



Back to Growth

Annual Report 2008

Forward-looking statements

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

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

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

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KPN is the leading telecommunications and ICT service provider in The Netherlands, offering wireline and wireless telephony, internet and TV to consumers, and end-to-end telecommunications and ICT services to business customers. KPN's subsidiary Getronics operates a global ICT services company with a market-leading position in the Benelux, offering end-to-end solutions in infrastructure and network-related IT. In Germany and Belgium, KPN pursues a multi-brand strategy in its mobile operations and holds number three market positions through E-Plus and BASE. KPN provides wholesale network services to third parties and operates an efficient IP-based infrastructure with global scale in international wholesale through iBasis.

31 million
wireless customers

5 million
wireline voice customers

2.5 million
broadband internet customers

0.8 million
TV customers

36,702
FTEs

At December 31, 2008 KPN served approximately 31 million customers in wireless services, over 5 million customers in wireline voice, approximately 2.5 million customers in broadband internet, almost 0.8 million customers in TV and approximately 3,000 business customers of Getronics. With 36,702 FTEs, KPN posted revenues and other income of EUR 14.6 billion in 2008, with an operating profit of EUR 2.6 billion.

KPN shares are traded on Euronext Amsterdam.

Our customers trust us to provide them with high-quality, reliable services to help them achieve their business and personal goals, and to enrich their work and leisure time. We offer them a range of services, which enable them to access information and entertainment, anytime, anywhere and let them choose how to do that, from, for example, a phone, a computer, a PDA or a television set. We also let them choose from a range of brands which we have designed to suit different needs and customer groups – from the reliable, high-quality KPN brand, to youth brands such as Hi, or the no-frills brand Simyo.

We believe that satisfied customers form the basis for profitable growth, and, as a result, create value for our shareholders. Equally, we believe that our commitment to quality and customer satisfaction can be realized only if our employees are motivated to provide the best possible products and services.

We are equally conscious of our responsibilities to the wider community; it is our policy to use our knowledge and technology to contribute to the well-being of all our stakeholders, and take steps to account to them for our environmental performance.



We delivered solid performance during 2008 with growth in both revenues and operating profit. The performance in The Netherlands was ahead of expectations for 2008, as the EBITDA inflection point was reached. Despite the economic downturn, we made good progress towards our strategic objectives; growth in The Netherlands returned and profitable growth of Mobile International's activities continued.

The Netherlands reached EBITDA inflection point

During 2008, we successfully managed the transition at Getronics, by selling non-core assets and by lowering the cost base. As of 2009, Getronics will assume full responsibility for the corporate market, offering both its own ICT services in this market as well as KPN's infrastructure services, including wireless services.

Transition at Getronics

'Back to Growth' expresses the objective of our strategy until 2010. It is ambitious because we intend to maintain our top position among the best-performing European telecom operators. In The Netherlands we want to improve our leading position. Outside The Netherlands we want to reinforce our 'Challenger' position.

Top position in European telecom

We have made a number of strategic choices to further drive growth. The introduction of new services and the roll-out of our All-IP network are important. We are also looking for a drastic simplification of our activities in both the retail segments and in network management. Simplification and efficiency will enable us to have a clear product offering and cut costs, the benefits of which can be reinvested and thus generate revenue growth. This will lead to an acceleration of initiatives such as broadband and TV in the Consumer market and IP-based services in the Business market. Cost savings will ensure margin optimization.

Excellent service and an outstanding product and service offering remain our key priority. Like in The Netherlands, we will continue to take a multi-brand strategy approach to foreign markets. The strategic target for Mobile International (e.g. E-Plus and BASE) is to maintain profitable growth. The acquisitions of blau, Ortel, SMS Michel and ALLO Telecom all seem good contributions. Furthermore, we started an MVNO in Spain, on the Orange network, in January 2008. A similar business was started in France in January 2009 on the Bouygues Telecom network. We have no plans to enter new markets until success has been proven in Spain and France.

Employers' responsibility

Rapid changes in telecommunication markets have an impact on the organization. In order to retain our competitive position we intend to reduce the FTE headcount by 3,500 over the period 2009-2010. We will ensure that our employees receive proper assistance in finding new positions inside or outside the organization. The knowledge accumulated by our current and future employees constitutes a valuable asset our company has. We take our responsibility as an employer seriously by creating a good working climate. 'Flexible working' and 'Young Potential Programs' are examples of programs in which we are investing.

Sustainability policy

Our ambition is to be the best service provider in the industry. This requires us to develop sustainable contact with our clients, employees and society in general. In 2008, we took three pillars from our sustainability policy, 'People connected', 'New world of working' and 'Responsible energy use' and enforced them at the operational level with tangible objectives. Social issues where we can make a substantial contribution were taken into consideration. We have adopted a clear, distinguishing policy and we are on track to achieve visible results.

The overall objectives that we set ourselves are ambitious. On the one hand, we see rapid growth in new services, but on the other hand there are gradually shrinking markets for traditional services, changes in regulation and a general slowdown of the economy. So far we have not seen a material impact from the economic downturn on our operations, but we have developed contingency plans to protect our cash flow going forward. Our sound financial position enabled us to start a new EUR 1 billion share buyback program for 2009 already in November 2008. With 'Back to Growth' we have taken the first steps to a reinvigorated, stronger KPN.

Group Financials

The following tables show our selected historical financial data for the years ended December 31, 2008, 2007, 2006, 2005 and 2004.

Our Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. This Annual Report contains a number of non-IFRS figures, such as EBITDA and free cash flow. These non-IFRS figures should not be viewed as a substitute for KPN's IFRS figures. EBITDA is defined as operating profit plus depreciation, amortization and impairments. Free cash flow is defined as Net cash flow provided by operating activities minus Investments in property, plant and equipment and software plus Proceeds from real estate (included in disposals of property, plant and equipment and software) plus Tax recapture at E-Plus (included in Taxes received (paid)).

These tables should be read together with our Consolidated Financial Statements and the notes thereto, included elsewhere in this Annual Report.

(In millions of EUR, unless indicated otherwise)	2008	2007	2006	2005	2004
Revenues and other income	14,602	12,632	12,057	11,936	11,819
– of which revenues	14,427	12,461	11,941	11,811	11,746
EBITDA	5,058	4,900	4,837	4,724	4,835
EBITDA margin	34.6%	38.8%	40.1%	39.6%	40.9%
Operating profit (EBIT)	2,597	2,500	2,223	2,348	2,645
Profit for the period (net result)	1,337	2,649	1,583	1,454	1,757
Earnings per share (in EUR)	0.77	1.42	0.79	0.66	0.72
Dividend per share (in EUR)	0.60	0.54	0.50	0.45	0.35
Cash flow from operating activities	4,030	3,890	4,071	3,833	3,957
Capital expenditures (PP&E and software)	-1,925	-1,688	-1,650	-1,394	-1,668
Proceeds from real estate	180	143	56	N/A	N/A
Tax recapture at E-Plus	313	N/A	N/A	N/A	N/A
Free cash flow	2,598	2,345	2,477	2,439	2,289

The proposed dividend for 2008 consists of a cash dividend of EUR 0.60 per share of which EUR 0.20 was paid as an interim dividend. For further information about our dividend policy, see 'Information about the KPN share'.

Balance Sheet Data

	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005	January 1, 2005 ¹
Total assets	23,913	24,797	21,258	22,702	24,230
Non-current liabilities	14,357	13,702	13,213	12,191	12,297
Current liabilities (incl. liabilities classified as held for sale)	5,797	6,577	3,849	5,316	5,431
Group Equity	3,759	4,518	4,196	5,104	6,411
Number of issued shares	1,714,362,792	1,843,482,213	1,928,551,326	2,151,360,369	2,329,399,969

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

Workforce

	2008	2007	2006	2005	2004
Average number of FTEs in The Netherlands	25,095	20,130	19,449	20,590	21,797
Average number of FTEs outside The Netherlands	15,021	9,215	6,838	6,737	7,114
Average number of FTEs	40,116	29,344	26,287	27,327	28,911
Number of FTEs as of December 31	36,702	43,531	25,976	26,598	28,056
Number of employees as of December 31	40,288	~47,000	28,368	29,286	31,116

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

We attach great importance to transparent and regular communication with our shareholders, other capital providers and their intermediaries. Presentations for, and meetings with investors and analysts are held on a regular basis, including those in connection with the announcement of our results. Analysts' meetings and conference calls were organized around the publication of the quarterly results and broadcasted live via the Internet to ensure that all groups of investors receive the same information at the same time. In all these activities, our management is supported by the Investor Relations department, which is at the investors' and analysts' disposal on a daily basis.

Listings and Indices

Since June 13, 1994, our ordinary shares have been listed on the Euronext Amsterdam (ticker: KPN). On April 4, 2008, KPN delisted its American Depositary Receipts (ADRs) from the New York Stock Exchange (NYSE). KPN replaced its ADR program with a Level I ADR program, which allows investors to trade KPN ADRs in the United States over-the-counter (OTC) market (ticker symbol: KKNY). The deregistration from the United States Securities Exchange Act by KPN also covered KPN's outstanding USD denominated bonds issued in 2000. KPN's obligations to its bondholders will not be affected by the deregistration. Furthermore, KPN delisted its ordinary shares from the London Stock Exchange as of April 24, 2008, and from the Frankfurt Stock Exchange as of August 13, 2008.

KPN shares are included amongst others in the following leading indices (weightings at December 31, 2008): AEX 8.57%, DJ Europe Telecom 9.88%, DJS Telecom 6.12%, FTSE Eurofirst 300 Telecom 0.50% and MSCI Euro 1.15%.

Share ownership

Our ordinary shares are held in bearer form or held in the form of ordinary shares registered in KPN's share register in The Hague, The Netherlands. At the AGM of April 12, 2005, it was decided that the conversion of shares in bearer form into ordinary registered form is not possible anymore. Conversion of ordinary registered shares in ordinary bearer shares remains possible. On September 22, 2006, the State of The Netherlands sold the remainder of its share in our Company. Capital Group International, Inc., and Capital Research and Management Company have notified the AFM that they held 4.97% (June 27, 2007) and 12.87% (July 1, 2008) respectively of the ordinary shares of KPN. To our knowledge, no other shareholder owned 5% or more of our outstanding shares as at December 31, 2008.

Share price 2005-2008

The Dow Jones Telecom and AEX indices have been rebased to the KPN share price on December 31, 2004 (in EUR).



Dividend policy

On February 5, 2008 KPN announced an updated mid-term dividend policy, increasing the percentage of annual free cash flow paid out as dividend. The percentage paid out as dividend is 40-50% in the medium term, based on an adjusted definition for free cash flow. Free cash flow is defined as net cash flow provided by operating activities plus real estate proceeds minus capital expenditure and excluding tax recapture at E-Plus.

Dividend per share is expected to increase from EUR 0.60 in 2008 to EUR 0.80 in 2010, driven by the 'Back to Growth' strategy and supported by continued share repurchases.

KPN proposed to declare a cash dividend of EUR 0.60 per share in respect of the year ending December 31, 2008, of which EUR 0.20 was paid out as an interim dividend in August 2008. The proposed dividend will be presented for approval at the Annual General Meeting of Shareholders to be held on April 7, 2009 and, upon approval, paid out as from April 21, 2009.

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

Financial policy

KPN seeks to ensure that net debt to operating result plus depreciation, amortization and impairments remains within the range of 2.0 to 2.5 times. Furthermore, KPN intends to maintain a minimum credit rating of Baa2 (Moody's) and BBB (S&P). We expect that this financial policy will allow KPN to continue with its policy of accommodating an attractive dividend policy, while maintaining flexibility to grow and invest in its business.

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

Share repurchase program

KPN reaffirms it has no intention to hold unutilized surplus cash balances. We intend to return surplus cash to shareholders via either additional special dividends or share repurchases. Such repurchases will only be undertaken at a price which enhances value for the remaining shareholders. During 2008, KPN repurchased 98.2 million shares at an average price of EUR 11.22 for a total amount of EUR 1.1 billion. During 2008, a total of 129 million ordinary shares, which were acquired in 2008 and 2007, were cancelled. The number of outstanding shares as per December 31, 2008 amounts to 1,714,362,792, representing a 31.3% reduction of outstanding shares since the start of share repurchases in March 2004.

Within the context of the financial policy, KPN announced on October 22, to repurchase EUR 1 billion of its own shares until the end of 2009, assuming no material transactions and no material further deterioration of financial markets in the period. This program started already in November, 2008.

Issuer purchases of equity securities

Period	Total cumulative number of shares repurchased	Average price paid per share in EUR	Number of shares purchased as part of publicly announced programs	Maximum amount of share repurchases to be made under the programs (in EUR)
January	-	-	-	1,000,000,000 ¹
February	3,650,000	12.58	3,650,000	954,053,650
March	18,075,000	11.55	14,425,000	787,468,100
April	25,174,400	11.48	7,099,400	705,940,053
May	33,414,272	11.53	8,239,872	610,908,339
June	55,624,621	11.13	22,210,349	363,764,538
July	71,012,171	10.83	15,387,550	197,169,835
August	80,420,289	11.19	9,408,118	91,973,874
September	88,539,729	11.37	8,119,440	-
October	-	-	-	1,000,000,000
November	90,116,639	10.60	1,576,910	983,286,740
December	98,204,898	10.53	8,088,259	898,136,271
Total		11.22	98,204,898	

1) Announced on February 5, 2008.

Exchange controls

There are no legislative or other legal provisions currently in force in The Netherlands or arising under our Articles of Association restricting transfers to holders of our securities not resident in The Netherlands. Cash dividends payable in euro on ordinary shares may be officially transferred from The Netherlands and converted into any other currency.

There are no limitations, neither under the laws of The Netherlands nor our Articles of Association, on the right of non-residents of The Netherlands to hold or vote our shares.

Obligations to disclose holdings

Pursuant to the Dutch Financial Supervision Act ('Wet op het financieel toezicht' or 'Wft'), legal entities as well as natural persons must immediately notify the Dutch Authority for the Financial Markets (AFM) when a shareholding equals or exceeds 5% of the issued capital. The AFM must be notified again when this shareholding subsequently reaches, exceeds or falls below a threshold. This can be caused by the acquisition or disposal of shares by the shareholder or because the issued capital of the issuing institution is increased or decreased. Thresholds are: 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%. The AFM will incorporate the information in the public register, which is available on its website. Failure to disclose the shareholding qualifies as an offense, and may result in civil penalties, including suspension of voting rights and administrative penalties.

KPN's notifications resulted from its repurchasing of shares, causing KPN to hold 5.06% of the issued share capital on August 19, 2008. After the cancellation of repurchased shares on September 17, 2008, the number of own shares held by KPN decreased to 2.74%.

Financial calendar 2009

April 7, 2009
Annual General Meeting of Shareholders

April 9, 2009
Ex-dividend listing of shares

April 21, 2009
Start of payment of 2008 final dividend

April 28, 2009
Publication of results for the first quarter of 2009

July 23, 2009
Publication of results for the second quarter of 2009

October 27, 2009
Publication of results for the third quarter of 2009

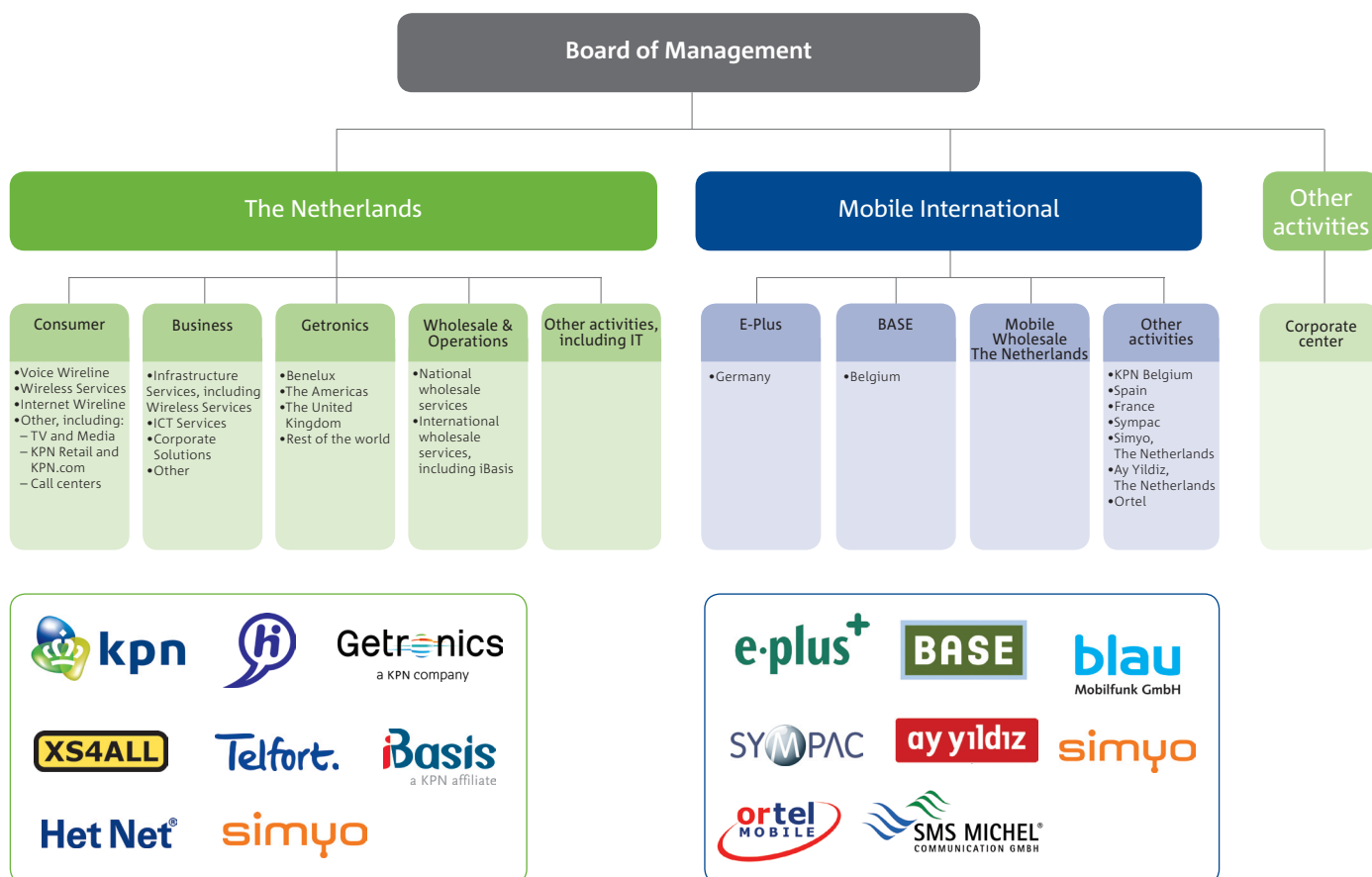
Note that these dates may be subject to change.

Organizational structure 2008

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

Outside The Netherlands, the Mobile International division contains the subsidiaries E-Plus in Germany, BASE and KPN Belgium (former Tele2/Versatel Belgium) in Belgium and, given the similar nature of the business, our Mobile Wholesale activities in The Netherlands.

The overview below reflects our organizational structure as of December 31, 2008.



Over the past five years, KPN has made significant strategic progress. In 2008 we updated our strategy and ambitions for the period 2008-2010. In this period, the updated strategy will bring KPN 'back to growth', both in terms of revenues as well as in EBITDA. KPN's ambition is to remain a top performer among European telecom operators and continue to be a front-runner in the sector, identifying the market challenges, and setting strategic benchmarks accordingly.

With this ambition, growth will be realized through our business in The Netherlands, where we expect to halt declining revenues and start to grow again, continued growth at Mobile International and additional growth from recent acquisitions, such as Getronics and iBasis. Growth is set to be achieved in the face of regulatory tariff reductions and the impact of shrinking traditional wireline services in The Netherlands. Key components of the strategy are the ramping up of new services launched in recent years and cost reductions.

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

In the consumer market KPN is the leading service provider, offering a total portfolio of Mobile and Fixed Voice, Internet and TV services. Using multiple brands KPN focuses on a simple and comprehensive portfolio. Major challenges are to stop line loss and grow further in wireless services.

In the business market, KPN's ambition is to be the best-in-class ICT service provider, through leveraging its leading position in infrastructure services in The Netherlands and moving up the value chain in application management and ICT outsourcing.

In the Wholesale Segment the shift to 'All-IP' is top of the agenda for the forthcoming years.

In Mobile International, KPN is aiming to continue its successful Challenger strategy through its brands in Belgium and Germany and expand in selected European markets through MVNOs.

Financial review

Revenues and other income

(In millions of EUR)	2008	2007	Δ
KPN Group	14,602	12,632	16%
– Consumer	4,029	4,133	-2.5%
– Business	3,255	3,293	-1.2%
– Getronics	1,933	488	> 100%
– Wholesale & Operations	3,904	3,841	1.6%
– Other (incl. intercompany revenues)	-2,621	-2,770	-5.4%
The Netherlands	10,500	8,985	17%
– E-Plus	3,218	2,963	8.6%
– BASE	647	613	5.5%
– Mobile Wholesale NL	348	344	1.2%
– Other (incl. intercompany revenues)	183	57	> 100%
Mobile International	4,396	3,977	11%

Group revenues and other income increased by 16%, or EUR 2.0 billion to EUR 14.6 billion. The Netherlands showed an increase of 17%, or EUR 1.5 billion due to the acquisitions of Getronics and iBasis (both Q4 2007). Excluding acquired turnover and book gains on real estate disposals, the Netherlands reported a decline of external revenues and other income of 0.3%. Mobile International reported an 11% increase in revenues and other income, or EUR 419 million, driven by healthy organic growth at E-Plus and BASE and the acquisitions of SMS Michel and blau Mobilfunk in Q1 and Q2 2008 respectively (reported in E-Plus) and the acquisition of Tele2/Versatel Belgium (consolidated as from Q4 2007, reported in Mobile International Other).

EBITDA

(In millions of EUR)	2008	2007	Δ
KPN Group	5,058	4,900	3.2%
– Consumer	753	707	6.5%
– Business	776	751	3.3%
– Getronics	79	23	> 100%
– Wholesale & Operations	1,923	2,017	-4.7%
– Other	24	-7	> 100%
The Netherlands	3,555	3,491	1.8%
– E-Plus	1,245	1,113	12%
– BASE	240	230	4.3%
– Mobile Wholesale NL	145	129	12%
– Other	-32	-18	-78%
Mobile International	1,598	1,454	9.9%

EBITDA for the Group amounted to EUR 5.1 billion, up 3.2% compared to 2007. The Netherlands contributed EUR 3.6 billion, up 1.8% or EUR 64 million compared to 2007. Excluding the effects of acquisitions, restructuring costs and book gains on real estate disposals, EBITDA increased by 1.0% or EUR 34 million (the small increase being explained by lower management fee charges). The milestone of a 'flat' EBITDA in the Netherlands has been achieved after many years of EBITDA declining by some EUR 200 million per year.

Mobile International reported an EUR 1.6 billion EBITDA, up 9.9% or EUR 144 million in line with trends of earlier years.

Free cash flow

Free cash flow was EUR 2,598 million, an increase of EUR 253 million on the prior year (2007: EUR 2,345 million). Higher capital expenditure (EUR 237 million) and higher interest paid (EUR 126 million) were compensated for by an EBITDA improvement of EUR 158 million and a large working capital improvement of EUR 418 million (EUR 255 million higher than the EUR 163 million in the previous year).

Capital expenditure increased by 14% in 2008 due to a step up in All-IP investments and Cybercenters in the Netherlands combined with 3G investments in Germany. Net financing costs increased mainly due to an increase of gross debt over the year, higher floating interest rates and a one-off loss on paid tax interest.

The free cash flow improvement came through entirely in the fourth quarter of 2008. The fourth quarter showed a marked improvement in working capital, including approximately EUR 150 million of non-structural inflows. The working capital improvement in the fourth quarter is the result of a combination of the benefits from cash flow management initiatives started in 2008 and normal seasonality effects.

KPN encountered a slowdown in closing of transactions for real estate as parties took longer to arrange financing and fewer parties were active in the market. KPN focused on optimizing the value from real estate, rather than the timing of proceeds, ending the year with EUR 180 million real estate proceeds compared to EUR 143 million in 2007.

Effective tax rate

In 2008 an income tax expense of EUR 550 million was recorded. The effective tax rate over 2008 was 29% based on profit before income tax. Please note that in 2007 an additional EUR 1.2 billion deferred tax asset was recognized at E-Plus (due to E-Plus moving into a tax paying position in 2007). This recognition of deferred tax assets at E-Plus in 2007 led to a tax charge in line with the normal effective tax rate as of 2008. See Note 7 Taxation in the section Consolidated Financial Statements.

Corporate income tax paid in 2008

In 2008, KPN paid EUR 513 million net Dutch corporate income tax, of which EUR 313 million was attributable to the E-Plus tax recapture.

Solid liquidity profile and net debt to EBITDA improved

Net debt at the end of 2008 amounted to EUR 10.9 billion, compared to EUR 11.0 billion at the end of 2007. This resulted in a net debt-to-EBITDA ratio of 2.2x (2007: 2.3x), well within KPN's target financial framework of 2.0-2.5x. Compared to the prior year the net debt-to-EBITDA ratio improved as a result of disposals at Getronics and an EBITDA increase. In 2008 the liquidity profile of KPN improved with EUR 1.8 billion bonds having been issued versus bond redemptions of EUR 1.0 billion. KPN is committed to maintaining its prudent financing policy by covering refinancing obligations well ahead.

On December 5, 2008, S&P reconfirmed its long-term corporate credit rating on KPN of BBB+ while upgrading the negative outlook to stable on solid operating performance and expectations of moderate metrics, highlighting 'business performance', 'cash generation' and 'balance sheet management'. KPN's credit rating with Moody's remained unchanged at Baa2 with a stable outlook.

EUR 0.60 total dividend for 2008, up 11%

KPN will propose a final dividend for 2008 of EUR 0.40, up 11% versus the prior year. The dividend proposal will be submitted for approval at the Annual General Meeting of Shareholders (AGM) on April 7, 2009. In the third quarter of 2008, KPN paid an interim dividend of EUR 0.20 per share for 2008, totalling EUR 344 million (including dividend tax). With that, total dividend for 2008 will amount to EUR 0.60 per share, up 11%, subject to AGM approval.

Share repurchase programs

On September 17, 2008, KPN completed its EUR 1.0 billion share repurchase program for 2008. Under this program a total of 88.5 million shares were repurchased at an average price of EUR 11.30 per share. In addition to the EUR 1 billion share repurchase program KPN bought 6.0 million shares in Q3 2008 to cover its share-based compensation obligations for a total amount of EUR 67.6 million. All 88.5 million repurchased shares were cancelled in 2008.

On November 19, 2008, KPN commenced its EUR 1 billion share repurchase program for 2009 that will run until the end of 2009, assuming no material transactions and assuming no material further deterioration of financial markets in the period. In 2008, under this program KPN repurchased 9.7 million shares at an average price of EUR 10.54, for a total amount of EUR 103 million.

Operating review

The Netherlands: reaching EBITDA inflection in 2008

- The Dutch business was able to reach EBITDA inflection in 2008. In The Netherlands a 'flat' EBITDA was achieved with a EUR 34 million improvement compared to 2007 (also attributable to lower management fee charges).
- Wireless services in the Consumer Segment showed improving service revenue trends as the year progressed, ending the full year with a slight decrease of -0.8%. Meanwhile on the fixed side, net line loss trends improved markedly. While in 2007, 465,000 lines were lost, in 2008 the number was 145,000. At the same time, the broadband market share was maintained and critical mass in the TV market was achieved (775,000 customers at year-end, up 56% on the prior year). EBITDA improved and meaningful progress was made with both the simplification efforts and the implementation of Fiber-to-the-Curb (FttC) and Fiber-to-the-Home (FttH) access technologies.
- Wireless services in the Business Segment continued to strengthen with year-on-year revenue growth in Q4, 2008 after several quarters of decline. Service revenues for the full-year was -1.0%, driven by wireless data. Strong growth was recorded in Corporate Solutions (mainly network insourcing) while ICT Services showed growth in data center and online application services but a marked decline in PABX services. EBITDA for the year improved.
- Getronics contributed to both revenues and EBITDA. In 2008, Getronics executed a large number of disposals and at the same time restructured its cost base, which reduced the risk of the Getronics acquisition. Meanwhile the pipeline of new business was unaffected. Of the initial consideration of EUR 1.3 billion, over EUR 0.5 billion has now been recovered from disposals (including the disposal of Business Solutions, closed in January, 2009). The focus will now shift to demonstrating profitability of the core assets.
- Wholesale & Operations delivered a contribution to external revenues due to growth in wholesale line rental. Preparations were made for the FttC and FttH roll-out and the FttH joint venture with Reggefiber was established following regulatory approvals in December. KPN recognized a EUR 67 million impairment of iBasis. See www.ibasis.com for a description of financial and operating performance.

Mobile International: profitable growth

- E-Plus continued to outperform the market with a 6.7% year-on-year service revenue growth (2007: 4.4%), as a result of customer and usage growth. The EBITDA margin was higher than the margins reported in 2007, as a result of cost savings, handset lease service and acquisitions. Under the terms of the handset rental business launched in Q2, customers can rent handsets independent of wireless subscriptions (rental contracts classifying as operational lease under IFRS).
- BASE Belgium delivered solid revenue growth ahead of market trends. Despite the challenges posed by 2008 termination rate cuts, the company showed a year-on-year service revenue growth of 4.4% (2007: -2.3%), while 2008 EBITDA increased by 4.3% compared to prior year.
- Other: revenue growth was driven by recent acquisitions (Tele2/Versatel Belgium and a small net contribution from Ortel). The EBITDA of EUR -32 million is for a large part attributable to Sympac and start-up costs incurred in Spain. Meanwhile, Ortel performed better than expected with a positive contribution to EBITDA.

FTE reductions on track

The number of FTEs in the Netherlands declined by 1,247 in 2008, excluding acquisitions and Getronics. The total reduction since 2005 is 6,659 FTEs, which is on track with the previously announced reduction plans. As at December 31, 2008, KPN's workforce in the Netherlands amounted to 16,658 FTEs (excluding Getronics) and 36,702 FTEs for the whole Group (including Getronics).

Performance versus Outlook

Guidance met on all metrics

KPN met its guidance for 2008, as announced on February 5, 2008, on all metrics. This is shown in the table below.

Guidance metric	Guidance 2008	Reported 2008
Revenues Mobile International 2008-2010	High single-digit growth	+10.5%
Group EBITDA	EUR 5.0 billion	EUR 5.06 billion
EBITDA the Netherlands	Flat	+1.0%
EBITDA Mobile International 2008-2010	High single-digit growth	+9.9%
Capex	~ EUR 2 billion	EUR 1.93 billion
Free cash flow	> EUR 2.4 billion	EUR 2.60 billion

Economic impact

KPN experienced only a limited impact on its operational performance from the economic downturn in 2008. The early warning indicators that are being tracked currently do not show any material issues, although there is some evidence of a slowdown of new projects at corporate customers and the roaming revenues in the Business Segment have been impacted to some extent. However, pre-emptive measures to manage the cost base were already initiated in Q4 of 2008. Amongst other measures, KPN announced a 20% rate cut for all freelance workers, controls over temporary staff hirings have been tightened and in a number of areas prices with suppliers are being renegotiated.

On the financing side, the bonds that were issued in 2008 carry higher interest rates than bonds from prior years. As a result, the average interest rate on Group outstanding debt as at Q4, 2008 was 5.4%, up from 5.2% at year end 2007. A review of other potential impact areas such as counterparty risk, derivatives and insurance has not shown any material risks, but the risks are monitored closely.

Other than that, real estate disposals became markedly more difficult. Overall, cash flow from disposals of real estate in 2008 fell short by more than EUR 100 million relative to the estimate communicated at the outset of the year of EUR 300 million, as a result of fewer transactions being closed.

Pension position

As at December 31, 2008, the deficit in the pension plans of the KPN Group, as measured under IFRS standards amounted to EUR 0.6 billion versus a deficit of EUR 0.5 billion at the beginning of the year (see Note 22 of the Consolidated Financial Statements). The decline of pension assets which was incurred, is partially compensated for by lower pension obligations as measured under IFRS, principally as a result of lower indexation expectations.

The KPN pension funds under statutory coverage measurements (as required by the pension regulator, the Dutch Central Bank) ended the year with an average coverage ratio of 94%. This implies that KPN will have to make recovery payments starting in 2009 (unless the Dutch Central Bank was to issue new rules in view of the economic circumstances).

In all, the IFRS pension charge in 2009 will be around EUR 25 million higher than in 2008 due to lower returns on assets, partly offset by higher discount rates and lower indexation, while the additional cash outflow to the KPN pension funds is anticipated to be EUR 120 million.

KPN continues its efforts to reduce risks in relation to pension commitments. The collective labor agreement concluded at the end of 2007, implemented in early 2008, provided for another step in the right direction with indexation being linked to price inflation rather than wage inflation.

A key risk to the deficit as recorded under IFRS is the decrease of corporate bond spreads (used for measuring pension obligations) without a commensurate increase in the value of corporate equities. While such a decline would affect the deficit under IFRS, its effect under Dutch statutory measurements would be limited.

Performance versus Outlook

Outlook

KPN confirms its outlook for 2010 as provided on February 5, 2008, shown below.

Guidance metric	Outlook 2010
Revenues and other income	> EUR 15 billion
EBITDA	> EUR 5.5 billion
Capex 2008-2010	~ EUR 2 billion/year
Free cash flow 2008-2010	> EUR 2.4 billion/year
Dividend per share 2010	EUR 0.80

Capex includes investment for the All-IP transformation. Free cash flow includes proceeds from the sale of real estate, but excludes the temporary tax recapture for net operating losses at E-Plus.

For 2009, KPN expects to be able to make meaningful progress towards the 2010 EBITDA target as described above. KPN anticipates a free cash flow of around EUR 2.4 billion, despite the EUR 120 million cash impact from pensions, the reversal in 2009 of approximately EUR 150 million of 2008 non-structural working capital improvements and regulatory developments. It is anticipated that in 2009 the proceeds from planned real estate disposals will be of similar magnitude to that of 2008.

Segmental information and results

Consumer Segment

Strategy

The Consumer Segment contributes to KPN's 'Back to Growth' strategy by creating a simple customer-oriented organization with focused operations to accelerate growth and to achieve structurally lower costs. Reaching revenue inflection is a major ambition. The ultimate objective is to be the leading services company by bringing people and customers together. Strategic building blocks are:

1. Growth in Wireless, with a focus on postpaid, data and customer value;
2. Growth in Internet by bundling broadband in different packages and a focus on customer value;
3. Growth in TV and reaching meaningful scale;
4. Investing in innovative fiber propositions;
5. Executing a multi-brand strategy with KPN as leading brand;
6. Creating a high-performance service organization; and
7. Quality by simplification.

Services and products

A balanced portfolio of products and services centred around voice, mobile, Internet and TV is offered by a selective number of brands – KPN, Hi, Het Net, XS4ALL and Telfort – each targeting a different customer segment. One of the major simplification initiatives of 2008 was a reduction of the portfolio. In June 2008, the Planet brand migrated to the KPN brand; at the same time, the portfolio was reduced to just three broadband and three VoIP packages.

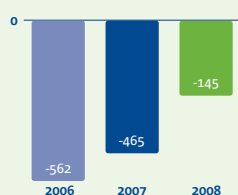
The Consumer Segment was pleased to report continued progress in managing this product portfolio in the most profitable way, supporting our operational and strategic goals:

1. Mobile: a more streamlined portfolio was achieved with an emphasis on postpaid and data products.
2. Voice: a focus on customer retention in PSTN lines and a drive to outperform the market in VoIP growth led to a significant drop in net line loss.
3. Internet: a simplified core portfolio reached more than one million VoIP customers and approximately 2.5 million ADSL customers.
4. TV: success continued with Digitenne (DVB-T) and iTV (IPTV) reaching almost 0.8 million customers, approximately 56% more than in 2007. In June 2008, KPN Mobile TV was successfully launched.

Market position and competition

Consumer Segment's leading role in the competitive Dutch telecom market was confirmed in 2008. In all product segments, simple and strong value propositions at a fair, competitive price were pursued. Compared to competitors (such as cable operators), Consumer Segment's propositions are covering a broad spectrum, from single play to multi-play offerings under different brands and optimally priced. By successfully managing the customer base for value, ARPU's at both mobile and fixed tended to increase during 2008 and strengthened Consumer Segment's position as leading service provider.

Net line loss (*1,000)



1. Mobile: in 2008, market share in mobile revenues stabilised at a market-leading level. Consumer Segment gained around 530,000 mobile subscribers with the acquisition of the Dutch debitel's operations.
2. Broadband market: Consumer Segment maintained its market share at 44% in 2008. The VoIP customer base grew by 28% to well over 1 million customers, continuously outperforming the market. In combination with retention schemes for high-value PSTN customers, net line loss declined from 465,000 in 2007 to 145,000 in 2008. In the last quarter of 2008, net line loss reduced to just 25,000 (5,000 including a 20,000 one-off base correction), the lowest level in three years.
3. TV: Consumer Segment grew throughout the year much faster than the competition. Estimated share in the digital TV market increased to 22% at the end of December 2008, compared to 18% at the end of 2007.

