributions . . . . .	154	127	63
<b>Total . . . . .</b>	<b><u>1,610</u></b>	<b><u>1,468</u></b>	<b><u>1,369</u></b>

At year-end 1999, 3,600 persons were employed by proportionally consolidated participating interests (1998: 780) (1997: 648).

### Remuneration of the Members of the Supervisory Board and the Board of Management

The remuneration of the current and former members of the Supervisory Board and the Board of Management, inclusive of social security contributions and pension charges, was as follows:

	1999	1998	1997
	(€)		
<b>Remuneration of KPN Boards</b>			
Supervisory Board . . . . .	257,000	324,000	305,000
Board of Management . . . . .	4,946,000	4,152,000	4,006,000

## Notes to the Consolidated Statement of Income (Continued)

### [21] Salaries and social security contributions: €1,610 million (1998: 1,468) (1997: 1,369) (Continued)

#### Share ownership

The current members of the Supervisory Board and Board of Management hold the following numbers of shares of ordinary shares:

	As of December 31, 1999	As of December 31, 1998	As of December 31, 1997
<b>Number of KPN shares</b>			
Supervisory Board . . . . .	12,262	10,956	17,060
Board of Management . . . . .	4,000	—	—

The number of KPN shares has been restated to reflect the two-for-one share split in June 2000.

#### Share option rights

At December 31, 1999, the current and former members of the Board of Management held 133,400 share option rights issued in 1999 under the new regulation and 280,750 share option rights issued in 1998 and earlier (1998: 357,340) (1997: 231,560).

Share options outstanding at December 31, 1999, and issued in:

	1999	1998	1997	1996	1995	Total
W. Dik . . . . .	60,000	44,000	30,000	26,000	10,750	170,750
J.G. Drechsel . . . . .	13,800	8,400	7,000	—	—	29,200
C. Griffioen . . . . .	20,000	34,000	20,000	16,000	—	90,000
P. Morley . . . . .	12,600	3,000	—	—	—	15,600
P. Smits . . . . .	27,000	—	—	—	—	27,000
	<b>133,400</b>	<b>89,400</b>	<b>57,000</b>	<b>42,000</b>	<b>10,750</b>	<b>332,550</b>
Expiry date . . . . .	03-05-04	14-04-03	07-05-02	10-05-01	31-03-00	
Exercise Price in € . . . . .	19.90	22.78 <sup>(1)</sup>	15.43 <sup>(1)</sup>	14.50 <sup>(1)</sup>	12.37 <sup>(1)</sup>	

(1) Issued in Dutch guilders (NLG) [1998: NLG 50.20, 1997: NLG 34.00, 1996: NLG 31.95, 1995: NLG 27.25]

The members of the Board did not exercise any share option rights in 1998 and 1999. The share options issued in 1999 entitle holders to one KPN share, while the share options issued in 1998 and preceding years entitle holders to one KPN share and one TNT Post Group share.

All numbers of option rights and exercise prices have been restated for the two-for-one share split which took place in June 2000.

## Notes to the Consolidated Statement of Income (Continued)

### [22] Depreciation and impairments: €2,302 million (1998: 1,412) (1997: 1,257)

	1999	1998	1997
	(€ in millions)		
Intangible fixed assets . . . . .	161	60	95
Property, plant and equipment . . . . .	2,141	1,352	1,162
<b>Total . . . . .</b>	<b><u>2,302</u></b>	<b><u>1,412</u></b>	<b><u>1,257</u></b>

Amortization and impairments of intangible fixed assets relate to the amortization of goodwill and licenses.

Depreciation and impairments of property, plant and equipment and can be broken down as follows:

	1999	1998	1997
	(€ in millions)		
<b>By category</b>			
Land and buildings . . . . .	90	80	87
Plant and equipment . . . . .	1,723	1,103	943
Other tangibles . . . . .	328	169	132
<b>Total . . . . .</b>	<b><u>2,141</u></b>	<b><u>1,352</u></b>	<b><u>1,162</u></b>
<b>By cause</b>			
Ordinary depreciation . . . . .	1,542	1,217	1,103
Changes in useful lives . . . . .	236	49	16
Impairments . . . . .	363	86	43
<b>Total . . . . .</b>	<b><u>2,141</u></b>	<b><u>1,352</u></b>	<b><u>1,162</u></b>

KPN valued its assets in the second half of 1999 in the light of the corporate strategy and technological developments and market trends. This led to a further reduction in the useful life of transmission equipment and analog switches, in particular. The downward effect was €236 million. Changes in the useful lives of assets are recognized with retroactive effect to January 1 of the year in question. In anticipation of this valuation, the 1999 interim figures included an estimated amount of €25 million for this purpose.

In September 1998, KPN accelerated the modernization of its network in order to avoid possible rate reductions imposed by OPTA. Such reductions if imposed in full would have had considerable adverse effects on KPN's returns. In 1998, KPN qualified the measure announced by OPTA and the related changes to the useful lives of the existing transmission equipment and switches following the accelerated modernization as a significant event which could not be recognized based under current accounting principles, as KPN could not have foreseen the measure. Therefore, the reduction in the useful lives were not introduced until the fourth quarter of 1998, as a result of which they led to an additional depreciation charge of €49 million in 1998. The effect of this measure in 1999 was €245 million, which was recognized as an ordinary depreciation charge.

The exceptional depreciation charge in 1999 was €363 million. This charge can be attributed to KPN's strategic reorientation on its markets and the corporate reorganization ("New KPN"). Property,

## Notes to the Consolidated Statement of Income (Continued)

### [22] Depreciation and impairments: €2,302 million (1998: 1,412) (1997: 1,257) (Continued)

plant and equipment were depreciated based on a comparison between their book values and their expected future cash flows. The write-downs related mainly to fixed connections (€161 million), to International Operator Services (€53 million) and to assets of the mobile operator (€43 million). The write-down of fixed connections, which falls entirely under the Corporate Networks Segment, primarily relates to platforms that no longer meet current market demands in relation to price, quality and capacity and will be phased out.

The international service market is changing rapidly in witness of the incorporation of KPNQwest. KPN contributed its broadband activities to this joint venture in 1999. These broadband activities were carried out using KPN's joint assets, in particular equipment that is not profitable enough to yield its book value in today's fiercely competitive market. The write-down of equipment by the international operator relates entirely to the International Activities segment.

In 1998, KPN effected a write-down of €86 million, €58 million of which related to the Mobile segment, primarily as a result of the termination of the NMT network. The write-down of €14 million, which was effected in 1997, related to outdated telecommunications equipment.

### [23] Interest and similar expense: €355 million (1998: 257) (1997: 263)

	1999	1998	1997
	(€ in millions)		
Interest on long-term liabilities . . . . .	264	174	159
Interest added to provisions . . . . .	19	26	38
Other . . . . .	72	57	66
<b>Total . . . . .</b>	<b><u>355</u></b>	<b><u>257</u></b>	<b><u>263</u></b>

### [24] Tax on profit or loss on normal operations: €186 million (1998: 481) (1997: 431)

The tax charge in the 1999 statement of income is €186 million, i.e 24.5% of the profit before taxes (1998: 35.3%) (1997: 34.2%). The differences between the effective tax rate and the Dutch corporate income tax rate of 35% can be broken down as follows:

	1999	1998	1997
	In percentages		
Dutch corporate income tax rate . . . . .	35.0	35.0	35.0
Regular permanent differences:			
—amortization of goodwill . . . . .	7.0	1.6	2.6
—investment grants to replace WIR allowances . . . . .	—	(2.7)	(0.6)
—public offering of joint ventures/participating interests . . . . .	(26.7)	—	—
—foreign activities . . . . .	9.0	0.7	(4.6)
—other . . . . .	0.2	0.7	1.8
<b>Effective tax rate . . . . .</b>	<b><u>24.5</u></b>	<b><u>35.3</u></b>	<b><u>34.2</u></b>

## Notes to the Consolidated Statement of Income (Continued)

### [24] Tax on profit or loss on normal operations: €186 million (1998: 481) (1997: 431) (Continued)

The deferred tax assets can be broken down as follows:

	As of December 31, 1999	As of December 31, 1998
	(€ in millions)	
Difference between value for financial reporting purposes and for tax purposes:		
—provisions . . . . .	35	17
—property, plant and equipment . . . . .	267	366
—other . . . . .	(5)	8
<b>Total deferred tax assets . . . . .</b>	<b><u>297</u></b>	<b><u>391</u></b>

The deferred tax assets are included as:

	As of December 31, 1999	As of December 31, 1998
	(€ in millions)	
Financial fixed assets . . . . .	206	296
Current assets . . . . .	91	95
<b>Total deferred tax assets . . . . .</b>	<b><u>297</u></b>	<b><u>391</u></b>

Taxes on profit or loss on normal operations can be broken down as follows:

	1999	1998	1997
	(€ in millions)		
Current tax . . . . .	89	453	342
Changes in deferred taxes . . . . .	94	27	89
Other . . . . .	3	1	—
<b>Tax on profit or loss on normal operations . . . . .</b>	<b><u>186</u></b>	<b><u>481</u></b>	<b><u>431</u></b>

### [25] Extraordinary expense: nil (1998: 363) (1997: nil)

In 1998, the extraordinary expense related to the formation of a provision for the implementation of the 'New KPN' reorganization.

### [26] Profit or loss after taxes per ordinary share and per ADS

The weighted average number of subscribed ordinary shares has been calculated based on the number of ordinary shares outstanding on January 1, 1999 and on December 31, 1999, taking into account the number of ordinary shares issued as share dividend. These figures have been restated to reflect the two-for-one share split which took place in June 2000. The weighted average number of subscribed ordinary shares was 955,769,964 (1998: 945,695,828) (1997: 935,693,540).

## Notes to the Consolidated Statement of Income (Continued)

### **[27] Profit or loss after taxes per ordinary share and per ADS on a fully diluted basis**

This item consists of the net earnings per ordinary share and per ADS, taking into account the dilution effect relating to share option granted in the scope of management and employee share option plans. These figures have been restated to reflect the two-for-one share split which took place in June 2000. The weighted average number of ordinary shares taking into account the dilution effect was 955,989,472 (1998: 946,979,690) (1997: 936,763,352).

### **[28] Dividend per ordinary share and per ADS**

The dividend per ordinary share and per ADS was adjusted for the demerger effects in 1997. These figures have been restated to reflect the two-for-one share split which took place in June 2000.

### **Research**

KPN spent €56 million on research (1998: 57) (1997: 53).

### **Comments in relation to current value**

In the consolidated balance sheet and the consolidated statement of income, items are stated at historical cost. The current value as of December 31, 1999 of the line items of the balance sheet give rise to the following comments:

#### ***Property, plant and equipment***

The current value of property, plant and equipment is virtually the same as the value of these assets when carried at historical cost.

#### ***Financial fixed assets and joint ventures (inclusive of related goodwill)***

The value of the participating interest included under financial fixed assets, increased by the book value of the goodwill recognized for these participating interests is €1,460 million. The book value of the proportionally consolidated joint ventures of KPNQwest, KPN Orange and Pannon GSM, inclusive of the book value of the goodwill paid, is €857 million. The current value as of December 31, 1999 of these participating interests and joint ventures, which derives from the market value or the valuations based on discounted cash flow, is estimated at approximately €18 billion. The higher current value does not affect the statement of income, as KPN carries participating interests at net asset value, so that value increases do not show until the participating interests are sold or listed on the stock exchange.

#### ***Marketable securities and other financial interests***

As of December 31, 1999, the market value of KPN's 21% interest in eircom was approximately €1,951 million, while its book value was €1,281 million.

#### ***Other assets***

The current value of the other assets does not materially differ from the value of these assets when carried at historical cost.

## **Information on U.S. Accounting Principles**

### **Introduction**

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in The Netherlands (Dutch GAAP), which differ in certain respects from generally accepted accounting principles in the United States (U.S. GAAP). The differences affecting KPN have been summarized below.

### **Employee and reorganization provisions**

Under Dutch GAAP, reorganization provisions must be formed in relation to expected costs of planned reorganizations, including redundancy costs, based on a management resolution to restructure group divisions. There are no specific requirements as to the nature of the cost items included in reorganization provisions. Under U.S. GAAP, specific criteria relating to timing and nature must be met in order to warrant the forming of a provision for liabilities and costs associated with the reorganization.

Under Dutch GAAP, KPN has formed a provision for payments to employees whose contracts with KPN have been terminated (post-employment benefits). Under U.S. GAAP (SFAS 112 'Employers' Accounting for Post-employment Benefits'), KPN must form a provision for the costs falling under contractual obligations. Other costs must be recognized in the period in which they are incurred.

Under Dutch GAAP, KPN has formed a provision for training and refresher courses and competitive terms of employment. Under US GAAP, KPN must allocate these expenses to the period in which the employees perform the work.

Under Dutch GAAP, KPN has formed a provision for expenses relating to the implementation of automation projects (as part of reorganization provision). Under US GAAP, KPN must recognize these costs in the period in which the expenses are incurred.

Under Dutch GAAP, KPN has formed a provision for relocation costs (as part of reorganization provision). Under US GAAP, KPN must recognize these costs in the period in which the expenses are incurred.

### **Capitalization of interest expense**

Under Dutch GAAP, KPN takes interest expense attributable to property, plant and equipment produced in-house directly to the statement of income. Under US GAAP, interest incurred on assets produced in-house is capitalized under fixed assets and written off over the useful lives of the assets concerned.

### **Pension charges**

KPN pays monthly pension contributions to Stichting Pensioenfonds KPN and to Stichting Ondernemings-pensioenfonds KPN. These two funds cover the pension commitments to all KPN employees. The level of the monthly contributions is set according to Dutch Guidelines. In addition, certain pension provisions are recorded in the balance sheet, such as prepension provisions. These provisions are based on actuarial assumptions and certain methods customary in The Netherlands.

Under US GAAP (SFAS 87 'Employers' Accounting & Pensions'), pension charges and related liabilities are based on a specific methodology that reflects the concept of accrual accounting, whereby certain amounts are systematically incorporated into the statement of income during the employees' periods of service. Amounts recognized as expenses are typically different from amounts paid. The calculation of the expense in the statement of income is more comprehensive and more strictly regulated than in The Netherlands, particularly with regard to the underlying actuarial assumptions. For

US GAAP purposes, KPN applies SFAS 87 and SFAS 132 ('Employers' Disclosures about Pensions and Other Post-retirement Benefits').

#### **Self-insurance**

Under Dutch GAAP, KPN recognizes a provision for self-insurance, as a multiple of the total uninsured risk. The annual addition to this provision cannot exceed the portion of the insurance premium that would have been paid had the risk been insured. Such provisions are not allowed under US GAAP.

#### **Capitalized software/software produced in-house**

Under Dutch GAAP, KPN capitalizes costs incurred for software purchased and software produced in-house. In 1998, the rules under US GAAP were adjusted, as a result of which they now correspond with Dutch GAAP. The adjustments to KPN's net income and total assets under Dutch GAAP relate to the settlement of the differences arising from the regulations prevailing before December 31, 1997.

#### **Stichting Werknemersaandelen KPN/TPG**

Under Dutch GAAP, Stichting Werknemersaandelen KPN/TPG has not been consolidated, owing to its temporary nature. US GAAP would require consolidation of this Stichting.

#### **Consolidation of Vision Networks Holdings B.V.**

Under Dutch GAAP, Vision Networks Holdings B.V. is stated at cost (€18,151). Consolidation is not allowed under US GAAP until the sale has been effected.

#### **Investment grants to replace WIR allowances**

In 1999, KPN decided to no longer recognize these investment grants in the balance sheet. This led to a non-recurring income of €86 million. US GAAP stipulate that these grants be added to income according to the original schedule.

#### **Minority participating interests**

Within the framework of the financial unwinding of Unisource, KPN has formed provisions of €165 million for expected future obligations of AUCS and guarantee commitments. Such provisions cannot be formed under US GAAP. In addition, a fee in the sum of €70 million paid by AT&T in relation to the termination of its participation in AUCS was recognized as income. Under US GAAP, this fee should be added to shareholders' equity in AUCS as a capital contribution.

Under US GAAP, KPN's interest in eircom as of September 30, 1999 would be lower by €70 million, while KPN's share in the income from this participating interest for the period from January 1, 1999 up to and including September 30, 1999 would be lower by €47 million. These differences are attributable to different principles of accounting for employee share options. In addition, the reorganization provision would not entirely be acceptable under US GAAP.