Segmental information and results

Financial review

(In millions of EUR unless indicated otherwise)	2008	2007	Δ
– Voice wireline	823	1,037	-21%
– Wireless services	1,773	1,776	-0.2%
– Internet wireline	1,010	917	10%
– Other (incl. intercompany revenues)	423	403	5.0%
Revenues and other income	4,029	4,133	-2.5%
Operating expenses	3,551	3,673	-3.3%
Of which: depreciation, amortization and impairments	275	247	11%
EBITDA	753	707	6.5%
EBITDA margin	18.7%	17.1%	

Total revenues in 2008 decreased EUR 104 million or 2.5% year-on-year, held back by the effect of lower MTA and roaming tariffs at Wireless services and lower voice revenues. The better evolution of other, non-traditional consumer revenues could not offset these negative effects.

Despite negative impacts from MTA and roaming cuts, EBITDA increased by 6.5% or EUR 46 million to EUR 753 million. Operating expenses declined in 2008 by 3.3%, supported by cost savings, a company-wide simplification program and a widened use of capex intensive propositions. EBITDA was positively influenced by contributions from most of the business lines.

Operating review

Simplification program on track

The Consumer Segment made good progress in 2008 with the transformation and simplification of its operations into a real customer service-oriented organization with easy-to-manage business processes and a clear focus on a simplified portfolio, helpdesk and bill. Some concrete achievements are:

- Reduction from over ten brands to five brands;
- Simplified portfolio: reduction to three broadband and VoIP packages at KPN brand;
- Most packages are equipped with simplified installation guides;
- Just one modem to serve all speeds (ADSL, VDSL, FttH) and all services (VoIP, Internet, TV/VoD);
- Rebranding Primafoon shops to KPN shops; and
- Paperless billing for all consumers, reducing printing and distribution costs.

Wireless services improved throughout 2008

Wireless services continued to invest in customer growth with profitability and concentrated its commercial activities on postpaid customers. At the end of December 2008 the postpaid customer base topped 2.8 million, up 10.6% year-on-year, which now make up 44.9% of the total customer base up by 4% compared to the end of 2007. Though wireless revenues showed a small decrease in 2008, underlying growth (revenue growth corrected for MTA and roaming cuts) increased significantly reflecting the improved customer mix and growth in customer base.

Strong growth in wireless data

In 2008, innovation in wireless products accelerated. Handsets became increasingly small functional computers with more data capabilities and better user-interfaces. Highly successful was Consumer Segment's mobile broadband solution for notebooks. As a consequence, revenues from data services (exclusive SMS/MMS) were boosted in 2008. Approximately 24% of the ARPU in 2008 was generated by non-voice compared to 19% last year. This success was underpinned by a huge increase in the number of laptop card customers.

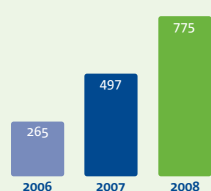
Market leadership in fixed line strengthened

Consumer Segment remained the largest broadband provider, with Telfort leading the broadband market growth. The migration of the Planet brand to KPN together with a simplified portfolio of just three broadband and VoIP packages, reflected in increasing net adds and rising ARPUs at KPN brand during the last quarter of 2008. The number of broadband net adds totaled 134,000 in 2008, resulting in a 5.6% year-on-year increase in accesses to approximately 2.5 million at the end of 2008.

Wireless customers (*1,000)



TV subscribers (*1,000)



Three-quarters of a million KPN TV customers

The strong growth of Digitenne continued in 2008, supporting Consumer Segment's goal to build a TV business with increased scale. KPN TV business totaled 775,000 customers up 56% compared to 2007. Consumer Segment's new mobile TV product, based on DVB-H, had a successful start.

Business Segment

Strategy

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

In the business market KPN focuses on a new way of working, enabling business customers to be more successful by exploiting the possibilities of ICT solutions. Through integrated communication and workspace solutions, business customers and their employees will be able to work more flexible and productively, and enhance interaction with their customers and business partners.

KPN is on track in EBITDA-growth in the Business Segment and has several programs in place to support the 'Back to Growth' revenue ambition. To achieve the ambitions, the Business Segment focuses on six key strategic initiatives:

1. Transformation into a service company : Using the newly implemented Net Promotor Score (NPS) concept, KPN strongly focuses on customer excellence to become market leader in customer loyalty. Customer feedback is measured following customer events and is used for structural improvements. Furthermore Sales and Marketing are organized towards customer segments to deliver ICT solutions based on segment needs, from home office to multinational companies.
2. Managed migration from traditional portfolio to IP-based services: In Wireline Services KPN is migrating its business customers to IP-based services. In 2007, the Frame Relay and FlexiStream platforms were switched off, while other legacy services are gradually being phased out. The demand for higher bandwidths is addressed with a step up in Fiber-to-the-Office (FttO) initiatives started in 2007. These initiatives will continue in the coming years.
3. Developing the mobile business market: Wireless Services will continue to be a growth business, despite regulatory tariff cuts in MTA and roaming. More specifically, further revenue growth will come from data services, such as laptop data cards, BlackBerry, PDA and Machine-to-Machine. Furthermore, KPN operates a superior 3G network based on HSDPA, offering higher bandwidths and higher population coverage than its competitors.
4. Expand on current telecom and IT position: Fixed-Mobile Integration opportunities will be stepped up in coming years, following successful introduction of for example 'ONE', a fully integrated Fixed-Mobile offer with a continuously expanding range of services. The Getronics acquisition provided KPN with a leading position in Workspace and related IT-services.
5. Growth in new areas: For additional growth, we will develop our online applications portfolio and housing and hosting initiatives to penetrate in new ICT areas. In addition, KPN uses its ICT experience to enter strategic markets such as Health, Mobility and Smart Metering.
6. Best-in-class margins: The move towards a narrower range of IP-based platforms allows a radical simplification of the business portfolio, driving down operational costs. Productivity improvement programs in Customer Service, Corporate Solutions and Enterprise Communication enable simplified processes, while generating value to KPN's customers.

Services and products

The Business Segment primarily generates revenues from the following portfolio clusters: Infrastructure Services, ICT Services and Corporate Solutions.

Infrastructure Services

- Voice wireline, offering fixed-line telephony access services over analog lines (PSTN), digital lines (ISDN) and increasingly over IP-based connectivity (VoIP). Additional online services such as product or tariff plan advice have been implemented to increase customer satisfaction.
- Wireless services, offering a wide range of mobile communications solutions. Under the KPN brand mobile voice, data and internet services are provided. Customers are especially interested in wireless e-mail solutions (BlackBerry, Windows Mobile) and in Mobile Internet Cards.
- Data/Network services, offering a range of data communication services from traditional data services such as leased lines and broadband transmission services, to modern networks services as IP-VPN, Ethernet VPN and Internet Access Services.

Segmental information and results

ICT Services

- Enterprise Communications Solutions: designs, delivers, integrates, services and manages unified, voice and data communication solutions at customer premises, such as PBX and Local Area Networks. KPN provides outsourcing solutions for all or part of the telecommunications operations and infrastructure of companies, increasingly focusing on the integration of fixed, mobile and data communication.
- Software Online: offers a range of online application services for small and medium enterprises. Software Online enables companies to access software and content via the Internet. The applications are hosted in safe and secure KPN cybercenters, relieving companies from the installation and management of applications on servers at their premises.
- Application Management Systems: offers a range of ICT services from relatively basic housing services to state-of-the art business continuity and SAP hosting services.

Corporate Solutions

- Corporate Solutions provides a full portfolio of integrated ICT and outsourcing services to top-500 customers in The Netherlands. In 2008, Corporate Solutions further transformed from a telecommunications provider to an ICT solutions provider. Managed services are delivered up to fully outsourced solutions for integrated data, voice and mobile as well as workspace management.

Market position and competition

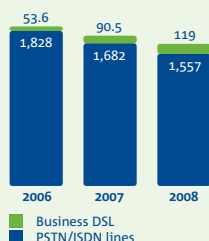
Infrastructure Services

- In the traditional voice access market, KPN is the largest provider. There is continued competitive pressure from Direct Access and Carrier Select and Carrier Pre-Select competitors, although KPN's position remains stable. The main threat to traditional voice access, however, is substitution by mobile telephony as well as the migration to VoIP services, both strategic focus points for KPN. Increasing broadband penetration in the small business market threatens our traditional voice access services (PSTN and ISDN), where KPN encounters competition from cable operators offering VoIP solutions bundled with broadband Internet.
- The demand for mobile data services continues to grow strongly. KPN launched its mobile data portfolio with its successful marketing campaign 'Dongel of KPN'. The main competitors of KPN in the wireless business market are Vodafone and T-Mobile.
- Within Data/Network services KPN is the leading provider in the Dutch business market both in terms of revenues and in terms of number of connections. In addition, we offer data services in Europe through our KPN EuroRings network as well as worldwide through our partners. Competitors in the data communications services market include BT Global Services, MCI, IBM, Colt, Essent, Tele2/Versatel The Netherlands, Global Switch, TNF Network Factory and BBNed. Our competitors invest in the construction of backbone infrastructures in The Netherlands and in local networks in large Dutch cities, comparable to our CityRings network. Local government fiber initiatives also increased the competitive pressure within The Netherlands and introduced new competitors.

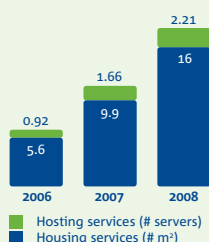
ICT Services

- Enterprise Communications Solutions: In this highly competitive market, customers are increasingly demanding managed or outsourced solutions. Due to earlier acquisitions KPN has been able to stabilize its market position. Main competition comes from Imtech and Dimension Data, while KPN increasingly encounters other international operators like BT and Colt, mainly in the area of managed services.
- Software Online: The online application market is an important developing market, where KPN has a sound footprint with its online portfolio. Customers are particularly attracted by KPN's offerings based on brand perception and, secure and high-quality service. Currently competition comes from small, niche and/or start-up companies but KPN foresees more intensive competition from large companies like Microsoft and Google in the future. KPN expects to be able to leverage its sound position in the Dutch market and small and medium-sized Dutch companies' preference for providers with local Dutch support.
- Applications Management Systems: Demand for housing and hosting services is fueled by online applications and large enterprises' need for data storage. Customers choose KPN for its excellent cyber centers, which provide customers with the ability to tailor solutions based on their specific needs. Competitors are numerous and vary in size. For SAP hosting, KPN mainly encounters SAP specialist companies like Ctac. To maintain its market position KPN has established strong partnerships with other ICT providers and with business consultancy firms.

Access lines/services (*1,000)



Housing & Hosting (*1,000)



Corporate Solutions

- KPN maintained its leading position with high success rates and high customer satisfaction. Customers have chosen KPN increasingly for its end-to-end full service provisioning and fixed and mobile convergence as well as its innovative solutions.
- Competitors are widespread and vary in size depending on the type of required solution as well as the industries in which KPN is competing. Main competitors are BT Global Services, Verizon, Orange Business, AT&T and Colt (international managed data networks), Vodafone (international mobile phone services), Imtech and Dimension Data (managed ICT services).
- Through the acquisition of Getronics KPN has expanded its footprint further into workspace and related IT-services, enabling a unique position in the market for managed and outsourced ICT services.

Financial review

(In millions of EUR unless indicated otherwise)	2008	2007	Δ
– Infrastructure Services	2,507	2,551	-1.7%
Of which: Wireless services	847	870	-2.6%
– Corporate Solutions	575	499	15%
– ICT Services	519	539	-3.7%
– Other (incl. intercompany revenues)	-346	-296	17%
Revenues and other income	3,255	3,293	-1.2%
Operating expenses	2,600	2,651	-1.9%
– of which: depreciation, amortization and impairments	121	109	11%
EBITDA	776	751	3.3%
EBITDA margin	23.8%	22.8%	

Revenues and other income for the Business Segment in 2008 decreased by EUR 38 million, or 1.2% year-on-year. The decline in revenues from Infrastructure Services slowed down by 1.7% or EUR 44 million year-on-year. The decrease in Wireless services revenue was partly offset by the strong increase in wireless data. Revenues from Corporate Solutions continued its strong upward trend by 15% to EUR 575 million as major contracts were implemented. Revenues from ICT Services were 3.7% lower year-on-year on the back of slow order intake of PABX implementations, only partially compensated by increasing revenues from data centers and online applications.

EBITDA for the Business Segment was up 3.3% or EUR 25 million to EUR 776 million driven by Infrastructure Services and despite roaming and termination rate cuts. The EBITDA margin improved by 1% to 23.8% compared to 22.8% in 2007.

Operating review

Traditional revenue base still growing while migrating to new services

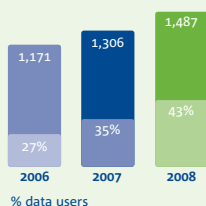
In wireline services, there is a continued migration from traditional to IP-based services. The rate of decline in traditional services is decreasing with KPN focusing on a balanced migration to IP. In voice, a continued decline in PSTN/ISDN is substituted by IP-based voice services like VoIP and IP-PBX. As for data connections, traditional services like leased lines, Frame Relay and ATM are substituted by IP-based data services like E-VPN and managed VPN connections. In the business of managed data services, KPN sees growing demand for end-to-end managed solutions and taps into this segment by cross- and up-selling on its large customer base in connectivity.

Continuing growth in new services

Revenues from hosting services showed a steady growth compared to 2007 as the number of hosted services increased to 2,210 from 1,660 in 2007 and housing capacity was expanded to 16,000 sqm, up 62% in 2008. Revenues from Enterprise Communication Systems in 2008 declined following slow order intake for PABX implementations. As yet, it is too soon to tell whether or not the deteriorating trend is the result of the current economic situation, though the early indications are that the slowdown is a market issue rather than specifically related to KPN. Actions have been taken to improve order intake in the PABX business, through additional dedicated sales staff and a more customer-oriented organization.

Segmental information and results

Customers Wireless services (*1,000)



Stable revenues in wireless services

Revenues from wireless services were stable as the decrease in revenues caused by the MTA and roaming cuts were offset by the continued growth of wireless data services. Within wireless voice, KPN enjoyed subscriber growth of 14% in 2008 but service revenue declined as a result of deteriorating ARPU. Wireless data revenues continue to be an important source of growth with a growth rate of around 50%. In 2008, all wireless data applications (M2M connections, PDAs, BlackBerrys and laptop data cards) contributed to the revenue growth.

Corporate Solutions continues strong revenue growth

In 2008, Corporate Solutions continued to generate revenues due to major contracts and by the cross- and up-selling to existing customers. At the end of 2008 the number of managed voice workspaces was up 47% to 405,000.

Getronics

Strategy

Getronics contributes to KPN's 'Back to Growth' strategy by focusing on being a leading managed ICT service provider. The acquisition of Getronics has reinforced the ICT strategy of KPN and further transformed KPN from a communication service provider to a provider of full ICT services.

Getronics builds on its workspace management proposition supported by data center, hosting, connectivity and software as a service. In the Benelux Getronics establishes itself as a separate brand for consulting.

As of 2009 the telecom related activities for the top 500 market will be added to complement these activities, creating the single point of contact for the top 500 clients for both telecom and IT. This process has been emphasized with a rebranding of Getronics to be more in line with and actively endorsed by KPN.

Getronics focuses on national and international clients and believes that to improve organizations the personal performance of employees needs to be enabled. Getronics does this by offering integrated information and telecommunication capabilities. As of January 1, 2009 several units from within KPN were integrated into the 'new' Getronics. This will help to deliver converged services aimed at helping people and organizations to be more productive by having access to the right information anytime anywhere.

The primary focus for 2009 will be to guide and support clients in a process towards truly converged ICT services.

Services and products

Workspace Management Services

Workspace Management Services offer workspace management propositions. The launch of a new workspace management solution 'Future Ready Workspace 2.0' in Q2 of 2008 has supported the global delivery capability for serving international clients in an modular yet flexible fashion. The Future Ready Workspace integrates technologies through alliances with Cisco and Microsoft.

Application and Integration Management

Getronics is delivering expertise to its clients through three broad areas of activity:

- Housing and hosting of new and existing business environments;
- Application management, maintenance and evolution; ranging from patching through to major replatforming;
- Security services and e-business services; ranging from identity management to e-business environments.

Consulting and Transformation Services

We provide clients with guidance and analysis of issues around effectively maintaining current ICT investments, introducing new technology, leveraging industry standards for predictable performance, introducing continuous improvement programs, addressing security shortcomings, and transforming existing environments. With our clients, we develop proposals and also implement those proposals.

Market position and competition

Getronics' leading role in the competitive Dutch ICT market was confirmed in 2008. More and more companies are anticipating further convergence of telecommunications and IT, achieving significant benefits by sourcing all related services from a single vendor. The strategy to combine Getronics' business with KPN will transform the existing ICT business by giving critical mass and expertise to become the ICT partner for our widened client base in our key territories. The ongoing trend in the ICT industry towards globalization has resulted in, among other things, consolidation within the ICT industry. Notwithstanding this consolidation, the ICT industry in Europe remains fragmented. The markets in which

Getronics operates in intensely competitive markets and undergoes continuous change. Competitors can differ significantly depending upon the market, client and geographic area and include a broad spectrum of ICT services companies, ranging from systems integrators to outsourcing providers and consulting companies, such as IBM, Atos Origin and CapGemini. As the industry is changing towards an environment where managed services are becoming more relevant, parties delivering or aiming to deliver these services are also entering the competitive landscape such as Amazon and Google.

Financial review

(In millions of EUR unless indicated otherwise)	2008	2007	Δ
Revenues and other income	1,933	488	> 100%
Operating expenses	2,000	483	> 100%
– of which: depreciation, amortization and impairments	146	18	> 100%
EBITDA	79	23	> 100%
EBITDA margin	4.1%	4.7%	

In 2008, Getronics generated revenues of EUR 1,933 million compared to EUR 488 million in 2007 for the period from acquisition October 23, 2007 to December 31, 2007. Since the acquisition the following businesses have been divested: Iberia on December 20, 2007; Australia on February 29, 2008; Everest on July 7, 2008; North America on August 20, 2008; and Business Application Services (BAS) on December 2, 2008. The underlying revenue trend is solid for the Dutch business of Workspace Management Services, Data Center & Hosting Services and Consulting.

2008 EBITDA amounted to EUR 79 million including EUR 56 million restructuring and integration costs. Furthermore, EBITDA was negatively influenced by a EUR 17 million provision for superfluous office rental contracts in The Netherlands. This is part of the new facilities plan, of which execution will start in Q1, 2009. Significant contributions to the EBITDA came from the Business Application Services, the Data Center & Hosting as well as the Consulting businesses in The Netherlands. Furthermore additional cost savings and synergy benefits had a positive impact on profitability.

Businesses classified as held for sale

Both based in The Netherlands, Business Solutions for Local Governments and Healthcare (sale closed in January, 2009) and Document Services (sale announced on February 9, 2009) have been classified as held for sale in the Consolidated Balance Sheet as at December 31, 2008.

Operating review

Getronics overall performed according to plan

Operational performance of the core businesses in the Benelux showed a solid trend and has not been impacted materially by the economic downturn in 2008. The consulting and global services business continued to improve its profitability. Integration preparations are on track, in anticipation of the transfer of a large part of the Business Segment activities to Getronics as from January 2009. Led by a new management team, the UK business initiated a turnaround in 2008.

Reduced risk profile after disposals

The completion of the divestments of both North America and Business Application Services was an important milestone for Getronics in realizing its strategy to focus on growth in its core business. The North American operations were sold on August 20, 2008 to CompuCom, in exchange for cash and an 11% minority interest in the enlarged CompuCom business. The sale of Business Application Services to CapGemini was completed on December 2, 2008.

Furthermore, the non-core activities of Australia were divested on February 29, 2008; the Everest sale was completed on July 7, 2008; and the sale of Business Solutions for Local Government and Healthcare to Total Specific Solutions was announced on December 1, 2008. This divestment was completed on January 30, 2009.

After the disposal program, Getronics will have a reduced risk profile and is well-positioned to further execute its strategy of becoming the Benelux market leader in workspace management and growing in global workspace management.

Number of FTEs



Segmental information and results

Integration of Getronics with large part of Business market activities in H1 2009

As from January 1, 2009, Corporate Solutions, Enterprise Communication Solutions and Application Management Services, were transferred to Getronics. This transfer represents approximately EUR 800-900 million in annual revenues. Together with the integration of the marketing and sales department, which took place in the summer of 2008, Getronics expects to realize some EUR 50 million of synergies from 2009 onwards.

Wholesale & Operations

Strategy

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

The All-IP access network will consist of a mix of Fiber-to-the-Curb/VoDSL and Fiber-to-the-Home/Offices (FtTH/FtTO). Our wholesale strategy is to support the roll-out of FtTH and FtTO as described in the strategy update for the Consumer and Business Segments. The network is open for service providers and allows them to offer their services through a highly efficient IP-network. The KPN All-IP network will be open to service providers through Wholesale Broadband Access (WBA) and access to street cabinets (ODF), allowing them to offer their services to their customers. On December 19, 2008 the Dutch competition authority approved the Reggefiber joint venture between KPN and Reggefiber. KPN took a non-controlling 41% stake. The joint venture focuses on the development and exploitation of FtTH passive networks. By this, KPN has the option to expand its position in the Fiber-to-the-Home market.

In the International Wholesale voice market KPN is a top player through iBasis.

Services and products

National Wholesale Services

The national wholesale services offered by Wholesale & Operations can be divided into Wholesale services and Access services.

Through Wholesale Services, KPN supplies a comprehensive range of services by providing other telecommunications companies with access to Wholesale & Operations' fixed and mobile networks. These services include:

- Terminating services, allowing customers from other operators to reach KPN's customers through terminating access to end-users connected to KPN's fixed and mobile networks;
- Voice-originating services, offering other operators (such as Carrier (Pre)Select operators and MVNOs) access to calls originating on KPN's fixed and mobile networks and offering KPN's customers interconnection with so-called premium numbers (0800/0900 prefixes), pagers and VPNs; and
- Transit services, offering other telecommunications operators routing of incoming and outgoing national and international calls between other operators' networks through KPN's fixed and mobile networks.

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

- MDF access, offering physical connection of other operators' networks to KPN's local-loop network, offering other operators direct access to the homes and offices of their customers;
- MDF co-location, providing other operators with the possibility of installing their equipment in or alongside KPN's switches to connect their networks to KPN's by offering other operators direct access to KPN's local-loop network;
- WLR, enabling other operators offering Carrier (Pre)Select services to sell PSTN/ISDN connections. In combination with WLR, they can offer complete subscription and traffic services to their customers;
- SDF access, offering physical connections of other operators' networks to KPN's unbundled local-loop network;
- SDF co-location, providing other operators with the possibility of installing their equipment alongside KPN's equipment to connect their networks to KPN's by offering other operators direct access to KPN's unbundled local-loop network;
- WBA, consisting of Bitstream access (offering operators and ISPs the possibility to develop individual DSL-based services) and Wholesale ADSL (a value-added service on top of LLU); and
- ILL, offering a connection between end-user locations and an operator's transmission network.

International Wholesale Services

The international wholesale services offered by KPN consist of voice and data services. Data services are primarily handled by the Business Segment (KPN EuroRings). As of October 2007 International voice services are handled by iBasis Inc, a company 56% owned by KPN. iBasis carries international voice traffic originating both inside and outside of The Netherlands to any place in the world. As the international voice business becomes more dependent on scale and efficiency, iBasis can help customers succeed with a range of global termination products that provide flexibility of coverage and features to fit their requirements.

Market position and competition

In 2008 as well as in 2007, traffic volumes in the fixed network decreased for originating and terminating voice services due to strong competition in the national voice market by competitors like Tele2 The Netherlands, Verizon, BT and from cable operators with VoIP offerings. In addition, fixed-mobile substitution contributed to a further decrease of the fixed network's traffic volumes. Traffic volumes in KPN's mobile network, on the other hand, showed an increase, although not strong enough to compensate for the loss of fixed-network traffic volumes.

KPN faces ongoing fierce competition in the transit market from direct interconnection as well as from competitors (like Orange and BT), resulting in increasing pressure on KPN's market share.

Continuing the trend seen in 2007, ISDN/PSTN connections continued to decline throughout 2008. This decline in traditional services was matched by an increase in broadband connections.

The international wholesale voice business has become a commodity business that requires low-cost infrastructure and the efficiencies that come from massive scale. With its global footprint and more than 24 billion minutes of international voice traffic annually – approximately seven percent of international voice traffic according to market analysis firm Telegeography – iBasis has become one of the five largest carriers of international voice traffic in the world along with Verizon, AT&T, Tata Communications and IDT. The company offers customers the scale and efficiencies they need to provide high-quality international phone service to be more profitable. iBasis pioneered the use of the Internet for high-quality voice transmission and has developed patented and patent-pending proprietary technology for managing efficiency and quality in voice routing and back office support systems. In addition to scale, technology leadership and a global network footprint, iBasis has important strengths in two of the fastest-growing segments of global telecommunications: mobile services and consumer VoIP.

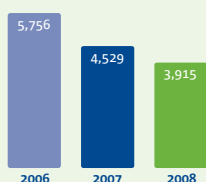
Financial review

(In millions of EUR unless indicated otherwise)	2008	2007	Δ
Revenues	3,764	3,677	2.4%
– of which: iBasis (incl. iBasis The Netherlands)	911	245	> 100%
– of which: Real Estate	295	359	-18%
Other income	140	164	-15%
– of which: iBasis	1	-	
– of which: Real Estate	116	96	21%
Revenues and other income	3,904	3,841	1.6%
Operating expenses	3,036	3,004	1.1%
– of which: depreciation, amortization and impairments	1,055	1,180	-11%
EBITDA	1,923	2,017	-4.7%
– of which: iBasis	27	7	> 100%
– of which: Real Estate	236	246	-4.1%
EBITDA margin	49.3%	52.5%	

Revenues and other income increased by EUR 63 million to EUR 3,904 million, which was mainly the result of the consolidation of iBasis. This effect was partly offset by continued line loss in the Consumer and Business Segments. Other income decreased in 2008 as in 2007 a book gain of EUR 66 million was recorded on the sale of iBasis The Netherlands (formerly KGCS) to iBasis.

EBITDA decreased by EUR 94 million compared to 2007 due to the decline in traditional voice and decreased other income by EUR 24 million. This effect was partly offset by cost savings from FTE reductions, synergy from the integration of the Telfort network and non-recurring InternetPlusBellen costs in 2007. The 3.2%-point drop in EBITDA margin was mainly caused by lower other income and lower margins at iBasis.

Access lines (*1,000)
Retail voice (without ADSL)



Segmental information and results

Depreciation and amortization costs in 2008 include KPN's share of 56%, or EUR 67 million, of the goodwill impairment of EUR 119 million (USD 176 million) as recognized by iBasis.

Operating review

All-IP status

Until H1 2009, KPN will focus on its efforts to demonstrate commercial success of the FttC and FttH initiatives in five cities each. The timeline for roll-out in subsequent quarters will depend on the evaluation of the test cities after H1 2009.

Real estate sales

In 2008, KPN sold part of its real estate portfolio for a total amount of EUR 180 million. At the outset of the year, proceeds of around EUR 300 million were anticipated but this proved to be an unrealistic target in the face of the macroeconomic downturn, which particularly affected the real estate sector where transactions took longer to conclude. Going forward, the focus will remain on value optimization rather than timing. It is anticipated that in 2009 the proceeds from planned real estate disposals will be of a similar magnitude to that of 2008. The network roll-out is largely independent of the real estate disposal program.

iBasis

KPN recognized a EUR 67 million goodwill impairment of iBasis. For a more extensive description of the financial and operating performance, please refer to the iBasis press release available at www.ibasis.com.

E-Plus

Strategy

KPN is active in the German mobile telecommunications market through its mobile network operator E-Plus. During 2008, E-Plus' customer base increased to 17.8 million customers. In a competitive German mobile market, E-Plus succeeded in expanding its service revenue market share by a full percentage point to approximately 15.4% (2007: 14.4%).

The strategy is aimed at profitable growth for E-Plus, focused on a number of initiatives:

- E-Plus moved away from a 'push' (reliance on handset and dealer subsidies) to a 'pull' strategy (attractive and simple tariffs inciting the prospective customer to ask for our products rather than rely on the reseller's advice). E-Plus' additional brands BASE (flat fee), Simyo (Internet only) and Ay Yildiz (Turkish community) are delivering significantly improved AMPUs and ARPUs in comparison to the E-Plus brand. Also for the E-Plus brand, handset subsidies were tightened;
- MVNO-type contracts were signed and implemented with well-known German partners such as Medion (Aldi Talk), Freenet and Conrad to focus on new distribution channels besides captive channels; and
- Expansion of captive distribution, with 307 own stores and approximately 350 partnerships at the end of 2008 compared to 251 at the end of 2007 and through selective acquisitions like SMS Michel and blau Mobilfunk.

With this growth strategy the focus is on increasing the customer base, revenues and market share on the one hand and profitability on the other. In 2008 almost 3 million new customers were attracted. Our focus on partnerships, such as with Medion, meant that a large share of this growth was with prepaid customers. The number of postpaid customers as of December 31, 2008 was 6.7 million representing a 38% share of our customer base (2007: 43%), whereas we served 11.1 million prepaid customers as of December 31, 2008.

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

Services and products

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

In 2005, E-Plus embarked on its multi-brand strategy with the launch of new brands featuring innovative tariff structures: BASE offered the first flat-fee package on the German mobile market, Simyo was the first web-only prepaid mobile operator, Ay Yildiz the first tailor-made offering for Turkish-speaking people. Additionally, E-Plus closed a cooperation with Universal Music Deutschland and launched VybeMobile to target youth interested in music and SMS.

We offer wholesale solutions for an increasing number of partners which act as branded resellers, including Medion and MVNOs like Versatel or NetCologne.

In 2008, E-Plus introduced a handset lease model, which charges the consumer a small amount per month to obtain a handset at their own choice.

Market position and competition

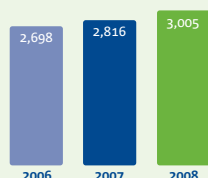
Four mobile network operators, all holding GSM and UMTS licenses, are currently active in the German mobile telecommunications market: T-Mobile, Vodafone, E-Plus and O2. The two largest mobile telecommunications providers, T-Mobile and Vodafone, hold an estimated combined service revenue market share of approximately 70% (2007: 71%). In recent years, E-Plus was successful in growing its service revenue market share, now reaching 15.4%.

In addition, numerous independent service providers in Germany package and sell products and services from various network operators under either the network operators' brand or private labels. Some of these service providers operate exclusively with one network operator, while others offer competing products and services. In all cases, service providers sell to both business and private customers. The main German service providers are Victor Vox, Freenet/Mobilcom. Freenet/Mobilcom took over the Debitel Group in July 2008. Service provider customers constitute approximately 10% of our total customer base.

Financial review

(In millions of EUR unless indicated otherwise)	2008	2007	Δ
Service revenues	3,005	2,816	6.7%
Hardware and other revenues	213	147	45%
Revenues and other income	3,218	2,963	8.6%
Operating expenses	2,641	2,526	4.6%
– of which: depreciation, amortization and impairments	668	676	-1.2%
EBITDA	1,245	1,113	12%
EBITDA margin	38.7%	37.6%	

Service revenue
(in millions of EUR)



Revenues and other income at E-Plus increased by 8.6% in 2008 or EUR 255 million to EUR 3,218 million. The increase was driven by the continued success of the 'Challenger' strategy. E-Plus' service revenue growth was well ahead of its competitors, with the market as a whole showing service revenue declines. Service revenues increased in 2008 by EUR 189 million or 6.7%. The acquisitions of SMS Michel and blau Mobilfunk had a combined impact of EUR 105 million on revenues and other income in 2008, mainly coming from hardware and other revenues. The MTA impact on 2008 revenues amounted to EUR 44 million.

EBITDA amounted to EUR 1,245 million in 2008, up 12% or EUR 132 million compared to 2007 as a result of the underlying 'Challenger' business model. SAC/SRC was reduced by 32% in 2008. EBITDA was positively impacted by the handset lease service, which started in the second quarter of 2008. Meanwhile, the MTA impact on 2008 EBITDA amounted to EUR 25 million. The EBITDA margin was 38.7%, up 1.1 percentage-points compared to 2007 as a result of a reduction in SAC/SRC and the successful handset lease service. As a consequence, the reported EBITDA margin is no longer directly comparable with prior periods.

Operating review

Continued success of Challenger strategy in Germany

Since the introduction of the Challenger strategy three years ago, E-Plus has unlocked significant value from the German market. The company continues to do what it does best: offering attractive voice and data propositions that meet customer demand. German market growth was flat over the past two quarters, the net result of regulatory tariff cuts, rotational churn to lower prices and growth in wireless traffic. E-Plus was able to consistently outperform the market in service revenue growth by about 8%-point. In the past three years, MoU doubled, mainly driven by new brands which offer attractive minute pricing and as a result drive price elasticity. Additionally, E-Plus has several MVNO partners which generate revenues at low costs.

Segmental information and results

Customers (*1,000)



Customer base up 20%, reaching 17.8 million subscribers

In 2008, E-Plus gained record net adds of almost 3 million, driven by the new brands, resulting in 17.8 million subscribers, up 20% compared to 2007. The new brands now represent 64% of the total customer base, or 11.3 million customers.

Handset lease service

The handset lease service is designed to complement SIM-only subscriptions for which E-Plus has become well known. The lease contract can be obtained by customers independent of their calling/data contracts. In 2008, approximately EUR 64 million of Capex was related to these handset leases.

3G network strategy

E-Plus deploys a smart follower strategy in wireless data, targeting consumers and SME/ SoHo segments with value offers. In 2008, E-Plus executed a selective 3G roll-out. In 2009, E-Plus will further extend the UMTS network (>60% population coverage by year-end 2008) and start the roll-out of HSPA in focus areas where the business case is most attractive. In addition, E-Plus started an accelerated EDGE roll-out, targeting circa 90% population coverage by year-end 2009.

BASE

Strategy

In Belgium, BASE is the third largest mobile telecommunications provider by revenue and number of customers, serving 3.4 million customers as of December 31, 2008 (December 31, 2007: 2.9 million), with an estimated service revenue market share of >16% (2007: ~16%).

By combining distinctive and simple offers with tailor-made propositions for specific market segments, solid growth was achieved in our customer base, revenues and market share since 2003.

In the course of 2008, BASE successfully launched a number of new commercial propositions to clearly targeted consumer groups. The ALLO Telecom retail chain has contributed significantly to the acquisition of new customers in areas of underrepresentation such as Wallonia.

BASE aims to continue its growth strategy in the years to come and believes that it has the capabilities in place to continue expanding its revenue market share moving forward.

Services and products

BASE offers a portfolio of voice and data products and services that offer 'value for money' and simplicity to BASE's customers. This is supported by a clear tariff structure while focusing on selected consumer segments via multi-branding and partnerships. In addition, BASE is the leading partner to MVNOs in Belgium.

Market position and competition

BASE key competitors in the Belgian mobile communication market are Proximus and Mobistar. Proximus is a wholly-owned subsidiary of Belgacom, the incumbent telecommunications provider in Belgium. Orange holds a 50.17% equity interest in Mobistar. Proximus is the market leader in Belgium with about half of the market's revenue – with Mobistar as the runner-up at a clear distance. BASE, the third-largest provider, is the challenger in the Belgian mobile market.

In 2008, revenues in the Belgian mobile market were heavily impacted by regulation, both in the area of MTA (reductions effective May 2007, May 2008 and July 2008) and voice roaming (reductions effective August 2007 and August 2008).

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

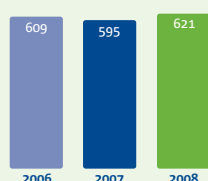
Financial review

(In millions of EUR unless indicated otherwise)	2008	2007	Δ
Service revenues	621	595	4.4%
Hardware and other revenues	26	18	44%
Revenues and other income	647	613	5.5%
Operating expenses	514	496	3.6%
– of which: depreciation, amortization and impairments	107	113	-5.3%
EBITDA	240	230	4.3%
EBITDA margin	37.1%	37.5%	

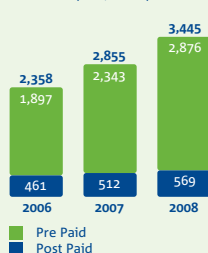
In 2008, revenues and other income increased by 5.5% or EUR 34 million to EUR 647 million, despite an MTA tariff reduction (EUR 27 million revenue impact in 2008). Key drivers of higher revenues were increased volume of subscription fees and higher traffic related revenues. In addition, hardware and other revenues increased largely as a result of the ALLO Telecom consolidation.

EBITDA in 2008 amounted to EUR 240 million, up 4.3% or EUR 10 million compared to 2007. The negative MTA effect on EBITDA amounted to EUR 19 million in 2008. EBITDA growth was lower than revenue growth as regulation had an over-proportional impact on profitability. Operating expenses increased at a lower pace with positive impact on profitability.

Service revenue (in millions of EUR)



Customers (*1,000)



Operating review

Service revenues back to growth

Despite the challenges posed by regulation, BASE recorded a service revenue growth of 4.4%. The improved service revenue performance mainly resulted from continued subscriber growth and a good performance in postpaid plans.

BASE to deliver customer growth

In 2008 BASE added another 0.6 million customers to its client base, of which 57,000 postpaid customers. The number of customers at the end of 2008 totaled 3.4 million, up 21% versus 2007.