In relation to eircom's public offering and KPN's announcement that it wishes to sell its interest in the company, KPN no longer exercises significant influence in eircom. As from the fourth quarter of the year, KPN has not received any information about the company's performance. The interest in eircom was valued based on the company's external interim financial statements for the period ended September 30, 1999.

## **Dividend**

Under Dutch GAAP, dividends proposed but not yet approved or distributed are deducted from shareholders' equity and recognized as current liabilities. Under US GAAP, proposed final dividends cannot be deducted from shareholders' equity until they are officially declared payable.

## **Other differences**

Under Dutch GAAP, capitalized staff costs and materials relating to own work are presented as part of total operating revenues. Under US GAAP, these costs are charged against the relevant line item under operating expenses. This does not lead to any differences in net income.

Under Dutch GAAP, income from the sale of operations and assets is presented as part of other operating revenues and is included in operating profit. Under US GAAP, such income would not be included in operating revenues and thus excluded from operating profit. In 1999, the results generated by the public offerings of KPNQwest and Infonet were recognized as other operating revenues. Under US GAAP, this result of €555 million would not be included under operating profit but would be stated separately. This does not lead to any differences in net income.

Property, plant and equipment contributed at the time of the establishment of Royal PTT Nederland in 1989 were valued at their current value at the time. Dutch law stipulates this course of action, which is also in line with the prevailing Dutch accounting principles. US GAAP require valuation at historical cost. In the recalculation of profits and capital under US GAAP, this item was not adjusted, as the historical cost could not be determined.

Interest relating to pension provisions was presented as an interest expense in 1999 where it did not exceed €18 million (1998: 24) (1997: 35). Under US GAAP, such interest expense is qualified as a pension charge and presented under the operating revenues.

Under Dutch GAAP, investments in joint ventures can be consolidated proportionally. This is generally not allowed under US GAAP. However, SEC does not require adjustment in this case. Under Dutch GAAP, Pannon GSM can be consolidated proportionally because the criteria of a joint venture have been met. US GAAP do not allow proportional consolidation of Pannon GSM as the strict rules under US GAAP regarding joint control have not been met.

Under US GAAP, the joint venture must be valued at net asset value. This difference does not cause any change when income is adjusted in line with US GAAP, but it would produce a lower operating profit (€39 million), operating revenues (€139 million), depreciation and impairments (€22 million), fixed assets (€125 million), current assets (€70 million), long-term liabilities (€123 million) and current liabilities (€33 million).

In accordance with Dutch legislation, the interest held in Infonet has been valued at net asset value. Under SFAS 115 ('Accounting for Certain Investments in Debt and Equity Securities') and US GAAP, Infonet must be valued at market value, whereby changes in value of shares held for a prolonged period as part of comprehensive income are taken directly to capital. This would result in an increase in the item for financial fixed assets of €2,064 million. However, there is under US GAAP an item of €176 million for revenue received in advance that has been recognized under the liabilities that will be released in three years' time and a provision of €91 million (also created under Dutch GAAP).

KPN compiles its cash flow statement in accordance with Dutch GAAP, which correspond with International Accounting Standards (IAS 7). SEC approves of compilation of cash flow statements by virtue of IAS 7.

Under Dutch GAAP, the portion of the provisions due to be released within one year is presented as part of the provisions. Under US GAAP, this would have to be presented under current liabilities.

This difference would increase the current liabilities as of December 31, 1999 by €226 million (1998: 282) (1997: 106).

Goodwill paid following the acquisition of participating interests carried at net asset value amounted to €646 million in 1999 (1998: 791) (1997: 489). This goodwill is presented separately in the balance sheet. Under US GAAP, this goodwill would be presented under participating interests. This difference does not lead to any adjustment of profits under US GAAP.

The consolidation of Vision Networks Holdings H.V. under US GAAP would lead to an increase in KPN's consolidated balance sheet in loans to participating interests by €79 million, an increase in provisions by €57 million and a decrease in current liabilities by €621 million.

#### Reconciliation statements

The following statements summarize the adjustments to KPN's profits after taxes and total shareholders' equity that would have to be made if the company were to report under US GAAP.

<b>Profit or Loss After Taxes</b>			
	<b>1999</b>	<b>1998</b>	<b>1997<sup>(1)</sup></b>
	<b>(€ in millions)</b>		
<b>Profit or loss after tax as per NL GAAP</b> . . . . .	<b>828</b>	<b>688</b>	<b>878</b>
Adjustments for:			
— employee and reorganization provisions . . . . .	(5)	182	37
— capitalization of interest charges . . . . .	30	21	13
— pension charges . . . . .	(227)	(78)	(91)
— self-insurance . . . . .	(6)	(6)	(11)
— capitalization of software . . . . .			(15)
— write-down of capitalized interest charges . . . . .	(22)	(11)	(10)
— write-down of capitalized software/software produced in-house . . . . .	(6)	(21)	(37)
— consolidation of Vision Networks Holdings B.V. . . . .	(27)	(100)	(100)
— investment grants to replace WIR allowances . . . . .	24	(86)	
— minority participating interests . . . . .	48		
— tax effect of adjustments . . . . .	82	(30)	39
<b>Profit or loss after taxes as per US GAAP</b> . . . . .	<b>719</b>	<b>559</b>	<b>703</b>

(1) Adjusted to enable comparison following the financial effects of the demerger of TNT Post Groep

## Shareholders' Equity

	As of December 31, 1999	As of December 31, 1998
	(€ in millions)	
<b>Shareholders' equity as per NL GAAP</b> . . . . .	<b>6,364</b>	<b>5,913</b>
Adjustments for:		
— employee and reorganization provisions . . . . .	287	292
— capitalization of interest charges . . . . .	136	128
— dividend . . . . .	333	331
— pension liabilities . . . . .	(1,419)	(1,192)
— self-insurance . . . . .	36	42
— capitalization of software . . . . .	(7)	(1)
— Stichting Werknemersaandelen KPN/TPG . . . . .	(23)	(29)
— consolidation of Vision Networks Holdings B.V. . . . .	645	659
— investment grants to replace WIR allowances . . . . .	(62)	(86)
— minority participating interests . . . . .	24	—
— changes in valuation of Infonet to market value . . . . .	1,797	—
— deferred taxes . . . . .	336	254
<b>Shareholders' equity as per US GAAP</b> . . . . .	<b>8,447</b>	<b>6,311</b>

### Minority participating interests

Based on a valuation at net asset value, the book value of the minority participating interests as of December 31, 1999 amounts to €1,042 million (1998: 920) (1997: 722).

The financial position of and income from these interests can be presented in total as follows:

	As of December 31, 1999	As of December 31, 1998
	(€ in millions)	
<b>Balance sheet information</b>		
Fixed assets . . . . .	4,466	11,845
Current assets . . . . .	2,976	3,093
Minority interests . . . . .	5	(12)
Provisions and long-term liabilities . . . . .	1,761	4,614
Current liabilities . . . . .	1,024	2,610
<b>Results</b>		
Total operating revenues . . . . .	2,820	7,152
Profit or loss on normal operations before tax . . . . .	1,106	856
Profit or loss after taxes . . . . .	990	1,038

### Proportionately consolidated participating interests

The proportionate consolidation of the joint ventures affected the following items in the consolidated balance sheet and the consolidated statement of income:

	As of December 31, 1999
	(€ in millions)
<b>Balance sheet information</b>	
Fixed assets . . . . .	473
Current assets . . . . .	894
Minority interests	
Provisions and long-term liabilities . . . . .	529
Current liabilities . . . . .	290
<b>Income</b>	
Total operating revenues . . . . .	143
Profit or loss on normal operations before tax . . . . .	<u>(117)</u>

If KPN had not proportionately consolidated its joint ventures, the profit after taxes would not have changed. The net loss generated by KPN's share in joint ventures amounted to €108 million.

### Comprehensive income

In addition to the reconciliation of profit or loss after tax as per Dutch GAAP and as per U.S. GAAP, comprehensive income must also be stated as per U.S. GAAP. This comprehensive income represents all changes in a company's shareholders' equity during a certain period, with the exception of payments by and distributions to shareholders.

### Comprehensive Income

	1999	1998	1997
	(€ in millions)		
<b>Profit or loss after tax as per U.S. GAAP . . . . .</b>	<b>719</b>	<b>559</b>	<b>703</b>
Adjustments for:			
— exchange rate differences through shareholders' equity . . . . .	10	(9)	(68)
— change in valuation of Infonet to market value . . . . .	<u>1,797</u>	<u>—</u>	<u>—</u>
<b>Comprehensive Income . . . . .</b>	<b><u>2,526</u></b>	<b><u>550</u></b>	<b><u>635</u></b>

## **PENSION PROVISIONS UNDER U.S. GAAP**

In 1999, KPN had three pension schemes, two of which are ordinary pension schemes. The third one is an early retirement scheme. Based on collective pay and conditions agreements (“CAOs”) made in 1999, the two pension schemes will be renewed in 2000. In addition, the early retirement schemes will be adjusted.

### **Pension schemes**

The first KPN pension scheme (“Bpf-regeling”) concerns employees to whom the KPN CAO applies, i.e. the majority of all KPN staff in The Netherlands. The scheme is administered by Stichting Bedrijfspensioenfonds KPN.

Under the current scheme which is effective until April 1, 2000, employees participate in the pension scheme as soon as they reach the age of 25 and are entitled to a pension when they reach the age of 65. The benefits are based on the number of years of service and do not exceed 70% of the last-earned salary, after deduction of the allowance for AOW (General Old Age Pensions Act). This is a final pay scheme. Both KPN and the employee contribute to the financing of this pension scheme.

In November, KPN reached final agreement with the trade unions about the introduction of a new pension scheme for CAO staff as of April 1, 2000. The crux of the new scheme is employee participation on entering KPN’s employ, a switch to an index-linked average pay system in conjunction with a disposable premium arrangement for the salary constituent in excess of €45,378, lowering of the standard pensionable age to 62, reduction of the part of the income exempted from contribution to AOW, introduction of risk insurance for the partner pension, reduction of the contribution payable by the employee and flexible retirement between the ages of 60 and 67.

The second KPN pension scheme (“Opf-regeling”), which largely corresponds with the first scheme, is intended for employees with personal employment contracts (to whom the CAO does not apply) and is administered by Stichting Ondernemingspensioenfonds KPN. On July 1, 2000, this scheme will be replaced by a new scheme which also largely corresponds with the new scheme for employees to whom the CAO is applicable.

### **Prepension and early retirement schemes**

The prepension and early retirement schemes in effect in 1999 apply to CAO staff. Under these schemes, employees aged 61 or older may retire early provided that they have been in KPN’s employ for the past 10 years.

The early retirements scheme applies to staff who reached the age of 55 before April 1, 1996, or who had completed at least 25 years of service at that date. It provides for an annual benefit paid by KPN during the early retirement period of 80% of the last-earned annual salary. For employees to whom the early retirement scheme is applicable, the pensionable age for the new pension scheme remains 65. The early retirement scheme remains in effect.

The current prepension scheme applies to the remaining CAO staff. It provides for an annual basic benefit of 60% of the last-earned annual salary for the maximum four-year prepension period. If the prepension period is less than four years, the annual benefit may increase to a minimum of 80% of the last-earned salary. In order to supplement this, employees aged 35 and older may participate in a prepension savings plan, by which they can increase the annual prepension benefit for the maximum prepension period of four-years up to 80% of their last-earned salary.

As soon as the new pension scheme and the related flexible retirement with a pensionable age of 62 come into effect, i.e. on April 1, 2000, the existing prepension scheme will terminate. A transitional arrangement will be introduced for a supplementary pension for the period between the age of 62 and

65 for staff aged 35 or older on the implementation date of the new pension scheme. For employees aged 45 and older at that time, KPN provides a supplement up to 80% of the average salary. For employees aged between 35 and 45, this supplement is 60% to 80% on a proportional basis.

In 1999, there was also an early retirement scheme for employees with personal employment contracts. The level of the benefit and the early retirement date depend on the provisions of the personal employment contract. This scheme will be terminated as soon as the new pension scheme becomes effective, i.e. on July 1, 2000. The new scheme (similar to the CAO scheme) provides for flexible retirement from the age of 62 and a comparable transition arrangement.

For the provision of U.S. GAAP information, the prospective pension obligation, i.e. the Projected Benefit Obligation (“PBO”), has been determined in accordance with SFAS 87. Moreover, the accrued pension obligation, i.e. the Accumulated Benefit Obligations (“ABO”), has been determined in accordance with SFAS 87. The assets of Stichting Bedrijfspensioenfonds KPN and Stichting Ondernemingspensioenfonds KPN are carried at market value.

The assumptions used in this calculation are as follows:

	1999	1998	1997
	In Percentages		
Actuarial interest . . . . .	5.5	4.5	6.0
Wage inflation . . . . .	3.0	3.0	3.0
Price inflation . . . . .	2.0	2.5	2.0
Return on investment . . . . .	9.5	7.5	7.0

#### Investment portfolio

The investment portfolio for pensions is administered by the above Stichtingen and comprises the following:

	Strategic (as From 1999)	Current From December 31, 1999	Current From December 31, 1998	Current From December 31, 1997
	In Percentages			
Shares . . . . .	58	63	54	56
Fixed-interest securities . . . . .	35	32	42	37
Property . . . . .	7	5	4	6
Cash and cash equivalents . . . . .	—	—	—	1

In accordance with SFAS 87, the pension charges for the years 1999, 1998 and 1997 can be broken down as follows:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(€ in millions)		
Service charges . . . . .	(267)	(143)	(157)
Interest charges . . . . .	(263)	(231)	(218)
Return on investments . . . . .	<u>221</u>	<u>173</u>	<u>162</u>
	<b>(309)</b>	<b>(201)</b>	<b>(213)</b>
Depreciation of transition costs . . . . .	(51)	(51)	(51)
Depreciation of prior service costs . . . . .	7	7	7
Depreciation of experience gain/loss . . . . .	<u>(47)</u>	<u>9</u>	<u>(3)</u>
	<b>(400)</b>	<b>(236)</b>	<b>(260)</b>
Employee contribution . . . . .	<u>23</u>	<u>24</u>	<u>18</u>
<b>Pension charges as per SFAS 87 (U.S. GAAP) . . . . .</b>	<b>(377)</b>	<b>(212)</b>	<b>(242)</b>
Pension charges as per Dutch principles . . . . .	<u>(150)</u>	<u>(134)</u>	<u>(151)</u>
<b>Supplementary pension charges as per SFAS 87 (U.S. GAAP) . . . . .</b>	<b>(227)</b>	<b>(78)</b>	<b>(91)</b>

KPN's balance sheet position at December 31, 1999 and December 31, 1998 in accordance with SFAS 87 ("Funded Status") was as follows:

	<u>As of December 31, 1999</u>	<u>As of December 31, 1998</u>
	(€ in millions)	
Accumulated Benefit Obligation . . . . .	(3,268)	(4,340)
Projected Benefit Obligation . . . . .	(4,048)	(5,605)
Current value of plan assets . . . . .	<u>3,560</u>	<u>2,852</u>
<b>Benefit Obligation in excess of plan assets . . . . .</b>	<b>(488)</b>	<b>(2,753)</b>
Unrecognized net gain/loss . . . . .	(607)	1,118
Unrecognized prior service costs . . . . .	(827)	(83)
Unrecognized net transition asset . . . . .	<u>184</u>	<u>235</u>
<b>Pension provisions as per SFAS 87 (U.S. GAAP) . . . . .</b>	<b>(1,738)</b>	<b>(1,483)</b>
Pension provision as per Dutch principles . . . . .	<u>(319)</u>	<u>(291)</u>
<b>Additional pension obligation as per SFAS 87 (U.S. GAAP) . . . . .</b>	<b>(1,419)</b>	<b>(1,192)</b>

The adjustment for an additional minimum obligation was nil in 1999 (1998: €67 million) (1997: 85). Shareholders' equity did not decrease (1998: nil) (1997: nil).