Solid contribution of ALLO Telecom

ALLO Telecom increased its contribution to revenues as a result of increased gross adds and hardware revenues.

Focused 3G strategy, network based on a combination of EDGE and UMTS

KPN remains committed and has made the necessary preparations to invest in Belgium, including wireless broadband (mobile internet), based on a combination of EDGE and UMTS. This commitment is contingent on the regulatory authorities ensuring an appropriately balanced playing field.

Segmental information and results

Mobile Wholesale The Netherlands

Strategy

The market approach of Mobile Wholesale The Netherlands is based on leveraging the capabilities of KPN to the benefit of its partners, customizing its services to their specific needs and exploring opportunities within KPN's footprint. The goal is to make KPN's wholesale partners successful as mobile virtual network operators (MVNOs). Flexible customized platforms ensure that partners can successfully introduce their own mobile proposition in the market, irrespective of their background as a mobile provider. It results in the optimal end-user experience for the customers of our partners. Over two million end-users are connected to the KPN network via our mobile wholesale partners, an increase of almost 14% compared to the end of 2007.

Services and products

Mobile Wholesale The Netherlands makes KPN's network available to partners that wish to offer mobile telecommunications under a private label. These partners are offered a range of standard and value-added mobile voice and data services, both prepaid and postpaid. An increasing amount of service providers have added UMTS/HSDPA services to their portfolio. A wide range of business models is used in order to suit our wholesale partners propositions and allow them to be competitive in the market in which they operate.

Market position and competition

KPN is the leading mobile wholesaler in The Netherlands. Both Vodafone and T-Mobile are active in this market segment. In the past few years, the MVNO market in The Netherlands has been through a phase of rapid growth. However, with nearly 50 MVNOs currently operational, the market has gradually become more mature, resulting in slower growth. In 2008, the total customer base grew by 14% to over 2 million (postpaid customer base increased by 40%, prepaid customer base increased by 4%). Growth in the cultural segment slowed down compared to 2006 and 2007.

Financial review

(In millions of EUR unless indicated otherwise)	2008	2007	Δ
Revenues and other income	348	344	1.2%
Operating expenses	230	243	-5.3%
Of which: depreciation, amortization and impairments	27	28	-3.6%
EBITDA	145	129	12%
EBITDA margin	41.7%	37.5%	

Revenues and other income in 2008 increased by EUR 4 million or 1.2% compared to 2007. The reduction of MTA had a negative impact of EUR 10 million on revenues. Total traffic generated by wholesale partners increased by 10.7%, but competition in the wireless wholesale market put pressure on pricing.

EBITDA in 2008 increased 12% or EUR 16 million compared to 2007. Declining traffic related expenses, partly resulting from regulation, were the main reason for lower costs. In addition, decreased distribution fees contributed to the improved EBITDA performance.

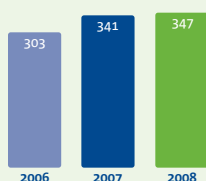
Operating review

Debitel acquisition and transition to Consumer Segment in 2009

As of December 30, 2008, KPN acquired debitel in The Netherlands and debitel will therefore no longer be a wholesale partner in the Netherlands. The debitel figures will be consolidated within the Consumer Segment as from 2009.

KPN has transferred Mobile Wholesale The Netherlands from Mobile International to the Consumer Segment as from January 1, 2009. While the 'Challenger' strategy as implemented within Mobile International and the commercial relationship with Mobile International will remain unchanged, being part of the Consumer Segment will facilitate operational and commercial efficiency gains. Mobile Wholesale The Netherlands will continue to be managed as a separate entity, independent of the KPN retail brands.

Service revenue
(in millions of EUR)



Mobile International Other Segment

This segment includes Ay Yildiz, Simyo and the KPN Belgium businesses. Furthermore, Mobile International aims to expand the wholesale business model into other Western European countries. In January 2008, we launched an MVNO in Spain.

Financial review

(In millions of EUR unless indicated otherwise)	2008	2007	Δ
Service revenues	303	78	> 100%
Hardware and other revenues	16	10	60%
Intercompany revenues	-136	-31	> -100%
Revenues and other income	183	57	> 100%
Operating expenses	241	78	> 100%
– of which: depreciation, amortization and impairments	26	3	> 100%
EBITDA	-32	-18	-78%
EBITDA margin	-17.5%	-31.6%	

Financials impacted by acquisitions

The revenue and EBITDA developments compared to 2007 reflect recent acquisitions and start-up costs of new businesses. Most notable are the acquisitions of Ortel and Tele2 Belgium, and the start up costs of the MVNOs in Spain and France.

Operating review

Fastest growing MVNO in Spain

Since its launch in January 2008, KPN's MVNO in Spain has become the fastest growing MVNO in the Spanish market. The no-frills KPN brand Simyo was the main contributor. Most recently, Vueling has launched its wireless services through KPN's platform. In addition to partners, KPN has launched a simple tariff through its 'blau' brand which will be distributed via external distribution channels. KPN expects further growth through both its own low-cost brands and partners benefiting from the current economic environment.

Launch of French MVNO

Based on the experience with the wholesale business model in all its markets, KPN expanded its MVNO business into France, based on the Bouygues Telecom network. The French market is considered to be attractive due to its relatively high tariff structure and potential in various unserved market segments. The objective is to leverage KPN's international expertise in executing MVNOs and multi-brand strategies in this new market. KPN's no-frills brand Simyo was launched on January 11, 2009 as the first milestone for the French business. In France, more national and international partners as well as own brands are expected to be launched in the coming quarters.

Segmental information and results

Other Activities

During 2008, Other activities included Corporate Center (support functions), KPN Holding and KPN Mobile Holding. Corporate Center mainly provides Group internal services.

Financial and operating review

(In millions of EUR unless indicated otherwise)	2008	2007	Δ
Revenues	2	7	-71%
Other income	21	3	> 100%
Revenues and other income	23	10	> 100%
Operating expenses	120	57	> 100%
– of which: depreciation, amortization and impairments	2	2	-
EBITDA	-95	-45	> -100%
EBITDA margin	> -100%	> -100%	

In 2008, Other activities reported a loss of EUR 95 million. This amount represents annual corporate expenses that do not pertain to operating companies such as the Board of Management, corporate projects, corporate functions for tax, legal, treasury and audit, as well as expenses for corporate social responsibility projects and the interest costs for the Social Plan 2001 provision. In 2008, items of a one-off nature also reported under Other activities broadly cancel out (including EUR 207 million restructuring charges for 2008-2010, EUR 199 million release of pension provisions, EUR 20 million release of a provision related to the 2002 sale of a subsidiary). In 2007 the loss reported under Other activities amounted to EUR 45 million. The EUR 50 million higher loss in 2008 is partly explained by one-off items and partly by lower management fee charges to the operating companies.

Research and development

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

KPN intends to continue to benefit from the telecommunications and technology expertise of TNO-ICT in order to support the technological innovations required for the business.

Measures have been taken to obtain the critical mass for mid- and long-term projects carried out by TNO-ICT. In 2007, KPN extended the cooperation agreement with TNO for one additional year until December 31, 2011. The total remaining commitments until December 31, 2011 amount to EUR 32.9 million (12.2 million for 2009, 10.9 million for 2011 and 9.8 million for 2012).

KPN's R&D expenditures with TNO-ICT in 2008 totaled EUR 13.5 million as compared to EUR 16 million in 2007.

Intellectual property

KPN current portfolio of intellectual property consists of approximately 20 registered core trademark and 410 patent families. KPN continues to invest in the growth of its intellectual property portfolio, among others through targeted long-term R&D program. This R&D program runs in close cooperation with TNO-ICT and accounts for about 10% of KPN's research spending.

KPN takes the necessary steps to protect the intellectual property rights which it creates and KPN generates value from these rights where appropriate. In order to protect these rights, KPN currently relies on a combination of patents, trademarks, service marks, trade secrets, copyrights, database protection, confidentiality agreements with its employees and third parties and protective contractual provisions. Approximately 20 of the patents that KPN owns were declared essential for the commercial exploitation of telecommunications technology and services. More than 25 telecom suppliers have entered into license agreements with KPN related to these and other of KPN's patents.

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

Infrastructure in The Netherlands

Fixed infrastructure

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

A joint venture with Reggefiber for the joint investment and operation of the passive layer of Fiber-to-the-Home (FtTH) has been established. The roll-out of the fiber-based access network will be executed in a two-step process. Until H1 2009, KPN will focus its efforts on demonstrating the commercial success of both Fiber-to-the-Curb (FtTC) and FtTH in five cities each. In H1 2009, a decision is expected to be taken on the rate of ramp-up for the subsequent quarters based on an evaluation of the roll-out in the 2x5 cities. Pending the ramp-up decision, customer migration to fiber in 2009 will be limited as the migration will ramp-up only in H2 2009. The scale of future FtTH deployment will depend on the success of the current projects and regulation, see section 'Regulatory developments' for more information about regulation on next generation access network. In Fiber-to-the-Office (FtTO), KPN has rolled out fiber in 146 business parks, with further roll-out driven by market demand.

KPN has introduced high-capacity transmission networks over the last few years. The fiber backbone has been recently upgraded and will be extended to more nodes in KPN's network. Ethernet has been rolled out to more than half of The Netherlands to support new consumer/business/wholesale broadband services like IPTV, Ethernet VPN and Wholesale Ethernet services. In the coming years, Ethernet will replace the SDH and ATM networks; this will contribute to KPN's ability to offer new broadband services and simultaneously reduce the operational costs of its transmission networks.

With the introduction of VoIP and IPTV, KPN implemented two new IP-services networks: the IMS platform and TV Middleware. These service platforms are independent of the underlying transmission and access networks and will in the mid-term melt together into one new services environment. This provides KPN with the opportunity to offer converged services; fixed-mobile, voice-TV-Internet and new business applications, like security. In addition, KPN increasingly deploys FtTO in the business market. In 2008, KPN continued rolling out FtTH in newly built areas, providing bandwidth of up to 100 Mb/s.

In 2008 the final chapter of the TV network roll-out 'DVB-T phase 4' resulted in the coverage of the last ten city spots outside the 'Randstad'. At the completion of the latest milestone, KPN's DVB-T Digitenne network had a 77% indoor coverage (outdoor coverage: 90%). Furthermore, in 2008 KPN won the bid from the Dutch Public Broadcaster to provide the DVB-T network for the Public Free-to-Air DVB-T service until 2017. This service provides virtually nationwide coverage using rooftop aerials. After completion of the network roll-out, with 65% indoor POP coverage and 80% outdoor area coverage, KPN launched the DVB-H mobile TV service in The Netherlands on June 5, 2008.

Mobile infrastructure

The growth of mobile voice services in The Netherlands is slowing down; mobile data services, however, are growing exponentially. In 2008 the data volumes on KPN mobile data networks grew more than 500%. The basis for the growth of KPN in mobile voice and data are KPN's GSM and UMTS networks. KPN's end-user-oriented strategy is to be 'always best connected', meaning it wishes to provide customers with the best available network capability for the specific services requested in the most cost-efficient way. When all technologies are available in a certain geographic area, KPN makes every effort to use network capacity as efficiently as possible to keep investments and operational costs down.

KPN's mobile network consistently scores high on quality, reliability and coverage. The mobile data growth is mainly handled by KPN's UMTS network. By the end of 2008, KPN had over 3,000 UMTS sites covering more than 97% of the population. Moreover, KPN upgraded its entire UMTS network to HSDPA 7.2 in 2008, thereby offering the most extensive HSDPA coverage with the highest speed in The Netherlands. In the following years most UMTS sites will be connected by fiber optics to ensure capacity for the fast-growing mobile data market. The possible introduction of LTE ('Long Term Evolution'), the successor of UMTS/HSDPA, is expected to offer even higher speeds and capacity than UMTS/HSDPA. Next to GSM/UMTS for the mainstream services, KPN investigates the use of other mobile technologies (e.g. Flarion) for specific niche markets like public services.

Infrastructure

KPN's mobile GSM and UMTS core networks, including the former Telfort core network, are being replaced in 2008-2009 by an integrated GSM-UMTS IP-based core network, ensuring future-proof capacity at low costs. The main suppliers for KPN's mobile network are Ericsson (UMTS radio), NokiaSiemens (GSM radio) and Huawei (mobile core).

International Infrastructure

Fixed infrastructure

The international wholesale services offered by KPN consist of voice and data services. Data services are primarily handled by the Business Segment (KPN EuroRings), based on KPN-owned fibers in The Netherlands, Germany, France, Belgium, United States and United Kingdom. International voice services are handled by iBasis Inc., a company 56% owned by KPN. iBasis has a global VoIP network comprising over 1,000 points of presence in more than 100 countries and interconnections with more than 600 carriers worldwide.

KPN Belgium is delivering Business to Business, Carrier and Consumer broadband, internet, data and voice services to Belgian corporate, business and consumer customers, using an own fixed network which covers all main potential areas. This network is carried by a more than 2,000-km long own fiber network with 10 Pop locations, also used for co-location and data-center services. This network includes backbone and access areas spread over the whole of Belgium, supporting Transport, IP and voice layers. Customers are served on-net, by Unbundled Local Loop (circa 30% coverage) and Bitstream (99.9% coverage).

Mobile infrastructure

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

In Germany we have directed our efforts at increasing the quality and coverage of the GSM/GPRS network in recent years. A nationwide measurement campaign performed by an independent test house and published in the reputable magazine 'Connect' in October 2008 has proved the E-Plus GSM network quality level to be almost on par with Vodafone and clearly surpassing O2. In terms of time needed to set up a voice call, E-Plus even leads the field. In Belgium we further increased the capacity, quality and coverage of our 2.5G-enabled network by adding approximately 207 GSM base stations during 2008. On top of that, the 3G network is being developed in order to enable HSDPA as of 2009.

Facts and figures – mobile infrastructure

The tables below show the number of active base stations, the average network usage as well as the coverage ratios of each of our networks as of December 31, 2008:

Active base stations	Germany	The Netherlands ¹	Belgium ^{1,2}
2.5G sites	18,453	4,543	2,885
3G sites	6,037	3,000	293
Total sites	24,490	7,543	3,178
Average network usage	Germany	The Netherlands ¹	Belgium ^{1,2}
Usage – as % of capacity	54% (GSM)	95% (GSM)	33% (GSM)
Network coverage ratios	Germany	The Netherlands ¹	Belgium ^{1,2}
2.5G network			
Outdoor – as % of population	99.9%	99.9%	99.9%
Outdoor – as % of area	99.2%	98.9%	98.0%
Indoor – as % of population	88.0%	98.9%	98.2%
3G network			
Outdoor – as % of population	62.0%	98.7%	>50% ³

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

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

3) License coverage only, not commercially available.

Our business is subject to various risks relating to changing competitive, economic, regulatory, legal, business and financial conditions. Risk management applies to the identification and analysis of potential risks, which could influence the achievement of our strategic, operational, financial, compliance and financial reporting objectives, as well as adequate control of these risks to an acceptable level.

Internal risk management and control system

Our internal risk management and control system is designed to avoid or mitigate rather than to eliminate the risks associated with the realization of our strategic, operational, financial, compliance and financial reporting objectives. It provides reasonable but not absolute assurance against material misstatement or loss. To manage risks in general, we have combined elements of our existing internal risk management and control system into an overall control framework, which satisfies the relevant criteria as set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Some key components are:

Tone at the top

The attitude and behavior of the Board of Management serves as a good example for all of KPN's employees. Consistently maintaining the correct 'tone at the top' establishes the foundations for effective risk management. Good governance and integrity were recurring themes on the agenda of the Board of Management. In 2008, a number of initiatives were taken, underlining the 'tone at the top': 1. Introduction of 'GRIP' and quarterly GRIP reviews led by the CFO; 2. A program within Getronics to strengthen the internal controls; 3. Ethics and Compliance Survey followed by a discussion with top management in an integrity workshop.

Risk appetite

The company is recognised by its drive for quality, consistency and financial discipline. The Board of Management encourages the Segments to seek for opportunities supporting revenue growth and cost reduction, while taking controlled risks.

The financial discipline is expressed in several ways:

1. KPN is committed to maintain its prudent financing policy by covering refinancing obligations well ahead;
2. A net debt-to-EBITDA ratio within the range of 2.0-2.5 times; and
3. Contingency plans aimed at preserving cash flow generation are in place for different economic scenarios.

Code of Conduct

We are conscious of our social and ethical responsibilities and we wish to ensure that work practices across the Company are in strict compliance with the law and consistent with social and ethical norms. To this end, we work in accordance with a Code of Conduct, which sets out our key values: personal attention, trust and simplicity. We can be held accountable for our performance in this regard by all of our stakeholders (customers, shareholders, employees, business associates, competitors, environmental organizations, international business relations and the community in the broadest sense). The Code of Conduct is available on our website (www.kpn.com). Throughout 2008, we continued our efforts to effectively communicate our Code of Conduct and compliance policies including, through an e-learning course for our employees, explaining the Code of Conduct.

Business planning and review cycles

In order to fulfill our strategy, the Board of Management and the management of the various Segments discuss and define the targets and objectives. The targets and objectives are detailed in a business plan which covers a three year period. This is the basis for operational plans per Segment.

During the monthly reviews management of each Segment discusses Segment performance with the relevant member of the Board of Management as well as our CEO and CFO. Progress over time and performance compared to the business plan is discussed. Management of the Segments also provides the Board of Management with a letter of representation regarding the accuracy of the reporting and compliance with prescribed policies.

Financial risk management

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

Internal audit function

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

GRIP

In 2008, Management of the Company introduced 'GRIP'. GRIP means Governance, Risk Management, Internal control and Processes. GRIP has four pillars:

1. Internal control of financial reporting;
2. Compliance risk framework;
3. Enterprise risk management; and
4. Security function.

The CFO of KPN reviews every quarter the progress and effectiveness of the Segments on GRIP. These meetings are also attended by the responsible Board member of the Segment. In 2008, KPN executed a program within Getronics to strengthen the internal control standards to KPN's own levels.

Internal control of financial reporting

Following KPN's delisting from the NYSE, the Sarbanes Oxley Act 404 (SOx) is no longer applicable. As the Board of Management attaches great value and reliance on a high standard of internal control over financial reporting, we continued the SOx program within 'GRIP'. The controls within 'GRIP' are tested and assessed for effectiveness by dedicated staff.

Compliance risk framework

In 2008, KPN proceeded with the Compliance Risk Assessment (CRA) project on Voice regulation in the Business Market and defined – top down, risk based – the relevant inherent risks of the Telecommunications Act and subsequently implemented the required processes and controls to cover such risks. Wherever possible, KPN relied on the GRIP control framework already available within KPN. Furthermore, KPN extended the CRA framework to an integral KPN-wide compliance framework in the Netherlands comprising not only the risks related to regulations based on KPNs' Significant Market Power but also risks related to general obligations in the Telecommunications Act which are applicable to all telecommunications parties operating in the Dutch market (such as consumer protection). On February 19, 2008, KPN presented the integral design of the KPN-wide CRA framework to OPTA.

KPN and OPTA signed the Compliance Charter on April 24, 2008. This document reflects OPTA's view on supervision and an effective compliance program as published on March 12, 2008. The CRA described above is one of the elements in the Charter. Other elements are linked to the, amongst others, interpretation of new legislation, the respective amendments of the internal code of conducts, the notifications of (possible) infringements within KPN, the survey on culture and awareness as well as the way OPTA and KPN operate in cases of (possible) infringements and interpretation issues. KPN proactively reported potential infringements and interpretations issues to OPTA during 2008. On July 31, 2008 KPN provided OPTA with a first integral report on all performance indicators mentioned in the Compliance Charter. The main conclusions of the report were that almost all elements in the Charter were filled in, in order to build an effective compliance organization.

KPN held an Ethics and Compliance Survey to address the various cultural and awareness elements of the Compliance Charter. The results of the Survey have been discussed with top management in an Integrity workshop. Based on the outcome of the Survey and the workshop, KPN responded with several actions, such as a compliance communication plan, including messages from top management and specific guidelines with regard to the way KPN employees should act in case of (suspected) unlawful and/or unethical behavior.

Enterprise risk management

A risk analysis is an integral part of the business planning process. The various Segments performed a business risk assessment in which the most significant risks and countermeasures were identified. The assessment was discussed by the Board of Management during the business plan cycle and resulted in action plans which will be monitored during the reviews.

Security function

The Security function enables KPN to protect its people, services, brand values and assets, including its information, from harm, in order to prevent unexpected loss, damage or legal sanctions and to ensure the continuity of its business. The Security function does so by producing and maintaining policy, governing policy implementation and measuring and reporting on Security compliance to the Board of Management. Additionally, the Security function provides Security related services to the KPN organisation, such as Security awareness programs, Security incident management, investigations and legal interception.

Disclosure Committee

The Disclosure Committee evaluates disclosure and internal control procedures to ensure that relevant information on the Company is brought to the attention of the Board of Management and the Supervisory Board. This Committee also examines reports and other materials that are to be issued externally to ensure that they are accurate, timely and complete. The Disclosure Committee advises the Board of Management, the Audit Committee and the Supervisory Board. In 2008 the Committee consisted of the directors of Corporate Control, Corporate Treasury, Internal Audit, Corporate Legal, Corporate Communication, Investor Relations, the Secretary to the Board of Management and the finance directors of the Segments, amongst others. The Committee met periodically in 2008 and reviewed disclosure controls and procedures and proposed public disclosures.

Risk factors

With the explicit understanding that this is not an exhaustive list, the most significant risks are discussed in more detail below. Risks could harm our business, financial condition and operating results, adversely affect our revenues and profitability, and lead to a drop in the trading price of our shares.

Strategic risks

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

The retail competitive landscape in The Netherlands is one of the most dynamic and competitive in Europe. Broadband penetration in Dutch households is the highest in Europe, while the traditional voice business continues to convert to VoIP. Cable and ADSL operators are active in the voice market, offering multiplay solutions such as TV, Internet and Telephony combined. Cable has historically been a strong competitor to KPN, bundling voice and broadband services with the core TV product. In 2008, a large cable provider was created in The Netherlands by consolidating three regional cable providers. Meanwhile, mobile operators are pushing for fixed-to-mobile substitution and non-telecommunications service providers (like MSN and Google) have started offering voice as an integral service. If we are not able to deliver new services which increase our revenue or to lower our costs in light of the continuing pressure for lower prices, our financial results will be adversely affected.

Control measures

- Simplification program in The Netherlands for brands, portfolio and organization;
- Selective roll-out of Fiber-to-the-Curb (FttC)/Fiber-to-the-Home (FttH) which could result in new revenue streams;
- Retention program for traditional business;
- Offering multiplay solutions including TV offering; and
- Reduce costs by rationalization of the network.

In the three-player Dutch mobile market the competition remains intense as we compete with the other operators for market share. The recent consolidation from four operators to three operators is contributing to intense competition. As a result, the focus of competition is shifting towards brand and distribution power and also from customer acquisition to customer retention and satisfaction efforts. Substantial expenditure is required for customer retention and satisfaction efforts. If we are unable to differentiate our offering compared to the competition or lose distribution power, our financial results could be adversely affected.

Control measures

- Multi-brand strategy in The Netherlands with KPN, Hi and Telfort;
- Optimize cross- and up-selling possibilities with KPN's fixed portfolio;
- Focus on customer excellence and loyalty; and
- Create partnerships with distribution chains.

Our Mobile International business faces intense competitive pressure in all our markets (Germany, Belgium, Spain and France). We compete with the largest international groups and alliances of mobile operators, such as Vodafone, T-Mobile and Telefonica. Competition based on price, subscription options offered, coverage and service quality remains intense and we expect ongoing pressure on calling rates as we compete with the other operators for market share. We also face competition from network operators offering new network services such as wireless fidelity services (WiFi) and WiMAX and providers of higher speed xDSL and glass-fiber services.

Control measures

- A Challenger strategy: multiple brands, pushing for fixed-to-mobile substitution, 'no-frills';
- Reduce costs by increasing outsourcing and partnerships; and
- Benefiting from the expanded captive distribution channels.

If KPN is unable to integrate and transform its substantial acquisitions successfully, this could lead to loss of revenue and expected synergies resulting in lower margins and an impairment of assets.

Getronics

KPN's strategy in the business market is aimed at grasping the opportunity to shift from decreasing traditional communication services towards services in the larger and growing market for ICT services, especially application hosting, workspace management and outsourcing. In line with this strategy, KPN acquired Getronics in October 2007. In 2009, KPN will start the integration of the Getronics Segment with parts of the Business Segment. The integration of these businesses involves risks, including:

- Higher than expected or unanticipated costs to implement our business plan and to operate the combined business;
- Inadequate resources to implement our business plan and to operate the combined business;
- Difficulties retaining (key) employees; and
- The failure to identify and realize synergies and cost savings, which we expected to be at least EUR 50 million as of 2009.

Control measures

- Benefiting from the sale of non-core activities, which leads to increased focus on the activities with the best opportunities to deliver growth and margin;
- Profit improvement program with explicit owner responsibility and continuous follow-up to ensure progress; and
- Continuing focus on a joint customer approach in order to leverage increased possibilities of cross- and up-selling.

iBasis

In 2007, KPN acquired a controlling stake in iBasis, a US-based NASDAQ-listed company. The stock price has decreased significantly since the acquisition. iBasis' ability to successfully execute its proposed business plan, will present challenges. KPN may not achieve the desired profitability and synergies that it anticipated from this acquisition, and such failure could adversely affect the results of operation.

Control measures

- Run cost-reduction programs; and
- Follow-up on integration programs.

If KPN is not successful in the timely migration to a fiber-based access network and introduction of new IP-based services and solutions, our main competitors may gain market share at our expense or margins could deteriorate. Furthermore, our investments could prove to be more expensive than we had estimated, which could adversely affect our financial position.

Within our operations in The Netherlands, our strategy to migrate to a next generation network operator and service provider is the basis for our new service portfolio and our planned cost reductions. If we operate the legacy infrastructure longer than anticipated, we may not reach future cost reductions. Furthermore, our investments in new IP-based infrastructure could prove to be more expensive than we had estimated, taken into account a less successful sell-off of our technical buildings as the sales take longer than anticipated and/or we sell the buildings at a lower price than anticipated, all of which could adversely affect our financial position.

Furthermore, to drive the new service portfolio, KPN is making substantial progress in the migration to a fiber-based access network (Fiber to the Curb (FttC)/Fiber to the Home (FtTH)). The migration to a fiber-based access network requires substantial expenditure with associated business case opportunities and risks, for example, it could turn out that fiber propositions remain a niche market. The migration to a fiber-based access network is expected to take several years. KPN may not be successful in the timely migration to such a network and, as a consequence, our main competitors may gain market share at our expense. In addition, our strategy for migrating our customers towards IP-based solutions could be less effective and efficient than we anticipate.

Control measures

- Managed migration to a new IP-based infrastructure through asset lifecycle management, optimization of operational organization and outsourcing;
- Implementation of simplified network, processes and IT, which incorporate learnings of the VoIP roll-out problems;
- Selective migration strategy to a fiber-based access network; and
- A joint venture for the joint investment and operation of the fiber-based access network.

Operational risks

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

Our ability to operate our business depends significantly upon the performance of our technical infrastructure. Our technical infrastructure is vulnerable to damage or interruption by power supply and other similar events. It may also be subject to break-ins, sabotage, terrorism, vandalism and similar misconduct. Furthermore, the security of our network and related applications may be inadequate, which may result in access and misuse by hackers and other unauthorized users and may adversely affect our operations. System failures, including failure of our network and the networks managed by our suppliers, and hardware or software failures or computer viruses, could also affect the quality of our services and cause temporary service interruptions, resulting in customer dissatisfaction, penalties and reduced traffic volumes and revenue.

Control measures

- Life cycle management;
- Business continuity plans;
- Security policy;
- Monitor service KPIs; and
- Wide range of security measures for example Network Operation Centers which monitor the network performance and back-up facilities for power supply.

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

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

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

Control measures

- Create supplier default scenarios with Corporate Purchase Office; and
- Continuous monitoring of service level agreements.

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

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

Control measures

- Potential program for young professionals and high potentials;
- Leadership program for management;
- Remuneration programs are structured to promote a pay-for-performance culture with an orientation towards variable pay, and an emphasis on long term value creation; and
- Continuing education for financials.

Financial risks

The current economic conditions and financial market turmoil could adversely affect our business and results of operations.

As widely reported, economic conditions and financial markets have been experiencing extreme disruption in recent months, including, among other things, extreme volatility in prices of publicly traded securities, severely diminished liquidity and severely restricted credit availability, rating downgrades of certain investments and declining valuations of others. Governments have taken unprecedented actions intended to address these extreme market conditions. We believe the current economic conditions and financial market turmoil could adversely affect our operations. The economic conditions and financial markets have the following risks:

- Uncertainty about current and future economic conditions may cause customers to rein in their spending generally, the impact of which may be that they stop or delay purchasing our products and services. If these circumstances persist or continue to worsen, our future operating results could be adversely affected, particularly relative to our current expectations;
- On the financing side, bonds which need to be placed are expected to have higher risk spreads than in prior years;
- Disposals of subsidiaries until now were unaffected but may become more difficult;
- Prevailing liquidity problems in the financial markets affect the speed at which KPN can execute its real estate disposal program; and
- The volatile financial markets have increasingly impacted defined benefit pension plans at Dutch companies. This could have a cash and P&L impact for KPN.

See Note 22 Provisions for retirement benefit obligations in the Consolidated Financial Statements and Note 29 Financial Risk Management in the Consolidated Financial Statements for the description of the market (currency and interest rate) risks, credit risks, and liquidity risks and a description of our Financial Risk Management.

Control measures

- With 2008 bonds issued exceeding 2008 bond redemptions KPN has a solid liquidity profile. Going forward it is the intention to safeguard this conservative position;
- Policy of a net debt-to-EBITDA ratio between 2 and 2.5 times;
- Early warning indicators are being tracked, such as increased bad debts, higher churn, and rotational churn to lower pricing schemes;
- A natural hedge in KPN's business as E-Plus, BASE and Telfort are the alternative for customers who change to cheaper propositions to lower their spending;
- A continuous review of potential impact areas, such as counterparty evaluation, derivatives, insurance and others;
- Contingency plans aimed at preserving cash flow generation are in place for different economic scenarios. The Supervisory Board reviewed the contingency plans; and
- Over the years, KPN and the KPN pension funds have taken various measures to reduce volatility of pension charges. These measures include among others: maximizing limits of salary above which pension contributions are being made on defined contribution basis rather than defined benefit, changing the pension plan to be based on average pay instead of final pay, making indexation of pension (rights) conditional on the coverage ratios of the pension fund, hedging part of the interest rate decline risk and, in the last collective labor agreement, linking indexations to the Consumer Price Index rather than wage indexation.

Regulatory and compliance risk

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

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

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

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

Control measures

- Focus regulators on predictable and pro-competitive (wholesale-based) regulation to minimize interventions in retail markets, consistently over time and countries, in order to realize a level playing field in Europe; and
- Internal Compliance Framework.

In control and Responsibility statement

The Board of Management is responsible for the Company's internal risk management and control system. This system is designed to manage the risks that may prevent us from achieving our objectives. However, this system cannot provide absolute assurance that material misstatements, fraud and violations of laws and regulations can be avoided.

The Board of Management reviewed and analyzed the Company's:

- Strategic, operational, financial and, regulatory and compliance risks, as discussed in the paragraph 'Risk factors'; and
- The design and operating effectiveness of the internal risk management and control system, as discussed in the paragraph 'Internal risk management and control system' of this Annual Report.

The outcome of this review and analysis was shared with the Audit Committee and Supervisory Board and discussed with our external auditors.

With reference to best practice provision II.1.4 of the Dutch Corporate Governance Code and the recommendations of the Corporate Governance Code Monitoring Committee on the application thereof, including the revised Code of December 10, 2008, the Board of Management, to the best of its knowledge, believes that the internal risk management and control system provide a reasonable assurance that the financial reporting does not contain any errors of material importance and that the risk management and control systems, with regard to financial reporting, worked properly in 2008.

Although our company does not have any material weaknesses in the internal risk management and control system, we have envisaged the following focus areas for 2009:

- Further strengthen the internal control framework within Getronics;
- Further strengthen our compliance organization in accordance with the Compliance Charter as signed with OPTA in 2008; and
- Clarify the governance within KPN Group, especially regarding newly acquired businesses and joint ventures.

With reference to section 5.25c paragraph 2c of the Financial Markets Supervision Act, the Board of Management states that, to the best of its knowledge:

- The annual financial statements of 2008 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its consolidated companies; and
- The Annual Report gives a true and fair view of the position as per December 31, 2008, the development during 2008 of the Company and its Group companies included in the annual financial statements, together with a description of principal risks the Company faces.

The Hague, February 23, 2009

A.J. Scheepbouwer
M.H.M. Smits
E. Blok
S.P. Miller
J.B.P. Coopmans

Chairman of Board of Management and Chief Executive Officer
Member of Board of Management and Chief Financial Officer
Member of Board of Management
Member of Board of Management
Member of Board of Management

Telecommunications regulations are, to a large extent, based on EU regulations and directives, but the application is often national and depends on national market characteristics. Therefore the regulatory treatment of our activities in different countries differs. KPN chooses a pro-competition strategy in all countries where it is active.

Next generation access network

OPTA has published its regulatory approach for access to fiber-to-the-home (FttH) networks. This approach aims to provide a long-term regulatory certainty for fiber investors and access seekers. It allows KPN to go forward with fiber to the home projects in a limited set of areas in The Netherlands. It will also enable KPN, if commercially successful, to further invest in new areas in The Netherlands in the coming years.

The Competition Authority approved a joint venture (JV) with Reggefiber under conditions which are identical to OPTA's decisions. The JV will operate at arm's-length of KPN and will sell access to fiber loops on transparent, non-discriminatory and reasonable terms.

KPN provides wholesale broadband access over FttH, though it has no regulatory obligation to do so. The transition to next generation access and foreseen sale of real estate does not require much forced migration of wholesale customers as was earlier expected. This might decrease regulatory pressure.

Market analyses decisions fixed markets (The Netherlands)

On January 1, 2009, new regulatory obligations following market analyses by OPTA came into force. Those obligations will, in principle, remain in place for a three-year period. It should be noted that most decisions are expected to be subject to Court appeal.

OPTA concluded that fixed telephony markets have, or will soon, become fully competitive on the retail level in the Netherlands. Therefore, KPN's retail obligations for consumer markets were withdrawn as of January 1, 2009.

KPN's retail obligations for business markets will be withdrawn as of January 1, 2010.

Obligations on wholesale telephony markets for termination and origination services will change to some extent, for example, there will be symmetry in termination rates.

For broadband wholesale markets, obligations on KPN to grant unbundled access on transparent, non-discriminatory and cost-orientated terms remain in place and are extended from copper to Fiber to the Home. The obligation to grant access to unbundled local fiber loops is also applicable for business markets.

Next to unbundling obligations, OPTA introduced transparency and non-discrimination obligations for low-quality wholesale broadband access. High-quality wholesale broadband access must be transparent and non-discriminatory but should also be costorientated.

As a whole, as KPN has publicly stated, this package has minor, positive effects for KPN in the next three-year regulatory period.

Market analyses decisions mobile markets (mobile call termination)

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

The Netherlands	OPTA decision as of December 17, 2008	Obligations for KPN (including Telfort): non-discrimination, transparency, price control by way of a defined glide path and the obligation to offer direct interconnection upon reasonable request. The tariff reductions by the mobile operators as tariff remedy, have to follow this glide path:				
		In EUR/minute	8/15/2007	7/1/2008	4/1/2009	7/1/2009
		KPN	10.0 ct	9.0 ct	8.0 ct	7.0 ct
		Vodafone/Tele2Versatel NL	10.0 ct	9.0 ct	9.0 ct	7.0 ct
		Orange/T-Mobile	11.4 ct	10.4 ct	10.4 ct	8.1 ct
Germany	BNetzA decision as of November 30, 2007	In Germany, there is no glide path.				
		In EUR/minute	12/1/2007 – 3/30/2009		4/1/2009	
		T-Mobile	7.92 ct	To be published end of March 2009		
		Vodafone	7.92 ct	To be published end of March 2009		
		E-Plus	8.80 ct	To be published end of March 2009		
		O2 (Germany)	8.80 ct	To be published end of March 2009		
Belgium	BiPT decision as of August 11, 2006 (appeals pending)	Obligations for BASE: external non-discrimination, transparency, price control and the obligation to offer direct interconnection upon reasonable request. The current MTA tariffs as mentioned below represent the last step of the glide path that was set in the BiPT decision of August 11, 2006. Legal proceedings regarding this glide path are still pending:				
		In EUR/minute	11/1/2006	5/1/2007	1/5/2008	7/1/2008
		BASE	15.81 ct	12.76 ct	11.82 ct	10.41 ct
		Proximus	10.13 ct	8.09 ct	7.48 ct	6.56 ct
		Mobistar	12.75 ct	10.16 ct	9.38 ct	8.21 ct

On December 18, 2007, BiPT has issued a decision to further reduce the average MTA of BASE and Mobistar and to increase the average MTA of Proximus as of February 1, 2008 in comparison with BiPT's initial decision of August 6, 2006. However, following the suspension of this decision by the Brussels Court of Appeal, BiPT returned to its original glidepath.