	<u>1999</u>	<u>1998</u>
	(€ in millions)	
<b>Statement of changes in Projected Benefit Obligation</b>		
Projected Benefit Obligation beginning of year . . . . .	(5,605)	(3,729)
Service charges . . . . .	(244)	(120)
Interest charges . . . . .	(262)	(231)
Employee contribution . . . . .	(23)	(23)
Effects of new pension scheme . . . . .	751	—
Actuarial profit or loss . . . . .	1,260	(1,569)
Contributions paid . . . . .	75	67
<b>Projected benefit obligation end of year . . . . .</b>	<b><u>(4,048)</u></b>	<b><u>(5,605)</u></b>
<b>Statement of changes in plan assets</b>		
Current value of plan assets beginning of year . . . . .	2,852	2,386
Realized return on investments . . . . .	638	401
Employer contribution . . . . .	121	108
Employee contribution . . . . .	23	24
Contributions paid . . . . .	(74)	(67)
<b>Current value plan assets end of year . . . . .</b>	<b><u>3,560</u></b>	<b><u>2,852</u></b>

## Notes to the Consolidated Cash Flow Statement

### General principles

The cash flow statement has been prepared according to the indirect method. Cash flows denominated in currencies other than euro have been translated at average exchange rates. Exchange rate differences affecting cash items are shown separately in the cash flow statement. Income and expense relating to interest and tax on profits are included in the cash flow from operating activities. The cost of newly acquired group companies and participating interests, insofar as paid for in cash, is included in the cash flow from investing activities. Cash flows resulting from group companies acquired or disposed of are disclosed separately. The cash assets of newly acquired group companies are shown separately in the cash flow statement.

**[29] Net cash flow from operating activities: €2,455 million (1998: 2,305) (1997: 2,039)**

The amount payable of €862 million in relation to the acquisition and the additional payment to eircom has been eliminated from the changes in other current assets and current liabilities.

**[30] Net cash flow from financing activities: €2,350 million (1998: 444) (1997: (326))**

The public offering of KPNQwest led to a net cash flow of €414 million. This relates to an increase in the shareholders' equity of that company.

## Notes to the Consolidated Statement of Changes in Shareholders' Equity

All numbers of shares, options and exercise prices have been restated to reflect the effect of the two-for-one share split in June, 2000.

### **[31] Subscribed share capital: €217 million (1998: 216)**

The authorized share capital after the two-for-one share split in June 2000 amounts to €1,140,000,000 and is divided into:

- 1,900,000,000 ordinary shares;
- 1 (one) special share;
- 1,187,499,998 class A preferred shares; and
- 1,662,500,000 class B preferred shares.

The ordinary and preferred shares have a nominal value of €0.24 each; the special share has a nominal value of €0.48. The ordinary shares are in bearer or in registered form at the holder's request. The special share and the preferred shares are registered.

The subscribed share capital amounted to €217 million as of December 31, 1999, and consisted of 1 (one) special share with a par value of €0.48 and 958,730,932 ordinary shares with a par value of €0.24 each. The State of The Netherlands holds the special share. In addition, it holds 43.25% (1998: 43.5%) of the ordinary shares as of December 31, 1999. Under Dutch law, shareholders must notify the company and the *Stichting Toezicht Effectenverkeer* (Securities Transactions Supervisory Board) of The Netherlands immediately if their holding and/or their voting rights in the company should reach, exceed or fall below the following ranges: 0 to 5%, 5% to 10%, 10% to 25%, 25% to 50%, 50% to 66⅔% and 66⅔% or more. In 1999, KPN received no such notification as was the case in 1998 and 1997.

### **Stichting Werknemersaandelen KPN/TPG**

Owing to the demerger, the management share options and the convertible bonds outstanding at the time of the demerger entitle the holders to both a share of KPN and a share of TPG. As these entitlements were awarded before the demerger, it is impossible to exercise such options or convert a convertible bond into solely KPN or TPG shares. This procedure is in accordance with the stock exchange rules and regulations of the Euronext Amsterdam N.V. relating to KPN publicly traded options. KPN and TPG have taken the necessary measures to ensure that the shares are available when the options and the convertible bonds are exercised or converted, respectively. As part of those measures, Stichting Werknemersaandelen KPN/TPG was founded on May 29, 1998. All commitments relating to the options outstanding at the time and convertible bonds were covered before the time of the demerger, by means of the purchase and issue of shares. All shares are held by Stichting Werknemersaandelen KPN/TPG, until all "old" options and convertible bonds have been exercised or converted, respectively. KPN granted Stichting Werknemersaandelen KPN/TPG a loan of €35 million in order to finance the share purchase (1998: 45).

Pursuant to agreements made with TPG regarding the management of Stichting Werknemersaandelen KPN/TPG and its temporary nature, Stichting Werknemersaandelen KPN/TPG is not included in KPN's consolidated figures.

### **Treasury shares**

On June 3, 1994, Royal PTT Nederland acquired treasury shares at a price of €11.29 each for an employee share option plan (convertible bonds) and a management share option plan. In light of the

**Notes to the Consolidated  
Statement of Changes in Shareholders' Equity (Continued)**

**[31] Subscribed share capital: €217 million (1998: 216) (Continued)**

demerger, an additional 1,553,620 shares were purchased in 1998 for both plans, at a price of €25.49, and 2,100,000 shares were issued. These shares are held by Stichting Werknemersaandelen KPN/TPG.

**Treasury Shares**

	For Convertible Staff Bond	For Management Share Option Plan	Total
	Number of shares		
Balance as of December 31, 1996 . . . . .	3,818,194	1,762,820	5,581,014
Converted in 1997 . . . . .	1,986,790	568,350	2,555,140
Balance as of December 31, 1997 . . . . .	1,831,404	1,194,470	3,025,874
Purchased in 1998 . . . . .	—	1,553,620	1,553,620
Issued in 1998 . . . . .	1,720,820	379,180	2,100,000
Converted in 1998 . . . . .	3,047,150	606,690	3,653,840
Balance as of December 31, 1998 . . . . .	505,074	2,520,580	3,025,654
Reclassification . . . . .	13,344	(13,344)	—
Converted in 1999 . . . . .	518,418	419,308	937,726
<b>Balance as of December 31, 1999</b>	<b>—</b>	<b>2,087,928</b>	<b>2,087,928</b>

**Employee share option plan**

On January 4, 1994, all employees were given the opportunity to participate in an employee share option plan. Under this plan, each employee could obtain 200 share options, each granting the right to one KPN share between January 4, 2002 and January 4, 2004. The delivery of the shares will be covered by the gradual issue of new shares. A total of 14,170 employees participated in this plan at an exercise price of €21.25. In 1999, no options were exercised or cancelled.

**Management share option plan**

In 1994, the Supervisory Board approved a share option plan adopted by Royal PTT Nederland for a number of senior managers. The plan provides for the issue of a maximum of two million share options to be granted either to members of the Board of Management, as decided by the Supervisory Board, or to other persons, as decided by the Board of Management in consultation with the Supervisory Board. Upon their exercise, share options entitle the holders to one ordinary share per option. All share options are exercisable during a 5-year period. The exercise price for each option was originally the market value of an ordinary share on the date the option was issued. In 1997, the Supervisory Board approved a second option plan under the same terms and conditions as the plan described above. This second plan is intended for a larger group than the first plan. As of year end 1999, this latter group comprised about 600 persons. The share option plan provided for the issue of a maximum of 4.4 million options. Since the KPN shares were split on June 5, 2000, the management share option plan of 1998 and previous years entitles holders to two KPN shares and one TPG share.

**Notes to the Consolidated  
Statement of Changes in Shareholders' Equity (Continued)**

**[31] Subscribed share capital: €217 million (1998: 216) (Continued)**

**Option Issued in 1998 and Preceding Years<sup>(1)</sup>**

	<u>Issued</u>	<u>Balance as of December 31, 1999</u>	<u>Balance as of December 31, 1998</u>	<u>Balance as of December 31, 1997</u>	<u>Exercise Price in (€)<sup>(2)</sup></u>	<u>Exercise Period Up to and Including</u>
	Number of Share Options					
<b>Issue date</b>						
June 6, 1994 . . . . .	342,220	—	41,460	105,460	11.28	June 5, 1999
March 31, 1995 . . . . .	282,080	27,380	62,220	114,030	12.37	March 30, 2000
May 10, 1996 . . . . .	520,420	136,360	226,220	337,180	14.50	May 9, 2001
May 7, 1997 . . . . .	1,259,620	668,980	722,920	1,016,980	15.43	May 6, 2002
April 14, 1998 . . . . .	1,553,620	1,287,040	1,436,720	—	22.78	April 13, 2003

(1) entitling the holders to one KPN share and one TPG share.

(2) Exercise price originally denominated in Dutch guilders (respectively NLG 24.85, NLG 27.25, NLG 31.95, NLG 34.00, NLG 50.20).

In 1999, options were again issued under the 1997 plan. There are two differences with the options granted in 1998 and previous years. The options in 1999 entitle the holder to one KPN share and the option commitment will be covered by the gradual issue of new shares.

**Options Issued in 1999<sup>(1)</sup>**

	<u>Issued</u>	<u>Balance as of December 31, 1999</u>	<u>Exercise Price (€)</u>	<u>Exercise Period Up to and Including</u>
	Number of Share Options			
<b>Issue date</b>				
January 8, 1999 . . . . .	36,000	36,000	€24.78	January 7, 2004
May 3, 1999 . . . . .	1,427,840	1,326,840	€19.90	May 2, 2004

(1) entitling the holders to one KPN share.

Recognition of the management share options issued in 1999 at current value (SFAS 123) would result in a downward adjustment to net profit of €47 million (1998: 9) (1997: 3). Per employee option, this amounts to €10.64 and per management option of January 8 and May 3, this amounts to €16.02 and €11.60 (1998: 5.88) (1997: 3.21), respectively. The method used in this valuation is the binominal method, based on an American call option taking into account dividend. The most important assumptions for the valuation are a share volatility of 57.1%, 65.5% and 29.33%, respectively, a dividend yield of 2.5%, a risk-free interest rate of 4.55%, 4.72% and 5.21%, respectively and an expected life of the option to the end of term. No expenditure has been taken to the statement of income in connection with the option schemes. The number of forfeited share options was 49,920 in 1999 (1998: 31,040) (1997: 20,420).

**Notes to the Consolidated  
Statement of Changes in Shareholders' Equity (Continued)**

**[32] Additional paid-in capital: €4,288 million (1998: 4,290)**

The additional paid-in capital is exempt from Dutch tax up to an amount of €2,837 million (1998: 2,838).

**[33] Reserves required by law: €791 million (1998: 145)**

This reserve represents KPN's share in the income from participating interests which cannot be distributed immediately. The increase in this reserve is in particular caused by the effects of the public offerings of the joint venture KPNQwest and the participating interest Infonet (€ 555 million).

## Segmented Reporting

### New segmentation in 1999

Companies listed on the New York Stock Exchange are required to record figures for a period of three years in its accounts, and provide insight into its performance in accordance with its management policy. KPN made adjustments to the segmentation in 2000 in connection with the launch of New KPN. Net sales and operating profit have been segmented in accordance with the manner in which the company was managed as from 2000.

The segmentation of net sales and operating profit was adjusted as a result of these changes. The 1998 comparative figures were recalculated based on the new segmentation. Resegmentation for 1997 could not take place because this would have required a disproportionate amount of effort.

### Operations by segment

At the beginning of 2000, KPN grouped its business and responsibilities into four core segments — corresponding to its four areas of strategic focus—and another segment called “Other”. KPN has restated the figures for the full year 1999 and 1998 on the same basis. KPN was not able to restate its 1997 results of operations to reflect its new segmentation, as it was impracticable to do so, since the organizational structure and management reporting information for this period differs significantly from that available for later periods. The restatement of 1997 results of operating can therefore not be obtained without disproportionate effort. Accordingly, the figures of 1997 are based on our previous segmentation.

Both under KPN’s new and old segmentation, KPN’s centralized sales and distribution, production and head office functions (included in Other) provide their services within KPN’s Group, either at cost or, in the case of businesses which have been carved out or in which other parties have taken an interest (like KPN Mobile), on an arms-length basis.

KPN’s new segments are as follows:

- *Fixed network services.* This segment includes domestic, fixed-to-mobile and outbound international telephone traffic that KPN provides on its fixed network in The Netherlands to business customers and consumers. It also comprises wholesale domestic and international network access and transmission services.
- *Mobile communications.* This segment consists of all of our mobile telecommunications business, both in The Netherlands and abroad.
- *IP/data.* This segment consists of the provision of data transmission services (including the provision of leased lines), private network services, data applications solutions and integration services for large business customers (other than telecommunications providers) in the Benelux countries; together with the provision of data transmission services and telecommunications infrastructure sales in other countries through KPN’s interests in KPNQwest, Infonet and PanTel. We also act as the distributor of KPNQwest’s services in the Benelux countries.
- *ICM.* This segment consists of KPN’s Internet and media, and customer relationship management services. KPN’s Internet and media services consist of ISPs, Internet portal content, telephone directories and premium rate calling services. KPN’s customer relationship management services consist of operating call centers and customer interaction centers for business and providing call center services.
- *Other.* This segment consists of KPN’s business communications activity (which delivers, installs and services communications equipment for business customers), Station 12 (a satellite communications joint venture with Telstra) and KPN’s sales and distribution network including

### Segmented Reporting (Continued)

Primafoon stores and business centers, together with all of KPN's fixed network including Primafoon stores and Business Centers, together with all of KPN's fixed network construction, operation activities, KPN's head office functions, KPN Research (KPN's research and development department), and KPN's interests in eircom and Český Telecom.

Previously, KPN's business was grouped into the following three segments:

- *Fixed telephony, equipment and other.* This segment was divided into five business units:
  - Fixed telephony.
  - Business communications (now included in "Other").
  - Corporate Networks, which consisted of KPN's IP/data business in the Benelux countries (now included, together with KPNQwest, in IP/data services).
  - Telecommerce, which consisted of KPN's Internet, customer relationship management and media services (now part of our ICM services segment).
  - Other, including KPN's wholesale carrier services business (now included in fixed network services), KPN's network construction and operation activities (now included in "Other") and a number of other activities such as our distribution network (now included in "Other").
- *Mobile communications.* As under KPN's new segmentation, this segment consisted of all of KPN's mobile telecommunications business, both in The Netherlands and abroad.
- *International activities.* This segment consisted of all of KPN's international activities other than mobile telecommunications, including our wholesale international call handling and transmission services (now part of "fixed network services") and KPN's interests in other companies such as KPNQwest, KPN Belgium, PanTel and Infonet (which are now included in "IP/data services")

### Other adjustments

After a comparison with other mobile operators, KPN has chosen the recognition method more commonly used in the telecommunications sector for compensations paid to service providers. As from 1999, these compensations have been charged against net sales. For 1998, the net sales and costs of Mobile have been reduced by €73 million (1997: 44). In addition, the 1998 net sales of Mobile have been reduced by €24 million (1997: 10) in order to eliminate intercompany sales. These adjustments have been recognized in the comparative figures included in the statement of income.

## Segmented Reporting (Continued)

### Effects of consolidation of Pannon GSM

In the second six months of 1998, KPN increased its interest in Pannon GSM from 24% to 44.66%. In 1999, KPN decided to consolidate Pannon GSM proportionately as from January 1, 1999. Consolidating the figures of Pannon proportionately as from the moment of the increase would have had the following effect on the Mobile segment for 1998:

	Year ended December 31, 1998 (€ in millions)
<b>Income</b>	
Total operating revenues . . . . .	46
Amortization, depreciation and impairments . . . . .	7
Operating profit . . . . .	8
Income from participating interests . . . . .	0
Net profit or loss . . . . .	0
<b>Balance sheet information</b>	
Fixed assets . . . . .	97
Current assets . . . . .	23
Provisions and long-term liabilities . . . . .	85
Current liabilities . . . . .	20

### Total Operating Revenues

	1997 (€ in millions)
<b>Fixed Telephony, Equipment and Other . . . . .</b>	<b>5,875</b>
<b>Mobile . . . . .</b>	<b>947</b>
<b>International Activities . . . . .</b>	<b>878</b>
<b>Intercompany supplies . . . . .</b>	<b>(583)</b>
<b>Total . . . . .</b>	<b><u>7,117</u></b>

  

	1999	1998
	(€ in millions)	
Fixed Network Services . . . . .	4,819	4,593
Mobile Communications . . . . .	1,748	1,274
IP/data . . . . .	1,499	617
ICM . . . . .	618	516
Other . . . . .	1,456	1,558
Intercompany Revenues . . . . .	(1,008)	(614)
	<u>9,132</u>	<u>7,944</u>

Total 1999 operating revenues of the IP/data segment include an amount of €555 million for the effects of the public offerings of KPNQwest, a joint venture, and Infonet, a participating interest, and a book profit of €23 million in relation to the sale of a 0.3% interest in Infonet.

## Amortization, Depreciation and Impairments

	1997
	(€ in millions)
<b>Fixed Telephony, Equipment and Other</b> . . . . .	<b>1,051</b>
<b>Mobile</b> . . . . .	<b>98</b>
<b>International Activities</b> . . . . .	<b>108</b>
<b>Total</b> . . . . .	<b><u>1,257</u></b>

  

	1999	1998
	(€ in millions)	(€ in millions)
Fixed Network Services . . . . .	1,190	771
Mobile Communications . . . . .	224	187
IP/data . . . . .	386	143
ICM . . . . .	87	69
Other . . . . .	415	242
	<u>2,302</u>	<u>1,412</u>

The impairment charge of €599 included in 1999's depreciation comprises €196 million in depreciation of Fixed Network Services, €208 million in depreciation of IP/Data, €21 million in depreciation of ICM, €128 million in depreciation of Other and €46 million in depreciation of Mobile Communications. The amortization charge of €39 million concerns the write-down of goodwill relating to Unisource which has been recorded in Other.

## EBITDA

	1997
	(€ in millions)
<b>Fixed Telephony, Equipment and Other</b> . . . . .	<b>2,344</b>
<b>Mobile</b> . . . . .	<b>201</b>
<b>International Activities</b> . . . . .	<b>204</b>
<b>Total</b> . . . . .	<b><u>2,749</u></b>

  

	1999	1998
	(€ in millions)	(€ in millions)
Fixed Network Services . . . . .	2,346	2,540
Mobile Communications . . . . .	458	301
IP/data . . . . .	751	127
ICM . . . . .	(26)	(3)
Other . . . . .	(174)	22
	<u>3,355</u>	<u>2,987</u>

The effects referred to under total operating revenues and amortization and depreciation affected the operating profits of the various segments.

## Total Assets

	<u>1997</u>
	(€ in millions)
<b>Fixed Telephony, Equipment and Other</b> . . . . .	<b>9,252</b>
<b>Mobile</b> . . . . .	<b>896</b>
<b>International Activities</b> . . . . .	<b>1,832</b>
<b>Total</b> . . . . .	<b><u>11,980</u></b>

	<u>1999</u>	<u>1998</u>
	(€ in millions)	
Fixed Network Services . . . . .	7,432	7,655
Mobile Communications . . . . .	2,343	1,457
IP/data . . . . .	2,563	1,324
ICM . . . . .	348	264
Other . . . . .	5,305	2,929
	<u>17,991</u>	<u>13,629</u>

## Additions to Property, Plant and Equipment

	<u>1997</u>
	(€ in millions)
<b>Fixed Telephony, Equipment and Other</b> . . . . .	<b>1,150</b>
<b>Mobile</b> . . . . .	<b>188</b>
<b>International Activities</b> . . . . .	<b>22</b>
<b>Total</b> . . . . .	<b><u>1,360</u></b>

	<u>1999</u>	<u>1998</u>
	(€ in millions)	
Fixed Network Services . . . . .	1,282	1,141
Mobile Communications . . . . .	408	257
IP/data . . . . .	535	299
ICM . . . . .	34	23
Other . . . . .	266	300
Total	<u>2,525</u>	<u>2,020</u>

### Minority participating interests

The segmentation of the minority participating interests carried at net asset value is as follows:

	<u>1997</u>
	(€ in millions)
Mobile .....	50
International Activities .....	658
Other segments .....	<u>14</u>
<b>Total</b> .....	<b><u>722</u></b>

	<u>1999</u>	<u>1998</u>
	(€ in millions)	
Fixed Network Services .....	—	—
Mobile Communications .....	69	54
IP/data .....	149	49
ICM .....	12	5
Other .....	<u>812</u>	<u>812</u>
<b>Total</b> .....	<b><u>1,042</u></b>	<b><u>920</u></b>

### Income from Minority participating interests

	<u>1997</u>
	(€ in millions)
Mobile .....	(1)
International Activities .....	—
Other segments .....	<u>50</u>
<b>Total</b> .....	<b><u>49</u></b>

	<u>1999</u>	<u>1998</u>
	(€ in millions)	
Fixed Network Services .....	—	—
Mobile Communications .....	18	11
IP/data .....	—	—
ICM .....	—	—
Other .....	<u>235</u>	<u>31</u>
<b>Total</b> .....	<b><u>253</u></b>	<b><u>42</u></b>

### Geographical segmentation of total operating revenues

The geographical segmentation of the revenues based on place of delivery is as follows:

	1999		1998	
	<u>The Netherlands</u>	<u>Abroad</u>	<u>The Netherlands</u>	<u>Abroad</u>
	(€ in millions)			
Fixed network services . . . . .	100%	0%	100%	0%
Mobile communications . . . . .	91%	9%	100%	0%
IP/data . . . . .	91%	9%	90%	10%
ICM . . . . .	99%	1%	100%	0%
Other . . . . .	99%	1%	98%	2%
Total	<u>97%</u>	<u>3%</u>	<u>99%</u>	<u>1%</u>

### **Extracts from the Articles of Association on appropriation of net income**

Under the Articles of Association (Article 35, Paragraph 1), 7% of €0.48, i.e. €0.03, will be paid out on the special share. Under the Articles of Association, the dividend specified in Article 35, Paragraph 1 will be paid out on preferred shares. Preferred shares have not been issued. Subject to the approval of the Supervisory Board, the Board of Management will determine what proportion of net income remaining after payment of the dividend on the special share (and any preferred shares) will be transferred to the reserves (Article 35, Paragraph 2). The remaining net income will be distributed as dividends on ordinary shares (Article 35, Paragraph 3).

### **Subsequent events**

The acquisition of E-Plus was effected on February 24, 2000. Please refer to the section entitled “Off-balance-sheet commitments”.

During July 2000 we agreed with Hutchison to acquire a 15.0% interest in Hutchison 3G UK Holdings Limited, the owner of a license in the U.K. to operate the third generation UMTS, for approximately €1.5 billion. In September 2000 we completed this acquisition.

DoCoMo has acquired a 20.0% interest in Hutchison 3G UK Holdings Limited. At the same time, KPN Mobile entered into a number of agreements concerning the possibility of pursuing UMTS licenses in Belgium and France with Hutchison and (in the case of France) DoCoMo, an agreement with Hutchison giving it the option to pursue the acquisition of a UMTS license in France. We also entered into a separate joint venture agreement with Hutchison to bid jointly for a UMTS license in Germany through its Luxembourg-based subsidiary, Auditorium, in which KPN Mobile acquired a 50.0% stake. Auditorium was subsequently renamed E-Plus Hutchison.

KPN Mobile won one of five UMTS licenses in The Netherlands for which it paid on August 4, 2000 approximately €711 million. E-Plus Hutchison won one of six UMTS licenses in Germany for which it paid on August 31, 2000 approximately €8.4 billion. At the time the license was won, we announced that Hutchison had exercised its contractual right to withdraw from the joint venture. Accordingly, on August 29, 2000 E-Plus acquired the interests of both KPN Mobile and Hutchison in E-Plus Hutchison, which has been renamed E-Plus 3G Luxemburg. BellSouth, as the holder of a 22.51% indirect stake in E-Plus, has loaned E-Plus approximately €1.4 billion towards the cost of the license and loaned us an additional €465 million, while we have loaned E-Plus the balance of approximately €7.0 billion (including the €465 million BellSouth loaned to us).

For other material financing transactions entered into after the date of these financial statements, reference is made to the notes to the capitalization table included elsewhere in the offering circular.

### **Appropriation of net income**

Of the retained earnings amounting to €828 million in 1999, €321 million has been added to the other reserves and €507 million made available for dividend.

Subject to the provisions of Article 37 of the Articles of Association, the 1999 final dividend of €333 million has become payable on May 26, 2000, which is 29 days after it has been declared by the Annual General Meeting of Shareholders.

Subject to the approval of the financial statements, the dividend for 1999 has been fixed at €0.53 in cash per ordinary share of €0.24 par value each, which means that in 1999 KPN will distribute 61.2% of the net income. After deducting the interim dividend of €0.18 per ordinary share, the final dividend will be €0.35 per ordinary share. The Board of Management, with the approval of the Supervisory Board and the holder of the special share, proposed to offer shareholders a choice between payment of the

1999 final dividend entirely in cash or entirely in ordinary shares. Payment in ordinary shares may be charged against the additional paid-in capital for tax purposes, or, if desired, against the other reserves.

As was the case in line with the 1998 dividend and the 1999 interim dividend, the value of the 1999 final share dividend has been 2-5% lower than the value of the cash dividend.

Subject to the approval of the Supervisory Board, the Board of Management has set the value of the share dividend in relation to the cash dividend on the basis of the prevailing prospects and capital position. A proposal to pay out optional dividends has been placed on the agenda for the Annual General Meeting of Shareholders which is due to take place on April 27, 2000.

The Annual General Meeting of shareholders has approved the proposal of dividend in its meeting of April 27, 2000. The final dividend has been paid out in cash for €258 million and in stock dividend for the equivalent of €75 million.

## Appropriation of Net Income

	Year ended December 31, 1999	Year ended December 31, 1998
	(€ in millions)	
Profit after taxes . . . . .	828	688
Reserves adopted by the Board of Management and approved by the Supervisory Board (Article 35, Paragraph 2) . . . . .	(321)	(184)
<b>Available for dividend distribution . . . . .</b>	<b>507</b>	<b>504</b>
—dividend on the special share (Article 35, Paragraph 1) . . . . .	0	0
—interim dividend paid . . . . .	174	173
<b>Final dividend . . . . .</b>	<b>333</b>	<b>331</b>

### Dividends

In the dividend proposal the historical dividend figures have been adjusted for the effects of the demerger. The dividends for the years 1995 through 1997 have been appropriated on the basis of the net income generated by the group companies of Royal PTT Nederland.

	1999	1998	1997	1996	1995
	(€ in millions)				
Royal PTT Nederland dividend . . . . .	N/A	N/A	663	604	546
Effect of demerger . . . . .	N/A	N/A	(186)	(160)	(131)
<b>KPN Dividend . . . . .</b>	<b>507</b>	<b>504</b>	<b>477</b>	<b>444</b>	<b>415</b>

  

	1999	1998	1997	1996	1995
	(€)				
Royal PTT Nederland dividend . . . . .	N/A	N/A	1.40	1.29	1.18
Effect of demerger . . . . .	N/A	N/A	(0.39)	(0.34)	(0.28)
<b>KPN Dividend per share (a) . . . . .</b>	<b>1.06</b>	<b>1.06</b>	<b>1.01</b>	<b>0.95</b>	<b>0.90</b>
KPN Dividend per share adjusted for the share split two-for-one in June 2000 . . . . .	0.53	0.53	0.51	0.48	0.45

[a] The Dividend per share has originally been declared in Dutch Guilders (respectively 1999; NLG 2.33, 1998; NLG 2.33, 1997; NLG 2.23, 1996; NLG 2.09, 1995; NLG 1.98).

KPN paid an interim dividend of €0.36 cash per ordinary share of €0.45 par value. Together with the proposed final dividend of (€0.70) the total dividend for 1999 comes to €1.06 per share, before taking into account the effect of the stock split in 2000. After taking into account the two-for-one stock split the interim dividend per share has been €0.18 cash, the final dividend €0.35 and the total €0.53 per share. This corresponds to a 61.2% payout of profit on normal operations after taxes for 1999.

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**INDEX TO HISTORICAL FINANCIAL STATEMENTS  
OF E-PLUS MOBILFUNK GmbH**

Independent Auditor's Report .....	G-2
Consolidated Balance Sheets as of December 31, 1999, 1998 and 1997 .....	G-3
Consolidated Statements of Income for the years ended December 31, 1999, 1998 and 1997 ...	G-5
Consolidated Statements of Cash Flows for the years ended December 31, 1999, 1998 and 1997	G-6
Consolidated Statements of Changes in Equity for the years ended December 31, 1999, 1998 and 1997 .....	G-7
Notes to the Consolidated Financial Statements as of and for the years ended December 31, 1999, 1998 and 1997 .....	G-8
Exhibit A .....	G-21

## **Independent Auditor's Report**

To the Board of Directors and shareholders of E-Plus Mobilfunk GmbH, Berlin:

We have audited the consolidated balance sheets of E-Plus Mobilfunk GmbH as of December 31, 1999, 1998 and 1997 and the related consolidated statements of profit and loss, changes in equity and cash flows for each of the three years in the period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Germany.

We conducted our audits in accordance with generally accepted auditing standards in Germany which are substantially similar to those followed in the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of E-Plus Mobilfunk GmbH as of December 31, 1999, 1998 and 1997 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in accordance with generally accepted accounting principles in Germany.

Accounting principles generally accepted in Germany vary in certain respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of net income for each of the two years in the period ended December 31, 1999 and shareholders' equity as of December 31, 1999 and 1998 to the extent summarized on pages G-15 through G-17 under the heading "United States Generally Accepted Accounting Principles".

Düsseldorf  
April 5, 2000

PwC Deutsche Revision  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

/s/ HAAS

Haas  
Wirtschaftsprüfer

/s/ RENNER

ppa. Renner  
Wirtschaftsprüferin

**E-Plus Mobilfunk GmbH, Berlin**  
**Consolidated Balance Sheets as of December 31, 1999, 1998 and 1997**  
**(All amounts in thousands of €)**

	December 31,		
	1999	1998	1997
<b>Start-up and business expansion expenses</b> . . . . .	—	—	79,404
<b>Assets</b>			
<b>Fixed Assets</b>			
<b>Intangible Assets</b>			
Concessions, industrial and similar rights and assets and licenses in such rights and assets . . . . .	67,277	70,302	45,806
Payments on account . . . . .	8,391	1,996	14,494
	<u>75,668</u>	<u>72,298</u>	<u>60,300</u>
<b>Tangible assets</b>			
Land and buildings on third party land . . . . .	14,096	18,775	15,472
Technical equipment and machinery . . . . .	1,318,669	1,204,237	1,138,542
Other equipment, factory and office equipment . . . . .	15,214	20,145	26,134
Payments on account and assets under construction . . . . .	67,924	58,061	77,392
	<u>1,415,903</u>	<u>1,301,218</u>	<u>1,257,540</u>
<b>Financial assets</b>			
Shares in affiliated enterprises . . . . .	383	—	—
Other loans . . . . .	3	3	3
	<u>386</u>	<u>3</u>	<u>3</u>
	1,491,957	1,373,519	1,317,843
<b>Current assets</b>			
<b>Inventories</b>			
Supplies . . . . .	10,514	9,708	12,739
Merchandise . . . . .	47,039	18,836	17,788
Payments on account . . . . .	191	85	33
	<u>57,744</u>	<u>28,629</u>	<u>30,560</u>
<b>Receivables and other assets</b>			
Trade receivables . . . . .	163,063	100,144	74,270
Receivables from affiliated enterprises . . . . .	1,400	—	—
Receivables from enterprises in which participations are held . . . . .	16	—	—
Other assets . . . . .	14,798	7,086	21,853
	<u>179,277</u>	<u>107,230</u>	<u>96,123</u>
<b>Cheques, cash in hand, bank balances</b> . . . . .	24,726	29,446	70,520
<b>Prepaid expenses</b> . . . . .	22,661	36,753	40,102
<b>Deficit not covered by shareholders' equity</b> . . . . .	1,745,077	1,567,384	1,112,855
	<u><u>3,521,442</u></u>	<u><u>3,142,961</u></u>	<u><u>2,747,407</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

**E-Plus Mobilfunk GmbH, Berlin**

**Consolidated Balance Sheets as of December 31, 1999, 1998 and 1997 (continued)**

(All amounts in thousands of €)

	<b>December 31,</b>		
	<b>1999</b>	<b>1998</b>	<b>1997</b>
<b>Equity &amp; Liabilities</b>			
<b>Equity</b>			
Subscribed capital . . . . .	211,164	211,164	211,164
Capital reserves . . . . .	15,824	15,824	8,871
Consolidated accumulated losses brought forward . . . . .	(1,794,372)	(1,332,890)	(873,979)
Consolidated net loss for the year . . . . .	(177,693)	(461,482)	(458,911)
	<u>(1,745,077)</u>	<u>(1,567,384)</u>	<u>(1,112,855)</u>
Deficit not covered by shareholders' equity . . . . .	1,745,077	1,567,384	1,112,855
	<u>—</u>	<u>—</u>	<u>—</u>
<b>Accruals</b>			
Accruals for pensions . . . . .	3,700	3,349	2,591
Tax accruals . . . . .	1,733	2,095	2,794
Other accruals . . . . .	130,544	82,854	72,137
	<u>135,977</u>	<u>88,298</u>	<u>77,522</u>
<b>Liabilities</b>			
Liabilities to banks . . . . .	2,176,826	2,092,814	1,831,115
Payments received on account . . . . .	28,615	15,140	—
Trade payables . . . . .	89,958	61,830	129,927
Payables to shareholders . . . . .	1,014,065	846,465	667,903
Financial liabilities to enterprises affiliated with shareholders . . . .	17,630	11,262	6,099
Other liabilities . . . . .	57,040	26,672	23,039
	<u>3,384,134</u>	<u>3,054,183</u>	<u>2,658,083</u>
<b>Deferred income</b> . . . . .	1,331	480	11,802
	<u>3,521,442</u>	<u>3,142,961</u>	<u>2,747,407</u>

The accompanying notes are an integral part of the consolidated financial statements.