End 2008, BiPT started a project for the development of a LRAIC-bottom-up cost model in order to determine MTA-levels as from 2010. Consequently, as there is no formal decision for 2009, BASE will provisionally continue to apply the MTA-level of December 2008 (EUR 10.41 ct).

International roaming on mobile networks

The European Commission and the Council agreed upon the draft amendments to the roaming regulation, which are currently being discussed in Parliament. The proposals, which may be subject to change during the discussions in Parliament, aim at amending the directive with an effective date as from July 1, 2009. The most significant proposed changes are:

- The glide path for retail tariff reductions is extended. As from July 1, 2009, yearly reductions will be required until July 1, 2012. For calls made in other EEA (European Economic Area) countries the tariffs are EUR 0.43, 0.40, 0.37 and 0.34. For calls received in other EEA countries the reductions are EUR 0.19, 0.16, 0.13 and 0.10. Wholesale tariffs are proposed to EUR 0.26, 0.23, 0.20 and 0.17 on the same dates.
- For retail and wholesale billing as of July 2009 only actually utilised minutes on a per second basis can be billed, except for the first 30 seconds for retail billing.
- For SMS new maximum tariffs are proposed at EUR 0.11 retail and 0.04 wholesale, as of July 1, 2009.
- As from July 1, 2009 a maximum wholesale tariff of EUR 1.00 per Mb is proposed for data roaming. At retail level for data roaming additional information obligations towards customers will be introduced, which includes services for customers to set maximum billing levels for data roaming by July 1, 2010.

Licenses for mobile communications (The Netherlands)

In the Netherlands KPN holds licenses for GSM900, DCS1800, UMTS, DVB-T (Broadcast) and a number of licenses of minor significance. After renewal of the GSM license up to 2013, which took place in 2007, Tele2 challenged this decision of the Ministry of Economic Affairs. A court case is still ongoing, verdict is expected in the first quarter of 2009.

After examining activities concerning the UMTS roll-out obligations, the Ministry imposed an injunction by duress with regard to the Telfort UMTS license. Re-examination after the first term is still ongoing and a decision is expected in the first quarter of 2009. Tele2, Vodafone and KPN challenged the decision for the injunction (with different motives). A decision on these objections is also expected in the first quarter of 2009.

Parties have issued a request for enforcement concerning the Telfort DCS1800 roll-out obligations. Examination activities of the Radio Agency are ongoing; results and decision are expected in the first quarter of 2009.

Auctions for T-DAB (Broadcast) and the 2.6 GHz spectrum, originally planned in 2008, are now planned for 2009. KPN is excluded from the T-DAB auction. With regard to the 2.6 GHz auction participation is restricted to avoid strategic acquisition of spectrum. As a result of discussions in Parliament, the Ministry investigated further restrictions in order to accommodate new entrants in the mobile communications market.

Early in 2008, the Ministry of Economic Affairs opened consultation on a National Frequency Plan change with the purpose of flexibilization of the GSM, DCS, UMTS and the 3.5 GHz BWA (Broadband Wireless Access) bands. A decision is expected in 2009, after amendment of the European GSM directive. After this decision, KPN will apply for a license change in order to be able, for example, to apply UMTS technology in the GSM900 band.

Licenses for mobile communications (Germany)

BundesNetzAgentur has started the process of refarming the GSM spectrum allowing other technologies to be applied in this frequency band. This process has started with a consultation.

A keynote paper, describing the conditions for refarming in Germany, is expected mid 2009 and will be open to consultation. A final decision on refarming is expected in the third quarter of 2009.

Conditions will also depend on the results of the amendment process of the GSM directive, in which presumably member states will be requested to examine whether refarming will lead to competitive distortions.

As a result of the different footprint of the German operators in the GSM900 band, only Vodafone and T-Mobile can successfully deploy UMTS technology in the GSM900 band. Consequently, E-Plus urges for reallocation of the GSM 900 spectrum when refarming is at hand.

An auction for mobile spectrum (amongst others 2.6 GHz spectrum, unused UMTS spectrum) is planned in the fourth quarter of 2009.

Several parties lodged objections to the assignment of EGSM frequencies to E-Plus. Legal actions were dismissed by the Administrative Court. Since August 2008, the proceedings have been pending before the Higher Administrative Court after an appeal was lodged by those who lost the case. The procedure of appeal is expected at the end of March, 2009. The frequency allocations are still valid in their initial form and E-Plus may further use the EGSM 900 frequencies.

Licenses for mobile communications (Belgium)

The Ministry of Economic Affairs and BiPT have informed the mobile operators that the 2G licenses will not automatically be extended. After renewal of the Mobistar and Belgacom Mobile licenses all 2G licenses will now expire on July 2, 2013. A government decision on the renewal conditions in 2013 is expected in 2009.

As a result of a BiPT decision, BASE will be granted, as of February 1, 2009, eight additional channels in the GSM900 band (CT1+ channels), provided there is no interference with CT1+ technology. Two additional channels in this band will be granted to BASE as of January 1, 2010. Mobistar and Belgacom Mobile will receive on February 1, 2009 and January 1, 2010 an equivalent number of channels in the DCS1800 band.

An auction for 2.6 GHz spectrum and beauty contests for the 3.5 GHz and 10 GHz spectrum are planned in 2009.

A client focused service provider

KPN aspires to be a leading service provider in the communications sector who brings people together and moves closer to its clients. The activities in the area of corporate social responsibility are crucial to reaching this goal. Supporting good causes helps in becoming even more deeply rooted in all layers of society. Contributing to resolving major societal problems will also enhance engagement and pride at KPN – it will help KPN to become who it wants to be: a client focused service provider.

For years KPN's employees have been developing socially responsible initiatives. KPN supported good causes, sponsored training and ran socially responsible employment policies.

In order to achieve greater focus and consistency in its many existing initiatives, KPN set out a new policy of Corporate Social Responsibility (CSR) at the end of 2007. In 2008, KPN began putting that policy into practice. KPN also booked a number of important results in 2008 which you can read more about in its CSR Report.

KPN's view on Corporate Social Responsibility

KPN sees CSR as going beyond mere adherence to the prevailing laws, regulations and norms. KPN's ambition is to make an active contribution towards solving social problems.

KPN's CSR policy is a crucial and inseparable part of its business strategy. KPN believes that its contribution to the betterment of society at large will make people and companies, whether clients, suppliers, employees, investors or other stakeholders, very much more comfortable with the idea of partnering with KPN.

CSR is put at the forefront

Focusing on three main themes, KPN's CSR policy was put at the forefront of the Company in 2008. KPN made significant steps toward implementing the plans in all three areas.

The three themes of KPN's CSR policy are inherent to KPN's make-up and are areas where KPN can add substantial value.

1. People connected

KPN's products and services connect people with each other. In a world of internet and mobile telephony not everybody manages to stay in touch. Social isolation threatens. KPN initiates and supports a wide variety of projects to help people connect. In 2008, about 650 KPN volunteers helped senior citizens get to grips with the Internet on the KPN 'ComputerPlusBus' that toured the Netherlands. At least 160 KPN executives made sustained, long-term efforts to help sick children stay in touch with their classmates via a special Internet connection in our 'Classroom Contact' ('KlasseContact') project. In cooperation with My Child Online ('Mijn Kind Online') KPN promotes responsible Internet usage by children. In 2008, we launched the free web browser MyBee, aimed at children from 4-12 and diverting young web users to high-quality and safe websites. This initiative received international attention and the European Commission asked a working group to assess whether MyBee could be used as an example for similar projects in other EU member states.

In 2008, KPN started to invest in the step-by-step roll-out of a potential nationwide fiberglass network in The Netherlands, a business initiative with a high societal impact, and a major enabler for people to connect. The network, which will be open for use by KPN's peers, offers high-speed broadband connections to households, businesses and non-profit organisations. In addition to enabling commercial services such as digital television, VoIP telephony and extremely fast Internet access, it will facilitate important services such as distance learning, e-learning, and remote health care services.

2. New world of working

KPN is committed to enabling flexible ways of working, to allow workers to find a good balance between their working and private lives and help resolve commuting and mobility issues. KPN is the natural party to turn to for products, ideas and services that reduce commuter traffic, whether in terms of avoiding the peak-hour commuter rush, teleworking or similar initiatives. KPN participated in several pilot projects in Rotterdam, The Hague and other urban areas in The Netherlands aimed at reducing peak hour traffic. KPN plans to develop more 'New world of working' initiatives in 2009.

3. Responsible energy use

The telecoms industry is one of the biggest energy consumers in The Netherlands. KPN assumes its responsibility and in 2008 set an ambitious target: becoming wholly climate-neutral by 2020. This means KPN will completely eliminate its net carbon dioxide emissions over the next ten to twelve years. KPN wishes to achieve this by more efficient use of energy and a greater use of 'green' energy. In 2008 KPN implemented mechanisms to accurately assess the 'ecological footprint' of its operations – measuring the impact on the environment of what the Company does, is a major step toward taking concrete measures to reduce carbon dioxide emissions. KPN also wants to minimize the raw materials used to manufacture the products it sells. And KPN wishes to limit any packaging and waste involved in its products.

In 2008, KPN increased the share of green electricity in its total electricity consumption; purchases of green electricity increased to 38% from 15%. KPN also introduced a 'green' car lease policy. Starting in 2009 employees can only use a lease car that has a A, B or C energy label.

The enthusiasm KPN encountered in the activities involved in each of these areas has vastly exceeded our hopes. KPN employees are highly motivated to contribute to initiatives in the area of CSR. External stakeholders too have reacted positively to KPN's CSR policy and activities in 2008.

Stakeholder dialogue

In the course of the past year KPN organized three meetings with external stakeholders its employees at which the CSR activities were put up for comment and review.

Both the KPN employees and the external stakeholders thought the three themes had been well chosen because they fit closely with the Company's business and are therefore complementary.

In October KPN held discussions with external stakeholders, including representatives drawn from NGOs and sustainable investment experts. A number of external stakeholders advised KPN to set even more ambitious targets within the three themes chosen and to create a more flexible linkage between KPN's corporate and CSR strategies. "Corporate social responsibility and business are not poles apart," commented one participant. "If it doesn't generate profit, it's not going to be sustainable," ran another observation. Commercial activities help KPN realize its CSR targets, and, conversely, the CSR activities may benefit KPN's business.

KPN believes that it is on the right track in closely interlinking its CSR objectives with its business targets.

Partly based on its stakeholder dialogue KPN has adjusted its CSR targets for the coming years.

Objectives for 2009

We have set ambitious objectives for 2009 and subsequent years.

Connecting people – KPN wants to tighten the link with clients, suppliers and other stakeholders. "If we know and understand their preferences, wishes and their problems as well, we'll give our clients better service," says Baptist Coopmans. Besides creating closer links with its own employees and clients, KPN wants to take more children and parents out of their isolation. KPN wants to make contact with major players to be its partner in these projects.

The theme of 'new world of working' is based on people finding a good work-life balance. Mobile telephony, mobile e-mail, teleworking, videoconferencing and avoiding peak hour traffic are the tools teleworkers use.

KPN wants to promote responsible energy usage in the coming years by making even more efficient use of energy and by raising the green share of energy used by the Company to 100% by 2010. KPN has also set itself the target of being wholly climate-neutral in 2020.

In the coming years KPN will compare its results on CSR with the top of telecommunication companies that are already listed in 'green' indices, such as the Dow Jones Sustainability Index (DJSI). It is KPN's goal to achieve a strong position in these indices in the future.

KPN also wants to increase employee involvement and arrive at a situation whereby a coordinated CSR policy is fully integrated into the entire KPN Group by 2010.

CSR steering group

In 2008, KPN set up a steering group charged with coordinating CSR policy. Chaired by Baptist Coopmans, Board of Management member and the director responsible for CSR at KPN, the steering group meets about once every two months to review policy progress and, where appropriate, to launch new initiatives.

Revised Dutch Corporate Governance Code

Corporate Governance deals with the distribution of influence and power between the Board of Management, the Supervisory Board and the General Meeting of Shareholders (AGM). Application of sound corporate governance principles and a balance in power and influence between these bodies is important for KPN. It should, however, not be an end in itself. The true aim is to achieve and maintain a culture of honesty and integrity.

The Monitoring Committee's (Frijns Committee) proposed amendments to the Code in December 2008. The amendments have effect as of January 1, 2009. KPN generally welcomes the new Code, which is more focused on influencing behavior in advance, rather than compliance by means of a 'box ticking' approach. KPN believes that a large part of the proposals, such as the amendments in the field of our Supervisory Board's role and responsibilities, were already standard practice at KPN. On the amendments in the field of remuneration and particularly in the call for full transparency in the remuneration report, KPN is of the opinion that our remuneration reports as part of the Annual Reports already provided complete and accurate information about the Management's Board's remuneration. While writing this year's report the further guidelines as provided by the Committee's proposals in respect of the remuneration report have been taken into account. The establishment of the revised Code will not affect KPN's consistent policy of compliance thereto.

Compliance with the Dutch Corporate Governance Code

The remaining part of this chapter refers to the former Dutch Corporate Governance Code ('Tabaksblat' Code), which was applicable to the reporting year 2008 and still has its statutory basis in Book 2 of the Dutch Civil Code and applies to KPN as KPN has its registered office in The Netherlands and its shares are listed on a stock exchange. The Code is based on the apply-or-explain principle and defines a company as a long-term form of collaboration between the various parties involved. The Board of Management and the Supervisory Board have overall responsibility for considering these interests, generally with a view to ensuring the continuity of the enterprise. In doing so, the Company endeavours to create long-term shareholder value and the Board of Management and Supervisory Board should take account of the interests of the different stakeholders.

KPN supports the principles of the Dutch Corporate Governance Code and KPN is almost fully compliant with its best practice provisions. It should be noted that KPN does not fully apply provisions II.2.2 (*if the Company, notwithstanding best practice provision II.2.1, grants unconditional options to management board members, it shall apply performance criteria when doing so and the options should, in any event, not be exercised in the first three years after they have been granted*), II.2.6 (*a management board member shall give periodic notice, but in any event at least once a quarter, of any changes in his holding of securities in Dutch listed companies to the compliance officer or, if the Company has not appointed a compliance officer, to the chairman of the supervisory board*), III.7.3 (*containing a similar rule for Supervisory Board members*) and II.2.7 (*the maximum remuneration in the event of dismissal is one year's salary (the 'fixed' remuneration component)*).

KPN does not apply provision II.2.2 in full on the options we granted to Mr. Scheepbouwer. KPN agreed with him, at the time of his appointment, that our Supervisory Board could annually grant him unconditional options. As contractually agreed at the time of appointment, these stock options are not linked to performance. Stock options already granted before 2008 will be respected. On November 6, 2007, a new arrangement was approved by the AGM. From 2008 and onwards Mr. Scheepbouwer will be entitled to a long-term incentive package based on remuneration in shares, replacing all his annual long-term incentive entitlements from 2008 and onwards. For further information, see 'Remuneration and Organizational Development Report'.

Under the same premise that existing rights should be respected, Mr. Blok and Mr. Miller will receive more than one year's ('fixed') salary, contrary to provision II.2.7. Mr. Blok will receive one year's full salary (including short-term bonus), whereas Mr. Miller will receive two years' fixed salary, including insurance and pension allowances. Both agreements correspond to the arrangements that were in place before they joined the Board of Management.

Under provisions II.2.6 and III.7.3, KPN requires its members of the Supervisory Board and Board of Management to inform the compliance officer only once every year of their shareholdings in Dutch listed companies (other than KPN) rather than every quarter. KPN believes that informing the compliance officer on a more regular than yearly basis is not necessary to address the issue at stake, being that members of these boards should dedicate sufficient time to their primary function and should not have conflicting interests. In this respect we would also like to point out that the provision is no longer part of the revised Code.

Our position vis-à-vis all best practice provisions is available on our website, www.kpn.com, under the section Investor Relations, Corporate Governance and, Risk Management and Internal Control.

Legal structure of the Company

Under Section 6, Part 4 of Book 2 of the Dutch Civil Code, the rules for large companies ('structuurvennootschap') are mandatory for KPN. As such, KPN has a two-tier management structure with a Board of Management and a Supervisory Board.

Dutch corporate law is changing rapidly. In 2004, important amendments were implemented to increase shareholder rights. Under the new legislation, shareholders are entitled to approve decisions of the Board of Management that have a Company-transforming effect, to approve the remuneration policy and share (option) plans, to appoint members of the Supervisory Board upon proposal by the Supervisory Board and to dismiss the Supervisory Board.

Furthermore, the Dutch Corporate Governance Code has been given a legal basis.

Currently legislation is pending on the possibility of introducing a one-tier management structure for Dutch companies including 'structuurvennootschappen'. Other pending legislation will cover shareholder rights such as the raising of the threshold for proposing items for the shareholders meeting and the improvement of processes surrounding shareholders' meetings such as the notice period and the use of a record date. KPN closely monitors these developments. Where relevant, changes in legislation are implemented in our Articles of Association. The Articles were last amended on May 3, 2007.

None of our shareholders possess special rights and there are no restrictions applicable to the exercise of voting rights. For further information, please see 'Share capital' under 'Shareholders' rights, and 'Restrictions on non-Dutch shareholders' rights'.

On the basis of The Dutch Financial Supervision Act (Wet op het financieel toezicht (Wft)), The Dutch Authority for Financial Markets (AFM) supervises the financial reporting by Dutch listed companies.

Management

Supervisory Board

The Supervisory Board oversees strategic and organizational policymaking by the Board of Management and the way in which it manages and directs our operations and affiliated/associated companies. Members of the Supervisory Board are appointed by the AGM upon binding nomination by the Supervisory Board. The Central Works Council has the right to recommend persons for nomination up to one third of the Supervisory Board. The Supervisory Board must nominate the recommended persons unless it is of the opinion that 1) any such person would be unsuitable to fulfil the duties of a Supervisory Board member, or 2) such appointment would cause the Supervisory Board to be improperly constituted.

According to our Articles of Association, our Supervisory Board must consist of at least five and not more than nine members. Our Supervisory Board currently consists of six members. Members of the Supervisory Board resign according to a schedule set by the Supervisory Board. A member steps down at the first AGM following his four-year term being in office. In line with the Code, members can be reappointed twice, leading to a maximum term being in office of 12 years. See the 'Report by the Supervisory Board' for the rotation schedule.

The Supervisory Board has determined its 'profile', defining the basic principles for the composition of the Supervisory Board. All nominees for the election to the Supervisory Board must fit within this profile. According to this profile, the Supervisory Board must be composed in such a way that members of the Supervisory Board are able to operate independently of each other and of the Board of Management.

The by-laws of the Supervisory Board contain, among other things, rules regarding the members' duties, powers, working methods and decision-making, what decisions by the Board of Management it must approve, training and conflict handling. The by-laws are available on our website www.kpn.com under the section Investor Relations, Corporate Governance.

Committees of the Supervisory Board

Three committees assist the Supervisory Board: the Audit Committee, the Remuneration and Organizational Development Committee and the Nominating and Corporate Governance Committee. The committees consist of members of the Supervisory Board. They report their findings to the Supervisory Board, which is finally responsible for all decision-making. The tasks of these committees are laid down in charters which are available on our website. Further information on the activities of the committees in 2008 can be found in the 'Report of the Supervisory Board' and on our website www.kpn.com under the section Investor Relations.

Board of Management

The Board of Management, supervised and advised by the Supervisory Board, manages KPN's strategic, financial and organizational matters and appoints senior managers. The Supervisory Board appoints and discharges members of the Board of Management and establishes their individual remuneration within the boundaries of the remuneration policies approved by the AGM and the recommendations by the Remuneration & Organizational Development Committee.

Our Board of Management consists of five members: the Chairman of the Board, the Chief Financial Officer, and the Managing Directors of the different segments.

The current members of our Board of Management are:

Name	Position	Date Of birth	Start of term	End of current term
A.J. Scheepbouwer	Chief Executive Officer	July 22, 1944	November 2001/2007*	2011
E. Blok	Managing Director Business, Getronics and Wholesale & Operations Segments	August 3, 1957	June 2006	2010
J.B.P. Coopmans	Managing Director Consumer Segment	February 9, 1965	September 2006	2010
S.P. Miller	Managing Director Mobile International	September 6, 1958	June 2006	2010
M.H.M. Smits	Chief Financial Officer	September 14, 1961	August 2004/2008*	2012

* Reappointment.

A.J. Scheepbouwer (1944)

Chairman of the Board of Management and Chief Executive Officer

Ad Scheepbouwer was appointed Chairman of our Board of Management and Chief Executive Officer on November 1, 2001. His employment contract terminates on July 1, 2011.

From 1976 to 1988, Mr. Scheepbouwer was President of the Airfreight division of Pakhoed Holding N.V. (Pandair Group). In 1988, he was appointed as Managing Director of PTT Post, then part of the Dutch national post and telecommunications operator, Koninklijke PTT Nederland N.V.

In 1992, he joined the Board of Management of Koninklijke PTT Nederland N.V. In June 1998, the mail, express and logistics activities were demerged from Koninklijke PTT Nederland N.V. and incorporated as a separate company, TPG N.V., of which he became Chief Executive Officer. From June 1998 until September 9, 2001, he was a member of KPN's Supervisory Board.

He is currently chairman of the Supervisory Board of Havenbedrijf Rotterdam N.V., chairman of the Supervisory Council of the Maastad Hospital, member of the Supervisory Board of Welzorg Group and member of the Supervisory Board of, and an investor in, RFS Holland Holding B.V.

Mr. Scheepbouwer is also chairman of the Audit Committee 'Sleutelgebieden' of the Innovationplatform, member of the Advisory Councils of ECP.NL and the Rotterdam School of Management and chairman of the Economic Advisory Council for the city of Dordrecht. Furthermore, he is a member of the Board of the Foundation for the support of the Dutch Bach Association, member of the Supervisory Council of the Foundation for the National Art Collection and Ambassador 'Randstad Urgent' (Project International City The Hague).

M.H.M. Smits (1961)

Member of the Board of Management and Chief Financial Officer

Marcel Smits was appointed as a member of the Board of Management on August 9, 2004 and has been our Chief Financial Officer since September 11, 2004.

Mr. Smits is a former member of the Board of Management and Chief Financial Officer of Vendex KBB N.V. Before that he had held various (financial) management positions at Unilever.

He is currently a member of the Supervisory Board of Delta Lloyd N.V., a member of the Supervisory Board of Euronext N.V. and a member of the Supervisory Board of FNV Bondgenoten.

E. Blok (1957)

Member of the Board of Management and Managing Director of the Segments Business, Getronics and Wholesale & Operations

Eelco Blok was appointed as a member of the Board of Management on June 1, 2006 and was responsible for KPN's Fixed division until January 1, 2007.

Since that date he has been responsible for the aforementioned segments (Getronics as from October 2007).

Mr. Blok joined KPN in 1983 and had various management positions, including positions as director of KPN's departments Carrier Services, Corporate Networks and Fixed Net Operator, and he was responsible for Corporate Strategy & Innovation. Most recently he was Chief Operating Officer for our Fixed division. He was previously, from April until December 2004, a member of our Board of Management.

He is a member of the Supervisory Board of Getronics N.V., a member of the Advisory Board of New Venture, a member of the Board of ICT-Office and a non-executive member of the Board of iBasis.

S.P. Miller (1958)

Member of the Board of Management and Managing Director Mobile International

Stan Miller was appointed as a member of the Board of Management on June 1, 2006. Until January 1, 2007 he was (as Managing Director of our Mobile Division) responsible for all our activities in The Netherlands, Germany, Belgium and abroad. Since that date he has been responsible for all our Mobile International activities (outside The Netherlands), as well as all our mobile wholesale activities.

Mr. Miller held various senior management positions in the (pay)television, media and IT industry in South Africa and Europe, including M-Net (South-Africa), MIH (The Netherlands/South-Africa) and Nethold (The Netherlands). In November 1998, he was appointed CEO of KPN Orange, now BASE. Since then he has held various positions in KPN's mobile activities, including those of CEO of KPN Mobile The Netherlands and KPN Mobile International, and member of the Board of Management of KPN Mobile N.V. and Hutchison 3G UK Ltd. In May 2005 he was appointed CEO of KPN's international mobile activities, E-Plus and BASE. He currently is Chairman of the Supervisory Board of E-Plus and Chairman of the Board of BASE.

J.B.P. Coopmans (1965)

Member of the Board of Management and Managing Director Consumer Segment and the unit IT in The Netherlands

Mr. Coopmans was appointed as a member of the Board of Management on September 11, 2006. Coopmans joined KPN after a 17 year career with Unilever, where he held various marketing/sales and general management positions. He is a former managing director for the icecream and frozen foods company in the Netherlands and former chairman of Unilever in Mexico.

Auditor

Our external auditor is responsible for auditing the financial statements. The external auditor reports to the Board of Management, the Audit Committee and the Supervisory Board to discuss audit findings pertaining to quarterly and annual financial results. The external auditor attends the AGM to answer questions pertaining to the auditor's report as included in the annual report.

The Audit Committee approves every engagement of our external auditor, which requires pre-approval by the internal auditor as delegated authority in order to avoid potential breaches of the external auditor's independence. Both the external and internal auditor attend all Audit Committee meetings. The AGM appoints the external auditor on a yearly basis, upon recommendation by the Board of Management and the Supervisory Board. In 2008, the Board of Management and the Audit Committee conducted a thorough assessment of the functioning of the external auditor within the various entities and in the different capacities in which the external auditor acts. This evaluation was carried out with the assistance of internal audit. The results of this evaluation will be presented to the AGM. For an overview of the fees charged by the external auditor refer to Note 5 Other operating expenses in the Consolidated Financial Statements.

Shareholders' rights

Share capital

Our authorized capital stock totals EUR 1,440,000,000, divided into 3 billion ordinary shares of EUR 0.24 each and 3 billion Class B preferred shares of EUR 0.24 each. As of December 31, 2008, a total of 1,714,362,792 ordinary shares had been issued.

Dutch laws prohibit KPN to cast a vote on shares it holds. The ordinary shares and Class B preferred shares carry the right to cast one vote each. For a description of the preferred shares, please see 'The Foundation Preference Shares B KPN'. The ordinary shares are registered or payable to bearer. Shareholders may request the Company to convert their registered shares to bearer shares but not vice versa.

Purchase of shares in the Company's own capital

The shareholders have authorized our Board of Management (until October 17, 2009) to purchase shares in the Company's own capital at a price per share of at least EUR 0.01 and at most the highest of (i) the Quoted Share Price plus 10% and (ii), if purchases are made on the basis of a program entered into with a single counterparty or using a financial intermediary, the average of the Volume Weighted Average Share Prices during the course of the program. The Quoted Share Price is defined as the average of the closing prices of KPN shares as reported in the official price list of Euronext Amsterdam N.V. over the five trading days prior to the acquisition date. The Volume Weighted Average Share Price is defined as the volume weighted average price of trades in KPN shares on Euronext Amsterdam N.V. between 9:00 am (CET) and 5:30 pm (CET) adjusted for block, cross and auction trades.

Any such purchase requires the approval of the Supervisory Board. Votes may not be cast on purchased shares and they do not count towards determining the number of votes required at a General Meeting of Shareholders. KPN may only purchase shares in its own capital if the shares are fully paid-up and the distributable part of the shareholders' equity is at least equal to the purchase price. The Board of Management was authorized to cancel up to 10% of the issued capital as shown in the Annual Report and Form 20-F 2007, plus 21,425,000 shares that the Company acquired in the context of its share repurchase program until April 11, 2008. In practice, this meant that KPN could acquire up to 10% of its own issued shares, cancel these shares, and acquire a further 10%.

Annual General Meeting of shareholders

Within six months of the end of a fiscal year, an AGM is held, where the discussion of the Annual Report and approval of the Financial Statements are put on the agenda. Other General Meetings of Shareholders are held as often as the Supervisory Board or Board of Management deem necessary. The Board of Management and the Supervisory Board determine the agenda of the AGM. Shareholders who individually or collectively represent at least 1% of the issued capital have the right to propose items for the agenda. Every shareholder has the right to attend an AGM in person or through written proxy, to address the meeting and to exercise voting rights. For further information on the General Meeting of Shareholders, see www.kpn.com/ir.

Adoption of financial statements and discharge of responsibility

Within four months from the end of every fiscal year, the Board of Management prepares Financial Statements accompanied by an Annual Report. The Financial Statements are submitted to the Supervisory Board for approval. The Supervisory Board submits the approved Financial Statements to the AGM for adoption together with the Annual Report for discussion. At the same time, the Board of Management submits the approved Financial Statements to the Central Works Council for information purposes. Adoption of the Financial Statements does not automatically discharge the Board of Management or the Supervisory Board from liability. This requires a separate resolution by the AGM.

Dividends

Under the Articles of Association, the Class B preferred shares carry preferred dividend rights. Subject to the approval of the Supervisory Board, the Board of Management will determine what proportion of the profit remaining after satisfaction of these preferred dividend rights will be appropriated to the reserves. The Board of Management may decide to allocate the complete remainder to the reserves. Any remaining profit resulting after this appropriation is available for distribution on the ordinary shares. The decision to pay out a dividend is made by the AGM, upon proposal by the Board of Management with the approval of the Supervisory Board. In addition, the Board of Management may, subject to approval by the Supervisory Board, decide to pay out the entire dividend on ordinary shares in shares instead of in cash. Subject to Supervisory Board approval and certain legal requirements, the Board of Management may furthermore decide to pay out interim dividends on ordinary shares. Please see section 'Information about the KPN share – Dividend Policy' for more information.

Amendment of the Articles of Association; dissolution; legal merger; demerger; reduction of capital

The AGM may pass resolutions to effect a merger, split-up or dissolution of the Company or amend its Articles of Association only upon a proposal by the Board of Management. The Supervisory Board must approve such a proposal. An absolute majority of the votes cast is required to adopt such a shareholders' resolution.

Liquidation

In the event of dissolution or liquidation, the assets remaining after payment of all debts will be divided among shareholders in the following way: the holders of issued and outstanding Class B preferred shares will first receive the par value paid for the shares and any amount owed by way of dividend on the shares, in so far as not already paid out in previous years. Secondly, the remaining amount will be distributed to holders of ordinary shares in proportion to the total number of shares possessed by each holder.

Restrictions on non-Dutch shareholders' rights

Under KPN's Articles of Association, there are no limitations on the rights of non-resident or foreign shareholders to hold or exercise voting rights in respect of its securities, and there are no such restrictions under Dutch corporate law.

Major shareholders and notifications

On June 27, 2007 and July 1, 2008, Capital Group International, Inc. and Capital Research and Management Company notified the AFM that they held 4.97% and 12.87% respectively of our shares at those dates. For the most recent notifications see the AFM website.

Insider transactions

Notifications to the Dutch Authority Financial Markets

The table below provides an overview of recent transactions by members of our Board of Management and Supervisory Board.

Overview of dealings by directors in 2008*

Date	Name, position	Trade	Price
04/15/08	M.H.M. Smits, Member Board of Management, Chief Financial Officer	Exchange of 115,330 conditional options for 230,660 unconditional options on KPN shares (ISIN: NL0000009082) upon fulfilment of performance criterion	EUR 0
04/15/08	E. Blok, Member Board of Management	Exchange of 100,685 conditional options for 201,370 unconditional options on KPN shares (ISIN: NL0000009082) upon fulfilment of performance criterion	EUR 0
04/21/08	A.J. Scheepbouwer, Chairman Board of Management, Chief Executive Officer	Award of 177,121 conditional restricted KPN shares (ISIN: NL0000009082)	EUR 0
04/21/08	M.H.M. Smits, Member Board of Management, Chief Financial Officer	Award of 63,502 conditional restricted KPN shares (ISIN: NL0000009082)	EUR 0
04/21/08	E. Blok, Member Board of Management	Award of 63,502 conditional restricted KPN shares (ISIN: NL0000009082)	EUR 0
04/21/08	S.P. Miller, Member Board of Management	Award of 34,236 conditional restricted KPN shares (ISIN: NL0000009082)	EUR 0
04/21/08	J.B.P. Coopmans, Member Board of Management	Award of 55,219 conditional restricted KPN shares (ISIN: NL0000009082)	EUR 0
05/05/08	S.P. Miller, Member Board of Management	Exercise of 28,000 share options (ISIN: NL0000009082) against cash settlement.	Exercise price option: EUR 6.73. Sales price share: EUR 11.81
05/13/08	A.J. Scheepbouwer, Chairman Board of Management, Chief Executive Officer	Exercise of 319,865 share options (ISIN: NL0000009082) against cash settlement on expiry date. Order given 4 months before expiry date.	Exercise price option: EUR 5.94. Sale price share: EUR 11.62
05/13/08	E. Blok, Member Board of Management	Exercise of 12,000 share options (ISIN: NL0000009082) against cash settlement on expiry date. Order given 4 months before expiry date.	Exercise price option: EUR 5.94. Sale price share: EUR 11.62
07/30/08	S.P. Miller, Member Board of Management	Award of 43,071 conditional restricted KPN shares (ISIN: NL0000009082)	EUR 0

* Notification concerning transactions by persons discharging managerial responsibilities pursuant to section 15a of the WpHG.

Subcode 'Inside Information'

KPN employees that have access to inside information through the exercise of their employment, profession or duties, including members of the Board of Management or Supervisory Board, are subject to the Subcode 'Inside Information'. This Subcode, which is connected to the Company Code, contains rules for possession of and transactions in KPN securities by such employees.

The Foundation Preference Shares B KPN ('Stichting preferente aandelen B KPN')

According to its Articles of Association, the statutory goal of the Foundation Preference Shares B KPN (the 'Foundation') 'is to protect our interests (which includes the interests of our stakeholders, such as customers, shareholders and employees), by, among other things, protecting us from influences that may threaten our continuity, independence and identity.' Consequently, in the event of any circumstances where the Company is subject to influences as described above and taking public security considerations into account, the Board of the Foundation may decide to exercise the call option (as described below), with a view to enabling the Company to determine its position in relation to the circumstances as referred to above, and seek alternatives. The Board of the Foundation is of the opinion that under normal circumstances it should not exercise its voting rights for longer than a limited period. The Board of the Foundation considers it undesirable for the Board of Management to ignore a shift in the balance of power in the AGM over an extended period of time per event. It is furthermore undesirable that the Board of Management should (be able to) use anti-takeover measures to further the personal interests of individuals involved with the Company.

The members of the Board of the Foundation are Mr. J.H. Schraven (Chairman), Mr. J. den Hoed RA (vice-Chairman), Mr. P. Bouw, Mr. P. Wakkie and Mr. H. Zwarts. Our Board of Management and the members of the Board of the Foundation share the view that the Foundation is independent from us in accordance with parts c and d of the first subsection of article 5 : 71 of the Dutch Act on financial supervision.

The views of the Board of the Foundation, summarized above, have been published at the Foundation's own website (www.prefs-KPN.nl).

We have a put option to place with the Foundation a number of our Class B preference 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. In addition, the Foundation has a call option, which is not limited in time, to acquire a number of Class B preference shares from us not exceeding the total issued amount of ordinary shares, minus one share and minus any shares already issued to the Foundation.

Since October 12, 2006, the authority of the Board of Management to issue Class B preference shares under the put option expired. This expiration does not affect the obligation to issue Class B preference shares upon exercise of the call option by the Foundation.

Upon exercise of the call option, 25% of the nominal value of EUR 0.24 per Class B preference share needs to be paid by the Foundation. Our Board of Management can decide to request the Foundation to pay the remainder. Such decision is subject to the approval of the Supervisory Board.

Work carried out in 2008

Strategy update

The publication of the 'Back to Growth' strategy at the beginning of 2008 marked the beginning of a new strategic phase by defining the goals for 2010. The Supervisory Board devoted considerable time and attention to reviewing the proposed strategic goals and the monitoring of progress thereof in the course of 2008.

Taking the Company on a growth path by bringing the revenues In The Netherlands to an Inflection point, achieving continued growth at Mobile International and additional growth from recent acquisitions was a logical step to take the 'Attack, Defend and Exploit' strategy, as launched in 2005, to the next level.

The Netherlands

The Supervisory Board strongly endorsed the intended acceleration of new services and the pursuit of a radical simplification of KPN's services portfolio. Simplification by focusing on the customer should ultimately result in cost reductions and a major improvement of customer satisfaction data at the same time. For example, the Supervisory Board kept itself abreast of the progress in the phasing out of the Planet brand and the short-term effects for existing customers in order to have a clear view on lessons learnt for future simplification projects. Customer satisfaction receives the Supervisory Board's continued attention.

The execution of the strategy update showed visible results and the provision of an upgrade in the EBITDA guidance of The Netherlands division in the second half of 2008 could be considered as a promising start.

As part of the Company's ongoing transformation in the continuously changing technological and competitive landscape further FTE reductions are inevitable. The Supervisory Board closely monitored that the restructuring plans were prepared and exercised with due care in respect of redundant personnel. The proper functioning of KPN's 'Perspectief' program, which actively supports employees in the finding of other jobs, is an important element in that respect.

Mobile International

Continued growth of our Mobile International division can be achieved by further implementation of the Challenger strategy in an innovative manner whereby the main challenge is to keep ahead of the competition, which tends to copy the Company's successful propositions. Since the Company introduced its Challenger strategy three years ago it has consistently outperformed the German market. In the past year, E-Plus was circa 8% point ahead of the market average in terms of service revenue growth, which showed the continued success of the Challenger strategy. The Supervisory Board supports the enhancement of Mobile International's retail footprint. Next to that, the leveraging of important strategic partnerships was endorsed by approving the acquisition of controlling stakes in the service providers blau Mobilfunk and Ortel.