**E-Plus Mobilfunk GmbH**  
**Consolidated Statements of Income for the years ended December 31, 1999, 1998 and 1997**  
(Amounts in thousands of €)

	For the year ended December 31,		
	1999	1998	1997
Sales . . . . .	1,214,803	690,752	417,566
Own work capitalized . . . . .	13,089	15,672	33,244
Other operating income . . . . .	32,062	50,206	23,382
Cost of materials			
a) Cost of supplies and of purchased merchandise . . . . .	314,652	179,050	122,166
b) Cost of purchased services . . . . .	176,245	105,814	86,429
	<u>490,897</u>	<u>284,864</u>	<u>208,595</u>
Personnel expenses			
a) Salaries . . . . .	133,505	119,843	106,098
b) Social security and other pension costs . . . . .	26,930	25,389	23,102
	<u>160,435</u>	<u>145,232</u>	<u>129,200</u>
Depreciation on intangible fixed assets and tangible assets . .	175,165	161,416	137,809
Other operating expenses . . . . .	425,283	385,510	335,920
Income from long term loans . . . . .	(64)	(45)	(104)
Other interest and similar income . . . . .	(1,124)	(1,996)	(2,646)
Interest and similar expense . . . . .	171,819	163,304	121,228
Results from ordinary activities . . . . .	<u>(162,457)</u>	<u>(381,655)</u>	<u>(455,810)</u>
Extraordinary expense . . . . .	15,225	79,827	—
Other taxes . . . . .	11	—	3,101
Consolidated loss for the year . . . . .	<u>(177,693)</u>	<u>(461,482)</u>	<u>(458,911)</u>

The accompanying notes are an integral part of the consolidated financial statements.

**E-Plus Mobilfunk GmbH**  
**Consolidated Statements of Cash Flows for the years ended December 31, 1999, 1998 and 1997**  
**(Amounts in thousands of €)**

	For the year ended December 31,		
	1999	1998	1997
Net loss . . . . .	(177,693)	(461,482)	(458,911)
Depreciation of start-up expenses and fixed assets . . . . .	175,165	243,926	175,689
Changes in provisions . . . . .	47,679	10,775	33,379
Loss from disposition of fixed assets . . . . .	4,738	3,819	4,165
Changes in current assets and current liabilities			
- Start-up and business expansion expenses . . . . .	—	—	(72,620)
- Inventories . . . . .	(29,115)	1,931	15,187
- Receivables and other assets . . . . .	(72,047)	(11,107)	23,038
- Prepaid expenses . . . . .	14,092	3,349	(6,854)
- Liabilities . . . . .	71,964	(49,334)	(15,808)
- Deferred Income . . . . .	851	(11,322)	8,436
<b>Cash provided by (used for) operating activities . . . . .</b>	<b>35,634</b>	<b>(269,445)</b>	<b>(294,299)</b>
Proceeds from disposition of fixed assets . . . . .	6,969	29,059	283
Purchases of intangible and other fixed assets . . . . .	(304,926)	(253,075)	(311,755)
Purchases of other financial assets . . . . .	(383)	—	—
<b>Cash used for investing activities . . . . .</b>	<b>(298,340)</b>	<b>(224,016)</b>	<b>(311,472)</b>
Proceeds from capital increases . . . . .	—	6,953	—
Proceeds from the addition of financial liabilities . . . . .	257,986	445,434	596,773
<b>Cash provided by financing activities . . . . .</b>	<b>257,986</b>	<b>452,387</b>	<b>596,773</b>
<b>Net change in liquid funds . . . . .</b>	<b>(4,720)</b>	<b>(41,074)</b>	<b>(8,998)</b>
<b>Liquid funds at beginning of year . . . . .</b>	<b>29,446</b>	<b>70,520</b>	<b>79,518</b>
<b>Liquid funds at year-end . . . . .</b>	<b>24,726</b>	<b>29,446</b>	<b>70,520</b>

The accompanying notes are an integral part of the consolidated financial statements.

**E-Plus Mobilfunk GmbH**  
**Consolidated Statements of Changes in Equity for the years ended December 31, 1999, 1998 and 1997**  
**(Amounts in thousands of €)**

	December 31,		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Balance at beginning of period . . . . .	(1,567,384)	(1,112,855)	(653,944)
Capital reserve increase by cash contribution . . . . .	—	6,953	—
Net loss . . . . .	<u>(177,693)</u>	<u>(461,482)</u>	<u>(458,911)</u>
Balance at end of period . . . . .	<u><u>(1,745,077)</u></u>	<u><u>(1,567,384)</u></u>	<u><u>(1,112,855)</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

**E-Plus Mobilfunk GmbH**  
**Notes to the Consolidated Financial Statements**  
**as of and for the Years Ended December 31, 1999, 1998 and 1997**  
**(Amounts in thousands of €)**

**I. General Legal and Economic Information**

E-Plus Mobilfunk GmbH's (the "Company") purpose of business is the application for the granting of a license for the setting up and operation of a national German digital cellular mobile radiotelephone network based on DCS 1800 in the 1.8 GHz range as well as the setting up and operation of this type of mobile radiotelephone network.

The Company is also authorized to perform other activities to the extent those activities serve the purpose of business.

Furthermore, the Company is allowed to acquire shares in, as well as to establish or acquire, the same kind of, or similar domestic or foreign enterprises.

Share capital as of December 31, by shareholder is as follows:

	<u>1999</u>	<u>%</u>	<u>1998</u>	<u>%</u>	<u>1997</u>	<u>%</u>
	(Amounts in thousands of €)					
VR Telecommunications GmbH & Co., Norderfriedrichskoog, (formerly o.tel.o communications GmbH & Co., Düsseldorf) . . . . .	127,226	60.250%	127,226	60.250%	63,613	30.125%
o.tel.o communications Mobilfunk Holding GmbH & Co. KG, Düsseldorf . . . . .	—	—	—	—	63,613	30.125
BellSouth Holding GmbH, Düsseldorf	47,528	22.507	47,528	22.507	47,528	22.507
Vodafone GmbH, Düsseldorf . . . . .	36,410	17.243	36,410	17.243	36,410	17.243
Total . . . . .	<u>211,164</u>	<u>100%</u>	<u>211,164</u>	<u>100%</u>	<u>211,164</u>	<u>100%</u>

E-Plus Mobilfunk GmbH holds a 100% share in the share capital of E-Plus Service GmbH, Potsdam. The shareholders' equity of E-Plus Service GmbH amounted to €26 thousand at each of the years ended December 31, 1999, 1998 and 1997. Additionally, net income totaled €0 for each of the years ended December 31, 1999, 1998 and 1997. A control and profit and loss transfer agreement, which was registered in the Commercial Register of the Potsdam local court on April 15, 1994, was concluded between these two companies in 1993.

Effective January 1, 1999, a business transfer and purchase agreement was concluded between E-Plus Mobilfunk GmbH and E-Plus Service GmbH. In order to streamline the company organization as well as to enhance competitiveness, the entire active business of E-Plus Service GmbH was transferred to E-Plus Mobilfunk GmbH. The business transfer does not become apparent externally (internal lease) but the business is operated by E-Plus Mobilfunk GmbH on its own account but in the name of E-Plus Service GmbH. The business transfer and purchase agreement was entered in the Commercial Register at the Potsdam local court on February 16, 1999. Also in 1999, E-Plus Service GmbH acquired a 50% share in Mobil Direkt GmbH, Düsseldorf. Mobil Direkt GmbH is to be regarded as an affiliated company of E-Plus Service GmbH in accordance with §271 (2) in connection with §290 (2) No. 2 of the Commercial Code (HGB).

**E-Plus Mobilfunk GmbH**  
**Notes to the Consolidated Financial Statements**  
**as of and for the Years Ended December 31, 1999, 1998 and 1997 (Continued)**

**II. Accounting and Valuation Principles**

The consolidated financial statements of E-Plus Mobilfunk GmbH comply with the stipulations of the Commercial Code (“HGB”) and the Law on Limited Liability Companies (“GmbHG”).

The type of expenditure format has been applied to the profit and loss account.

The accounting and valuation principles of the prior year were, unless otherwise specified, maintained.

Until December 31, 1997 all non-refundable commissions and bonuses paid for conclusion of contracts with mobile phone customers to distributors and service providers and discounts for mobile-phones granted to direct distribution customers were regarded as cost for a customer base and were capitalized. This amount was amortized over the minimum duration of the contract (up to 24 months) and the expense was deducted from sales of mobile phone services. Starting in fiscal year 1998, the Company changed its accounting for these expenses and as of December 31, 1998 the balance, totaling €79.4 million, was written off. The write-off is shown in the consolidated statements for the year ended December 31, 1998 as an extraordinary expense. In accordance with the choice of accounting treatments under §300 (2) HGB, the Company did not include in the consolidated statements further amounts which were capitalized as start-up and business expansion expenses in the individual financial statements of E-Plus Mobilfunk GmbH.

Intangible assets and tangible assets are valued at acquisition cost less scheduled depreciation over the respective estimated useful live. All assets which are used for business purposes are depreciated pro rata temporis on a straight-line basis.

Low value items are fully depreciated in the year of acquisition pursuant to §6 (2) of the Income Tax Law (“EStG”).

Financial assets are valued at acquisition cost.

Inventories are valued at acquisition cost. The lower of cost or market principle has been observed, such that all potential losses have been adequately provided for.

Receivables and other assets are recorded at their nominal value less appropriate allowances. Based on information about payments received provided by collection agencies, the receivables from phone subscribers were revalued in 1999, which led to a reduction in the allowance.

Liquid funds are recorded at their nominal value.

Prepaid expenses are set up for payments made prior to the balance sheet date to the extent these constitute expenses for succeeding years.

The subscribed capital and the capital reserves are valued at their nominal value.

The pension accruals are valued according to actuarial principles and in accordance with the stipulations of § 6a EStG at their taxable value based on an interest rate of 6%. The pension accruals were computed based on Dr. Klaus Heubeck’s updated standard tables beginning in 1998 (1998 standard tables). The amount of the resulting additional accrual in 1998 was fully charged to income.

The tax and other accruals cover all risks and contingent liabilities identifiable as of the balance sheet date.

**E-Plus Mobilfunk GmbH**  
**Notes to the Consolidated Financial Statements**  
**as of and for the Years Ended December 31, 1999, 1998 and 1997 (Continued)**

**II. Accounting and Valuation Principles (Continued)**

The liabilities are recorded at the amount at which they will be repaid.

Payments received on account represent mobile phone charges received in advance from dealers and mobile phone customers of the Company within the framework of the Free & Easy tariff. This item is released in line with the provision of mobile phone services to mobile phone customers.

The deferred income represents payments received prior to the balance sheet date to the extent they constitute income for succeeding years.

In order to improve the profit situation disclosed by the Group as well as to adapt to the reporting formats required by the shareholders and the Supervisory Board, which are orientated towards international practice, both the acquisition commission for the project financing and the interest portion from the network equipment royalties are included in interest and similar expenses in 1999 and 1998 and in other operating expenses in 1997.

Trade receivables and payables denominated in foreign currency are valued at the rate in effect at the date of transaction. Exchange losses at the balance sheet date are taken into account.

The Company's primary functional currency is the Deutsche Mark ("DM"). For reporting purposes, assets and liabilities and profit and loss amounts have been translated from DM to euro ("€") using the exchange rate DM1.95583 to €1.00.

**III. Consolidation Principles**

The entities included in the consolidation are E-Plus Mobilfunk GmbH, Berlin, as the parent company, as well as E-Plus Service GmbH, Potsdam, which is a 100% subsidiary to be included according to the provisions of commercial law. Mobil Direkt GmbH is not included in the consolidated financial statements because this company is not significant for presenting a true and fair view of the net worth, financial position and results of the Group (§ 296 (2) No. 2 sentence 1 of the Commercial Code HGB)). Mobil Direkt GmbH is in its start-up phase and performed only a limited scope of business transactions in 1999.

The individual financial statements included in the consolidation financial statements were prepared as of December 31, 1999, 1998 and 1997.

The consolidation principles are consistent with those applied in the prior years.

The Company's subsidiary, E-Plus Service GmbH, is included in the consolidated statements in accordance with the principles of full consolidation.

For the purpose of capital consolidation, the book value of the investment is off set against the proportionate shareholders' equity at the time of first consolidation (book value method).

For the purposes of consolidation of intra-group balances, accounts receivable and payable between the entities included in the consolidation are off set against each other.

Within the framework of the elimination of unrealized profits and losses on intra-group transactions, the consolidated result of each year is, as far as necessary, adjusted for the results of transactions between the consolidated entities.

**E-Plus Mobilfunk GmbH**  
**Notes to the Consolidated Financial Statements**  
**as of and for the Years Ended December 31, 1999, 1998 and 1997 (Continued)**

**III. Consolidation Principles (Continued)**

For the purposes of consolidation of intra-group income and expenses, any income from deliveries and services between the entities included in the consolidation are netted with corresponding expenses.

**IV. Notes to the Balance Sheet**

The movements in the consolidated fixed assets during the period from January 1 to December 31, 1999, 1998 and 1997 are disclosed in Exhibit A to the notes.

The shares in affiliated enterprises relate to the Company's 50% share in Mobil Direkt GmbH which, because of its insignificance, is not included in the consolidated financial statements.

Inventories are stated at acquisition cost or the lower of replacement or net realizable value.

The receivables from affiliated enterprises relate to Mobil Direkt GmbH which is not included in the consolidated financial statements.

All receivables and other assets have, except for amounts of €70 thousand, €74 thousand and €69 thousand in 1999, 1998 and 1997, respectively, a residual term of less than one year.

The credit balance with Crédit Agricole Indosuez S.A. (€5.6 million) in 1999 has been frozen in favor of third parties and is, hence, not directly available to the Company.

The parent company's individual balance sheet shows a financial position where liabilities exceed assets by €1,673.1 million, €1,414.1 million and €839.5 million as of December 31, 1999, 1998 and 1997, respectively.

In order to avoid the duty under § 64 (1) GmbHG, the shareholders and companies affiliated with the shareholders granted subordinated loans and undertook to provide additional funds to the Company. In addition, two loans granted by groups of banks were provided with subordination clauses.

The other accruals are composed of the following as of December 31:

	1999	1998	1997
	(Amounts in thousands of €)		
Outstanding invoices . . . . .	74,277	37,666	30,143
Credit notes still to be issued . . . . .	19,763	12,867	13,069
Commitments to re-establish previous structural conditions . . . . .	10,883	7,898	5,226
Vacation not taken and extra work . . . . .	10,027	8,897	8,870
Year-end emoluments . . . . .	6,253	3,912	3,259
User handset warranties . . . . .	3,860	7,781	6,590
Investment grants . . . . .	1,846	2,023	1,145
Other . . . . .	3,635	1,810	3,835
Total other accruals . . . . .	<u>130,544</u>	<u>82,854</u>	<u>72,137</u>

Outstanding invoices primarily consist of telecommunications services, advertising services and E-Plus network investments.

**E-Plus Mobilfunk GmbH**  
**Notes to the Consolidated Financial Statements**  
**as of and for the Years Ended December 31, 1999, 1998 and 1997 (Continued)**

**IV. Notes to the Balance Sheet (Continued)**

**Liabilities are composed of the following:**

<b>December 31, 1999</b>					
	<b>Total</b>	<b>Up to 1 year</b>	<b>1 to 5 years</b>	<b>More than 5 years</b>	<b>Of which collateralized</b>
	<b>(Amounts in thousands of €)</b>				
Liabilities to banks <sup>(1)</sup> . . . . .	2,176,826	18,294	1,410,027	748,505	1,506,803
Payments received on account . . . . .	28,615	28,615	—	—	—
Trade payables . . . . .	89,958	89,958	—	—	—
Payables to shareholders . . . . .	1,014,065	6	—	1,014,059	—
Financial liabilities to enterprises affiliated with shareholders	17,630	—	—	17,630	—
Other liabilities . . . . .	57,040	24,398	25,922	6,720	—
	<u>3,384,134</u>	<u>161,271</u>	<u>1,435,949</u>	<u>1,786,914</u>	<u>1,506,803</u>
<b>December 31, 1998</b>					
	<b>Total</b>	<b>Up to 1 year</b>	<b>1 to 5 years</b>	<b>More than 5 years</b>	<b>Of which collateralized</b>
	<b>(Amounts in thousands of €)</b>				
Liabilities to banks <sup>(1)</sup> . . . . .	2,092,814	44,306	1,120,559	927,949	1,528,659
Payments received on account . . . . .	15,140	15,140	—	—	—
Trade payables . . . . .	61,830	61,830	—	—	—
Payables to shareholders . . . . .	846,465	13	—	846,452	—
Financial liabilities to enterprises affiliated with shareholders	11,262	—	—	11,262	—
Other liabilities . . . . .	26,672	16,005	10,667	—	—
	<u>3,054,183</u>	<u>137,294</u>	<u>1,131,226</u>	<u>1,785,663</u>	<u>1,528,659</u>
<b>December 31, 1997</b>					
	<b>Total</b>	<b>Up to 1 year</b>	<b>1 to 5 years</b>	<b>More than 5 years</b>	<b>Of which collateralized</b>
	<b>(Amounts in thousands of €)</b>				
Liabilities to banks <sup>(1)</sup> . . . . .	1,831,115	32,473	264,338	1,534,304	1,385,631
Payments received on account . . . . .	—	—	—	—	—
Trade payables . . . . .	129,927	129,927	—	—	—
Payables to shareholders . . . . .	667,903	23	—	667,880	—
Financial liabilities to enterprises affiliated with shareholders	6,099	—	—	6,099	—
Other liabilities . . . . .	23,039	10,466	9,103	3,470	—
	<u>2,658,083</u>	<u>172,889</u>	<u>273,441</u>	<u>2,211,753</u>	<u>1,385,631</u>

(1) The collateralization of liabilities to banks is connected with the project financing through a group of banks and is effected as follows:

- a) Pledging of existing contractual claims against material suppliers, against the shareholders in accordance with the “Shareholders’ Undertaking” as well as accounts receivable from Deutsche Bank AG from account relationships;

**E-Plus Mobilfunk GmbH**  
**Notes to the Consolidated Financial Statements**  
**as of and for the Years Ended December 31, 1999, 1998 and 1997 (Continued)**

**IV. Notes to the Balance Sheet (Continued)**

- b) Blanket assignment of all kinds of existing and future trade receivables from all business partners (including affiliates) which have not already been effectively pledged through the pledging contract as far as they have not expressly been excluded from the blanket assignment;
- c) Transfer of ownership by way of security:
  - (1) of all components of the E1 network excluding certain items separately listed;
  - (2) specified EDP hardware;
  - (3) specified EDP software;
  - (4) specified vehicles;
- d) Creation of a land charge (without certificate) on a real property;
- e) Assignment of all present and future rights in existing and future trademarks (brands) and designs;
- f) Assignment of all present and future shares in E-Plus Service GmbH and all related present and future claims and rights.

The other liabilities include tax liabilities in the amount of €3.7 million, €2.4 million and €2.2 million at December 31, 1999, 1998 and 1997, respectively. Additionally social security contributions due totaled €3.9 million, €3.1 million and €2.9 million at December 31, 1999, 1998 and 1997, respectively.

Starting in 1998, the Company showed mobile phone charges received in advance from dealers, mobile phone customers and service providers as payments received on account. These charges were shown as deferred income in 1997.

**V. Notes to the Profit and Loss Account**

Classification of sales by activities:

	For the year ended December 31,		
	1999	1998	1997
	(Amounts in thousands of €)		
Mobile phone services . . . . .	990,781	564,641	332,749
Mobile phones and accessories . . . . .	224,022	126,111	84,817
	<u>1,214,803</u>	<u>690,752</u>	<u>417,566</u>

The sales were exclusively realized in the domestic market.

The other operating income includes rental and royalty income, income from advertising cost allowances received, income from credit notes received, and the reversal of accruals and provisions. Additionally in 1999, other operating income also included recharged redebited charges; in 1998, income from the valuation allowance for accounts receivable, income from the post-capitalization of the E1 license, and income from contractual penalties from customers; and in 1997, income from investment grants.

Personnel expenses include costs relating to pension liabilities totaling €4.2 million, €4.3 million and €4.5 million at December 31, 1999, 1998 and 1997, respectively.

**E-Plus Mobilfunk GmbH**  
**Notes to the Consolidated Financial Statements**  
**as of and for the Years Ended December 31, 1999, 1998 and 1997 (Continued)**

**V. Notes to the Profit and Loss Account (Continued)**

Other operating expenses primarily include advertising expenses, expenses for repairs and maintenance, rental expenses for base station locations and office buildings, lease expenses and transfer to accruals and provisions.

The net financing expenditure includes interest and similar expenses to shareholders in the amount of €40.7 million, €36.9 million and €24.0 million during 1999, 1998 and 1997, respectively.

In 1999, the extraordinary expense of €15.2 million relates exclusively to the non-scheduled amortization of deferred financing costs concerning the commission fee for project financing. Full amortization was made because it was considered certain by management that the project financing will be refinanced in the year 2000. In 1998, extraordinary expenses totaling €79.8 million related primarily to the the write off of capitalized start-up and business expansion expenses.

**VI. Introduction of the Euro**

On January 1, 1999, the new single European currency, the “euro” (€), became a currency alongside the national currencies of the 11-country Eurozone. The conversion rates between the euro and the Deutsche Mark and other legacy currencies are irrevocably fixed. In order to introduce the euro, the Company maintained a centralized project for preparing, implementing and controlling the necessary measures; this project commenced in early 1998. Since the beginning of 1999, the Company has been invoicing subscribers in both DM and euro.

The Company estimates that its total expenses related to conversion to the euro will be approximately €6.1 million and plans to complete the conversion process January 1, 2001.

**E-Plus Mobilfunk GmbH**  
**Notes to the Consolidated Financial Statements**  
**as of and for the Years Ended December 31, 1999, 1998 and 1997 (Continued)**

**VII. United States Generally Accepted Accounting Principles**

These financial statements have been prepared in accordance with German generally accepted accounting principles ("German GAAP") which conforms, in all material respects applicable to the Company, with those in the United States ("U.S. GAAP") during the periods presented except with respect to the following:

*Reconciliation of net income under German GAAP and U.S. GAAP:*

		December 31,	
	Note	1999	1998
		(Amounts in thousands of €)	
Net loss as shown in the statement of profit and loss . . . . .		(177,693)	(461,482)
U.S. GAAP adjustments			
Write off of start-up and business expansion expenses . . . . .	(a)	—	79,827
Indirect cost capitalization . . . . .	(b)	23,323	(2,113)
Interest capitalization . . . . .	(c)	(334)	1,484
Investment grants received . . . . .	(d)	2,801	8,707
Credit notes received . . . . .	(e)	2,032	(3,206)
Lease capitalization . . . . .	(f)	1,283	(225)
Penalties received . . . . .	(g)	762	762
Amortization of deferred financing costs . . . . .	(h)	15,225	—
FAS 87 pension adjustment . . . . .	(i)	(376)	55
Capitalization of license . . . . .	(j)	510	(6,831)
Net income according to U.S. GAAP . . . . .		(132,467)	(383,022)

*Reconciliation of shareholders' equity under German GAAP and U.S. GAAP*

		December 31,	
	Note	1999	1998
(Amounts in thousands of €)			
Shareholders' equity as shown in the consolidated balance sheet . . . . .		(1,745,077)	(1,567,384)
U.S. GAAP adjustments			
Write off of start-up and business expansion expenses . . . . .	(a)	—	—
Indirect cost capitalization . . . . .	(b)	107,728	84,406
Interest capitalization . . . . .	(c)	20,798	21,132
Investment grants received . . . . .	(d)	(15,970)	(18,771)
Credit notes received . . . . .	(e)	(14,754)	(16,786)
Lease capitalization . . . . .	(f)	159	(1,124)
Penalties received . . . . .	(g)	(4,524)	(5,286)
Amortization of deferred financing costs . . . . .	(h)	15,225	-
FAS 87 pension adjustment . . . . .	(i)	417	794
Capitalization of license . . . . .	(j)	(6,321)	(6,831)
Shareholders' equity according to U.S. GAAP . . . . .		(1,642,319)	(1,509,850)

**E-Plus Mobilfunk GmbH**  
**Notes to the Consolidated Financial Statements**  
**as of and for the Years Ended December 31, 1999, 1998 and 1997 (Continued)**

**VII. United States Generally Accepted Accounting Principles (Continued)**

The principle differences between German GAAP and U.S. GAAP are described below:

- (a) In accordance with German GAAP, the Company was entitled to the commissions paid to distributors if a customer cancelled its contract. In 1997, the Company changed its policy, so that going forward any commissions paid to the distributors are not refundable to the Company regardless of customer cancellation. This adjustment for U.S. GAAP purposes reflects the write-off of the commissions subject to possible refund €79.4 million and non-refundable commissions of €0.4 million included as an asset on the balance sheet. In 1998, all of these costs were fully depreciated according to German GAAP and Shareholder Advice and therefore no adjustment in 1999 is required.
- (b) In accordance with German GAAP, only the direct personnel costs associated with building up the network were capitalized. This adjustment for U.S. GAAP purposes captures also the indirect costs associated with these activities, as well as the corresponding depreciation for the period.
- (c) In accordance with German GAAP, no interest was capitalized in connection with the construction of the network. This adjustment for U.S. GAAP purposes capitalizes interest costs associated with amounts paid for construction/development with the outstanding debt of the Company.
- (d) In accordance with German GAAP, investment grants received were recorded as income, instead of an offset to the project costs. This adjustment for U.S. GAAP purposes reflects those costs as a reduction of project costs, as well as the lower depreciation. In 1998, certain investment grants were paid back, and therefore this adjustment reflects the related expense.
- (e) In accordance with German GAAP in previous years credit notes received from the network suppliers were recorded as income instead of an offset to the acquisition costs. This adjustments reflects those credit notes as a reduction of acquisition costs, as well as the lower depreciation.
- (f) In accordance with German GAAP, most leasing contracts are classified as operating leases, and therefore expensed as per the contractual arrangement. This adjustment capitalizes those network leases which qualify as capital leases under U.S. GAAP. This adjustment for U.S. GAAP purposes also reflects additional depreciation arising from lease capitalization.
- (g) In accordance with German GAAP, penalties received from Nokia under a network development agreement in 1995 and 1996 were recorded as income. Under U.S. GAAP, these costs would have been recorded as a reduction of project costs. This adjustment for U.S. GAAP purposes also reflects the lower depreciation in subsequent years.
- (h) In accordance with German GAAP, deferred financing costs were amortized under the straight line method until 1999, based on the minimum repayment period (repayment until 2006). The deferred financing costs have been reversed in 1999 under the German GAAP. For U.S. GAAP purposes, the reversal of 1999 was re-adjusted and deferred financing costs continued to be amortized under the straight line method, based on the minimum repayment period (repayment until 2006).
- (i) U.S. GAAP requires the pension valuation to be calculated in accordance with FAS 87. This adjustment reflects the difference in both the valuation under U.S. GAAP and the annual pension expense recognized in the respective years.

**E-Plus Mobilfunk GmbH**  
**Notes to the Consolidated Financial Statements**  
**as of and for the Years Ended December 31, 1999, 1998 and 1997 (Continued)**

**VII. United States Generally Accepted Accounting Principles (Continued)**

- (j) In accordance with German GAAP, the Company capitalized a license in 1998 for which it had paid annual fees from 1993 through 1998. Upon receipt of a judgement from the German license authorities, it was determined that certain amounts paid to date would be sufficient for partial settlement of the license cost for the remainder of the license term. The Company recorded as income certain amounts expensed in prior periods upon capitalizing the license in 1998. The adjustment made for U.S. GAAP purposes eliminates the assets relating to the license and channels then in use and reflects the revised annual payments as a change in contract terms.

In December 1999, the SEC issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements", which will be adopted by the Company in 2000. SAB 101 provides additional guidance on revenue recognition as well as criteria for when revenue is generally realized and earned, and also requires the deferral of incremental direct customer acquisition costs. Management is currently assessing the impact of SAB 101 on the results of operations and financial position.

**VIII. Other Required Disclosures**

The bodies of the parent company are the Meeting of Shareholders, the Shareholders' Committee, the Supervisory Board and the management.

Shareholders' Committee:

Thomas Geitner (temporary Chairman)	
Former Managing Board Member of RWE AG, Telecommunications	RWE/VRT
Alain D. Bandle (Chairman until October 29, 1999)	
Former Managing Board Member of VEBA Aktiengesellschaft, Telecommunications	VEBA
Prof. Dr. Clemens Börsig (August 16, 1999 until November 10, 1999)	
Executive Manager of Deutsche Bank AG	
Chief Financial Officer Controlling, Taxation, Internal Audit	RWE
Dr. Hans-Michael Gaul (from August 16, 1999)	
Managing Board Member of VEBA Aktiengesellschaft Finance and Controlling	VEBA
Julian Horn-Smith (through April 28, 1999)	
Chief Executive of Vodafone Airtouch International Limited	
Mr. Horn-Smith is responsible for Europe, the Middle East and Africa	Vodafone
Ulrich Hüppe (through August 15, 1999 and from November 2, 1999)	
Executive Manager of VEBA Aktiengesellschaft	
Chief in-house Counsel	VEBA
Wolfgang Jensen (from July 27, 1999)	
Head of Corporate Finance Division, Sal. Oppenheim jr. & Cie.	Sal. Oppenheim jr. & Cie.
Dr. Georg Kellinghusen (through August 15, 1999)	
Chief Financial Officer of Escada AG	VRT

**E-Plus Mobilfunk GmbH**  
**Notes to the Consolidated Financial Statements**  
**as of and for the Years Ended December 31, 1999, 1998 and 1997 (Continued)**

**VIII. Other Required Disclosures (Continued)**

Dr. Richard Klein (from November 15, 1999) Managing Board Member of RWE Aktiengesellschaft Group Development and Systems	RWE
Hans Kuropatwa (April 29, 1999 through July 26, 1999) Regional Managing Director of Vodafone Airtouch International Limited	Vodafone
Charles C. Miller President BellSouth International Mr. Miller is responsible for the growth, development and management of BellSouth, businesses outside the U.S.	BellSouth
<i>Supervisory Board:</i>	
Alain D. Bandle (Chairman through October 29, 1999) Former Managing Board Member of VEBA Aktiengesellschaft, Telecommunications	VEBA
Thomas Geitner (Chairman from November 4, 1999) Former Managing Board Member of RWE AG, Telecommunications	RWE/VRT
Prof. Dr. Clemens Börsig (August 16, 1999 through November 10, 1999) Executive Manager of Deutsche Bank AG, Chief Financial Officer Controlling, Taxation, Internal Audit	RWE
Dr. Hans-Michael Gaul (from August 16, 1999) Managing Board Member of VEBA Aktiengesellschaft, Finance and Controlling	VEBA
Julian Horn-Smith (through April 28, 1999) Chief Executive of Vodafone Airtouch International Limited Mr. Horn-Smith is responsible for Europe, the Middle East and Africa.	Vodafone
Ulrich Hüppe (through August 15, 1999 and from November 2, 1999) Executive Manager of VEBA Aktiengesellschaft Chief in-house Counsel	VEBA
Wolfgang Jensen (from July 27, 1999) Head of Corporate Finance Division, Sal. Oppenheim jr. & Cie.	Sal. Oppenheim jr. & Cie.
Dr. Richard Klein (from November 15, 1999) Managing Board Member of RWE Aktiengesellschaft Group Development and Systems	RWE
Hans Kuropatwa (April 29, 1999 through July 26, 1999) Regional Managing Director of Vodafone Airtouch International Limited	Vodafone
Charles C. Miller President BellSouth International Mr. Miller is responsible for the growth, development and management of BellSouth businesses outside the U.S.	BellSouth

**E-Plus Mobilfunk GmbH**  
**Notes to the Consolidated Financial Statements**  
**as of and for the Years Ended December 31, 1999, 1998 and 1997 (Continued)**

**VIII. Other Required Disclosures (Continued)**

Constanze Maurer (Vice-Chairwoman)	
Member of Works Council, Potsdam	Employee representative
Norbert Birkwald	
District Secretary of IG Metal Regional Management, Frankfurt	Employee representative
Bernd Julich	
Head of Quality Subdivision Northern Region	Employee representative
Christian Mahlau	
Member of Works Council at Mühlheim Call Centre	Employee representative
Wolfgang Mazurek	
Head of Contribution and Service Division, IG Metal, Frankfurt	Employee representative
Hans-Jürgen Pfaar	
Head of Industrial Law Department and Member of Works Council	Employee representative

*Managing Directors:*

Klaus Thiemann
Temporary Chairman of Management
Distribution and Marketing Private Customers and Customer Development
Stefan A. Baustert
Member of Management
Finance and Administration
Dr. Horst Lennertz
Member of Management
IT, Technology and Operations
Charles A. Fränkl (from June 21, 1999)
Member of Management
Distribution and Marketing Business Customers

Total emoluments paid to the management of the parent Company amounted to €1.90 million, €2.64 million and €1.95 million during 1999, 1998 and 1997, respectively.