Getronics

One year after the acquisition of Getronics it was satisfactory to see that the integration program was on track and that portfolio restructuring to a core business of workspace management was well underway. The Supervisory Board also kept a close watch on the progress in the divestment of non-core activities. By the end of 2008 agreements had been reached on the divestment of Getronics businesses representing approximately one-third of the total revenues.

Going forward/financial market turmoil

In the second half of 2008 a session took place on the current strategy going forward and on how to best position the Company beyond 2010. 'Operational Excellence' emerged as a key distinguishing factor in the longer term. In the course of 2008, financial markets worsened and an economic downturn became increasingly apparent. The Supervisory Board was kept apprised on the Company's liquidity position in order to determine whether specific short- and medium-term actions were required. The Company's consistent and prudent financing policy allowed it to stick to the commitments on shareholder remuneration in a manner that investors had come to expect from it. It goes without saying that the Supervisory Board will keep a close watch on liquidity in particular if a material further deterioration of financial markets takes place. Furthermore, the Supervisory Board reviewed the contingency plans which were put in place to prepare the Company for economic headwind.

Sustainability policy

In the field of the Company's sustainability policy, the Supervisory Board welcomed the improved quality of the sustainability report and strongly endorsed the policy's clear and relevant pillars (people connected, new world of working and responsible energy use). A stakeholders' dialogue was organized with the aim to further enhance the implementation of the Company's policy. One of the Supervisory Board members participated in this dialogue and shared the findings with the rest of the Board.

For a description of the organization and structure of our Supervisory Board, see 'Corporate Governance'.

Organization of the Supervisory Board

The composition of the Supervisory Board changed at the 2008 AGM. Mr. Eustace stepped down after having served two consecutive terms of four years and decided not to stand for reappointment. The Supervisory Board expresses its warm gratitude for the contribution that Mr. Eustace gave to the Supervisory Board and to the Company in general, over the past eight years.

Composition of the Supervisory Board

Name	Date of birth	Start of term	End of term	Committees
A.H.J. Risseuw (Chairman)	November 9, 1936	May 2, 2001, April 12, 2005*	2009	Chairman Nominating and Corporate Governance Committee; Member Remuneration and Organizational Development Committee
J.B.M. Streppel (Vice-chairman)	October 11, 1949	May 12, 2003, April 17, 2007*	2011	Chairman Audit Committee
M. Bischoff	April 22, 1942	May 12, 2003, April 17, 2007*	2011	Member Audit Committee
C.M. Colijn- Hooymans	August 28, 1951	April 17, 2007	2011	Member Audit Committee
D.I. Jager	April 30, 1943	April 25, 2002, April 11, 2006*	2010	Chairman Remuneration and Organizational Development Committee; Member Nominating and Corporate Governance Committee
M.E. Van Lier Lels	October 19, 1959	May 2, 2001, April 12, 2005*	2009	Member Remuneration and Organizational Development Committee; Member Nominating and Corporate Governance Committee

* Reappointment.

In 2009, Mr. Risseuw and Mrs. Van Lier Lels are due to step down from the Supervisory Board, as they will reach the end of their four-year term of office. Both members will stand for reappointment at the 2009 AGM. The nomination of Mrs. Van Lier Lels is subject to the enhanced right of recommendation of the Company's Central Works Council.

The vacancy that has arisen following the resignation of Mr. Eustace is to be filled in line with the Profile of the Supervisory Board. In consultation with the Board of Management and the Central Works Council and based on an evaluation of its composition the Supervisory Board will nominate two candidates for appointment at the 2009 AGM.

Brief résumés of all members of the Supervisory Board are provided at the end of this section. The business address of each of the members of the Supervisory Board is Maanplein 55, 2516 CK, The Hague, The Netherlands.

Meetings of the Supervisory Board

The Supervisory Board met on eight occasions in 2008, of which seven were regularly scheduled meetings and the remaining one was an ad hoc meeting (by telephone). Most meetings were held jointly with the Board of Management. The Company's Chief Legal Officer and Company Secretary, Mr. Van Rooij, acted as the Supervisory Board's secretary. Throughout the year, the Chairman of the Supervisory Board was in close contact with the Chief Executive Officer, and the Chairman of the Audit Committee was in close contact with the Chief Financial Officer.

The attendance of Supervisory Board meetings was 98%. No members were frequently absent. On certain occasions, in line with the Articles of Association of the Company, the Supervisory Board took resolutions outside of a meeting, if this was required due to urgency or the matter did not require discussion in a meeting.

Independence

Throughout the year, all members of the Supervisory Board were independent from the Company within the meaning of the Dutch Corporate Governance Code: the composition of the Supervisory Board was such that the members were able to act critically and independently of one another and of the Board of Management and any particular interests. See Note 32 'Related-Party Transactions' in the Consolidated Financial Statements.

Activities of the Supervisory Board

During its meetings and contacts with the Board of Management, the Supervisory Board discussed the results achieved and plans for next periods, strategic decisions that required the approval of the Supervisory Board, the functioning and remuneration of the Board of Management and all other relevant matters brought to its attention. In reviewing proposals, the Supervisory Board discussed with the Board of Management the business case for the proposal, the risks involved and possible alternatives to the proposal.

The financial performance of the Company was extensively discussed at the Supervisory Board meetings preceding the publication of the quarterly and annual results. In this discussion, the Audit Committee, who had already reviewed the financial performance prior to the meeting, advised the full Supervisory Board on the most relevant matters. The Company's external auditor, as well as relevant members of senior management, attended these discussions. The auditor presented its findings over the preceding quarter.

The Supervisory Board discussed various acquisition opportunities. The acquisitions of the service providers Ortel and blau Mobilfunk as well as the acquisition of the German retail chain SMS Michel received Supervisory Board approval. Furthermore the Supervisory Board approved the joint venture with Reggefiber, which cooperation will enhance the Company's ability to roll out fiber networks.

The Supervisory Board reappointed the Company's Chief Financial Officer who had reached the end of his four-year term and notified the 2008 AGM of this reappointment.

In addition, the Supervisory Board discussed and approved various matters relating to the financing of the Company, such as the issue of bonds and the update of the Global Medium Term Note Program in March, an EUR 1 billion back-stop facility, and a bond issue in September as replacement thereof and an additional EUR 400 million backstop facility in October. Furthermore the Supervisory Board discussed and approved the granting of both a full year dividend (January) and interim dividend (August), and the start of the 2009 share repurchase program in November.

The Supervisory Board is regularly updated on important technical, societal and regulatory developments through experts in the relevant topics, and through visits to the Company's operations and other organizations it cooperates with. The Supervisory Board also keeps itself abreast of the views of (major) shareholders and attaches a lot of weight to the relationship with regulators. The Supervisory Board welcomed the establishment of the Compliance Charter with OPTA and met the president of the German Regulator, Bundesnetzagentur, during its strategy meeting. Members of the Supervisory Board attended meetings of the Central Works Council. Lunch meetings with KPN's top 50 senior management were organized throughout the year.

In its December meeting, the Supervisory Board evaluated its own performance and the performance of the Board of Management. The self-assessment was carried out by means of an extensive questionnaire, the results of which were discussed during a separate meeting.

Committees of the Supervisory Board

As set out in 'Corporate Governance', the Supervisory Board has three Committees: the Audit Committee, the Remuneration and Organizational Development Committee and, the Nominating and Corporate Governance Committee. All three Committees met separately throughout the year. Their main considerations and conclusions were shared with the full Supervisory Board.

Audit Committee

In 2008, the Audit Committee consisted of three Supervisory Board members, Mr. Streppel (Chairman), Mr. Bischoff and Mrs. Colijn-Hooymans. Mr. Streppel is considered to be a financial expert within the meaning of the Dutch Corporate Governance Code. The Audit Committee held eight meetings, all of which were also attended by the CFO and six thereof by the internal and external auditor. The Corporate Secretary of the Board of Management, Mr. van Wissen acted as the Audit Committee's secretary. The Committee also met separately with the external auditor.

The Audit Committee reviewed and discussed in particular all financially relevant matters that were presented to the Supervisory Board. These items included the Annual Report, the quarterly results, reports by the internal and external auditor as well as the Disclosure Committee, the Company's budgets and projections. The Audit Committee kept a close oversight on the Company's financing policy during the turmoil in the financial markets.

Furthermore, the Audit Committee paid specific attention to the continuation of the internal control framework and risk management systems of the Company following the Company's deregistration from the NYSE. This 'GRIP' framework is partly basically a continuation of the earlier implemented SOx framework. The Audit Committee received an update on 'GRIP' in each meeting.

The Committee also discussed other topics that were in its scope of attention, most notably compliance, fraud management, taxation and application of IT in financial processes. In December, the Audit Committee evaluated its own performance and effectiveness.

Remuneration and Organizational Development Committee

The Remuneration and Organizational Development Committee currently has three members, Mr. Jager (Chairman), Mr. Risseeuw and Mrs. Van Lier Lels. During 2008, the Committee met eight times. The Committee reviewed the remuneration packages of the Board of Management and established bonus targets and criteria for long- and short-term incentives for 2008. The Committee prepared changes in the composition of the peer group and the proposal on the replacement of the share-related cash plan by a share plan as long-term incentive for the Board of Management. It discussed talent development issues for senior management. The Committee reviewed the alignment of the Board of Management's remuneration with the ambitious targets of the Back to Growth strategy. The Committee considered an additional incentive to that effect (see 'Remuneration and Organizational Development Report' for further details). The Committee kept itself abreast of the public debate on bonus schemes in general and the changes in public opinion in relation to the turmoil in financial markets in particular. The Committee reviewed the Company's Remuneration Policy in view of these developments, whereby the interests of the Company is leading and concluded that it contributed to long-term and therefore sustainable value creation. Further details on the activities of the Remuneration and Organization Development Committee are provided in the 'Remuneration and Organizational Development Report'.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee currently has three members: Mr. Risseeuw (Chairman), Mr. Jager, and Mrs. Van Lier Lels. The purpose of the Nominating and Corporate Governance Committee is to recommend individuals to the Supervisory Board for nomination as members of the Board of Management, to support the Supervisory Board in adopting high standards and practices for the corporate governance structure, to lead the Board of Management in its periodic review of its performance, and to oversee the Company's activities in the areas of environmental and corporate responsibility. The Chairman presided at an integrity workshop, which was organized for the Company's senior management including the Board of Management.

The Nominating and Corporate Governance Committee met eight times during 2008. It discussed compliance and integrity issues with senior management and reviewed the performance of the individual members of the Board of Management. Compliance with the Dutch Corporate Governance Code and particularly the reasons for the small number of deviations thereto were reviewed in 2008. The Committee closely monitored the activities of the Frijns Committee, which resulted in a revised Code that is generally welcomed. A large part of the revisions such as the amendments in the field of the Supervisory Board's role and responsibilities were already standard Company practice. The establishment of the new Code will not affect KPN's consistent policy of compliance thereto.

Besides the reappointment of the CFO in August, there were no changes in the Board of Management in 2008.

For an overview of all members of the Board of Management, see 'Corporate Governance'.

Financial Statements

The Financial Statements for the year ended December 31, 2008 were prepared by the Board of Management and approved by the Supervisory Board. The Report of the Independent Auditor, PricewaterhouseCoopers Accountants N.V., is included in the section 'Other Information'.

The Supervisory Board recommends to the AGM to adopt these Financial Statements, as well as the proposed cash dividend of EUR 0.60 per share.

Finally, the Supervisory Board would like to thank all shareholders for their trust in the Company and all employees and management for their dedication and effort.

The Hague, February 23, 2009

A.H.J. Risseeuw

J.B.M. Streppel

M. Bischoff

C.M. Colijn-Hooymans

D.I. Jager

M.E. van Lier Lels

Members of the Supervisory Board

The current members of the Supervisory Board are:

A.H.J. Risseeuw (1936)

Mr. Risseeuw was first appointed as member of the Supervisory Board on May 2, 2001, and has been the Chairman of the Supervisory Board since September 10, 2001. His current (second) term expires in 2009. Mr. Risseeuw chairs the Nominating and Corporate Governance Committee and is a member of the Remuneration and Organizational Development Committee. He has held various management positions with Dutch international companies and is the former President of Getronics N.V. He is Chairman of the Supervisory Boards of Groeneveld Groep B.V. and Intergamma B.V. and member of the Supervisory Board of Blokker Holding B.V. and a member of the Advisory Council of Deloitte The Netherlands. Mr. Risseeuw is a Dutch citizen.

J.B.M. Streppel (1949)

Mr. Streppel was appointed as member of the Supervisory Board on May 12, 2003 and has been the Vice Chairman of the Supervisory Board since April 15, 2008. His current (second) term expires in 2011. He is the Chairman of the Audit Committee. Mr. Streppel is a member of the Board of Management and Chief Financial Officer of AEGON N.V. and a member of the Supervisory Board of Van Lanschot N.V. He is a member of the Committee of Listed Companies of Euronext (Amsterdam), Chairman of the Shareholders Communication Channel, a member of the Monitoring Committee Corporate Governance Code and Chairman of the Board of Duisenberg School of Finance. Mr. Streppel is a Dutch citizen.

M. Bischoff (1942)

Mr. Bischoff was appointed as member of the Supervisory Board on May 12, 2003 and his current (second) term expires in 2011. He is a member of the Audit Committee. Mr. Bischoff, a former member of the Management Board of DaimlerChrysler, is currently Chairman of the Supervisory Board of Daimler AG. Furthermore, he is a member of the Supervisory Boards of Fraport AG, SMS GmbH and Voith AG and a non-executive member of the Board of Directors of Nortel Networks Corp., Nortel Networks Ltd., and Unicredit. Mr. Bischoff is a German citizen.

C.M. Colijn-Hooymans (1951)

Mrs. Colijn-Hooymans was appointed as member of the Supervisory Board on April 17, 2007 and her term expires in 2011. She is a member of the Audit Committee. Mrs. Colijn-Hooymans is a member of the Management Board of TNO and a member of the Supervisory Board of Rabobank Vallei en Rijn. Furthermore, she is a member of the Board of the Radboud Foundation (Radboud University and Radboud University Medical Center) and a member of the Dutch government's Advisory Council for Science and Technology. Mrs. Colijn-Hooymans is a Dutch citizen.

D.I. Jager (1943)

Mr. Jager has been a member of the Supervisory Board since April 25, 2002 and his current (second) term expires in 2010. Mr. Jager is the Chairman of the Remuneration and Organizational Development Committee, and a member of the Nominating and Corporate Governance Committee. He held various management positions at Procter & Gamble in Europe, Asia and the United States and was Chairman of the Board, President and/or Chief Executive Officer from January 1995 through June 2000. Mr. Jager currently is an independent consultant and private investor. He is Chairman of the Supervisory Board of Royal Wessanen N.V. and serves on the Boards of Chiquita Brands International Inc. and Healthpro Brands Inc. as a non-executive board member. Mr. Jager is both a US and Dutch citizen and resides in the United States.

M.E. van Lier Lels (1959)

Mrs. Van Lier Lels was first appointed as member of the Supervisory Board on May 2, 2001 and her current (second) term expires in 2009. She is a member of the Remuneration and Organizational Development Committee, as well as the Nominating and Corporate Governance Committee. Mrs. Van Lier Lels has held various management positions with Dutch international companies and is the former Chief Operating Officer of Schiphol Group. She is a member of the Supervisory Boards of Getronics N.V., USG People N.V., Connexxion Holding N.V., TKH Group N.V. and Maersk B.V. and the chairman of the Supervisory Board of Slavenburg Holdings B.V. She is a member of the Audit Committee of the Algemene Rekenkamer, a member of the Advisory Council for Science and Technology and the chairman of the Supervisory Council of The Netherlands Society for Nature and Environment. Mrs. Van Lier Lels is a Dutch citizen.

Members of the Remuneration and Organizational Development Committee

The Chairman and members of the Remuneration and Organizational Development Committee ('the Committee') are appointed by the Supervisory Board. The Committee currently consists of Mr. Jager (Chairman), Mr. Risseeuw and Mrs. Van Lier Lels.

Task Remuneration and Organizational Development Committee

The Committee assists the Supervisory Board with:

- Establishing and regularly reviewing the Company's remuneration philosophy, and the policies designed to execute this philosophy (based on (inter)national benchmark standards);
- Ensuring that members of the Board of Management are compensated consistently with that policy; and
- Reviewing and, if appropriate, recommending changes to the remuneration of the Supervisory Board.

Furthermore, the Committee supervises and counsels the Company on Organizational Development. Over the last couple of years, KPN has established a program designed to strengthen human resources, including an assessment, both internally and benchmarked externally, of its management. It holds an annual review for the entire Supervisory Board of key managers, and reviews the succession plans for the Board of Management and other senior managers. Members of the Supervisory Board regularly interact with senior management below Board level.

The Supervisory Board has the discretionary power to reward extraordinary management achievement that outperforms the regular business plan(s) and has created substantial additional value for the Company and its shareholders. Other than that, discretion both up and down can be applied if the outcome of the incentive schemes would be grossly unfair or if the outcome would not be considered to reflect the basic philosophy of remuneration as outlined in this section.

Activities during 2008

The Committee met 8 times in 2008 with all members present at each meeting. Consistent with its charter, the Committee has been involved in several aspects of remuneration, such as remuneration developments in The Netherlands and abroad, assessing the potential implications of the developments for KPN in the immediate and mid-term. This review included the 2007 monitoring report of the Corporate Governance Code Monitoring Committee ('the Frijns Committee') and the amendments to the Dutch Corporate Governance Code ('Tabaksblat Code'). Where applicable, and in order to ensure a consistent remuneration structure for the individual members of the Board of Management, the Committee has proposed adjustments to base salary levels and the short- and long-term incentive plans. The Committee also proposed the targets and performance criteria for those plans, and monitored the internal and external auditing of their results. The Committee annually reviews whether its performance is in line with the Committee's charter. Finally, it prepares the Remuneration Report to be included in KPN's Annual Report.

Role of the remuneration consultant

Although the Committee is fully independent in the execution of its assigned responsibilities, the Committee seeks advice from an independent firm of remuneration consultants. The Committee ensures that these consultants can act independently from the Company. The remuneration consultants do not provide any advice to a Management Board member of the Company.

Remuneration policy 2008

During the last couple of years no fundamental changes have been considered with regard to the principles and individual elements of the Company's remuneration policy. The results of the Company indicate that the remuneration policy stimulates performance that generates long-term profitable growth and shareholder value.

Objectives of KPN's remuneration policy

KPN aims for a culture strongly biased towards action and delivering results. Our remuneration programs do therefore emphasize variable pay and long-term value creation. Our plans are designed to achieve the following objectives:

- Attract and retain the necessary leadership talent to sustain and expand our unique competencies and capabilities;
- Drive performance that generates long-term profitable growth;
- Promote behaviour that reinforces the business strategy and desired culture;

- Encourage teamwork across business units and functional areas;
- Strongly link rewards to shareholder value creation; and
- Comply with best practice in European corporate governance.

Principles of KPN's remuneration policy

KPN's remuneration policy with regard to on-target performance is guided by three broad principles:

1. Pay competitively: this is achieved through benchmarking against both a Dutch and European employment market peer group consisting of companies with which KPN generally competes for talent;
2. Pay-for-performance: target remuneration aims at 30-40% of pay in base salary, and 60-70% in variable pay to maintain a strong alignment with the Company's annual financial performance goals and long-term value creation strategy; and
3. Differentiate by experience and responsibility: this is achieved through alignment of the remuneration with the responsibilities, relevant experience, required competence and performance of the individual job holders. Consequently, there can be substantial differences in pay levels, despite having similar job titles.

These principles apply to all levels of management. The Company's remuneration policy is compliant with the relevant legal requirements and the principles of the Tabaksblat Code.

Remuneration elements

Remuneration consists of four elements: base salary, short-term incentives (annual performance bonuses), long-term incentives (equity-related) and other benefits (primarily pensions).

Implementing the remuneration policy

Composition employment market peer groups

To ensure the overall competitiveness of KPN's remuneration levels, these levels are benchmarked against two employment market peer groups. KPN operates both a Dutch and a European peer group. The Committee regularly reviews both peer groups to ensure that their composition is still appropriate. The composition of the peer groups might be adjusted as a result of mergers or other corporate activities. The tables below show the current composition of KPN's peer groups.

The European employment market peer group consists of direct competitors:

Atos Origin SA	Logica Plc
Belgacom SA	Portugal Telecom SA
BT Group Plc	Swisscom AG
Capgemini SA	Telenor Group ASA
Deutsche Telekom AG	TeliaSonera AB
France Télécom SA	

The Dutch employment market peer group consists of AEX-listed companies:

Akzo-Nobel NV	Royal Dutch Shell Plc
ASML Holding NV	Randstad Holding NV
ING Group NV	Royal Philips Electronics NV
DSM NV	SBM Offshore NV
Fortis NV/SA	TNT NV
Heineken NV	Unilever NV/Plc
Reed Elsevier NV/Plc	Aegon NV
Royal Ahold NV	Wolters Kluwer NV

Market assessment

It should be noted that KPN ranks, on average, at the upper quartile level in terms of revenues and market capitalization. In terms of number of employees, KPN ranks between the median and upper quartile level. Based on these factors the relative 'size' of KPN is at or in line with the 70th percentile of the peer groups. KPN's relative 'size' is taken into account when assessing whether KPN meets the principle of 'paying competitively'.

The Committee consults an independent firm of remuneration consultants to ensure that an appropriate comparison is made in terms of KPN's position relative to the peer groups. In 2009 the tables above will be amended as part of the regular ongoing process of annual reviews of the peer group.

Base salary

Component	Form of compensation	Value determination
Base salary	Cash	Low end of the market competitive range

Base salaries are set in line with KPN's relative position in the market and targeted at the low end of the market competitive range. This is consistent with our bias for a variable pay-for-performance philosophy. Each year the Supervisory Board considers whether circumstances justify an adjustment in base salary within the market competitive target range for individual members of the Board of Management.

Short-term incentives: Bonus

General

At the beginning of each year, the Supervisory Board sets financial and operational target ranges for the Board of Management to achieve. These ranges are based on the Company's budgets. At the end of the year, the Supervisory Board reviews the Company's performance against the target ranges, and engages KPN's external auditors to perform the audit and other agreed-upon procedures with respect to the determination of pay-out. Members of the Board of Management are eligible for an annual cash bonus depending on company performance at or above the predetermined ranges. The Committee reviews on a regular basis whether the short-term incentive levels remain competitive.

Objectives short-term incentive plan

The objective of this short-term bonus scheme is to ensure that the Board of Management is well incentivized to achieve Company performance targets that investors tend to focus on in the shorter term.

Component	Form of compensation	Value determination	Targets	Payout at threshold performance	Payout at or above maximum performance
Bonus	Cash	'On target' bonus equals 100% of base salary for the CEO and 75% of base salary for the other members of the Board of Management. The 'on target' bonus is used as input for the market competitive benchmark against the employment market peer group.	Targets typically are Revenue, EBITDA, Profit before Tax, various measures of customer satisfaction, employee satisfaction and strategic progress. The CEO and CFO targets are based on Group-level performance while for the other members of the Board of Management a mixture of Group-level and individual segment targets apply.	25% of the 'on target' bonus (i.e. 25% of base salary for the CEO and 18.75% of base salary for the other members of the Board of Management. (Payout below threshold performance: 0% of the 'on target' bonus).	150% of the 'on target' bonus (i.e. 150% of base salary for the CEO and 112.5% of base salary for the other members of the Board of Management).

Targets

Specific details on performance targets cannot be disclosed as this would imply commercially sensitive information. In addition, disclosing the targets would imply providing the financial community with more specific guidance on financial performance than otherwise given. This would hence lead to a significantly increased risk of having to provide trading updates, both upwards and downwards. Finally, the possibility to deviate between guidance to the financial community and target-setting would no longer exist.

Performance incentive zone

The target ranges for financial and operational performance comprise:

- A 'threshold' below which no bonus is paid;
- An 'on target' performance level at which a 'on target' bonus is paid; and
- A 'maximum' at which the maximum bonus is paid.

Linear formulas are used for calculating bonus levels in between 'threshold', 'on target' and 'maximum' levels. The 'on target' performance level typically equals budgeted levels, but this may deviate depending on circumstances.

The Supervisory Board has the ability to apply a multiplier between 0.5 (i.e. cutting half of the cash bonus) and 1.5 (i.e. increasing the cash bonus by 50%) based on the achievement of individual objectives. Please note that the average modifier for all members has to equal one. This discretionary element does not increase average achievement levels. It does however allow the Supervisory Board some discretion in differentiating on the basis of individual contributions to Company performance. The individual objectives are agreed upon at the beginning of the year and tend to reflect longer-term goals such as people development, compliance and quality improvement programs.

As previously described, the Supervisory board also has the discretionary authority to reward extraordinary management achievement and to adjust the outcome if this would be considered grossly unfair or not in line with the basic philosophy as outlined in this chapter.

Actual pay-out levels

The Supervisory Board ensures that target-setting is appropriately aggressive. In recent years maximum bonus levels have only been paid-out on a few occasions. This is despite the fact that the Company consistently has delivered competitive performance ahead of market expectations and has, on a number of occasions, overachieved guidance given to the financial community at the beginning of the year. For the 2008 bonus, which will be paid out in 2009, performance on revenues and other income at corporate level was below the maximum, while performance on profit before taxes was above the maximum. Performance on revenues and on EBITDA of the Consumer Segment was above the maximum. EBITDA of the Business Segment was above maximum, while revenues of the Business Segment were above the threshold. EBITDA of KPN The Netherlands was above maximum. For Mobile International the revenues were above the threshold and EBITDA was above the maximum. The modifier ranged from 0.8 to 1.1.

Long-term incentives

General

In addition to the base salary and the short-term annual cash bonus described above, members of the Board of Management are eligible for a long-term incentive plan. Under this plan, KPN annually grants a number of shares. The number of shares that actually vest is conditional on the extent to which the returns to KPN shareholders outperform the returns to shareholders of a peer group of Western European telecommunications companies. The performance period of the long-term incentive plan is set at three years. Vesting is also subject to the condition that the Member of the Board of Management has not resigned within three years of the date of the initial grant. In addition to the information provided in the Remuneration Report, please refer to Note 3 of the financial statements for a further description and valuation of the option and share plans.

Objectives long-term incentive plan

The main objective of this long-term incentive plan is to ensure that the interests of management are aligned with the interests of its (prospective) shareholders. The peer group is limited to Western European telecommunications companies. It is felt that comparing KPN with a wider group of companies (either geographically or with other industries) is not meaningful. Variations in returns would most likely to a greater extent be explained by macro economic events and/or sector shifts than by variations in management actions. For the 2008 share grant onwards the design of KPN's long-term incentive plan ensures that shares are rewarded for 'above average' returns while no shares are rewarded for 'below average' returns.

A secondary objective of the long-term incentive plan is to provide an incentive for members of the Board of Management to continue their employment relationship with the Company.

Similar to prior years, the value used to determine the number of granted shares is typically materially below the then prevailing share price. The share price is decreased to account for the characteristics of the plan such as: the odds of non-vesting, holding restrictions after the vesting date, conditionally of the grant on continued employment and the shares not paying any dividends prior to the vesting date.

On the grant date (April 17, 2008) the KPN share price quoted EUR 11.49 (average price) while the value of each granted share was EUR 6.79 for Members of the Board of Management. The value of each granted share for the CEO (for whom slightly different arrangements apply) was EUR 8.47. The number of shares granted under the long-term incentive plan is derived from applying a percentage to base salary and dividing this amount by the value of each granted share, as shown in the table below.

Component	Form of Compensation	Value determination	Drivers	At target (position 7 in peer group)	Scenario maximum (position 1 to 3 in peer group)
Long-term share-based compensation.	Shares	CEO: 150% of base salary. Other members of the Board of Management: 75% of base salary.	Total Shareholder Return (TSR), i.e. share price development plus compounded dividends received.	100% of the granted shares vest.	200% of the granted shares vest.

A range analysis has been conducted in order to assess potential (pre-tax) outcomes of the long-term incentive plans. Table pertaining to the pre-tax value received on the basis of the 2008 share grant:

	Share price at vesting date (EUR)	Pre-tax value of shares vested			
		CEO	Board members Smits/Blok	Board member Miller	Board member Coopmans
Salary at 05.01.2008 (EUR)		1,000,000	575,000	700,000	500,000
Value per share granted (EUR)		8.47	6.79	6.79	6.79
Number of shares granted		177,121	63,502	77,307	55,219
If TSR position 1 to 3 in peer group of 14: 200% vesting	8	2,833,936	1,016,032	1,236,912	883,504
	10	3,542,420	1,270,040	1,546,140	1,104,380
	14	4,959,388	1,778,056	2,164,596	1,546,132
If TSR position 7 in peer group of 14: 100% vesting	8	1,416,968	508,016	618,456	441,752
	10	1,771,210	635,020	773,070	552,190
	14	2,479,694	889,028	1,082,298	773,066
If TSR position 8 to 14 in peer group of 14: 0% vesting	Any share price	-	-	-	-

Targets

Vesting of the shares is conditional on KPN's relative shareholder return. Due to the design of the long-term incentive plan, shares may become unconditional in case of negative absolute returns (provided that most other companies in the peer group show even larger negative returns). This is the direct result of comparing KPN's performance with that of a peer group rather than with an absolute return measure. Doing the latter could result in shares being awarded in a situation where stock market prices have increased even though KPN's share price has increased the least. In such a situation management would be rewarded for other developments than its own management actions.

TSR performance peer group

The table below provides an overview of KPN's performance peer group.

Companies included in the peer group

Belgacom SA	Telecom Italia Spa
BT Group Plc	Telefónica SA
Deutsche Telekom AG	Telekom Austria AG
France Télécom SA	Telenor ASA
Hellenic Telecom (OTE)	TeliaSonera AB
Portugal Telecom SA	Vodafone Group Plc
Swisscom AG	KPN NV

Please note that the peer group used for relative TSR reflects the relevant competitive market in which KPN competes for investor preference. As such, it is different from the employment market peer groups, which are used to determine remuneration levels for the CEO and members of the Board of Management. The peer group may be adjusted if an individual company no longer qualifies as a relevant peer company.

Performance incentive zone

If KPN's performance during the three-year performance period is above the median, vesting may vary between 100% and 200% of the initial grant (all in accordance with the vesting table below). Once vested the shares will have to be held for a minimum period of two years. This does not hold for shares that would have to be sold to cover income tax obligations in relation to the vested shares (typically the value taxed as income equals the amount of shares vested multiplied by the share price at the time of vesting). The table below provides an overview of the vesting schedule that is applied:

Position	Vesting %
Position 8 to 14	No vesting takes place
Position 7	100% of the shares vest
Position 6	125% of the shares vest
Position 5	150% of the shares vest
Position 4	175% of the shares vest
Position 3	200% of the shares vest
Position 2	200% of the shares vest
Position 1	200% of the shares vest

As previously described, the Supervisory Board has the discretionary authority to reward extraordinary management achievement and to adjust the outcome if this would be considered grossly unfair or not in line with the basic philosophy as outlined in this chapter.

Actual pay-out levels

KPN's performance over the period 2006-2008 resulted in the second position in the TSR performance peer group with respect to the 2006 share grant, which leads to a vesting percentage of 200% of the shares that will vest in April 2009. KPN's excellent performance has resulted in 200% vesting of the conditionally granted shares. This TSR performance justifies the conclusion that KPN's excellent short-term performance does not have to be at the expense of KPN's longer term performance and vice versa.

Top 8 Ranking 2006 Performance share plan	Company
Position 8	Vodafone Group PLC
Position 7	Portugal Telekom Sgps
Position 6	France Telecom SA
Position 5	Belgacom SA
Position 4	TeliaSonera AB
Position 3	Telefónica SA
Position 2	KPN NV
Position 1	Carso Global Telecom SA

Special arrangement for the CEO

The performance period of the shares granted to the CEO in 2008 is one year (2008), and any shares vested cannot be sold before July 2011. At the end of 2008, KPN held the first position with respect to the 2008 share-based grant, which leads to a vesting percentage of 200% of the shares in April 2009 for the CEO. This position is no indication of KPN's final ranking after the three-year performance period (2008-2010) which applies to the other members of the Board of Management.

Benefits

Pensions

In 2006, a defined contribution pension plan, effective from January 1, 2006, was introduced for the new members on the Board of Management. They will be eligible for this defined contribution pension plan with a contribution based on the fiscal defined contribution table that corresponds with a retirement age of 65 and an annual accrual rate of 2.25%.

Those members that were part of the Board of Management prior to January 1, 2006 will continue to participate in the previous pension plans.

Additional arrangements

The additional arrangements, such as expense allowances, use of mobile phones and company car provisions needed for the execution of their roles, are broadly in line with other companies of similar size and complexity as well as market norms.

Loans

Company policy does not allow loans to be granted to members of the Board of Management.

Terms of employment

All members of the Board of Management have entered into employment contracts for an indefinite period of time, except for the CEO. Members of the Board are appointed for a period of four years, which is in line with requirements of the Dutch Corporate Governance Code.

Notice periods

Current members of the Board of Management must give three months' notice if they choose to leave the Company. KPN must give six months' notice when terminating a Board of Management member's employment.

Severance arrangements

Severance payments for the CEO and members of the Board of Management are aligned with the Dutch Corporate Governance Code, with the exception of Mr. Miller and Mr. Blok. A severance arrangement of two years' base salary (plus pension contribution and medical expenses) was contractually agreed with Mr. Miller. A severance arrangement of one year base salary plus 100% bonus was contractually agreed with Mr. Blok. For the other members of the Board of Management, the severance arrangement is one year base salary.

Outlook 2009

Revised Dutch Corporate Governance Code

The Committee has studied the outcomes of the Frijns Committee and has reviewed its amendments to the Corporate Governance Code in the field of remuneration. This year's remuneration report complies with most of the underlying principles of the Frijns Committee. In conjunction with the amended Code, the Supervisory Board is considering (as a minimum for new remuneration contracts) introducing a so-called 'claw-back clause': the supervisory board may recover from the members of the Board of Management any variable remuneration awarded on the basis of incorrect financial or other data. Next to that and in line with current practice, in the event that a conditional bonus or equity award in a previous year were to produce an unfair result on account of special circumstances during that period, the Supervisory Board may adjust the value downwards or upwards.

Additional incentive

The Committee agreed an uplift in the LTI entitlements for 2009 and 2010 to reflect the extremely stretching ambitions of the current 'Back to Growth' strategy, in particular in this economic climate (the 2010 EBITDA guidance is EUR 600 million above the actual 2007 outcome). This will result in a value determination of 200% of base salary for the CEO and 125% of base salary for the other members of the Board of Management. In 2011, the Committee will review the extent to which the stretched targets set for 2008, 2009 and 2010 have been achieved and has the intention to award additional payments over and above the increased LTI percentages using its discretionary powers to reward extraordinary management achievements.

Details on all remunerations per individual

The remuneration of the current members of the Board of Management is set out below.

Name and position	Year	Salary & Social Security (EUR)	STI ⁵ (EUR)	Retirement payment ⁵ /LTI payment ⁵ (EUR)	LTI: Share Awards ² (EUR)	LTI: Option Awards ³ (EUR)	Pension costs ⁴ (EUR)	Total (EUR)
A.J. Scheepbouwer								
Chief Executive Officer	2008	1,006,298	1,303,830	-	2,988,031	-	-	5,298,159
	2007	1,005,277	977,300	2,500,000	651,638	281,197	-	5,415,412
M.H.M. Smits								
Chief Financial Officer	2008	564,634	628,128	-	908,079	-	76,194	2,177,035
	2007	530,277	480,953	-	669,231	-	86,000	1,766,461
E. Blok ⁷								
Board Member	2008	556,302	396,638	-	908,079	-	95,166	1,956,185
	2007	505,277	454,450	-	637,352	-	74,684	1,671,763
S.P. Miller ¹								
Board Member	2008	824,298	790,944	3,131,100	1,105,490	-	125,280	5,977,112
	2007	739,277	554,072	-	379,357	-	125,280	1,797,986
J.B.P. Coopmans ⁶								
Board Member	2008	481,302	480,942	-	789,632	-	56,678	1,808,554
	2007	430,277	260,610	-	317,829	-	51,641	1,060,357
Total current members	2008	3,432,834	3,600,482	3,131,100	6,699,311	-	353,318	17,217,045
	2007	3,210,385	2,727,385	2,500,000	2,655,407	281,197	337,605	11,711,979

1) The income of Mr. Miller is partly subject to Belgian tax law, pursuant to his Belgian Employment Agreement. It was agreed that a Dutch Employment Agreement would not have a negative impact on his net income. In 2008, therefore the remuneration payable to Mr. Miller includes a compensation for loss of net income of EUR 960,644 (EUR 151,333 for base salary, EUR 163,211 for the STI and EUR 646,100 for the separate LTI payment). In 2007 this compensation for loss of net income was EUR 248,332 (EUR 134,000 for base salary and EUR 114,332 for the STI). Further, Mr. Miller received reimbursements for tuition costs of children and for private international medical plan expenses. For Mr. Miller, a separate long-term incentive arrangement applies as agreed in his previous position before joining the Board of Management. The arrangement was based on E-Plus and BASE EBITDA for the years 2005 to 2008. This long-term incentive amounted to EUR 3.1 million including the compensation for loss of net income and was paid out in 2008.