The pension accruals set up for the former managing directors of the parent company amount to €0.51 million, €0.21 million and €0.13 million as of December 31, 1999, 1998 and 1997, respectively.

During 1999, 1998 and 1997, the Company paid to the members of the Supervisory Board €0.10 million, €0.10 million and €0.13 million, respectively.

The average number of employees at group level consisted of 3,220, 2,944 and 2,591 persons, comprising exclusively salaried employees in 1999, 1998 and 1997, respectively.

**E-Plus Mobilfunk GmbH**  
**Notes to the Consolidated Financial Statements**  
**as of and for the Years Ended December 31, 1999, 1998 and 1997 (Continued)**

**VIII. Other Required Disclosures (Continued)**

*Other financial commitments of the Group:*

- a) The commitments under material long-term tenancy or leasing agreements as of December 31, are as follows:

(Amounts in thousands of €)

	<u>1999</u>		<u>1998</u>		<u>1997</u>
Due in 2000 . . . . .	119,440	Due in 1999 . . . . .	93,327	Due in 1998 . . . . .	77,316
Due in 2001 . . . . .	109,419	Due in 2000 . . . . .	84,609	Due in 1999 . . . . .	69,756
Thereafter . . . . .	<u>637,614</u>	Thereafter . . . . .	<u>576,627</u>	Thereafter . . . . .	<u>517,804</u>
	<u>866,473</u>		<u>754,563</u>		<u>664,876</u>

- b) The purchase commitments to suppliers under material supply and service contracts amount to €469.6 million, €217.2 million and €221.6 million at December 31, 1999, 1998 and 1997, respectively.
- c) The Company has taken up outside funds provided by a group of banks (project financing). The balance of these funds totaled €1,506.8 million, €1,528.7 million and €1,385.6 million as of December 31, 1999, 1998 and 1997, respectively (1999 loan: €1,503.2 million and 1999 deferred interest: €3.6 million; 1998 loan: €1,503.2 million, 1998 deferred interest €25.4 million and 1998 loan commitment fee: €0.07; 1997 loan: €1,361.1 million, 1997 deferred interest: €24.5 million and 1997 loan commitment fee: €0.12 million). The loan accrues interest at a variable rate. In order to partially cover the interest rate risk, the Company has entered into interest swap transactions. For accounting purposes, loan and interest swap transactions are treated as a separate valuation unit.

Düsseldorf, April 5, 2000

The General Management

Klaus Thiemann

Dr. Horst Lennertz

Stefan A. Baustert

Charles A. Fränkl

# Exhibit A

## E-Plus Mobilfunk GmbH, Berlin

### Movements in Consolidated Fixed Assets for the Period January 1, 1999 through December 31, 1999

(Amounts in thousands of €)

	Acquisition cost				Accumulated depreciation				Net book value	
	Balance January 1, 1999	Additions	Reclass- ifications	Disposals	Balance December 31, 1999	Balance January 1, 1999	Additions	Disposals	Balance December 31, 1999	Balance December 31, 1998
<b>A. Fixed Assets</b>										
<b>I. Intangible assets</b>										
1. Concessions, industrial and similar rights and assets and licenses in such rights and assets .	148,905	23,547	41	584	171,909	78,603	26,212	183	104,632	70,302
2. Payments on account . . . . .	1,996	8,324	(41)	1,888	8,391	—	—	—	8,391	1,996
	<u>150,901</u>	<u>31,871</u>	<u>—</u>	<u>2,472</u>	<u>180,300</u>	<u>78,603</u>	<u>26,212</u>	<u>183</u>	<u>104,632</u>	<u>72,298</u>
<b>II. Tangible assets</b>										
1. Land and buildings on third- party land . . . . .	24,632	1,726	—	4,954	21,404	5,857	2,145	694	7,308	18,775
2. Technical equipment and machinery . . . . .	1,546,365	225,919	31,118	8,260	1,795,142	342,128	137,409	3,064	476,473	1,204,237
3. Other equipment, factory and office equipment . . . . .	51,633	4,429	—	3,061	53,001	31,488	9,399	3,100	37,787	20,145
4. Payments on account and assets under construction . . . . .	58,061	40,981	(31,118)	—	67,924	—	—	—	67,924	58,061
	<u>1,680,691</u>	<u>273,055</u>	<u>—</u>	<u>16,275</u>	<u>1,937,471</u>	<u>379,473</u>	<u>148,953</u>	<u>6,858</u>	<u>521,568</u>	<u>1,301,218</u>
<b>III. Financial assets</b>										
1. Shares in affiliated enterprises	—	383	—	—	383	—	—	—	383	—
2. Other loans . . . . .	3	—	—	—	3	—	—	—	3	3
	<u>1,831,595</u>	<u>305,309</u>	<u>—</u>	<u>18,747</u>	<u>2,118,157</u>	<u>458,076</u>	<u>175,165</u>	<u>7,041</u>	<u>626,200</u>	<u>1,373,519</u>

**Exhibit A**  
**E-Plus Mobilfunk GmbH, Berlin**  
**Movements in Consolidated Fixed Assets for the Period January 1, 1998 through December 31, 1998**  
**(Amounts in thousands of €)**

	Acquisition cost				Accumulated depreciation				Net book value	
	Balance January 1, 1998	Additions	Reclass- ifications	Disposals	Balance December 31, 1998	Balance January 1, 1998	Additions	Disposals	Balance December 31, 1998	Balance December 31, 1997
<b>Start-up and business expansion businesses</b>	79,404	—	—	79,404	—	—	79,404 <sup>(1)</sup>	79,404	—	79,404
<b>A. Fixed Assets</b>										
<b>I. Intangible assets</b>										
1. Concessions, industrial and similar rights and assets and licenses in such rights and assets	94,423	40,816	14,681	1,015	148,905	48,617	30,530 <sup>(2)</sup>	544	78,603	45,806
2. Payments on account	14,494	1,996	(14,494)	—	1,996	—	—	—	—	14,494
	108,917	42,812	187	1,015	150,901	48,617	30,530	544	78,603	60,300
<b>II. Tangible assets</b>										
1. Land and buildings on third-party land	19,522	5,676	8	574	24,632	4,050	2,368	561	5,857	15,472
2. Technical equipment and machinery	1,363,738	156,707	60,109	34,189	1,546,365	225,196	119,397	2,465	342,128	1,138,542
3. Other equipment, factory and office equipment	52,157	6,741	166	7,431	51,633	26,023	12,227	6,762	31,488	26,134
4. Payment on account and assets under construction	77,392	41,139	(60,470)	—	58,061	—	—	—	—	77,392
	1,512,809	210,263	(187)	42,192	1,680,691	255,269	133,992	9,788	379,473	1,257,540
<b>III. Financial assets</b>										
1. Other loans	3	—	—	—	3	—	—	—	—	3
	1,621,729	253,075	—	43,209	1,831,595	303,886	164,522	10,332	458,076	1,317,843

(1) The depreciation for commissions and bonuses no longer re-claimable by the Company are included in extraordinary expense.

(2) The depreciation includes accumulated depreciation of prior years from the post-capitalization of the E1 license, totaling €3,106 thousands.

# Exhibit A

## E-Plus Mobilfunk GmbH, Berlin

### Movements in Consolidated Fixed Assets for the Period January 1, 1997 through December 31, 1997

(Amounts in thousands of €)

	Acquisition cost				Accumulated depreciation				Net book value		
	Balance January 1, 1997	Additions	Reclass- ifications	Disposals	Balance December 31, 1997	Balance January 1, 1997	Additions	Disposals	Balance December 31, 1997	Balance December 31, 1997	Balance December 31, 1996
<b>Start-up and business expansion businesses</b>	44,663	72,621	—	37,880	79,404	—	37,880	37,880	—	79,404	44,663
<b>A. Fixed Assets</b>											
<b>I. Intangible assets</b>											
1. Concessions, industrial and similar rights and assets and licenses in such rights and assets	78,845	14,075	1,821	318	94,423	23,769	25,001	153	48,617	45,806	55,076
2. Payments on account	7,609	8,706	(1,821)	—	14,494	—	—	—	—	14,494	7,609
	<u>86,454</u>	<u>22,781</u>	<u>—</u>	<u>318</u>	<u>108,917</u>	<u>23,769</u>	<u>25,001</u>	<u>153</u>	<u>48,617</u>	<u>60,300</u>	<u>62,685</u>
<b>II. Tangible assets</b>											
1. Land and buildings on third-party land	8,764	10,000	1,555	797	19,522	3,140	1,647	737	4,050	15,472	5,624
2. Technical equipment and machinery	1,058,500	226,664	82,399	3,825	1,363,738	126,840	99,199	843	225,196	1,138,542	931,660
3. Other equipment, factory and office equipment	46,017	10,526	1,210	5,596	52,157	19,030	11,348	4,355	26,023	26,134	26,987
4. Rental handsets	1,513	—	—	1,513	—	899	614	1,513	—	—	614
5. Payments on account and assets under construction	120,772	41,784	(85,164)	—	77,392	—	—	—	—	77,392	120,772
	<u>1,235,566</u>	<u>288,974</u>	<u>—</u>	<u>11,731</u>	<u>1,512,809</u>	<u>149,909</u>	<u>112,808</u>	<u>7,448</u>	<u>255,269</u>	<u>1,257,540</u>	<u>1,085,657</u>
<b>III. Financial assets</b>											
1. Other loans	3	—	—	—	3	—	—	—	—	3	3
	<u>1,322,023</u>	<u>311,755</u>	<u>—</u>	<u>12,049</u>	<u>1,621,729</u>	<u>173,678</u>	<u>137,809</u>	<u>7,601</u>	<u>303,886</u>	<u>1,317,843</u>	<u>1,148,345</u>

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**INDEX TO INTERIM FINANCIAL STATEMENTS  
OF KONINKLIJKE KPN N.V. (unaudited)**

Condensed Consolidated Balance Sheets as of June 30, 2000 and as of December 31, 1999 . . . .	H-2
Condensed Consolidated Statements of Income for the six months ended June 30, 2000 and 1999 . . . . .	H-4
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2000 and 1999 . . . . .	H-5
Notes to the Consolidated Financial Statements as of and for the six months ended June 30, 2000 and 1999 . . . . .	H-6

## Condensed Consolidated Balance Sheets

### Assets

	June 30, 2000 (unaudited) (€ in millions)	December 31, 1999
<b>Fixed assets</b>		
<b>Intangible fixed assets</b>		
Goodwill and licenses . . . . .	21,355	1,032
<b>Property, plant and equipment</b>		
Land and buildings . . . . .	1,060	1,075
Plant and equipment . . . . .	7,866	6,721
Other fixed assets . . . . .	876	675
Assets under construction . . . . .	995	425
	<u>10,797</u>	<u>8,896</u>
<b>Financial fixed assets</b>		
Participating interests . . . . .	834	1,042
Loans to participating interests . . . . .	414	56
Loans . . . . .	43	54
Prepayment and accrued income . . . . .	204	224
	<u>1,495</u>	<u>1,376</u>
<b>Total fixed assets . . . . .</b>	<b>33,647</b>	<b>11,304</b>
<b>Current assets</b>		
Inventory . . . . .	334	211
Accounts receivable . . . . .	2,019	1,507
Prepayment and accrued income . . . . .	1,664	1,063
Marketable securities and other financial interests . . . . .	1,304	1,281
Cash and cash equivalents . . . . .	1,412	2,625
<b>Total current assets . . . . .</b>	<b>6,733</b>	<b>6,687</b>
<b>Total assets . . . . .</b>	<b><u>40,380</u></b>	<b><u>17,991</u></b>

The accompanying notes are an integral part of these financial statements.  
All balances have been restated from Dutch Guilders to euro using the fixed exchange rate as of  
January 1, 1999 of €1=NLG2.20371.

## Condensed Consolidated Balance Sheets (Continued)

### Shareholder's equity and liabilities

	June 30, 2000 (unaudited) (€ in millions)	December 31, 1999
<b>Group equity</b>		
Shareholders' equity . . . . .	8,913	6,364
Minority interests . . . . .	152	25
<b>Total group equity</b> . . . . .	9,065	6,389
<b>Exchange right</b> . . . . .	7,560	0
<b>Provisions</b> . . . . .	652	795
<b>Long-term liabilities</b>		
State of the Netherlands		
—Ordinary Loan . . . . .	146	146
—Subordinated Loan . . . . .	112	112
Other debts . . . . .	15,695	5,154
<b>Total long-term liabilities</b> . . . . .	15,953	5,412
<b>Current liabilities</b>		
Other debts . . . . .	5,360	2,632
Accruals and deferred income . . . . .	1,790	2,430
Dividends payable . . . . .	0	333
<b>Total current liabilities</b> . . . . .	7,150	5,395
<b>Total liabilities</b> . . . . .	<b>40,380</b>	<b>17,991</b>

The accompanying notes are an integral part of these financial statements.

All balances have been restated from Dutch Guilders to euro using the fixed exchange rate as of January 1, 1999 of €1=NLG2.20371.

The capital base (group equity increased by the subordinated loan and exchange rights) totaled €16,737 million as of June 30, 2000 (€6,501 as of December 31, 1999).

**Condensed Consolidated Statement of Income**  
(Unaudited)

	For the six months ended June 30, 2000	For the six months ended June 30, 1999
	(€ in millions, except for the per share information)	
Operating revenues . . . . .	5,202	4,016
Cost of materials . . . . .	621	426
Work contracted out and other expenses . . . . .	1,666	1,181
Salaries and social security contributions . . . . .	985	803
Depreciation and impairments . . . . .	1,313	860
Other operating expenses . . . . .	173	110
Total operating expense . . . . .	4,758	3,380
Operating profit . . . . .	444	636
Financial income and expense . . . . .	(393)	(132)
Profit before taxes . . . . .	51	504
Tax on profit or loss on normal operations . . . . .	(266)	(198)
Share in income from participating interests . . . . .	196	110
<b>Net group profit or loss . . . . .</b>	<b>(19)</b>	<b>416</b>
Profit or loss on normal operations after taxes . . . . .	(19)	416
Profit or loss after taxes per share of common stock and per ADS <sup>(1)</sup>	(0.02)	0.44
Profit or loss after taxes per share of common stock and per ADS on a fully diluted basis <sup>(1)(2)</sup> . . . . .	(0.02)	0.44

The accompanying notes are an integral part of these financial statements.  
All balances have been restated from Dutch Guilders to euro using the fixed exchange rate as of  
January 1, 1999 of €1=NLG2.20371.

- 
- (1) The per share information has been retroactively restated to reflect the effects of the two-for-one share split which took place in June 2000.
  - (2) The fully diluted calculation excludes incremental shares of 109,128,094 related to share option rights, warrants and the exchange right due to the antidilutive effect as a result of the Company's loss after taxes for the six months ended June 30, 2000.

**Condensed Consolidated Statement of Cash Flows**  
**(Unaudited)**

	For the six months ended June 30, 2000	For the six months ended June 30, 1999
	(€ in millions)	
<b>Net cash from operating activities</b> . . . . .	486	1,603
Acquired group companies/joint ventures . . . . .	(9,272)	(15)
Additions to tangible fixed assets . . . . .	(1,530)	(1,028)
Changes in other financial fixed assets . . . . .	(900)	118
Other net cash used in investing activities . . . . .	(18)	(130)
<b>Net cash used in investing activities</b> . . . . .	(11,720)	(1,055)
Long-term loans contracted . . . . .	18,075	2,110
Repayment of long-term liabilities . . . . .	(7,711)	(346)
Other net cash provided by financing activities . . . . .	(412)	(467)
<b>Net cash provided by financing activities</b> . . . . .	9,952	1,297
<b>Changes in cash and cash equivalents</b> . . . . .	<b>(1,282)</b>	<b>1,845</b>
Cash and cash equivalents at beginning of financial period . . . . .	2,625	434
Cash and cash equivalents in group companies . . . . .	69	41
Changes in cash and cash equivalents . . . . .	(1,282)	1,845
Cash and cash equivalents at end of financial period . . . . .	<u>1,412</u>	<u>2,320</u>

The accompanying notes are an integral part of these financial statements.  
All balances have been restated from Dutch Guilders to euro using the fixed exchange rate as of  
January 1, 1999 of €1=NLG2.20371.

**Footnotes to the June 30, 2000 and 1999  
Condensed Consolidated Financial Statements (Unaudited)**

**1. Accounting principles**

**GENERAL**

The accompanying consolidated financial statements as of June 30, 2000 and for the six months ended June 30, 2000 and 1999 are unaudited, but include all adjustments KPN considers necessary for a fair presentation of such financial statements. All adjustments are of a normal, recurring nature. The year-end consolidated balance sheet data was derived from audited financial statements but do not include all disclosures required by generally accepted accounting principles. These notes should be read in conjunction with the Notes to Consolidated Financial Statements included in the F-pages of this document.

**ACCOUNTING CHANGE**

Effective January 1, 2000, KPN changed its accounting method and began to capitalize interest expenses that are directly allocable to self-produced property, plant and equipment. Under KPN's new policy, applicable interest charges incurred during the construction of long term assets are capitalized as one of the elements of cost and are amortized over the assets' estimated useful lives. KPN has introduced this change to its accounting system to allow a better comparison with other international telecommunications operators. A credit in the amount of €136 million has been included in stockholders' equity to reflect the change and capitalize the interest to KPN's accounting system. The effect on the first half year result before tax was €11 million. The first-half 1999 result would have been €4 million higher if the comparative figures had been corrected.

**2. Acquisition of E-Plus and the relationship with BellSouth**

Through their joint venture, KPN Mobile acquired 77.49% of the share capital of E-Plus which was formerly held by Vodafone and VR Telecommunications. KPN acquired its share in E-Plus for cash consideration of €9.1 billion and a warrant and exchange right (which is discussed below), which together represented a fair value of €9.9 billion on February 24, 2000, the date of acquisition. The total goodwill recognized amounted to €20.2 billion.

The acquisition of E-Plus shares was financed by a credit facility entered into by KPN and KPN Mobile. During February 2000, the credit facility was reduced to €11.5 billion of which €10.5 billion was drawn. The net proceeds of the USD1 billion Floating Rate Step-up Notes 2000 due 2001, the €1 billion Floating Rate Step-up Notes 2000 due 2001, the €2.5 billion Floating Rate Step-up Notes 2000 due 2002 and the €1.5 billion 5.75% Step-up Notes 2000 due 2003 and certain private placements in Japan were used to repay €7.1 billion of the credit facility in June and early July 2000.

On August 2, 2000 the remaining part of the credit facility (€3.7 billion) was repaid from the proceeds of KPN's sale of 15% in KPN Mobile to NTT DoCoMo and by drawings under certain banking facilities.

**Exchange rights**

KPN, KPN Mobile, BellSouth and German Mobilfunk Investments Inc. are parties to an agreement which grants BellSouth the right to acquire either 200,000,000 shares in KPN or 499,631,269 shares in KPN Mobile in exchange for BellSouth's indirect 22.51% interest in the JV Company. The number of KPN or KPN Mobile shares may be adjusted in response to certain events which would have the effect of diluting BellSouth's interest. These rights may be exercised between June 9, 2001 and December 8, 2003 and earlier, if the State's voting rights drop below 25%, or if KPN undergoes a change in control, or if another company makes a bid to gain control of KPN. The value of the

## 2. Acquisition of E-Plus and the relationship with BellSouth (Continued)

exchange rights on February 24, 2000 was €7.56 billion. The exchange right is classified as mezzanine equity in KPN's balance sheet.

### *Series 1 loan facility*

KPN and BellSouth have entered into a subordinated loan facility agreement pursuant to which BellSouth will purchase notes from KPN to a maximum value of USD3 billion. All proceeds under this facility will be lent by KPN to KPN Mobile for use in KPN Mobile's European wireless business.

### *Warrant*

KPN has granted BellSouth a warrant enabling BellSouth to acquire 92,634,066 newly issued ordinary shares in KPN against either a set-off of amounts due under the notes and/or payment in cash. The warrant may be exercised between June 9, 2001 and December 8, 2003, or earlier if (i) the State's voting rights drop below 25% or (ii) if KPN undergoes a change in control, or (iii) if another company makes a bid to gain control of KPN. The price payable per share in KPN is calculated by adding a premium to a base price of approximately €31.75. Initially a premium of 25% is applicable if the warrant is exercised before December 9, 2000. Thereafter the premium increases by 5% per annum on the anniversary of this date until a maximum of 40% is reached. If KPN's shares cannot be issued to BellSouth as a result of statutory or regulatory restrictions, BellSouth has the right to opt for shares in KPN Mobile. The value of the warrant on February 24, 2000 was €2.33 billion, and has been classified as equity in KPN's balance sheet.

### *Accounting for the acquisition*

The acquisition of E-Plus has been accounted for as a purchase and accordingly, the acquired assets and liabilities have been recorded at their estimated fair values at the dates of acquisition. The excess of the consideration paid over the estimated fair value of net assets acquired has been recorded as goodwill, which is being amortized over 20 years.

Consistent with our accounting policy we will proportionately consolidate E-Plus since we share control with Bell South. E-Plus' results of operations have been proportionally consolidated since February 24, 2000.

The following unaudited pro forma summary presents the consolidated results of operations of KPN and E-Plus as if the acquisition had occurred at the first day of the period presented. These pro forma results do not necessarily represent results, which would have occurred if the acquisitions had taken place at that date, or of results which may occur in the future.

	For the six months ended June, 2000	For the six months ended June, 1999
	(€ in millions)	
Revenues . . . . .	5,418	4,277
Net loss . . . . .	(277)	(550)
Basic and diluted net loss per share of common stock and per ADS	(0.26)	(0.58)

## 3. Reorganization provision

Withdrawals from the reorganization provision for the "KPN New" project amounted to €136 million in the first half of 2000. Of this amount, €54 million was withdrawn for workforce reductions, for retraining/further training programs and for the creation of conditions of employment in line with market trends. Another €52 million was withdrawn for implementation of ERP software, and

### 3. Reorganization provision (Continued)

€30 million for other costs related to the reorganization, including relocations in the context of “KPN New”, parallel occupation of premises and accelerated disposal of real estate.

### 4. Off balance sheet commitments

The off balance sheet commitments can be broken down as follows:

	<u>June 30, 2000</u>	<u>December 31, 1999</u>
	<u>(€ in millions)</u>	
Commitments by virtue of:		
Capital expenditure . . . . .	524	697
Rental and lease contracts . . . . .	1,399	536
Guarantees . . . . .	208	335
Purchasing commitments . . . . .	1,171	442
Other . . . . .	88	44

Of these off-balance sheet commitments €2,162 million can be designated as short-term commitments (1999: 1,588).

#### *Capital expenditure*

These commitments mainly relate to additions to property, plant and equipment of KPNQwest.

#### *Rental and lease contracts*

The future minimal annual operational lease installments (including rent) as at June 30, 2000 are as follows:

	<u>(€ in millions)</u>
July 2000–December 2001 . . . . .	425
2002 . . . . .	225
2003 . . . . .	190
2004 . . . . .	161
2005 . . . . .	121
Subsequent years . . . . .	277
	<u>1,399</u>

These operating lease and rental commitments mainly relate to buildings and other fixed assets.

#### *Guarantees*

In the scope of Unisource’s sale of participating interests, we have assumed an obligation incurred by Unisource to the buyers of these participating interests of €129 million.

We have assumed the liabilities of satellite organizations Eutelsat and Intelsat up to an amount of €75 million.

#### *Purchase obligations*

Most of these obligations have a term of less than a year.

## 5. Reconciliation to United States Generally Accepted Accounting Principles (US GAAP)

The Company's financial statements have been prepared in accordance with Dutch GAAP which vary in certain respects from US GAAP. Differences that have a significant effect on the KPN's consolidated results of operations and shareholders' equity are summarized below. This note should be read in conjunction with the section "Information on U.S. Accounting Principles" included in the Notes to Consolidated Financial Statements for the year ended December 31, 1999, included in the F-pages elsewhere in this document.

### *Intangible assets*

Under US GAAP, we would have recognized the following additional intangible assets in conjunction with the acquisition of E-Plus:

	<u>June 30, 2000</u>
	(€ in millions)
Brand name . . . . .	1,138
Work force . . . . .	26
Customer base . . . . .	263
Favorable lease contracts . . . . .	52
Total . . . . .	<u>1,479</u>

This US GAAP adjustment would not have an effect on net equity but would increase intangible assets by €1,479 million and decrease goodwill by the same amount.

Under US GAAP, the exchange right is deemed a financial instrument and marked to market at balance sheet date.

### *Exchange right*

Under both US GAAP and Dutch GAAP the exchange right issued to BellSouth is accounted for as noncash consideration at its fair value at that date. However, US GAAP further requires this instrument to be marked to market up through the date of exercise based upon movements in the fair value of the instrument.

## 5. Reconciliation to United States Generally Accepted Accounting Principles (US GAAP) (Continued)

### Reconciliation statements

The following statements summarize the principal adjustments, gross of their tax effect, which reconcile net income and total shareholders' equity under Dutch GAAP to the amounts that would have been reported had US GAAP been applied:

	For the six months ended June 30, 2000	For the six months ended June 30, 1999
	(€ in millions)	
Profit after taxes as per NL GAAP . . . . .	(19)	416
Adjustments for:		
Employee and reorganization provisions . . . . .	(137)	(3)
Capitalization of interest charges . . . . .	—	4
Pension charges . . . . .	58	(113)
Self-insurance . . . . .	(10)	(3)
Capitalization of software . . . . .	(2)	(3)
Consolidation of Vision Networks Holdings B.V. . . . .	9	9
Investment grants to replace WIR allowances . . . . .	4	12
Infonet . . . . .	(9)	—
Minority participating interests . . . . .	12	(47)
Release of deferred income . . . . .	29	—
Exchange right . . . . .	2,440	—
Tax effect of adjustments . . . . .	32	41
Profit after taxes as per US GAAP . . . . .	<u>2,407</u>	<u>313</u>
	June 30, 2000	December 31, 1999
	(€ in millions)	
Shareholders' equity as per NL GAAP . . . . .	8,913	6,364
Adjustments for:		
Employee and reorganization provisions . . . . .	151	287
Capitalization of interest charges . . . . .	—	136
Dividend . . . . .	—	333
Pension charges . . . . .	(1,361)	(1,419)
Self-insurance . . . . .	26	36
Capitalization of software . . . . .	(10)	(7)
Consolidation of Vision Networks Holdings B.V. . . . .	655	645
Stichting Werknemersaandelen KPN . . . . .	(21)	(23)
Investment grants to replace WIR allowances . . . . .	(59)	(62)
Infonet . . . . .	871	1,797
Minority participating interests . . . . .	(55)	24
Deferred income . . . . .	(147)	—
Exchange right . . . . .	2,440	—
Tax effect of adjustments . . . . .	370	336
Shareholders' equity as per US GAAP . . . . .	<u>11,773</u>	<u>8,447</u>

## 5. Reconciliation to United States Generally Accepted Accounting Principles (US GAAP) (Continued)

### *Comprehensive income*

	For the six months ended June, 2000	For the six months ended June, 1999
	(€ in millions)	
Profit after tax as per US GAAP . . . . .	2,407	313
Adjustments for:		
Exchange rate differences through shareholders' equity . . . . .	13	(6)
Changes in market value of Infonet . . . . .	(1,193)	—
Comprehensive income . . . . .	<u>1,227</u>	<u>307</u>

### *Earnings per share*

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31:

	For the six months ended June 30, 2000	For the six months ended June 30, 1999
	(amounts in € millions, except share and per share amounts)	
Profit or loss under US GAAP . . . . .	2,407	313
Weighted average number of outstanding ordinary shares . . . . .	956,983,112	951,000,300
Effect of dilutive securities:		
Share option rights . . . . .	3,786,758	1,072,438
Warrant . . . . .	17,827,164	—
Exchange right* . . . . .	<u>87,513,358</u>	<u>—</u>
Weighted average number of outstanding ordinary shares on a fully diluted basis . . . . .	1,066,110,392	952,072,738
Profit or loss after taxes per ordinary share . . . . .	2.52	0.33
Profit or loss after taxes per ordinary share on a fully diluted basis .	2.26	0.33

\* The above calculation assumes that BellSouth elects for shares in KPN in satisfaction of the exchange right.

## 6. Segmented reporting

In 2000, KPN made adjustments to the Company's segmentation. KPN defines five segments for core activities including Fixed network services, Mobile communication, IP/data and Internet, customer

## 6. Segmented reporting (Continued)

relationship management and media (ICM), and a segment “Other”. The figures for the first half of 1999 have been resegmented to reflect the new segmentation.

	For the six months ended June, 2000	For the six months ended June, 1999
	(€ in millions)	
<b><i>Operating revenues</i></b>		
Fixed network services . . . . .	2,635	2,414
Mobile communicaitons . . . . .	1,567	810
IP/data . . . . .	576	382
ICM . . . . .	347	291
Other . . . . .	732	604
Intercompany revenues . . . . .	(655)	(485)
	<u>5,202</u>	<u>4,016</u>
	For the six months ended June, 2000	For the six months ended June, 1999
	(€ in millions)	
<b><i>Depreciation and impairments</i></b>		
Fixed network services . . . . .	425	459
Mobile communications . . . . .	545	91
IP/data . . . . .	115	85
ICM . . . . .	40	39
Other . . . . .	188	186
	<u>1,313</u>	<u>860</u>
	For the six months ended June, 2000	For the six months ended June, 1999
	(€ in millions)	
<b><i>EBITDA</i></b>		
Fixed network services . . . . .	1,241	1,224
Mobile communications . . . . .	333	222
IP/data . . . . .	123	115
ICM . . . . .	(40)	(17)
Other . . . . .	100	(48)
	<u>1,757</u>	<u>1,496</u>
	June 30, 2000	December 31, 1999
<b><i>Total assets</i></b>		
Fixed network services . . . . .	7,423	7,432
Mobile communications . . . . .	24,303	2,343
IP/data . . . . .	2,915	2,563
ICM . . . . .	467	348
Other . . . . .	5,272	5,305
	<u>40,380</u>	<u>17,991</u>

## 7. Subsequent events

E-Plus Hutchison won one of six UMTS licenses in Germany for which it paid approximately €8.4 billion on August 31, 2000. At the time the German license was won, we announced that Hutchison had exercised its contractual right to withdraw from the joint venture. Accordingly, on August 29, 2000 E-Plus acquired the interests of both KPN Mobile and Hutchison in E-Plus Hutchison, which has been renamed E-Plus 3G Luxemburg. BellSouth, as the holder of a 22.51% indirect stake in E-Plus, has loaned E-Plus approximately €1.4 billion towards the cost of the license and loaned us an additional €465 million. We have loaned E-Plus the balance of approximately €7.0 billion (including the €465 million BellSouth loaned to us).

On September 1, 2000, Standard & Poor's, or S&P, announced that it had lowered KPN's long-term corporate and senior unsecured ratings to single-"A"-minus from double-"A". S&P also announced that it had lowered KPN's short-term rating from "A-1 plus" to "A-2". S&P stated that the downgrades reflected the impact on our risk profile of the E-Plus acquisition, investment in UMTS licenses and heightened competitive pressure in KPN's domestic fixed telephony business. S&P also stated that its outlook for us remains negative. At the same time, S&P removed KPN's ratings from its Credit Watch, where they had been placed (with negative implications) in December 1999.

On September 7, Moody's Investors Service, or Moody's, announced that it had downgraded to A3 from Aa2 KPN's senior unsecured debt ratings, and had downgraded to Baa1 from Aa3 our subordinated long-term debt ratings. Moody's stated that the downgrades reflect what Moody's described as the substantial increase in financial risk associated with KPN's recent debt financed investments to enhance our international strategy. Moody's also stated that the downgrades reflect the significant challenges ahead to reduce debt in the short-term, and that it had taken into account what it sees as gradually increasing competitive pressure in The Netherlands and its expectation of further pressure on operating margins as the revenue mix shifts to lower-margin businesses.

For other material financing transactions entered into after the date of these financial statements, reference is made to the notes to the capitalization table included elsewhere in the offering circular.

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