2) The fair value of the share-based award as of the grant date as determined under IFRS based on a Monte Carlo simulation. The fair value of the 2008 grant was EUR 14.30 for Board members and EUR 16.87 for the CEO for whom slightly different arrangements applied. This value deviates from the value attributed to the individual awards at the date of grant, due to differences in calculation method. Please refer to the Long-term incentives section in this report for a further explanation.

3) The fair value of the option award as of the grant date as determined under IFRS. This value deviates from the value attributed to the individual awards at the date of grant, due to differences in calculation method.

4) The pension costs relate to the premiums paid for new members of the Board of Management as of 2006 and the service cost in the corresponding years for the other members. Interest charges and investment yields are not allocated on an individual level. Since 2006, Board of Management members are eligible for a defined contribution pension plan with a contribution based on the fiscal defined contribution table that corresponds with a retirement age of 65 and an annual accrual rate of 2.25%. Those members that were already on the Board of Management prior to January 1, 2006 will continue to participate in the previous pension plan. This is a hybrid pension plan, which combined a base defined benefit career-average component with a supplementary defined contribution component. This plan has a defined benefit indexed career-average module up to a maximum salary level of EUR 45,378 and an age-related defined contribution module for salary levels above EUR 45,378. The annual accrual rate in the career-average module equals 2% with a normal retirement age of 62. A temporary defined benefit career-average pension between retirement age 62 and age 65 is applicable with an annual accrual rate of 2%. As a transitional arrangement, an adjustment was made to the retirement age, from 62 to age 65, and the annual accrual rate is 2.25%. Mr. Miller's pension entitlement is insured in Belgium (retirement age 60 and defined contribution based). The CEO receives a defined benefit pension based on a final pay structure with a retirement age of 65 and an attainable pension equals to 70% of his last fixed salary. The defined benefit pension of the CEO was fully funded at the start of his employment in 2001.

No service charges to the pension provision are allocated because the fixed salary remains unchanged.

5) On average, the bonuses were on the upper end of the range, reflecting excellent short-term performance. Actual bonuses disclosed in a specific year relate to the performance in that year, but are paid out in the following year. In 2008 Mr. Miller received an additional bonus payment of EUR 3.1 million (including the compensation for loss of net income) based upon his separate long-term incentive arrangement. In 2007 Mr. Scheepbouwer received an up-front payment of his EUR 2.5 million retirement bonus upon signing the extended contract.

6) In 2007, Mr. Coopmans received an additional relocation allowance for moving from Mexico City to The Netherlands of EUR 232,000.

7) In addition, Mr. Blok received a nett jubilee payment of EUR 47,917 (one month's base salary) based on 25 years of service with the company in 2008.

The following two tables summarize the shares/share-based awards and options granted to members of the Board of Management, granted (un)conditional shares/share-based awards held by them during 2008, granted shares sold during 2008, granted options exercised by them during 2008, and granted (un)conditional shares/share-based awards and unexercised options held by them as of December 31, 2008. Options issued carry an entitlement to one KPN share.

	Grant date	Number of granted shares as of January 1, 2008	Number of shares/share-based awards granted in 2008 ¹	Number of conditional shares/share-based awards granted	Number of unconditional shares granted/share-based awards	Number of granted shares/share-based awards sold	Number of granted conditional shares/share-based awards as of December 31, 2008	Number of granted unconditional shares/share-based awards per December 31, 2008
A.J. Scheepbouwer	04-17-2008	-	177,121	177,121	-	-	177,121	-
	04-19-2007	48,485	-	48,485	-	-	48,485	-
M.H.M. Smits	04-17-2008	-	63,502	63,502	-	-	63,502	-
	04-19-2007	49,794	-	49,794	-	-	49,794	-
	04-13-2006	37,160	-	37,160	-	-	37,160	-
E. Blok	04-17-2008	-	63,502	63,502	-	-	63,502	-
	04-19-2007	47,422	-	47,422	-	-	47,422	-
	04-13-2006	31,290	-	31,290	-	-	31,290	-
S.P. Miller ²	04-17-2008	-	77,307	77,307	-	-	77,307	-
	04-19-2007	28,226	-	28,226	-	-	28,226	-
J.B.P. Coopmans	04-17-2008	-	55,219	55,219	-	-	55,219	-
	04-19-2007	23,648	-	23,648	-	-	23,648	-
	09-11-2006	32,075	-	32,075	-	-	32,075	-
Total		298,100	436,651	734,751	-	-	734,751	-

1) The shares granted to the Board members represent 19% of the total number of shares and share-based awards granted in 2008 for all employees.

2) Mr. Miller received his 2008 share-based awards in two separate grants. The first in April 2008 (34,236 shares), the second after the adjustment of his remuneration in July 2008 (43,071 shares).

See Note 3 of the Consolidated Financial Statements for a description of the share plan.

	Grant date	Number of options as of January 1, 2008	Number of options granted in 2008	Number of exercisable options	Options exercised during the year	Number of options as of December 31, 2008	Expiration date	Exercise price in EUR
A.J. Scheepbouwer	04-19-2007	165,410	-	165,410	-	165,410	04-18-2012	12.09
	04-13-2006	215,278	-	215,278	-	215,278	04-12-2011	9.29
	04-14-2005	297,177	-	297,177	-	297,177	04-13-2010	6.73
	04-16-2004	310,078	-	310,078	-	310,078	04-15-2009	6.45
	05-13-2003	319,865	-	319,865	319,865	-	05-12-2008	5.94
M.H.M. Smits	04-14-2005	115,330 ³	115,330 ³	230,660	-	230,660	04-13-2013	6.73
	08-09-2004	85,416 ²	-	85,416	-	85,416	08-08-2012	6.07
E. Blok	04-14-2005	100,685 ¹	100,685 ³	201,370	-	201,370	04-13-2013	6.73
	04-16-2004	196,684 ²	-	196,684	-	196,684	04-15-2012	6.45
	05-13-2003	12,000 ¹	-	12,000	12,000	-	05-12-2008	5.94
S.P. Miller	04-14-2005	28,000 ¹	-	28,000	28,000	-	04-13-2013	6.73
J.B.P. Coopmans	-	-	-	-	-	-	-	-
Total		1,845,923	216,015	2,061,938	359,865	1,702,073		

1) Options not granted in capacity as Board Member.

2) As of the end of 2006, KPN held the fourth position with respect to the 2004 option grant, which led to a vesting percentage of 200% of the options that vested in April 2007 and August 2007. The 2004 option grant of Mr. Miller was not performance related.

3) As of the end of 2007, KPN held the third position with respect to the 2005 option grant, which led to a vesting percentage of 200% of the options that vested in April 2008. The 2005 option grant of Mr. Miller was not performance related.

The exercise price of the options equals the market value of KPN's share on the grant date. These options are performance related. As contractually agreed at the time of appointment, the stock options for the CEO are not linked to performance.

See Note 3 of the Consolidated Financial Statements for a description of the option plans.

Stock ownership Board of Management

The tables below show the shares held by current members of the Board of Management.

	December 31, 2008	December 31, 2007
Number of shares		
A.J. Scheepbouwer ¹	152,147	152,147
M.H.M. Smits	15,500	15,500
E. Blok	287	287
S.P. Miller	-	-
J.B.P. Coopmans	-	-
Total	167,934	167,934

1) On November 7, 2007 Mr. Scheepbouwer invested the total net proceeds of his EUR 2.5 million retirement bonus in KPN shares.

Share ownership relates to normal shares, constituting one vote in the AGM per share. In 2006, Mr. Smits privately purchased 400 options on 100 shares on the stock market and Mr. Coopmans privately purchased 200 options on 100 shares on the stock market.

Supervisory Board remuneration 2008

The Committee has formal responsibility to review and, if appropriate, recommend changes to remuneration for the Supervisory Board. Any recommended changes to Supervisory Board remuneration must be submitted to the AGM for approval.

The Committee decided to adjust the Supervisory Board remuneration in 2008 to reflect the increase in responsibilities of the Supervisory Board members over time. This adjustment was approved by the AGM on April 15, 2008.

The current annual remuneration for the Chairman of the Supervisory Board is EUR 80,000. Annual remuneration for Supervisory Board members is EUR 55,000. Committee fees are determined on an annual basis. Please refer to the table below for further details. Members receive an additional fee if a meeting is held in a country other than the member's country of residence.

Shareholdings in the Company held by Supervisory Board members serve as a long-term investment in the Company and help to align their interest with those of our other shareholders. No Supervisory Board member is granted stock options or shares as a form of remuneration. No member of the Supervisory Board held any stock options in the Company. As a policy, the Company does not provide loans to its Supervisory Board members.

The table below shows the remuneration payable to current and former Supervisory Board members in 2008 (on an annual basis).

Membership fees

Amounts in EUR on annual basis	From April 15, 2008	From April 17, 2007 until April 15, 2008	Until April 17, 2007
Chairman	80,000	65,000	60,000
Member	55,000	50,000	45,000

The table below reflects fixed Committee fees as of April 15, 2008 on an annual basis.

Amounts in EUR	From April 15, 2008	Until April 15, 2008
Chairman Audit Committee	20,000	15,000
Member Audit Committee	10,000	10,000
Chairman Remuneration and Organizational Development Committee	10,000	5,000
Member Remuneration and Organizational Development Committee	5,000	3,500
Chairman Nominating and Corporate Governance Committee	10,000	5,000
Member Nominating and Corporate Governance Committee	5,000	3,500

Actual fees received by each member of the Supervisory Board are reflected below.

Amounts in EUR	Membership fees 2008	Committee fees 2008	2008 Total	2007 Total
A.H.J. Risseuw (Chairman)	75,664	13,122	88,786	72,028
M. Bischoff	53,556	10,000	63,556	58,528
C.M. Colijn-Hooymans	53,556	10,000	63,556	42,334
D.I. Jager	53,556	13,142	66,698	57,028
M.E. Van Lier Lels	53,556	9,132	62,688	55,528
J.B.M. Streppel	53,556	17,111	70,667	58,528

The remuneration of the former members of the Supervisory Board is provided below.

Amounts in EUR	Membership fees 2008	Committee fees 2008	2008 Total	2007 Total
D.G. Eustace	14,444	4,333	18,777	63,528
V. Halberstadt	-	-	-	15,311

Stock ownership Supervisory Board

The table below shows the shares held by members of the Supervisory Board.

Number of shares	December 31, 2008	December 31, 2007
A.H.J. Risseeuw	46,524	46,524
M. Bischoff	-	-
D.I. Jager	100,000	92,500
M.E. van Lier Lels	-	-
J.B.M. Streppel	-	-
C.M. Colijn-Hooymans	-	-
Total	146,524	139,024

Share ownership relates to normal shares or ADRs, constituting one vote in the AGM per share.

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Consolidated Income Statement

Amounts in millions of EUR, unless otherwise stated	2008	2007
Revenues [1]	14,427	12,461
Other income [2]	175	171
Total	14,602	12,632
Own work capitalized	-102	-143
Cost of materials	1,037	914
Work contracted out and other expenses	5,265	4,569
Employee benefits [3]	2,222	1,632
Depreciation, amortization and impairments [4]	2,461	2,400
Other operating expenses [5]	1,122	760
Total operating expenses	12,005	10,132
Operating profit	2,597	2,500
Finance income [6]	50	37
Finance costs [6]	-719	-584
Other financial results [6]	-35	-13
Share of the profit of associates and joint ventures, net of tax [12]	-6	1
Profit before income tax	1,887	1,941
Income taxes [7]	-550	708
Profit for the year	1,337	2,649
Profit (loss) attributable to minority shareholders [20]	5	-3
Profit attributable to equity holders [19]	1,332	2,652
Earnings per share after taxes attributable to equity holders for the year in EUR [8]		
– basic	0.77	1.42
– fully-diluted	0.76	1.42

[..] Bracketed numbers refer to the related notes to the Consolidated Financial Statements, which form an integral part of these Consolidated Financial Statements.

Consolidated Balance Sheet

Assets

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
NON-CURRENT ASSETS		
Goodwill	5,659	5,781
Licenses	3,156	3,457
Software	541	410
Other intangibles	704	776
Total intangible assets [10]	10,060	10,424
Land and buildings	921	793
Plant and equipment	5,811	6,070
Other tangible non-current assets	197	211
Assets under construction	807	792
Total Property, plant and equipment [11]	7,736	7,866
Investments in associates and joint ventures [12]	135	27
Available-for-sale financial assets [16]	52	-
Derivative financial instruments [26]	133	11
Deferred tax assets [7]	1,733	2,185
Trade and other receivables [13]	210	197
Total non-current assets	20,059	20,710
CURRENT ASSETS		
Inventories [14]	137	150
Trade and other receivables [15]	2,295	2,619
Income tax receivables [7]	102	140
Available-for-sale financial assets [16]	2	3
Cash [17]	1,199	1,148
Total current assets	3,735	4,060
Non-current assets and disposal groups held for sale [18]	119	27
TOTAL ASSETS	23,913	24,797

[..] Bracketed numbers refer to the related notes to the Consolidated Financial Statements which form an integral part of these Consolidated Financial Statements.

Group Equity and Liabilities

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
GROUP EQUITY		
Share capital	411	443
Share premium	9,650	11,120
Other reserves	-228	-608
Retained earnings	-6,103	-6,465
Equity attributable to equity holders [19]	3,730	4,490
Minority interests [20]	29	28
Total Group equity	3,759	4,518
NON-CURRENT LIABILITIES		
Borrowings [21]	10,876	9,454
Derivative financial instruments [26]	192	329
Deferred tax liabilities [7]	1,624	2,055
Provisions for retirement benefit obligations [22]	892	1,198
Provisions for other liabilities and charges [23]	427	390
Other payables and deferred income [24]	346	276
Total non-current liabilities	14,357	13,702
CURRENT LIABILITIES		
Trade and other payables [25]	4,280	4,137
Borrowings [21]	1,165	2,301
Derivative financial instruments [26]	2	28
Income tax payables [7]	128	38
Provisions for other liabilities and charges [23]	186	73
Total current liabilities	5,761	6,577
Liabilities directly associated with non-current assets and disposal groups classified as held for sale [18]	36	0
TOTAL EQUITY AND LIABILITIES	23,913	24,797

[..] Bracketed numbers refer to the related notes to the Consolidated Financial Statements which form an integral part of these Consolidated Financial Statements.

Consolidated Cash Flow Statement

Amounts in millions of EUR	2008	2007
Profit before income tax	1,887	1,941
Adjustments for:		
– Net finance cost	704	560
– Share-based compensation [3]	22	8
– Share of the profit of associates and joint ventures	6	-1
– Depreciation, amortization and impairments [4]	2,461	2,400
– Other income [2]	-141	-171
– Changes in provisions (excluding deferred taxes)	-208	-288
Changes in working capital relating to:		
– Inventories	11	9
– Trade receivables	119	-30
– Prepayments and accrued income	48	30
– Other current assets	18	39
– Accounts payables	536	-24
– Accruals and deferred income	-208	158
– Current liabilities (excluding short-term financing)	-106	-26
Dividends received	-	7
Taxes paid	-522	-251
Interest paid	-597	-471
Net Cash flow provided by operating activities	4,030	3,890
Acquisition of subsidiaries, associates and joint ventures (net of cash)	-296	-1,690
Disposal of subsidiaries, associates and joint ventures	341	73
Investments in intangible assets	-29	-8
Investments in property, plant and equipment and software	-1,925	-1,688
Disposals of intangible assets	5	16
Disposals of property, plant and equipment and software	197	143
Other changes and disposals	8	-
Net Cash flow used in investing activities [27]	-1,699	-3,154
Share repurchases	-1,103	-1,569
Dividends paid	-981	-982
Shares purchased for option plans	-68	-
Exercised options	24	28
Proceeds from borrowings ¹	1,771	4,321
Repayments of borrowings and settlement of derivatives ¹	-1,057	-2,300
Other changes	-6	-
Net Cash flow used in financing activities [28]	-1,420	-502
Changes in cash	911	234
Net Cash at the beginning of the year [17]	-138	429
Exchange rate differences	-2	-1
Changes in cash	911	234
Net Cash at the end of the year [17]	771	662
Bank overdrafts ¹	428	486
Cash [17]	1,199	1,148

1) The drawings under the credit facility are used as bank overdrafts rather than as financing and therefore included in net cash as of 2008. Reference is made to Note 17.

[..] Bracketed numbers refer to the related notes to the Consolidated Financial Statements which form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Group Equity

Amounts in millions of EUR, except number of shares	Number of subscribed shares	Share capital [19]	Share premium [19]	Other reserves [19]	Retained earnings	Equity attributable to equity holders	Minority interests [20]	Total Group equity
Balance as of January 1, 2007	1,928,551,326	463	12,100	-215	-8,153	4,195	1	4,196
– Cash flow hedges, net of taxes	-	-	-	83	-	83	-	83
– Currency translation adjustments	-	-	-	-1	-	-1	-	-1
Net income recognized directly in equity	-	-	-	82	-	82	-	82
– Profit for the year	-	-	-	-	2,652	2,652	-3	2,649
Total recognized income 2007	-	-	-	82	2,652	2,734	-3	2,731
Share-based compensation	-	-	-	-	8	8	-	8
Exercise of options	-	-	-	25	3	28	-	28
Shares repurchased	-	-	-	-1,500	-	-1,500	-	-1,500
Shares cancelled	-85,069,113	-20	-980	1,000	-	-	-	-
Dividends paid	-	-	-	-	-982	-982	-	-982
Tax on share-based compensation	-	-	-	-	7	7	-	7
Minority interest arising from business combinations	-	-	-	-	-	-	30	30
Total changes	-85,069,113	-20	-980	-475	-964	-2,439	30	-2,409
Balance as of December 31, 2007	1,843,482,213	443	11,120	-608	-6,465	4,490	28	4,518
– Cash flow hedges, net of taxes	-	-	-	2	-	2	-	2
– Fair value adjustment available for sale financial assets	-	-	-	1	-	1	-	1
– Currency translation adjustments, net of taxes	-	-	-	21	-	21	-	21
Net income recognized directly in equity	-	-	-	24	-	24	-	24
– Profit for the year	-	-	-	-	1,332	1,332	5	1,337
Total recognized income 2008	-	-	-	24	1,332	1,356	5	1,361
Share-based compensation	-	-	-	-	8	8	-	8
Exercise of options	-	-	-	24	-	24	-	24
Shares repurchased	-	-	-	-1,170	-	-1,170	-	-1,170
Shares cancelled	-129,119,421	-32	-1,470	1,502	-	-	-	-
Dividends paid	-	-	-	-	-981	-981	-	-981
Purchased from minority interests	-	-	-	-	-	-	-4	-4
Other	-	-	-	-	3	3	-	3
Total changes	-129,119,421	-32	-1,470	380	362	-760	1	-759
Balance as of December 31, 2008	1,714,362,792	411	9,650	-228	-6,103	3,730	29	3,759

[..] Bracketed numbers refer to the related notes to the Consolidated Financial Statements which form an integral part of these Consolidated Financial Statements.

The aggregate amount of current and deferred tax recorded directly in equity in 2008 was EUR 1 million (2007: EUR 20 million negative).

General notes to the Consolidated Financial Statements

General information

KPN is the leading telecommunications and ICT service provider in The Netherlands, offering wireline and wireless telephony, internet and TV to consumers and end-to-end telecom and ICT services to business customers. KPN's subsidiary Getronics operates a global ICT services company with a market-leading position in the Benelux, offering end-to-end solutions in infrastructure and network-related IT. In Germany and Belgium, KPN pursues a multi-brand strategy in its mobile operations and holds number three market positions through E-Plus and BASE. KPN provides wholesale network services to third parties and operates an efficient IP-based infrastructure with global scale in international wholesale through iBasis.

In the course of 2007 and 2008 KPN acquired several companies, among which Getronics and iBasis, both in 2007, which have an impact on the comparability in these Consolidated Financial Statements.

Koninklijke KPN N.V. (KPN or the Company) was incorporated in 1989 and is domiciled in The Netherlands. The address of its registered office is Maanplein 55, 2516 CK The Hague. KPN's shares are listed on Euronext Amsterdam. Following the delisting of KPN's shares on the New York Stock Exchange (NYSE) in 2008, KPN's shares can be traded in the United States, as American Depositary Receipts on the over-the-counter market. Furthermore, KPN delisted in 2008 its ordinary shares from the London Stock Exchange and from the Frankfurt Stock Exchange.

The financial statements as of and for the year ended December 31, 2008 of Koninklijke KPN N.V. were approved for issue by both the Supervisory Board and the Board of Management on February 23, 2009.

The financial statements are subject to adoption by the Annual General Meeting of Shareholders on April 7, 2009.

Significant accounting policies

The significant accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

KPN applies International Financial Reporting Standards ('IFRS') as adopted by the European Union.

As the corporate financial information of KPN is included in the Consolidated Financial Statements, the Corporate Income Statement is presented in abbreviated format in accordance with Section 402, Book 2 of The Netherlands Civil Code.

The Consolidated Financial Statements have been prepared under the historical cost convention, as modified for the revaluation of available-for-sale financial assets, and the accounting of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

Consolidated financial information, including subsidiaries, associates and joint ventures, has been prepared using uniform accounting policies for similar transactions and other events in similar circumstances.

Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which KPN has the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether KPN controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to KPN and are deconsolidated from the date on which KPN's control ceases.

KPN uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets contributed, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Intercompany transactions, balances and unrealized results on transactions with subsidiaries are eliminated.

Associates and joint ventures

Investments in entities in which KPN can exert significant influence but which KPN does not control (including joint ventures), generally accompanying a shareholding of between 20% and 50% of the voting rights, are accounted for by the equity method of accounting and are originally recognized at cost.

The Group's share of its associates' post-acquisition profits or losses is recognized in the Consolidated Income Statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does

not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized results on transactions with associates are eliminated to the extent of KPN's share in associates and joint ventures.

Segment reporting

KPN has early adopted IFRS 8 as from January 1, 2007. Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer ('CEO'), which is the chief operating decision maker according to IFRS 8.

Foreign currency translation

Functional and presentation currency

Items included in the financial information of each of KPN's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial information is presented in euro (EUR), which is KPN's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Consolidated Income Statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Exchange differences on non-monetary assets and liabilities are reported as part of the fair value gain or loss. Accordingly, exchange differences on non-monetary assets and liabilities such as financial assets recorded at fair value through profit or loss are recognized in the Consolidated Income Statement as part of the fair value gain or loss. Exchange differences on non-monetary assets such as financial assets classified as available for sale are included in the available-for-sale assets reserve in Group Equity in the Consolidated Balance Sheet.

Exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Subsidiaries

In the Consolidated Financial Statements, the results and financial position of all the subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
2. Income and expenses for each income statement are translated at average exchange rates; and
3. All resulting exchange differences are recognized as a separate component within equity (currency translation adjustments).

Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the period as well as the information disclosed. For KPN's critical accounting estimates and judgments, reference is made to the notes to these Consolidated Financial Statements, including the determination of deferred tax assets for loss carry forwards and the provision for tax contingencies (see Note 7), the determination of fair value and value in use of cash-generating units for goodwill impairment testing (see Note 10), the amortization and depreciation rates of intangible assets with definite lives and property, plant and equipment (see Note 10 and 11), the assumptions used to determine the provision for retirement benefit obligations and periodic pension cost, such as expected salary increases, return on plan assets and benefit increases (see Note 22) and the more like than not assessment required to determine whether or not to recognize a provision for other liabilities and charges and related contingencies (Note 23). Also reference is made to Note 29 'Financial Risk Management' which discusses KPN's exposure to credit risk and financial market risks.

Actual results in the future may differ from those estimates. Estimates and judgments are being continually evaluated and based on historic experience and other factors, including expectations of future events believed to be reasonable under the circumstances.

General notes to the Consolidated Financial Statements

Income Statement

Revenue recognition

Revenue comprises in the ordinary course of business the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of business. Revenue is recognized when it is probable that the economic benefits associated with a transaction will flow to KPN and the amount of revenue and the associated costs can be measured reliably. Revenues are presented net of value-added tax, rebates and discounts and after eliminating sales within the Group.

Traffic fees are charged at an agreed tariff for a fixed duration of time or capacity and are recognized as revenue based upon usage of KPN's network and facilities.

Recognition of revenues for prepaid cards is based on actual airtime usage or the expiration of the obligation to provide service which is generally set forth in the general terms and conditions of the specific contract.

Subscription fees generally consist of periodic charges and are recognized as revenue over the associated subscription period.

One-off connection fees and other initial fees are not a separate unit of accounting and their accounting treatment is therefore dependent on the other deliverables in the sale arrangement (see revenue arrangements with multiple deliverables).

Sales of peripheral and other equipment are recognized when all significant risks and rewards of ownership of the goods are transferred to the buyer, which is normally at the date the equipment is delivered to and accepted by the customer.

Services regarding designing, building, deploying and managing ICT solutions are provided on a time and material basis or as a fixed-price contract with contract terms generally ranging from less than one year to three years. Revenue from time and material contracts is recognized at the contractual rates as labor hours are delivered and direct expenses are incurred. Revenue from contracts involving design, build and deploy services is recognized under the percentage-of-completion (POC) method unless the outcome of the contract cannot be estimated reliably. Under the POC method, revenue is recognized based on the costs incurred to date as a percentage of the total estimated costs to fulfill the contract. Revenue from fixed-price contracts involving managed services is recognized in the period the services are provided using a straight-line basis over the term of the contract. When the outcome of the contract cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred.

Royalty income mainly relates to patents and is recognized as revenue in the period in which the patents are used.

KPN presents revenue gross of costs when the Group acts as the principal in the arrangement and net of costs when the Group acts as agent.

Revenue arrangements with multiple deliverables

Revenue arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet certain criteria. The arrangement consideration must then be allocated among the separate units of accounting based on their relative fair values.

Any consideration allocated to the sale of peripheral and other equipment, up to the amount of non-contingent cash received, is recognized as revenue when all significant risks and rewards of ownership of the equipment are transferred to the buyer.

For multiple element arrangements that comprise only one unit of accounting and include an up-front connection fee, amounts representing connection fees are deferred and recognized pro rata. Deferred connection fees are amortized over the estimated customer relationship period. Costs associated with these arrangements are expensed as incurred.

For multiple element arrangements that comprise multiple units of accounting, the consideration received is allocated to each unit of accounting based on relative fair values or on the residual method. Any connection fee proceeds not allocated to the delivered equipment are deferred upon connection and recognized as service revenue over the estimated customer relationship period.

Other income

Other income includes gains on the sale of property, plant and equipment and gains on the disposal of subsidiaries, associates and joint ventures.

Leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made by KPN as lessee under operating leases are charged to the income statement on a straight-line basis over the period of the lease (net of any incentives received from the lessor). If a sale and leaseback transaction results in an operating lease, the profit or loss is calculated at the fair value of the assets sold and recognised in the Consolidated Income Statement immediately.

Leases where the lessee has substantially all the risks and rewards of ownership are classified as finance leases. KPN as lessee under financial leases recognizes the leased assets on the balance sheet at the lower of the fair value and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables in the balance sheet. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term. If a sale and leaseback transaction results in a finance lease, any excess of sale proceeds over the carrying amount is deferred and recognised in the Consolidated Income Statement over the lease term.

In case KPN acts as lessor in a finance lease, the transaction is accounted for as a normal sale and the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is deferred and recognized as interest over the lease term. In case KPN acts as lessor in an operating lease, the assets remain on the balance sheet of KPN and are depreciated over the shorter of the asset's useful life and the lease term. The lease payments received from the lessee are recognized as revenue and finance income over the term of the lease using the net investment method which reflects a constant periodic rate of return.

Share-based compensation

KPN operates a number of share-based compensation plans. The fair value of options or shares granted to employees is recognized as costs over the vesting period of the options or shares. The costs are determined based on the fair value of the options and shares and the number of options or shares expected to vest. On each balance sheet date, KPN determines if it is necessary to revise the expectation of the number of options or shares that will vest. Liabilities with respect to cash-settled share-based compensation are recognized as a provision and remeasured at each balance sheet date through the Consolidated Income Statement.

Operating expenses

Operating expenses are determined based on the accounting principles that are applied to the related balance sheet items and are allocated to the year to which they relate.

Subscriber acquisition and retention costs are expensed as incurred. The most common subscriber acquisition costs are handsets and dealer fees. The cost of a handset is expensed when the handset is sold. The sale could be an individual sale or a multiple-element sale with a subscription. In both cases the handset is expensed when the costs are incurred. In a case where a handset is leased out, it depends on the lease form (operational or financial) whether the costs are expensed as incurred or capitalised and depreciated over the expected lifetime (see 'leases' above).

Operating profit

Operating profit is defined as a measure of KPN's earning power from operations, equal to earnings before deduction of finance income, finance costs, other financial results, share of the profit of associates and joint ventures, and income taxes.

Taxation of profit or loss

The corporate income tax charge recognized in the Consolidated Income Statement is based on the income for financial reporting purposes in accordance with the prevailing tax regulations and rates taking into account non-taxable income and non-deductible expenses for tax purposes as well as the valuation of deferred tax assets.

Balance Sheet

Intangible assets

Goodwill

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates and joint ventures is included in investments in associates and joint ventures.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is impaired if the recoverable amount of the cash-generating unit to which it is allocated is lower than the book value of the cash-generating unit concerned. The recoverable amount is defined as the higher of the cash generating unit's fair value less cost to sell and its value in use. Impairment losses on goodwill are not reversed.

In case of disposal of a business which was part of a cash-generating unit, goodwill is allocated to that business and subsequently impaired as part of the result on the sale.

General notes to the Consolidated Financial Statements

Licenses

Licenses are valued at cost less amortization and impairment. Amortization is calculated according to the straight-line method and is incorporated as from the date that services can be offered (available for use). The amortization period for licenses equals the useful life, but is limited to the expiration date of the licenses ranging from 10 to 50 years. Licenses are impaired if the recoverable amount falls below the book value of the asset concerned. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use. Impairments are reversed if and to the extent that the impairment no longer exists.

Licenses not yet available for use are tested for impairment at each balance sheet date, even if there is no indication of impairment.

Software

Internally developed and acquired software, not being an integral part of property, plant and equipment is capitalized on the basis of the costs incurred, which include direct costs and directly attributable overhead costs incurred. Software is amortized over the estimated useful lives of three years.

Software is impaired if the recoverable amount falls below the book value of the asset concerned. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use.

Research and development

Costs incurred on development projects are recognized as intangible assets when it is probable that KPN will achieve economic benefits in the future, considering its commercial and technological feasibility, and costs can be measured reliably. Research and other development expenditures are recognized as an expense as incurred. Development costs that have a finite useful life and that have been capitalized are amortized from the date that services can be offered on a straight-line basis over the period of its expected useful life.

Capitalized development projects are impaired if the recoverable amount falls below the book value of the asset concerned. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use.

Other intangibles

Other intangible fixed assets such as customer relationships and trade names acquired in business combinations are amortized over an estimated useful life of 4 to 20 years.

Property, plant and equipment

Property, plant and equipment are valued at cost less depreciation and impairment. The cost includes direct costs (materials, direct labor and work contracted out) and directly attributable overhead costs. Asset retirement obligations are capitalized as part of the cost of tangible fixed assets and expensed as either depreciation over the asset's estimated useful life or as impairment charges. The estimated useful lives of the principal property, plant and equipment categories are as follows:

Land	No depreciation
Buildings	14 to 33 years
Network equipment	3 to 7 years
Network infrastructure	14 to 20 years
Software	3 years
Vehicles	10 years
Office equipment	4 to 10 years

Property, plant and equipment is depreciated using the straight-line method, based on the estimated useful life, taking into account residual value. Land is not depreciated. Property, plant and equipment is impaired if the recoverable amount falls below the book value of the asset concerned. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Financial assets

Financial assets include investments in companies other than subsidiaries and associates, financial receivables held for investment purposes and other securities.

KPN classifies its financial assets in the following four categories:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments; and
- Available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the financial assets at initial recognition and assesses the designation at every reporting date.

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments not quoted in an active market and created by KPN by providing money, goods or services directly to a debtor, other than:

- Those KPN intends to sell immediately or in the short term, which are classified as held for trading; and
- Those for which KPN may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

Loans and receivables are carried at amortized cost, or cost if no maturity, less an allowance for uncollectibility with changes in carrying value (amortization of discount/premium and transaction costs) recognized in the Consolidated Income Statement under finance income or finance costs. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. Loans and receivables are included in Trade and other receivables in the Consolidated Balance Sheet.

Held-to-maturity investments

Financial assets (normally debt securities) are classified as held to maturity, if KPN has the intent and ability, from inception, to hold the securities to the maturity date. These financial assets have fixed or determinable payments and a fixed maturity.

Held-to-maturity financial assets are reported at amortized cost (effective interest method) with changes in carrying value (amortization of discount/premium and transaction costs) recognized in the Consolidated Income Statement.

Available-for-sale financial assets

Available-for-sale financial assets are carried at fair value with unrealized gains and losses (except for impairment losses) recognized in equity until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is taken to the Consolidated Income Statement for the period.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active and for unlisted securities, KPN establishes the fair value by using valuation techniques. These include the use of recent at arm's-length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value in accordance with IAS 39. Subsequently, KPN measures all derivative financial instruments based on fair values derived from market prices of the instruments or valuation techniques such as cash flow analysis. Gains and losses arising from changes in the fair value of the instruments are recognized in the Consolidated Income Statement during the period in which they arise to the extent that the derivatives have no hedging designation or they are ineffective.

KPN designated all derivatives related to loans as either cash flow hedges or fair value hedges. KPN applies hedge accounting as this recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item (borrowings).

General notes to the Consolidated Financial Statements

KPN documents at the inception of transactions the relationship between the derivative and the underlying loan, as well as the objective of the risk management and the strategy for undertaking transactions. In the documentation it is also stated whether the hedge relationship is expected to be highly effective – at inception and on an ongoing basis – and how the effectiveness is tested.

Changes in the fair value of a highly effective derivative, that is designated and qualifies as a fair value hedge, along with the loss or gain on the hedged item that is attributable to the hedged risk, are recorded in the 'other financial results' in the Consolidated Income Statement.

Changes in the fair value of a highly effective derivative, that is designated and qualifies as a cash flow hedge, are recorded in equity for the effective part, until the profit or loss are affected by the variability in cash flows of the designated hedged item. The ineffective part of the cash flow hedge is recognized in 'other financial results' in the Consolidated Income Statement.

If a derivative has ceased to be a highly effective hedge, KPN discontinues hedge accounting prospectively which means that subsequent changes in the fair value are recognized in the Consolidated Income Statement. The cumulative amount recorded in equity is amortized over the remaining duration of the derivative in case of a cash flow hedge.

For certain derivative instruments KPN does not apply hedge accounting. Changes in the fair value of these instruments are immediately recognized in 'other financial results' of the Consolidated Income Statement.

The full fair value of the derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the remaining maturity is less than 12 months.

Deferred taxes

Deferred tax assets and liabilities arising from deductible or taxable temporary differences between the value of assets and liabilities for financial reporting purposes and for tax purposes and deferred tax assets related to carry forward losses are stated at nominal value and are calculated on the basis of corporate income tax rates enacted or substantially enacted as of the balance sheet date. Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences and tax loss carry forwards can be utilized. Deferred tax assets and liabilities are netted if there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity and there is an intention to settle on a net basis.

Inventories

Inventories of resources, parts, tools and measuring instruments, and finished goods are valued at the lower of cost or net realizable value. The cost of inventories is determined using the weighted average cost. Net realizable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

Transition expenses relating to fixed-price contracts involving managed ICT services are capitalized and subsequently recognized in the income statement on a straight-line basis during the period the services are provided, taking into account the number of office seats included in the service contract during the term of the contract. Transition expenses consist primarily of the labor and other cost of personnel directly engaged in performing the transition, third-party services, products and other cost which will be charged to the customer. Transition expenses are capitalized if it is probable that they will be recovered and are classified under inventories.

Trade and other receivables

Receivables are initially recognized at fair value, and subsequently measured at amortized cost using the effective interest rate method less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The provision is set up through the Consolidated Income Statement (as other operating expenses). When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the income statement.

Cash

Cash comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within borrowings in current liabilities on the Consolidated Balance Sheet.

Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

When a Group entity purchases own equity instruments (treasury shares), the consideration traded is deducted from other reserves at trade date until those shares are cancelled, reissued or disposed of. Upon subsequent sale or reissue of such shares, any consideration received is included in other reserves.

Group equity is divided into two categories: equity attributable to equity holders and minority interests. The first category refers to the Company's owners, whereas minority interests represent shares issued by a Group's subsidiary to persons outside the Group.

Purchases of minority interests are treated according to the parent company approach. Since KPN already controls the acquired entity no additional purchase price allocation is performed. Differences between the carrying amount of minority interests and the purchase price paid are capitalized as goodwill or recorded in Other income (negative goodwill).

Dividends to be distributed to the equity holders are recognized as a liability in the period in which the dividends are approved by the shareholders.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method. Corresponding borrowing costs are recognized in the consolidated income statement in the period in which they are incurred.

Borrowings are classified as current liabilities unless KPN has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Provisions for retirement benefit obligations

Pension obligations

The liability recognized in the Consolidated Balance Sheet in respect of all pension and early retirement plans that qualify as defined benefit obligation, is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. KPN uses actuarial calculations (projected unit credit method) to measure the obligations and the costs. For the calculation, actuarial assumptions are made about demographic variables (such as employee turnover and mortality) and financial variables (such as future indexation and the discount rate). The discount rate is determined by reference to market rates. These are interest rates of high-quality corporate bonds that are denominated in the currency in which the benefit will be paid and that have terms to maturity, approximating the terms of the related liability.

Actuarial gains and losses are recognized for the portion that these exceed the higher of 10% of the defined benefit obligation and 10% of the fair value of plan assets ('corridor approach'). The excess is recognized over the employees' expected average remaining working lives.

Past-service costs are recognized immediately in the Consolidated Income Statement, unless the entitlements to the adjusted benefits depend on the employee's future service (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period. Gains or losses on the curtailment or settlement of a defined benefit plan are recognized on the date of the curtailment or settlement. For pension plans that qualify as a defined contribution plan, KPN recognizes contributions to such plans when an employee has rendered service in exchange for those contributions.

General notes to the Consolidated Financial Statements

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. KPN recognizes termination benefits when KPN is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

Other long-term employee obligations

These employee benefits include jubilee or other long-service benefits, long-term disability benefits and, if they are not fully payable within 12 months after the end of the period, profit-sharing, bonuses and deferred compensation. The expected costs of these benefits are accrued over the period of employment using an accounting method similar to that for defined benefit pension plans, except that actuarial gains and losses and past-service costs are recognized immediately.

Provisions for other liabilities and charges

Provisions such as environmental restoration, restructuring costs and legal claims are recognized when KPN has a present legal or constructive obligation as a result of past events; and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Cash Flow Statement

The Cash Flow Statement is prepared using the indirect method. Cash flows denominated in currencies other than the euro are translated at average exchange rates. Cash flows relating to interest and taxes on profits are included in the cash flow from operating activities. The cost of newly acquired Group companies and associated companies, 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.

Recent accounting pronouncements

The International Accounting Standards Board (IASB) has issued a number of new standards and interpretations, and amendments to existing standards many of which will become effective for KPN as of January 1, 2009. These new standards, interpretations and amendments will have an effect on the information to be disclosed in KPN's Consolidated Financial Statements of which revised IAS 1 'Presentation of Financial Statements' is the most significant. IAS 1 (revised) will become effective on January 1, 2009 and requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The following interpretations and amendments will have or could potentially have an impact on KPN's financial position and/or results in 2009 or later.

- Revised IAS 23 'Borrowing Costs' removes the option to expense borrowing costs and requires that an entity capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for KPN as of January 1, 2009 and will constitute a change in accounting policy. The revised IAS 23 is not expected to have a material impact on borrowing costs in KPN's Consolidated Income Statement in 2009 or later.
- The IASB has issued IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. This IFRIC clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements on such assets. IFRIC 14 would not have had an impact on KPN's pension assets or costs in 2008.
- Revised IFRS 3, 'Business Combinations', will become effective for KPN on January 1, 2010. The main changes the revised IFRS 3 will make to existing requirements or practice are:
 - The requirement to measure at fair value every asset and liability at each step in acquisitions for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill is measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired.
 - Acquisition-related costs are generally recognized as expenses (rather than included in goodwill).
 - Contingent consideration must be recognized and measured at fair value at the acquisition date. Subsequent changes in fair value are recognized in accordance with other IFRSs, usually in profit or loss (rather than by adjusting goodwill).

Notes to the Consolidated Income Statement

[1] Revenues

Amounts in millions of EUR	2008	2007
Rendering of services	13,768	11,986
Sale of goods	530	427
Royalties and other revenues	129	48
Total revenues	14,427	12,461

Rendering of services include traffic fees and subscription fees for the usage of KPN's networks, one-off connection fees and other initial fees and revenues from designing, building, deploying and managing ICT solutions which are provided on a time and material basis or as a fixed-price contract. The sale of goods includes peripheral and other equipment.

Reference is made to the Note 34 'Segment Reporting' for more information about revenues.

[2] Other income

Amounts in millions of EUR	2008	2007
Gains on the sale of property, plant and equipment	131	96
Other gains	44	75
Total other income	175	171

Gains on the sale of property, plant and equipment include sale and lease back transactions. Other gains in 2008 include a EUR 8 million non-cash additional gain as a result of the sale of iBasis Netherlands (formerly known as KPN Global Carrier Services) to iBasis Inc. in 2007 and a release of EUR 20 million of a provision relating to the sale of a subsidiary in 2002.

Other gains in 2007 include an amount of EUR 4 million relating to the settlement of the sale of Xantic. An amount of EUR 66 million relates to a non-cash gain as a result of the sale of iBasis Netherlands (see Note 30 'Business combinations and other changes in consolidation').

[3] Employee benefits

Amounts in millions of EUR	2008	2007
Salaries and wages	2,056	1,381
Pension charges (incl. Social Plan 2001)	-64	100
Social security contributions	230	151
Total employee benefits	2,222	1,632

Reference is made to Note 34 'Segment Reporting' for further information on the average number of employees.

Pension charges in 2008 includes a release of pension obligations of EUR 199 million. This is a consequence of an agreement with the trade unions in The Netherlands with respect to the change in pension indexation for KPN's main pension plans. This indexation is now based on price inflation instead of KPN's salary increases. For more information about pensions, reference is made to Note 22.

Board of Management and Supervisory Board

The Remuneration and Organizational Development Report included in this Annual Report contains required information comprising 'Details on all remuneration per individual' and 'Supervisory Board Remuneration 2008'.

Notes to the Consolidated Income Statement

Share option plans

KPN has granted stock options on its shares to members of the Board of Management, Senior Management and employees in The Netherlands with a collective labor agreement. Total costs related to share option plans amounted to EUR 1 million in 2008 (EUR 5 million in 2007) and is included in salaries and wages.

All options granted are equity-settled options and are forfeited when employees leave KPN for reasons other than retirement, disability or death (except for some personnel plans). The other main features of the option plans granted to KPN staff and management are:

		Exercise price (in EUR)	Maximum term	Type ¹	Exercisable (after grant date)	Vesting period	Profits in escrow if exercised within 3 years ²	Performance related ³
2003	Management (incl. CEO)	7.43 – 7.79	5 years	OTM	immediate	3 years	yes	no
	Management	5.94	5 years	ATM	immediate	3 years	yes	no
	Management	5.94 – 6.09	5 years	ATM	3 years	3 years	-	no
	Management Belgium	5.94	5 years	ATM	3.7 years	3 years	-	no
	Personnel ⁴	5.94	5 years	ATM	3 years	none	-	no
2004	CEO	6.45	5 years	ATM	immediate	3 years	yes	no
	Management	6.07 – 6.45	8 years	ATM	3 years	3 years	-	yes
	Management	6.45	8 years	ATM	3 years	3 years	-	no
	Management Belgium	6.45	8 years	ATM	3.7 years	3 years	-	no
	Personnel ⁴	6.45	5 years	ATM	3 years	none	-	no
2005	CEO	6.73	5 years	ATM	immediate	3 years	yes	no
	Management	6.52 – 7.46	8 years	ATM	3 years	3 years	-	yes
	Management	6.73	8 years	ATM	3 years	3 years	-	no
	Management Belgium	6.73	8 years	ATM	3.7 years	3 years	-	no
	Personnel ⁴	6.73	5 years	ATM	3 years	3 years	-	no
2006	CEO	9.29	5 years	ATM	immediate	3 years	yes	no
2007	CEO	12.09	5 years	ATM	immediate	3 years	yes	no

1) OTM: out of the money. At date of granting, market share price is lower than the exercise price.

ATM: at the money. Exercise price is equal to market share price at grant date.

2) If options are exercisable immediately, the profits from any exercise prior to the third anniversary of the date of issue will be held in escrow until the third anniversary of the issue, at which time such profits will be released to the relevant option holders, provided that they remain employed by KPN.

3) The number of options that vested after the three-year vesting period depended on KPN's Total Shareholder Return (stock appreciation plus dividend pay-out; TSR) relative to a peer group of European telecommunication companies. As of the end of 2006, KPN held the fourth position with respect to the 2004 option grant, which led to a vesting percentage of 200% of the options that vested in April 2007 and August 2007. At the end of 2007, KPN held the third position with respect to the 2005 option grant, which led to a vesting percentage of 200% of the options that vested in April 2008.

4) Personnel means all Dutch employees subject to the KPN collective labor agreement. When employees leave before the third anniversary after grant date, options are exercisable from this date and expire three months later (except for April 2005 option plans: options forfeit when leaving before the third anniversary).

Summary of options outstanding as of December 31, 2008

Granted in:	Number outstanding December 31, 2008	Exercise price per option	Weighted average remaining contractual life (years)	Weighted average fair value at the date of grant
2004	2,383,614	6.07 – 6.45	1.8	2.98
2005	4,324,506	6.52 – 7.46	2.6	2.38
2006	215,278	9.29	2.3	1.20
2007	165,410	12.09	3.3	1.70
Total	7,088,808			

Summary of the changes in outstanding options

	2008		2007	
	Number of options	Weighted average exercise price per option in EUR	Number of options	Weighted average exercise price per option in EUR
Outstanding at the beginning of the year	10,254,281	6.35	14,626,492	6.48
Options granted	-	-	165,410	12.09
Options additional (TSR based)	695,350	6.75	592,686	6.42
Options exercised	-3,773,721	6.42	-4,576,437	6.20
Options expired	-	-	-69,500	6.13
Options forfeited	-87,102	6.46	-484,370	5.05
Outstanding at the end of the year	7,088,808	6.84	10,254,281	6.35
<i>– of which exercisable</i>	<i>7,085,308</i>	<i>6.84</i>	<i>5,195,661</i>	<i>6.64</i>

The average KPN stock price in 2008 was EUR 11.27.

The fair value of each option is estimated at the date of grant using a binomial model with the following weighted average assumptions:

	2007 option grant
Risk-free interest rate (based on government bonds with a time to maturity of approximately four years)	4.2%
Expected dividend (based on one year's historical daily data preceding the date of award)	4.5%
Option lives	4.0 years
Expected volatility (based on three-years' daily historical data; 2007 based on four-years' daily historical data)	21.2%

Performance share plan

Since 2006, KPN has granted shares and share-based awards on its shares to members of the Board of Management, and Senior Management.

The Performance Share Plan ('PSP') was reviewed at the end of 2006 in light of changing Dutch tax regulations that became effective as of January 2007. As a result, the type of settlement from the PSP changed from equity-settled to cash-settled as of 2007 onwards. The structure and value of this element of pay for each individual did not change. The change in type of settlement was approved by the Annual General Meeting of Shareholders in April 2007. In April 2008 shareholders approved an adjustment of the PSP from a cash-settlement to an equity-settlement for members of the Board of Management.

The conditionally granted PSP award will vest after three years if the employee is still employed with KPN. The vesting is subject to whether the Company achieves a pre-set level of TSR relative to a peer group of telecommunication companies with which the Company competes. The performance vesting period of the shares granted to the CEO in 2008 is one year and cannot be sold until July 2011.

An exception to the holding period is made with respect to shares that were sold upon vesting to cover the tax obligation on the vested shares. The 2007 PSP awards obtained upon vesting of the Performance Shares will be settled in cash and no holding restrictions apply.

The main features of the awards granted under the PSP plan to KPN management are summarized below:

		Maximum term	Settlement type	Vesting period	Profits in escrow if exercised within 3 years	Performance related
2006	Board of Management (excluding CEO), Senior Management	5 years	Equity-based	3 years	2 years	yes
2007	Board of Management, Senior Management	3 years	Cash-based	3 years	-	yes
2008	CEO	Until July 2011	Equity-based	1 year	Until July 2011	yes
	Board of Management (excluding CEO)	5 years	Equity-based	3 years	2 years	yes
	Senior Management	3 years	Cash-based	3 years	-	yes

Notes to the Consolidated Income Statement

The number of share-based awards which vest depends on KPN's TSR position ranking relative to its peer group of European telecommunications companies (including KPN). The list of companies included in the peer groups can be found under 'Long-term incentives' in the 'Remuneration and Organizational Development Report' section.

The vesting schedule for share-based awards is as follows:

	Vesting %	
	2008 awards (TSR – position December 31, 2010, CEO December 31, 2008)	2007 awards (TSR – position December 31, 2009)
Position 11 to 14	No vesting takes place	No vesting takes place
Position 10	No vesting takes place	50% of the shares vest
Position 9	No vesting takes place	67% of the shares vest
Position 8	No vesting takes place	83% of the shares vest
Position 7	100% of the shares vest	100% of the shares vest
Position 6	125% of the shares vest	117% of the shares vest
Position 5	150% of the shares vest	133% of the shares vest
Position 4	175% of the shares vest	150% of the shares vest
Position 3	200% of the shares vest	167% of the shares vest
Position 2	200% of the shares vest	183% of the shares vest
Position 1	200% of the shares vest	200% of the shares vest

The total compensation expense associated with the PSP was EUR 21 million in 2008 (EUR 8 million in 2007) and the related liability (for cash-settlement) at December 31, 2008 was EUR 18 million (2007: EUR 4 million). This liability is included under Other provisions (Note 23). During 2008 KPN granted 2,352,315 shares and share-based awards under the PSP (2007: 1,486,855) to members of the Board of Management and Senior Management.

The following table presents the non-vested share-based awards under the PSP for the year ended December 31, 2008. The fair value is calculated using a Monte Carlo Simulation model. This model simulates share prices, TSR ranking and fair value calculation for KPN and its peer companies.

	2008 Shares Board of Management		2008 Share-based awards Senior Management		2007 Share-based awards		2006 Shares	
	Number of Shares ¹	Fair value ²	Number of Share-based awards ¹	Fair value ²	Number of Share-based awards ¹	Fair value ²	Number of Shares ¹	Fair value ²
Non-vested at December 31, 2006	-	-	-	-	-	-	960,655	11.67
Granted	-	-	-	-	1,486,855	13.44	-	-
Vested	-	-	-	-	-	-	-	-
Forfeited	-	-	-	-	-43,955	-	-98,588	-
Non-vested at December 31, 2007	-	-	-	-	1,442,900	13.44	862,067	-
		16.87 CEO/14.30						
Granted	436,651	Others	1,749,621	14.30	166,043 ⁴	15.16	-	-
Vested	-	-	-	-	-	-	-	-
Forfeited	-	-	-49,987	-	-170,587	-	-77,578	-
Non-vested at December 31, 2008	436,651		1,699,634	14.32³	1,438,356	15.45³	784,489	-

1) On the basis of 100% grant.

2) Weighted average fair value at grant date. The fair value is calculated using a Monte Carlo Simulation model.

3) At December 31, 2008 the fair value of each cash-settled share-based award was measured based on the most recent available share price of KPN and its performance compared to peer companies at the moment of valuation (i.e. closing share prices as at December 31, 2008). At the end of 2008, KPN held the second position with respect to the 2006 share grant, which will lead to a vesting percentage of 200% of the shares that will vest in April 2009. At the end of 2008, KPN held the first position with respect to the 2008 share grant, which will lead to a vesting percentage of 200% of the shares of the CEO that will vest in April 2009.

4) In 2008 an additional amount of the 2007 share based award was granted which was agreed upon in 2007 and executed in 2008.

The fair value of each share at the grant date is determined using the following assumptions:

	2008 Board of Management	2008 Senior Management	2007
Risk-free interest rate based on euro governments bonds with a remaining time to maturity of three years (CEO 2008 grant remaining time to maturity of one year)	4.4% (CEO 4.8%)	4.4%	4.2%
Expected dividend for KPN (based on one year's historical daily data preceding the date of award)	4.6%	4.6%	4.5%
Expected volatility (based on three-years' daily historical daily data)	21.6%	21.6%	19.1%
Share price at date of award (grant date)	11.42	11.42	12.09

After vesting, the holder is able to sell a number of unconditional granted shares (equity-settled) only up to the amount necessary to settle the wage taxes liability relating to the profit made on the stock compensation plan.

iBasis Stock Option Plans

The Consolidated Financial Statements of KPN include iBasis which KPN acquired on October 1, 2007 and in which KPN holds a majority stake of 56%. iBasis is a US-based NASDAQ listed company. iBasis has stock option plans under which stock options are issued as an equity incentive to employees and outside directors. The stock options issued under iBasis' stock option plans are generally for a fixed number of shares with an exercise price equal to the market value of its stock on the date of grant. The employee stock option grants generally vest quarterly in equal installments over four years, provided that no options vest during the employee's first year of employment, and have a term of ten years. In 2008, 1,337,000 stock options were granted, 233,000 were exercised and 284,000 were cancelled. At December 31, 2008 4,246,386 stock options were outstanding of which 2,792,823 were exercisable. The weighted average exercise price of the options outstanding at December 31, 2008 was USD 4.34 and the weighted average stock price during 2008 was USD 3.42. The following assumptions were applied to estimate the fair value of these stock options using the Black-Scholes model: risk free rate 2.89%, dividend yield 0.0%, expected volatility 100% and expected remaining life 6.25 years. The total compensation expense associated with the iBasis Option Plans was EUR 2 million in 2008 and less than EUR 1 million in the period October 1 to December 31, 2007.

[4] Depreciation, amortization and impairments

Amounts in millions of EUR	2008	2007
Impairment of goodwill	125	-
Amortization of other intangible assets	702	740
Impairment of other intangible assets	20	20
Total amortization and impairments of goodwill and other intangible assets	847	760
Depreciation of property, plant and equipment	1,585	1,626
Impairments and retirements of property, plant and equipment	29	14
Total depreciation and impairments of property, plant and equipment	1,614	1,640
Total	2,461	2,400

Notes to the Consolidated Income Statement

Impairment of other intangible assets in 2008 includes EUR 2 million related to assets classified as held for sale.

Depreciation and impairments on property, plant and equipment are detailed as follows:

Amounts in millions of EUR	2008	2007
By classification:		
Land and buildings	95	87
Plant and equipment	1,393	1,416
Other tangible fixed assets	109	134
Assets under construction	17	3
Total	1,614	1,640

The goodwill impairment charge of EUR 125 million in 2008 includes an impairment of EUR 67 million regarding iBasis (see Note 10) and an impairment of EUR 58 million regarding the businesses of Getronics which were sold in the course of 2008 or classified as held for sale as at December 31, 2008 (see Note 18). The impairment regarding the Getronics businesses is based on the selling price less expenses, such as external advisors and restructuring, to make these businesses available-for-sale.

Impairments and retirements of property, plant and equipment relate predominantly to retirements of assets. As of January 1, 2008, the remaining estimated useful life of the traditional copper infrastructure was reduced which resulted in a EUR 70 million accelerated depreciation in 2008 and will result in an accelerated depreciation of EUR 54 million in 2009, EUR 42 million in 2010. The copper infrastructure will be fully depreciated in year 2022.

[5] Other operating expenses

In 2008, other operating expenses comprised a net addition to the restructuring provision amounting to EUR 282 million (2007: 59 million) of which EUR 273 million related to redundancy personnel costs (2007: EUR 51 million) and EUR 9 million (in 2007: EUR 8 million) related to contract obligations. The amount in 2008 includes a EUR 207 million charge relating to the 'Back to Growth' strategy. For more details, reference is made to Note 23.

Cost of research and development is included in Other operating expenses and amounted to EUR 33 million in 2008 (2007: EUR 16 million). No development costs were capitalized during 2008 and 2007, except for software development (see Note 10).

The fees listed below relate to the procedures applied to the Company and its consolidated group entities by PricewaterhouseCoopers Accountants N.V., the Netherlands, the external auditor as referred to in Section 1(1) of the Dutch Accounting Firms Oversight Act (Dutch acronym: Wta), as well as by other Dutch and foreign-based PricewaterhouseCoopers individual partnerships and legal entities, including their tax services and advisory groups:

Amounts in millions of EUR	2008	2007
Financial statements audit fees	12.7	15.2
Other assurance fees	5.2	4.0
Tax fees	0.6	0.1
All other fees	0.1	0.0
Total	18.6	19.3

The total fees of PricewaterhouseCoopers Accountants N.V., the Netherlands, charged to the Company and its consolidated group entities amounts to EUR 12.9 million in 2008 (2007: EUR 16.7 million).

The financial statements audit fees include the aggregate fees in each of 2008 and 2007 for professional services rendered for the audit of KPN's annual financial statements and annual statutory financial statements of subsidiaries or services that are normally provided by the auditor in connection with the audits. In 2008 the financial statements audit fees include EUR 1.8 million relating to the audits of the iBasis, Inc financial statements filed with the SEC. The other assurance fees include the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of KPN's financial statements and are not reported under audit services. This includes due diligence and assurance services related to potential acquisitions as well as IT related assurance services. In 2008 the other assurance fees included an amount of EUR 2.6 million related to the sale of the Getronics entities in the US and in the Netherlands. The tax category includes tax advisory and compliance services. The increase in tax fees is due to tax advisory and compliance services for Getronics entities. Other fees relate to permitted services not included in the above categories.

[6] Financial income and expenses

Amounts in millions of EUR	2008	2007
Finance income	50	37
Interest on borrowings	-654	-544
Interest on provisions	-13	-12
Other	-52	-28
Finance costs	-719	-584
Amortizable part of hedge reserve [19]	-15	-13
Ineffective portion of cash flow hedges	-2	-2
Exchange rate differences	-8	3
Other	-10	-1
Other financial results	-35	-13
Total	-704	-560

In 2008, interest on borrowings includes a non-cash amount of EUR 20 million (2007: EUR 17 million) relating to the effective interest expense on borrowings, which were valued at amortized cost.

[7] Taxation

For Dutch tax purposes, KPN Mobile en Koninklijke KPN are separate tax unities. The German activities of KPN form a German partnership transparent for German tax purposes and a permanent establishment for Dutch tax purposes held by KPN Mobile. In 2006, the legal structure of KPN's German mobile activities was simplified, resulting in a reduction in the number of tax entities. KPN Mobile holds a 77.5% interest in E-Plus, whereas Koninklijke KPN holds the remaining 22.5% interest in E-Plus.

KPN Mobile tax unity

An agreement in 2004 with the Dutch tax authorities resulted in a EUR 6 billion taxable gain for KPN Mobile upon conversion of EUR 14 billion of shareholder loans in 2002 and allowed KPN Mobile to offset in 2002 a EUR 11.5 billion loss related to E-Plus as a permanent establishment for Dutch tax purposes against its Dutch results, subject to recapture of this loss in later years by adding EBITDA of E-Plus to the taxable income of KPN Mobile in the Netherlands.

In the years 2002 to 2006, KPN Mobile did not pay corporate income tax due to the original tax loss carry forwards of EUR 5.5 billion which arose in 2002, available for offset of KPN Mobile's taxable income including EBITDA of E-Plus. In 2007, KPN Mobile moved into a tax-paying position as KPN Mobile's taxable income in 2007 including EBITDA of E-Plus exceeded the remaining EUR 647 million tax loss carry forwards at December 31, 2006. The deferred tax liability which has been recognized for the E-Plus loss to be recaptured will gradually turn into a current tax liability until the E-Plus loss has been fully recaptured. The deferred tax liability decreased by EUR 322 million in 2008 (2007: EUR 108 million decrease). The decrease has been recorded as a current tax liability. As per December 31, 2008, the E-Plus loss still to be recaptured amounted to EUR 6.1 billion (2007: EUR 7.4 billion). As a result, KPN Mobile's deferred tax liability as of December 31, 2008 amounted to EUR 1,554 million.

Koninklijke KPN tax unity

In 2007, Koninklijke KPN moved into a tax-paying position as all tax loss carry forwards were utilized against positive taxable income. As of January 1, 2008, the Dutch entities of Getronics were included in the Koninklijke KPN tax unity. As at December 31, 2008, the Dutch entities of Getronics reported tax loss carry forwards of approximately EUR 310 million. These losses can be offset against future taxable profits allocable to the Getronics entities. A deferred tax asset has been recognized for these tax loss carry forwards which amounted to EUR 78 million at December 31, 2008. These tax loss carry forwards will expire in 2016 at the latest.

E-Plus

In Germany, the income tax consists of trade tax ('Gewerbesteuer') and corporate tax ('Körperschaftsteuer'). Mainly due to impairments of goodwill and licenses in the past, E-plus has considerable loss carry forwards for both trade tax and corporate tax. Taxable income in a certain year can only be offset for 60% against tax loss carry forwards. Trade tax and corporate tax is payable over the remaining 40% of taxable income. Information about the available tax loss carry forwards is given on page 98.

Until 2006, most separate taxable entities in the E-Plus group had a history of losses. In 2007, some separate taxable entities in the E-Plus group achieved positive taxable income due to

Notes to the Consolidated Income Statement

improved business performance and financial restructurings which also increased the estimated taxable income of E-Plus for 2008 and onwards. This resulted in an additional recognition of deferred tax assets of EUR 1,165 million to EUR 1,301 million at December 31, 2007. At December 31, 2008, an additional recognition of deferred tax assets of EUR 34 million was recognized based on updated projections of future taxable income of E-Plus. The deferred tax asset at December 31, 2008 was EUR 1,190 million and includes EUR 205 million estimated future tax savings due to available tax loss carry forwards and EUR 985 million estimated future realization of temporary differences due to the higher amortization of the UMTS license and amortization of goodwill for tax purposes.

Other entities

There are several other entities in The Netherlands which are separately liable for income taxes. In most other countries in which KPN and Getronics operate, tax loss carry forwards are available and therefore no income tax is payable except when minimum taxes are applicable.

Income tax expense

Amounts in millions of EUR	2008	2007
Current tax	-348	-117
Changes in deferred taxes	-202	825
Income taxes	-550	708

A tax expense of EUR 550 million was recorded in 2008 and a tax income of EUR 708 million in 2007. The tax income in 2007 includes a EUR 1,165 million gain from the aforementioned further recognition of deferred tax assets at E-Plus, as a result of which in 2008 a tax expense in line with the normal effective tax rate was recorded. In 2008 an additional recognition of deferred tax assets at E-Plus of EUR 34 million was recorded.

In 2006, KPN signed a compliance covenant ('Handhavingsconvenant') with the Dutch tax authorities to self-assess and transparently discuss KPN's current and potential future tax issues. In 2007 an agreement was reached with the Dutch tax authorities on most issues relating to the years 2001 up to and including 2005. This resulted in a net EUR 43 million tax charge in 2007. A few issues were outstanding at December 31, 2008 of which the deductibility of certain categories of share issue expenses was the most significant. KPN regards these expenses as tax deductible which had not yet been accepted by the tax authorities. Both parties had agreed to wait for the decision of the Dutch Supreme Court in a comparable case of another tax payer. On January 30, 2009, the Dutch Supreme Court ruled in favor of this tax payer as a result of which the tax authorities have accepted the deductibility of the share issue expenses for KPN. At December 31, 2008, no accrual was recorded for the outstanding issues.

The effective tax rate in 2008 and 2007 is calculated as follows:

Amounts in millions of EUR	2008	2007
Profit before income tax¹	1,893	1,940
Taxes at Dutch statutory tax rates	-483	-495
Tax rate differences of foreign operations	-15	-39
Non-taxable income and non-deductible expenses	-63	14
(De)recognition of deferred tax positions:		
– related to prior years	45	1,107
– related to the current year	-23	121
Other	-11	-
Income taxes	-550	708
Effective tax rate	29.1%	-36.5%

1) Excluding the share in profits of associates and joint ventures.

'Taxes at Dutch statutory tax rates' are calculated on the basis of profit before income tax (excluding the share of profits of associates and joint ventures) and the applicable Dutch corporate income tax rate of 25.5% in 2008 and 2007.

'Tax rate differences of foreign operations' reflect the impact of different tax rates in the fiscal jurisdictions, in which KPN operates. In 2008, the corporate tax rates amounted to 15.8% in Germany and 34% in Belgium and the German trade tax rate was 15.6%. In 2007, the corporate

tax rates amounted to approximately 25% in Germany and 34% in Belgium and the German trade tax rate was approximately 18%.

'Non-taxable income and non-deductible expenses' represent adjustments for income not subject to taxation (such as book gain on the sale of KPN Global Carrier Services to iBasis of EUR 8 million in 2008 and EUR 66 million in 2007), non-deductible expenses (such as the EUR 125 million goodwill impairments in 2008) and the effects of the fiscal treatments of interests on intercompany loans under both the Dutch and German tax legislation.

'(De)recognition of deferred tax positions' reflects the effects of valuation or non-valuation of tax loss carry forwards and deductible temporary differences. This includes an additional recognition of deferred tax assets at E-Plus of EUR 34 million in 2008 and EUR 1,165 million in 2007.

Deferred tax assets and liabilities

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
Deferred tax assets	1,733	2,185
– of which to be recovered after 12 months	1,520	1,848
– of which to be recovered within 12 months	213	337
Deferred tax liabilities	1,624	2,055
– of which to be realized after 12 months	1,277	1,662
– of which to be realized within 12 months	347	393
Deferred tax assets and liabilities	109	130

Depending on future taxable results, a part of deferred tax assets relating to tax loss carry forwards now considered to be recoverable after 12 months may be recoverable in the short term. Conversely, tax loss carry forwards now considered to be recoverable within 12 months may be recoverable in the long term.

Deferred tax assets

Amounts in millions of EUR	Tax loss carry forwards	Deductible temporary differences				Offset against deferred tax liabilities	Total
		Goodwill	Other intangibles	Pension provisions	Other ³		
Balance as of January 1, 2007	668	122	-	150	159	-81	1,018
New consolidations	172	2	-	47	156	-107	270
Income statement benefit/(charge) ¹	-210	437	570	-5	56	-	848
Tax charged to equity	1	-	-	-2	-20	-	-21
Reclassification	2	-	-	-	-4	72	70
Balance as of December 31, 2007	633	561	570	190	347	-116	2,185
New consolidations	4	5	-	2	1	-	12
Exchange differences	-2	-	-	-5	2	-	-5
Income statement benefit/(charge)	-38	-74	-25	-50	-35	-	-222
Tax charged to equity	2	-	-	-	-1	-	1
Transferred to held for sale	-121	-	-	-	-18	-	-139
Transfer to current tax tax	-	-	-	-	-17	-	-17
Reclassification	1	2	-	-	-5	-80	-82
Balance as of December 31, 2008²	479	494	545	137	274	-196	1,733

1) The income statement benefit for 2007 includes an increase in the deferred tax asset at E-Plus of EUR 1,165 million (EUR 158 million tax loss carry forwards, EUR 437 million goodwill and EUR 570 million UMTS license).

2) At December 31, 2008, no deferred tax asset of EUR 3,416 million and EUR 1,470 million were recognized for loss carry forwards and deductible temporary differences respectively.

3) Other deductible temporary differences at December 31, 2008 includes property, plant and equipment of EUR 134 million (2007: EUR 103 million) and revenue recognition of EUR 52 million (2007: EUR 66 million). Other deductible temporary differences at December 31, 2007 also included EUR 107 million for the fiscal liquidation loss of the remaining non-operating Italian and Austrian legal entities of Getronics.

Deferred tax charged to equity relates to share-based compensation, translation adjustments on intercompany loans and movements in the hedge reserve.

Notes to the Consolidated Income Statement

Deferred tax liabilities

Amounts in millions of EUR	Deferred liability due to losses German permanent establishment	Taxable temporary differences		Total
		Other ¹	Offset against deferred tax assets	
Balance as of January 1, 2007	1,984	89	-81	1,992
New consolidations	-	221	-107	114
Income statement charge	22	1	-	23
Tax payable due to E-Plus loss recapture	-142	-	-	-142
Tax charged to equity	-	-2	-	-2
Reclassification	12	-14	72	70
Balance as of December 31, 2007	1,876	295	-116	2,055
New consolidations	-	23	-	23
Income statement charge	-	-20	-	-20
Tax payable due to E-Plus loss recapture	-322	-	-	-322
Transferred to held for sale	-	-30	-	-30
Reclassification	-	-2	-80	-82
Balance as of December 31, 2008	1,554	266	-196	1,624

1) Other taxable temporary differences at December 31, 2008 includes intangible fixed assets of EUR 116 million (2007: EUR 133 million) mainly recognized as a result of business combinations in 2007 and 2008, property plant and equipment of EUR 55 million (2007: EUR 45 million), provision for early retirement benefits of EUR 52 million (2007: EUR 40 million) and in 2007 EUR 37 million for temporary write-off of carrying value of investments in Group companies of Getronics.

Deferred tax charged to equity in 2007 mainly relates to movements in the hedge reserve.

Tax loss carry forwards and deferred tax assets

Amounts in millions of EUR	Dec. 31, 2008		Dec. 31, 2007	
	Tax loss carry forwards	Recognized deferred tax assets	Tax loss carry forwards	Recognized deferred tax assets
Koninklijke KPN – corporate tax ¹	464	91	188	19
BASE – corporate tax	380	129	504	171
E-Plus – trade tax ²	5,239	172	5,465	168
E-Plus – corporate tax ²	16,329	33	16,384	99
Getronics ³	189	5	683	130
Other	351	26	328	46
Total	22,952	456	23,552	633

1) The tax loss carry forwards are pre-consolidation losses ('voorvoegingsverliezen') limited in their use as such losses may only be compensated by taxable income generated by the specific company itself. The amount at December 31, 2008 includes the tax loss carryforwards of the Dutch operations of Getronics.

2) The loss carry forwards of trade tax and corporate tax can be used to offset future taxable income without any time limit. However, taxable income in a certain year can only be offset for 60% against tax loss carry forwards. Trade tax and corporate tax have to be paid over the remaining 40% of taxable income.

3) As of January 1, 2008, the Dutch operations of Getronics and the related tax loss carry forwards are included in the Koninklijke KPN tax unity. The amount of tax loss carry forwards at December 31, 2008 mainly relate to the operations in the United Kingdom and Germany. The amount per December 31, 2007 includes tax loss carry forwards of businesses which have been sold in 2008.

Recognized deferred tax assets reflect management's best estimate of realizable amounts. The amounts of tax loss carry forwards are subject to assessment by local tax authorities.

The available tax loss carry forwards at December 31, 2008 expire as follows (in millions of EUR):

2009	11
2010	1
2011	133
2012	131
2013	21
Later	417
Total limited	714
Unlimited¹	22,238
Total	22,952

1) Including trade tax and corporate tax at E-Plus.

[8] Earnings per share

The following table shows the average number of subscribed ordinary shares and calculates the weighted average number of subscribed ordinary shares/weighted average number of subscribed ordinary shares taking into account the dilution effects:

Number of shares	2008	2007
Weighted average number of subscribed ordinary shares outstanding	1,739,181,536	1,862,566,702
Dilution effects:		
– options and non-vested shares	5,932,560	7,358,601
Weighted average number of subscribed ordinary shares outstanding including dilution effects	1,745,114,096	1,869,925,303

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Share options and non-vested shares are regarded to have potential dilutive effects on the ordinary shares. For the share options and share plans, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price over 2008, being EUR 11.27) based on the monetary value of the subscription rights attached to outstanding share options.

The profit attributable to equity holders used for calculations on a diluted basis is equal to the profit attributable to equity holders used for calculations on a non-diluted basis.

[9] Dividend per share

At the Annual General Meeting of Shareholders on April 7, 2009 a 2008 dividend of EUR 0.60 per share, will be proposed. During 2008 KPN paid an interim dividend of EUR 0.20 per share. These financial statements do not reflect the proposal for dividend payable, which will be accounted for in the Consolidated Statement of Changes in Group Equity as an appropriation of retained earnings in the year ending December 31, 2009.

Notes to the Consolidated Balance Sheet

[10] Intangible fixed assets**Statement of changes in goodwill**

Amounts in millions of EUR	2008	2007
Cost	5,821	4,609
Accumulated impairments	-40	-40
Balance as of January 1	5,781	4,569
Investments (see note 30)	206	1,224
Impairment	-67	-
Subsequent purchase price adjustments	-6	-12
Subsequent purchase price allocation adjustments	16	-3
Other	-4	3
Transferred to held for sale	-267	-
Total changes	-122	1,212
Accumulated acquisition cost	5,766	5,821
Accumulated impairments	-107	-40
Balance as of December 31	5,659	5,781

For the investments in 2008 and 2007, reference is made to Note 30 'Business combinations and other changes in consolidation'.

The impairment of EUR 67 million in 2008 relates to iBasis. Goodwill transferred to held for sale relates to the Getronics businesses which were sold in 2008 or classified as held for sale at December 31, 2008 (see Note 30), of which EUR 58 million was subsequently impaired. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The allocation of goodwill to cash-generating units is shown below:

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
E-Plus Segment	4,117	4,041
BASE Segment	59	59
Mobile Wholesale The Netherlands Segment	63	63
Mobile International Other Segment	72	19
Consumer Segment	357	338
Business Segment	249	201
Getronics Segment ¹	524	770
Wholesale & Operations Segment ²	205	277
Other	13	13
Balance as of December 31	5,659	5,781

1) In 2007 KPN acquired Getronics. Subsequently, a number of non-core businesses of Getronics were sold, among them Business Application Services, and the businesses In North America. A number of other businesses have been classified as held for sale (see Note 18). The remaining goodwill recognized for Getronics after these disposals and business classified as held for sale was EUR 661 million at December 31, 2008 of which EUR 137 million was allocated to the Business Segment. The Getronics Segment consists of the following cash-generating units: the Benelux (including The Netherlands, Belgium and Luxembourg), the United Kingdom, the Americas and the Rest of the World. Goodwill is allocated to this group of cash-generating units.

2) iBasis is regarded as a separate cash-generating unit within the Wholesale & Operations Segment.

Goodwill is tested for impairment annually. Goodwill is impaired if the recoverable amount of the cash-generating unit to which it is allocated is lower than the book value of the cash-generating unit concerned including goodwill. The recoverable amount is defined as the higher of the cash generating unit's fair value less cost to sell and its value in use.

A third-party valuation specialist (Duff & Phelps) supported KPN in the impairment testing of E-Plus, Getronics and iBasis in 2008. This involves, among other things, determining the reasonableness of the fair value and value-in-use calculations by analyzing comparable companies and comparable transactions.

For E-Plus, the recoverable amount used in the impairment testing was the fair value less cost to sell. The fair value was determined based on the present value of the future cash flows expected to be derived from this cash-generating unit and incorporates assumptions that market participants would use in estimating the fair value such as synergies, tax benefits and restructurings (strategic premium). The future expected cash flows are discounted at the weighted average cost of capital commensurate with the cash-generating unit's inherent risk.

For Getronics, the recoverable amount was based on the value in use. The goodwill for Getronics has not been allocated to each of its cash-generating units as KPN paid goodwill to acquire Getronics as a group. Therefore, the goodwill impairment test for Getronics was done for its cash-generating units as a group rather than for each separate cash-generating unit. The value in use is calculated as the present value of the cash flows expected to be derived from the cash-generating unit's continuing use. The discount rate used is the weighted average cost of capital commensurate with the cash-generating unit's inherent risk.

On October 1, 2007, KPN acquired a majority stake in iBasis, a US-based NASDAQ listed company. During 2008, the price of iBasis' shares on NASDAQ decreased considerably. As a consequence, at December 31, 2008 the fair value of iBasis was lower than the book value and a goodwill impairment charge of EUR 67 million was recorded, based on KPN's share in iBasis.

The impairment tests in 2008 of the other cash-generating units were entirely performed by KPN and based on values in use.

The key assumption used in the cash flow projections is growth of sales and estimated capital expenditure together with the rate used for discounting the cash flow projections (weighted average cost of capital). The cash flow projections for the first three to eight years (depending on the cash-generating unit) are a management's best estimate based on the most recent business plans, market information, comparisons to (expected) developments for peer companies and historical growth rates. Cash flow projections beyond the three- to eight-year period are captured in the terminal value and are estimated by extrapolating the projections using a rate of growth of sales of between 0% and 2.2%. The rates used for discounting the projected cash flows was 16% for iBasis and between 9.5% and 11.4% for all the other cash generating units.

The expected future cash flows used in the impairment analysis is based on management's best estimate. Events in technology and telecommunications markets as well as the financial markets and the overall economy may have an adverse impact on the estimated future cash flows of KPN's businesses. The following table gives an indication of the approximate additional goodwill impairments which would have been recognized in 2008, on an aggregated basis, if a lower rate of growth of projected sales and a higher discount rate would have been used in the impairment testing of each cash generating unit.

Indication of the approximate additional goodwill impairments (In millions of EUR)	Decrease in rate of sales growth		
	By 0%	By 1%	By 2%
Increase in discount rate	By 0%	-	<100
	By 1%	<100	700
	By 2%	1,300	2,200

Notes to the Consolidated Balance Sheet

Statement of changes in intangible fixed assets with finite lives

Amounts in millions of EUR	Licenses	Computer software	Software development	Customer relationships	Trade names	Other	Total
Balance as of January 1, 2007	3,865	315	20	39	129	114	4,482
Investments	40	240	77			10	367
Changes in consolidations/Other	1	53	-	399	64	35	552
Transfer to held for sale	-26	-				-	-26
Exchange rate differences	-	-	-	-2		-1	-3
Reclassification from Property, plant and equipment	-	18	13			-	31
Amortization	-423	-214		-22	-41	-40	-740
Impairment	-	-2	-14	-4		-	-20
Total changes	-408	95	76	371	23	4	161
Cost	9,777	1,409	96	439	242	232	12,195
Accumulated amortization/impairments	-6,320	-999	-	-28	-91	-114	-7,552
Balance as of December 31, 2007	3,457	410	96	410	152	118	4,643
Investments	-	388	42	7	-	24	461
Changes in consolidations	-	4	-	52	39	25	120
Transfer to held for sale	-	-22	-	-88	-14	-	-124
Exchange rate differences	-	-2	-	-2	2	1	-1
Reclassification from Property, plant and equipment	-	22	-	7	-	-7	22
Amortization	-301	-245	-	-62	-47	-47	-702
Impairment	-	-14	-3	-1	-	-	-18
Total changes	-301	131	39	-87	-20	-4	-242
Cost	9,777	1,441	135	411	269	268	12,301
Accumulated amortization/impairments	-6,621	-900	-	-88	-137	-154	-7,900
Balance as of December 31, 2008	3,156	541	135	323	132	114	4,401

Licenses

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
E-Plus	2,450	2,669
Wholesale & Operations	552	619
BASE	152	167
Other	2	2
Balance as of	3,156	3,457

KPN started rendering UMTS services in The Netherlands and Germany in 2004 and hence started to amortize these licenses. The terms of the licenses are used as the basis for the amortization period. In Germany the 3G-license expires in 2020, in The Netherlands in 2016 and in Belgium in 2021. As no services can currently be offered, the UMTS license in Belgium is not available for use and as a consequence KPN has not yet started amortizing this license. We expect to start amortizing this license in 2009.

As per June 19, 2007 the Dutch Government extended KPN's GSM 900 license for the period from April 1, 2010 up to February 25, 2013 for an amount of EUR 40 million. The license fee needs to be paid in three installments during the period from 2010 up to 2012 and is included in 'Other payables and deferred income' (Note 24).

On November 21, 2006 KPN announced the sale of Telfort's E-GSM license to T-Mobile. In 2007 the transfer was approved by the Minister of Economic Affairs and the E-GSM license was sold for an amount of EUR 26 million, of which EUR 10 million will be received under the condition that KPN will formally inform T-Mobile that it will not use its right to have the E-GSM license returned by 2010. The residual value of the remaining Telfort licenses as of December 31, 2008 (UMTS and DCS license) amounted to EUR 2 million (2007: EUR 2 million).

Impairment tests for the Mobile activities are performed for the combined GSM and UMTS activities as cash flows can not be determined independently from each other.

For details about the acquired customer relationships and trade names, reference is made to the Note 30 'Business combinations'.

[11] Property, plant and equipment

Statement of changes in property, plant and equipment

Amounts in millions of EUR	Land and buildings	Plant and equipment	Other tangible non-current assets	Assets under construction	Total
Balance as of January 1, 2007	733	6,310	238	684	7,965
Investments	114	976	86	210	1,386
Disposals	-	-	-8	-	-8
Changes in consolidations	67	167	32	3	269
Depreciation	-84	-1,413	-129	-	-1,626
Impairments and retirements	-3	-3	-5	-3	-14
Exchange rate differences	-	-1	-	-	-1
Reclassifications to intangible fixed assets and other	-9	38	-3	-102	-76
Transferred to held for sale (net)	-25	-4	-	-	-29
Total changes	60	-240	-27	108	-99
Cost	1,884	15,914	538	792	19,128
Accumulated depreciation/impairments	-1,091	-9,844	-327	-	-11,262
Balance as of December 31, 2007	793	6,070	211	792	7,866
Investments	214	1,055	122	123	1,514
Disposals	-5	-12	-	-	-17
Changes in consolidations	-	7	8	-	15
Depreciation	-93	-1,383	-109	-	-1,585
Impairments and retirements	-2	-10	-	-17	-29
Exchange rate differences	-1	-1	-	-1	-3
Reclassifications to intangible fixed assets and other	10	96	-35	-90	-19
Transferred to held for sale (net)	5	-11	-	-	-6
Total changes	128	-259	-14	15	-130
Cost	2,101	15,492	528	812	18,933
Accumulated depreciation/impairments	-1,180	-9,681	-331	-5	-11,197
Balance as of December 31, 2008	921	5,811	197	807	7,736

Property, plant and equipment primarily concerns assets located in The Netherlands (2008: approximately 64%; 2007: approximately 66%) and Germany (2008: 28%; 2007: approximately 27%). Assets under construction mainly relate to the construction of networks.

The book value of property, plant and equipment of which KPN as the lessee is the beneficial owner under financial lease programs amounted EUR 239 million (2007: EUR 92 million). The book value of property, plant and equipment of which KPN as the lessor is the legal owner and not the beneficial owner amounted to EUR 193 million (2007: EUR 26 million).

The net amount of reclassifications and other, in the table above, relates to assets under construction made available for use. In 2007 a release of the asset retirement obligations, included as part of the book value of property, plant and equipment, of EUR 29 million was included in reclassifications.

Notes to the Consolidated Balance Sheet

[12] Investments in associates and joint ventures

Amounts in millions of EUR	2008	2007
Balance as of January 1	27	11
Additions [27]	115	4
Disposals	-	-
Income from associates and joint ventures	-6	1
Changes in consolidations/Other	-1	18
Received dividend	-	-7
Total changes	108	16
Balance as of December 31	135	27

On December 19, 2008, KPN took a minority stake of 41% in Reggefiber Group B.V., a joint-venture with Reggefiber B.V. for the rollout of Fiber-to-the-Home. KPN has contributed EUR 113 million in the joint-venture, which is included in the table above, and is obligated to contribute another EUR 74 million. KPN has the possibility to increase its share in Reggefiber Group B.V. at a later stage, if the joint venture reaches specific milestones. KPN has guaranteed minimum revenues to the joint venture which depend on coverage ratios obtained by KPN and other service providers in certain areas in which the joint-venture is active.

As of December 31, 2008, investments in associates and joint ventures also includes NTT Data Getronics (30%) for an amount of EUR 15 million.

In the table below, the aggregate amounts are summarized of certain financial data with respect to the joint ventures and associates, based on KPN's share.

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
Current assets	102	26
Non-current assets	164	1
Current liabilities	68	23
Non-current liabilities	7	3
Total revenues	24	26
Total operating expenses	23	28

[13] Trade and other receivables (non-current)

Amounts in millions of EUR	2008	2007
Opening balance January 1	197	112
Current portion of non-current receivables	17	10
Gross	214	122
Additions	62	72
Loans granted to associates [27]	-	2
Changes in consolidations	1	32
Redemptions	-52	-14
Transferred to held for sale	-1	-
Total gross at December 31	224	214
Current portion of non-current receivables	-14	-17
Balance as of December 31	210	197

The balance as of December 31, 2008 includes the following:

Amounts in millions of EUR	2008	2007
Accrued income and prepayments	92	100
Receivables from financial leases	9	14
Pension assets [22]	101	68
Other loans	8	15
Total	210	197

Accrued income and prepayments mainly consist of prepaid rent recognized at net present value.

The gross amount with respect to receivables from financial leases amounts to EUR 16 million (2007: EUR 26 million) of which EUR 2 million matures later than five years. The short-term portion of the financial leases amounting to EUR 7 million (EUR 12 million as of December 31, 2007) is classified as current trade and other receivables.

In 2008, an amount of EUR 101 million (EUR 68 million in 2007) relates to a surplus of plan assets in excess of benefit obligations in pension plans. Reference is made to Note 22.

[14] Inventories

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
Resources, parts, tools and measuring instruments	117	155
Finished goods	63	80
Total inventories, gross	180	235
Provision for obsolescence	-43	-85
Total inventories, net	137	150

The fair value of the inventories does not materially differ from the amount as recorded as of December 31, 2008. During the year 2008, an amount of EUR 12 million was transferred to held for sale and a net amount of EUR 11 million (2007: EUR 10 million) was added to the provision for obsolete stock through 'cost of materials' in the Consolidated Income Statement.

[15] Trade and other receivables

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
Trade receivables	1,468	1,673
Social security and other taxes	32	39
Other receivables	127	155
Accrued income	554	598
Prepayments	114	154
Balance as of	2,295	2,619

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
Trade receivables – gross	1,612	1,853
Provision for doubtful receivables	-144	-180
Balance as of	1,468	1,673

The carrying amounts of trade and other receivables approximate their fair value. Trade and other receivables are non-interest bearing.

Notes to the Consolidated Balance Sheet

The movements in the provision for doubtful trade receivables are as follows:

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
Balance January 1	180	196
New consolidations	5	17
Addition through income statement	56	59
Usage	-95	-92
Transfer to held for sale	-2	-
Balance as of	144	180

The maximum exposure to credit risk on trade receivables is limited to their gross amount. The concentration of KPN's trade receivables as at December 31, 2008 over the different segments can be summarized as follows:

Amounts in millions of EUR	December 31, 2008		December 31, 2007	
	Gross	Provision	Gross	Provision
Consumer Segment	230	34	294	51
Business Segment	350	13	435	13
Getronics Segment	227	4	289	5
Wholesale & Operations Segment	260	15	261	20
E-Plus Segment	403	59	417	67
BASE Segment	84	9	95	10
Other	58	10	62	14
Balance as of December 31	1,612	144	1,853	180

For a discussion of each segments activities and related customer base, reference is made to the section 'Segmental information and results' starting on page 17. For a discussion of KPN's policies to reduce credit risk on trade receivables, reference is made to the section 'Financial Risk Management'. Credit risks with regard to mobile services is considered to be the highest within KPN's business. Overall, concentrations of credit risk with respect to trade receivables are limited due to the Group's large and unrelated customer base. The provision for doubtful trade receivables is predominantly collectively determined based on ageing and reviewed periodically. The concentration of credit risk in the integrated, outsourced and managed ICT solutions businesses is somewhat larger. The gross amounts due from trade receivables in these businesses at December 31, 2008 was EUR 393 million (2007: EUR 391 million) for which a provision of EUR 9 million (2007: EUR 6 million) was recorded. The provision for doubtful trade receivables in these businesses has been determined on an individual basis.

The ageing of the gross trade receivables at the reporting date was as follows:

Amounts in millions of EUR	December 31, 2008		December 31, 2007	
	Gross	Provision	Gross	Provision
Amounts undue	662	3	818	3
Past due 0-30 days	463	3	511	10
Past due 31-60 days	112	7	99	3
Past due 61-90 days	62	4	69	5
Past due 91-180 days	58	10	64	8
Past due 181-270 days	44	10	39	10
Past due 271-360 days	36	8	44	18
More than one year	175	99	209	123
Total	1,612	144	1,853	180

[16] Available-for-sale financial assets

Amounts in millions of EUR	2008	2007
Balance as of January 1	3	4
– of which current	3	4
Additions	50	
New consolidations	-	1
Sale of assets	-1	-2
Exchange rate differences	1	-
Fair value adjustment recorded in equity	1	
Balance as of December 31	54	3
– of which current	2	3

In 2008, KPN obtained an equity stake of approximately 11% in Tecnom, a listed Spanish ICT services company, as part of the consideration for the sale in 2007 of Getronics' operations in Spain and Portugal (see Note 18). Also in 2008, KPN obtained a stake of approximately 11% in the total equity of CompuCom, a privately held IT outsourcing company in North America, as part of the consideration for the sale in 2008 of Getronics' operations in North America. This equity stake in CompuCom consists of ordinary shares and preferred shares (see Note 18). KPN cannot sell its shares in CompuCom without the consent of other investors.

[17] Cash

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
Cash	772	836
Short-term bank deposits	427	312
Total cash	1,199	1,148

Cash as at December 31, 2008 is for more than 98% denominated in the functional currency of the related entities. On December 31, 2008, KPN's total outstanding bank guarantees amounted to EUR 60 million (2007: EUR 39 million), which were issued in the ordinary course of business. The effective interest rate on the outstanding bank deposits as at December 31, 2008 ranges from 1.5% to 2.1%.

Due to German capital maintenance rules, KPN is required to keep certain funds available at E-Plus. As of December 31, 2008, KPN's cash position amounted to EUR 1,199 million (including EUR 428 million in non-netted notional cash pools of which EUR 317 million relates to E-Plus).

All other cash is at free disposal to the Company within three months.

Net Cash

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
Total Cash	1,199	1,148
Bank overdraft	-428	-486
Net Cash	771	662

As of 2008, the drawings under the credit facility are included in bank overdraft. There were no drawings under the credit facility at December 31, 2008.

Notes to the Consolidated Balance Sheet

[18] Non-current assets, liabilities and disposal groups held for sale

Amounts in millions of EUR	Non-current assets and disposal groups classified as held for sale	Liabilities directly associated with non-current assets and disposal groups classified as held for sale
Balance as of January 1, 2007	30	-
New consolidations	163	72
Additions	55	-
Disposal	-221	-72
Balance as of December 31, 2007	27	-
Additions	695	190
Impairments	-58	-
Disposal	-543	-163
Exchange rate differences	-	1
Other	-2	8
Balance as of December 31, 2008	119	36

In the course of 2008, a number of businesses of Getronics were classified as disposal groups held for sale. These businesses include the operations of Getronics in North America and Business Application Services, Business Solutions for local governments and healthcare and Document Services in The Netherlands.

The North American businesses of Getronics were sold in 2008 to CompuCom, a privately held IT outsourcing company in North America, for an amount of USD 156 million (EUR 102 million) in cash. As part of the consideration KPN also obtained a stake of approximately 11% in the total equity of CompuCom, with whom KPN has also entered into a partnership (see Note 16). Business Application Services was sold in 2008 for an amount of EUR 240 million. An agreement in principle was reached on December 1, 2008 regarding the sale of Business Solutions for local governments and healthcare. This sale is closed in January, 2009.

KPN is selling part of its real estate portfolio which becomes redundant after migration to the new All-IP infrastructure. The buildings and accompanying land are located mainly in city center areas and offer significant redevelopment opportunities. At December 31, 2008 and 2007, buildings and land with a book value of EUR 10 million and EUR 27 million respectively were classified as 'non-current assets held for sale'.

New consolidations in 2007 in the table above relates to the Getronics operations in Spain and Portugal. On October 1, 2007, Getronics and Tecnocom, a listed Spanish ICT services company, signed the sale and purchase agreement to transfer 100% of the Getronics' operations in Spain and Portugal. The deal was closed on December 20, 2007. The disposal group held for sale was valued at the agreed purchase consideration less cost to sell. The purchase consideration breaks down into 60% in cash paid at closing and 40% deferred (EUR 32 million), either to be paid in cash or in Tecnocom shares. The receivable on Tecnocom was recorded under current trade and other receivables (Note 15). In 2008, the deferred payment was made in shares (see Note 16).

The assets and the related liabilities of the above-mentioned businesses classified as held for sale at December 31, 2008 can be specified as follows (in millions of EUR):

Intangible assets (including goodwill)	68
Property, plant and equipment	14
Deferred income tax assets	14
Trade and other receivables	20
Other current assets	3
Total assets held for sale	119
Deferred income tax liabilities	4
Trade and other payables	11
Other current liabilities	21
Total liabilities held for sale	36

[19] Equity attributable to equity holders

For a breakdown of Equity attributable to equity holders, reference is made to the Consolidated Statement of Changes in Group Equity.

Share capital

KPN's authorized capital stock totals EUR 1,440,000,000, divided into 3 billion ordinary shares of EUR 0.24 each and 3 billion Class B preferred shares of EUR 0.24 each. As of December 31, 2008 a total of 1,714,362,792 ordinary shares were outstanding and fully paid-in. Dutch laws prohibit KPN to cast a vote on shares KPN holds. The ordinary shares and Class B preferred shares carry the right to cast one vote each. For a description of the preferred shares, please see 'The Foundation Preference Shares B KPN' hereafter. The ordinary shares are registered or payable to bearer. Shareholders may request the Company to convert their registered shares to bearer shares but not vice versa.

Share premium

The additional paid-in capital is exempt from Dutch tax up to an amount of EUR 8,830 million (2007: EUR 9,340 million).

Other reserves

Below is a detailed overview of the movements in the number of treasury shares and other reserves:

Amounts in millions of EUR, unless indicated otherwise	Number of treasury shares	Treasury shares reserve	Hedge reserve	Tax effect hedge reserve	Fair value reserve available for sale financial assets	Currency translation reserve	Total other reserves
Balance as of January 1, 2007	17,290,174	-119	-129	33	-	0	-215
Sold (exercise options) [3]	-4,576,437	25	-	-	-	-	25
Purchased	125,648,813	-1,500	-	-	-	-	-1,500
Cancelled	-85,069,113	1,000	-	-	-	-	1,000
Addition to hedge-reserve	-	-	99	-25	-	-	74
Amortization hedge-reserve [6]	-	-	13	-4	-	-	9
Exchange rate differences	-	-	-	-	-	-1	-1
Balance as of December 31, 2007	53,293,437	-594	-17	4	-	-1	-608
Sold (exercise options) [3]	-3,777,988	24	-	-	-	-	24
Purchased	104,241,810	-1,170	-	-	-	-	-1,170
Cancelled	-129,119,421	1,502	-	-	-	-	1,502
Release from hedge-reserve	-	-	-12	3	1	-	-8
Amortization hedge-reserve [6]	-	-	15	-4	-	-	11
Exchange rate differences	-	-	-	-	-	21	21
Balance as of December 31, 2008	24,637,838	-238	-14	3	1	20	-228
<i>– of which to be cancelled</i>	<i>-9,665,169</i>						
Total treasury shares	14,972,669						

Hedge reserve

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
Effective portion cash flow hedges	64	76
Amortizable part	-78	-93
Balance of	-14	-17

For details of cash flow hedges reference is made to Note 29 'Financial Risk Management'.

Total distributable reserves at December 31, 2008 amount to EUR 3,079 million (2007: EUR 3,768 million). For a detail of the non-distributable reserves, reference is made to the Corporate Financial Statements.

Notes to the Consolidated Balance Sheet

Treasury shares and treasury shares reserve

KPN purchases shares in its own capital under a share repurchase program and also for delivery upon exercise of share options by management and personnel under the share option and performance share plans (see Note 3). Votes on purchased shares may not be cast and they do not count towards determining the number of votes required at a General Meeting of Shareholders.

In 2008, 98,204,890 shares were purchased under the share repurchase program of which 88,539,721 were cancelled in 2008 and 9,665,169 will be cancelled in 2009. Also in 2008, 40,579,700 shares purchased in 2007 were cancelled.

In 2008, 6,036,920 ordinary shares were repurchased to cover KPN's cash-settled performance share plans. In 2007, no ordinary shares were purchased for this purpose. Treasury shares are accounted for at cost, representing the market price on the acquisition date. The average share price of the shares purchased in 2008 to cover share and stock compensation plans was EUR 11.19. The proceeds at delivery of the treasury shares are recognized directly in the other reserves. In the event that more options are exercised than available as treasury shares for option plans, KPN anticipates providing shares through the issuance of new shares or the purchase of shares in the market. All rights with respect to repurchased treasury shares are suspended until those shares are delivered.

Foundation Preference Shares B KPN

As of December 31, 2008 KPN has option arrangements regarding the issue of preference shares B in place with the Foundation Preference Shares B KPN ('the Foundation'). Please see the description regarding the Foundation in the Annual Report, section 'Corporate Governance'.

KPN has a put option to place with the Foundation a number of its Class B preference 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. In addition, the Foundation has a call option, which is not limited in time, to acquire a number of Class B preference shares from KPN not exceeding the total issued amount of ordinary shares, minus one share and minus any shares already issued to the Foundation. Since October 12, 2006, the authority of the Board of Management to issue Class B preference shares under the put option expired. This expiration does not affect the obligation to issue Class B preference shares upon exercise of the call option by the Foundation. Upon exercise of the call option, 25% of the nominal value of EUR 0.24 per Class B preference share needs to be paid by the Foundation. KPN's Board of Management can decide to request the Foundation to pay the remainder. Such decision is subject to the approval of the Supervisory Board.

KPN is of the opinion that neither the put option nor the call option represent a significant value as meant in IAS 1, paragraph 31 due to the fact that the put option can no longer be exercised by KPN and the fact that the likelihood that the call option will be exercised is very remote. In the remote event that the call option will be exercised, the preference shares B will be cancelled relatively shortly after issuance. The options are therefore not accounted for in the annual accounts nor is any additional information as meant in IAS 32 and 39 added.

[20] Minority interests

Minority interests mainly relate to iBasis (44% in 2008 and 49% in 2007).

[21] Borrowings

The carrying amounts and fair value of the borrowings at December 31 are as follows:

Amounts in millions of EUR	December 31, 2008		December 31, 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Eurobonds EUR	8,577	8,297	7,548	7,522
Eurobonds GBP	541	458	942	982
Global Bonds USD	2,322	2,202	1,885	2,178
Financial lease obligations	141	121	69	68
Bank overdraft	428	428	486	486
Credit facility	-	-	800	800
Other loans	32	28	25	25
Total borrowings	12,041	11,534	11,755	12,061
– of which current	1,165	1,181	2,301	2,333
– of which non-current	10,876	10,353	9,454	9,728

The fair value is estimated on a discounted cash flow analysis based on the incremental borrowing rates for similar types of borrowing arrangements with comparable terms and maturities. The discount rate is based on an average yield rating Baa2/BBB+.

KPN's weighted average interest yield on the borrowings outstanding at December 31, 2008 was approximately 5.5% (2007 5.2%) and the weighted average effective interest yield of these borrowings was approximately 5.7% (2007 5.5%).

For further details on borrowings, including a redemption schedule, reference is made to Note 29 'Financing Risk Management – Liquidity Risk'.

Bonds

In March 2008 KPN issued under the Global Medium Term Note (GMTN) a EUR 850 million Eurobond with a long seven year maturity and a coupon of 6.50% and in June 2008 a tap of EUR 75 million was issued.

In September 2008 KPN issued under the GMTN a EUR 850 million Eurobond with a five-year maturity and a coupon of 6.25%. Following the execution of this bond transaction KPN terminated the EUR 1 billion bilateral backstop credit agreement which was signed in July 2008.

In accordance with the regular redemption schedule, KPN redeemed in 2008 GBP 175 million of the Eurobond 2001-2008 (matured on April 11 2008) and EUR 768 million of the Eurobond 1998-2008 (matured on November 5, 2008).

In November 2007 KPN issued under the GMTN a EUR 1.25 billion Eurobond with a five-year maturity and a coupon of 5.00%. Following the execution of this bond transaction KPN terminated the EUR 1.25 billion bilateral backstop credit agreements which were signed in the third quarter of 2007.

In May 2007, KPN issued under the GMTN a dual-tranche euro and pound sterling bond consisting of a EUR 650 million euro tranche with a tenure of seven years and a coupon of 4.75% and a EUR 250 million GBP tranche with a tenure of 12 years and a coupon of 6%. The GBP tranche was swapped into EUR 367 million with a fixed interest rate of 5.12%. Following this dual-tranche issue, KPN reduced the 2010 debt maturity by EUR 703 million in order to smoothen KPN's redemption profile.

Financial lease obligations and other loans

As of December 31, 2008, the financial lease obligations amounted to EUR 141 million. Other loans include a private loan of EUR 10 million. iBasis has a revolving credit facility amounting to USD 50 million of which USD 27 million (EUR 19 million) was drawn as per December 31, 2008. This credit facility will mature in October 2009. The revolving credit facility is secured by a first priority lien and security interest on the assets of iBasis and its wholly owned subsidiaries in the United States who act as guarantors. In addition, iBasis has pledged two-thirds of all its shares of iBasis Netherlands, which is a wholly-owned subsidiary of iBasis, as collateral for the revolving credit facility.

Credit rating

KPN's credit ratings on December 31, 2008 were BBB+ with stable outlook from Standard & Poor's and Baa2 with stable outlook from Moody's.

[22] Provisions for retirement benefit obligations

Provisions for retirement benefit obligation consist of pension provisions and the provision for the Social Plan 2001.

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
Pension provisions	756	1,009
Provision for Social Plan 2001	136	189
Total	892	1,198

Pensions

The majority of KPN's employees in The Netherlands are covered by defined benefit plans. The majority of the employees outside The Netherlands are covered by defined contribution plans. The measurement date for all defined benefit plans is December 31. KPN makes contributions to provide sufficient assets to fund the benefits payable to participants of defined benefit plans.

Notes to the Consolidated Balance Sheet

The following table gives an overview of KPN's main defined benefit plans based on size and risk profile as at December 31, 2008:

Pension Plan	Characteristics	Funding	Minimum funding requirement
KPN Main plan PF	KPN's main Dutch pension plan covers employees who are subject to KPN's collective labor agreement. The benefits provided are based on the employee's years of service and compensation level and consists of a defined benefit average pay plan for the salary up to EUR 45,378 per annum and a defined contribution plan for the salary exceeding EUR 45,378 per annum. Furthermore, employees can opt to participate in an individual pension saving scheme. The retirement age is 65 years.	This plan is funded externally in 'Stichting Pensioenfonds KPN'. Premiums are paid to this fund based on a long-term horizon regarding the desired coverage ratio. The employee contribution is fixed and based on the collective labor agreement. For the defined contribution part, KPN guarantees a conditional 0% return on the nominal contribution. For the individual pension saving scheme, all contributions are made entirely by the employees.	These plans are mandated by Dutch law ('Pensioenwet') which requires minimum coverage ratios. The coverage ratio is calculated based on vested benefit obligations and differs from the defined pension obligation as calculated under IFRS, among others due to different discount rates. At December 31, 2008 the actual coverage ratios are below 105%, and the Dutch funds are required to recover to this coverage ratio over a three-year period by additional contributions (short-term recovery plan). In addition, as long as the coverage ratio is below 105%, there will be no indexation. Next to that, the Dutch funds are required to recover to a coverage ratio of approximately 120% over a 15-year period either by additional contributions or a decrease in indexation (long-term recovery plan).
KPN OPF	KPN's OPF covers Senior Management with a personal labor agreement in The Netherlands. The benefits provided are based on the employee's years of service and consist of a defined benefit average pay plan for the salary up to EUR 45,378 per annum and a defined contribution plan for the salary exceeding EUR 45,378 per annum. Furthermore, employees can opt to participate in an individual pension saving scheme. The retirement age is 65 years.	This plan is funded externally in 'Stichting Ondernemingspensioenfonds'. Premiums are paid to this fund based on the expected increase in pension benefits for the year. The employee contribution is fixed. For the individual pension saving scheme, all contributions are made entirely by the employees.	
Getronics NL SVG	Plan participants accrue retirement benefits by means of an individual savings account. The retirement age is 65.	The individual savings accounts are externally funded in 'Stichting Voorzieningsfonds Getronics' (SVG). The annual accrual of the individual savings account is based on a defined contribution scheme. For this scheme, contributions are made both by Getronics and by the employees. The SVG pension plan is regarded under IAS 19 as a defined benefit plan as the plan has a conditional 4% return on investment guarantee.	
KPN early retirement	This comprises a number of transitional early retirement plans (VUT, Vroegpensioen) for retirement before the age of 65. These plans are closed.	These plans are unfunded. The benefits are paid by KPN when due.	Not applicable.
Getronics UK	Getronics UK sponsors two defined benefit arrangements, mostly for inactive members and a number of defined contribution arrangements. The defined benefit plans are closed for new entrants.	The defined benefit plans are funded externally in a trust.	In line with the requirements of the UK pension regulator, any deficit in these defined benefit plans must be recovered to a fully funded position over a seven- to ten-year period. As at December 31, 2008 both defined benefit plans were in deficit and additional employer contributions have been agreed upon for a recovery period up until 2012.
Getronics US	Getronics US was sold in 2008 but is was agreed not to sell the 2 remaining closed (frozen) defined benefit plans to the new owner.	These plans are closed.	Until the plans are fully funded to 100% of liabilities, US funding rules require quarterly contributions to recover to a fully funded position over a seven year period based on a roll-over system. As at December 31, 2008 both defined benefit plans were in deficit and additional employer contributions have been concluded for the aforementioned mentioned recovery period.

The balance sheet position of the defined benefit plans can be broken down as follows:

Amounts in millions of EUR	2008	2007
Defined benefit obligation – balance as of January 1	6,697	5,462
Service costs	141	122
Interest costs	343	271
Benefits paid	-231	-189
Employees' contribution	26	12
Other employers' contributions	-	-
Past-service costs	20	-
Transferred to held for sale	-	-
Actuarial (gains)/losses	-892	-387
Business combinations	17	1,430
Exchange rate differences	-50	-20
Curtailment/settlement/transfer	-220	-4
Defined benefit obligation – balance as of December 31	5,851	6,697
– of which funded plans	5,556	6,339
– of which unfunded plans	295	358
Fair value of plan assets – balance as of January 1	6,205	4,783
Actual return on plan assets	-933	91
Employer's contribution	201	246
Employees' contribution	25	12
Curtailment/settlement/transfer	-6	-
Transferred to held for sale	-4	-
Benefits paid	-231	-189
Business combinations	12	1,278
Exchange rate differences	-35	-16
Fair value of plan assets – balance as of December 31	5,234	6,205
Benefit obligation in excess of plan assets	617	492
Unrecognized past service cost	-5	-
Unrecognized gains/(losses) ¹	43	449
Pension provisions (net)	655	941
– of which funded plans	416	632
– of which unfunded plans	239	309
– of which classified as non-current liabilities [22]	756	1,009
– of which classified as non-current assets [13]	101	68
Break down of non-current liabilities		
Amounts in millions of EUR	2008	2007
KPN Main plan PF	400	571
KPN early retirement	214	278
Getronics NL SVG	19	1
Getronics UK	56	81
Getronics US	18	23
Other	49	55
Total	756	1,009
Break down of non-current assets		
Amounts in millions of EUR	2008	2007
KPN OPF	73	41
Other	28	27
Total	101	68

Notes to the Consolidated Balance Sheet

IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum funding Requirements and their Interaction' clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. For KPN, this IFRIC has no impact on the pension assets or costs in 2008.

The total pension costs recognized for the years 2008 and 2007 were as follows:

Amounts in millions of EUR	2008	2007
Service costs	-141	-122
Interest costs	-343	-271
Expected return on assets	374	309
Other costs	-2	
Recognized actuarial losses/gains	-8	1
Past service costs	194	-
Curtailments/settlements	14	1
Total defined benefit plans	88	-82
Defined contribution plans	-20	-10
Total pension costs	68	-92

Past-service costs relates to an agreement reached in 2008 with trade unions in The Netherlands with respect to the change in pension indexation for KPN's main plan BPF. This indexation is now based on price inflation instead of salary increases. The change in indexation resulted in 2008 in a release of pension obligations of EUR 197 million and a release of Social Plan 2001 obligations of EUR 2 million which were recognized as a gain (negative past service cost) in the Consolidated Income Statements (see Note 3).

The weighted average of the actuarial assumptions used in the calculation of the defined benefit obligations and the pension costs for the subsequent year are as follows:

As a %	Dec. 31, 2008		Dec. 31, 2007	
	Main plan PF	Other	Main plan PF	Other
Discount rate	5.2	5.2	5.4	5.2
Expected salary increases	2.0	2.3	2.5	2.6
Expected return on assets	5.6	5.9	6.5	6.3
Expected benefit increases	1.4	1.4	2.2	2.0

The discount rate is based on yield curves of AA zero-coupon corporate bonds, with maturities equal to the duration of the benefit obligations and in the applicable currency. For the obligations in EUR, the yield curve is based on more than 400 corporate bonds in different industries.

The expected return on assets is determined per asset category (i.e., equities, fixed-interest securities, real estate, market neutral hedges and commodities). The expected return on fixed-interest is derived from the actual interest rate on balance sheet date for similar interest bearing securities. The return on equities is based on the return on fixed interest plus a risk premium which was 4.5% in 2008 and 5.0% in 2007. The return on the other asset categories is derived from historic returns. The mortality assumptions in The Netherlands are based on the GBM/GBV (2005-2050) post-retirement prospective mortality table. For the other countries the most recent mortality tables are applicable.

Sensitivity analysis

In 2009, the expected net pension costs for KPN as a whole (including Social Plan 2001) will amount to approximately EUR 165 million for defined benefit and defined contribution plans.

The table below shows the approximate impact on the 2009 net periodic pension costs if mentioned key assumptions would have been different.

Amounts in millions of EUR	Increase		Decrease	
	by 1%	by 2%	by 1%	by 2%
Discount rate	-103	-206	118	236
Expected salary increases	20	40	-19	-38
Expected return on assets	-47	-94	54	108
Expected price inflation	64	128	-49	-98

The table below shows the approximate impact on the defined benefit obligation as at December 31, 2008 if mentioned key assumptions would change by one percentage point:

Amounts in millions of EUR	Increase		Decrease	
	by 1%	by 2%	by 1%	by 2%
Discount rate	-801	-1,602	988	1,976
Expected salary increases	43	87	-77	-155
Expected price inflation	778	1,553	-618	-1,236

If more than one of the assumptions were changed, the impact would not necessarily be the same as if only one assumption changed in isolation.

Plan assets: investment policies/strategies

The pension funds actively manage their investment portfolio. In most cases, the investment strategy is determined based on an asset-liability study in consultation with investment advisers and within the boundaries given by regulatory bodies for pension funds (in The Netherlands the regulatory body is De Nederlandsche Bank). The pension funds mainly invest in the global equity and debt markets. The investments of the KPN Dutch funds are reviewed daily by investment managers and on a monthly basis by the board of the pension funds. When necessary the board decides on a change in the investment policy in consultation with investment advisers. As KPN invests in market indices like MSCI, a minor part of these investments is related to KPN equities. None of the investments in real estate are rented by KPN.

The weighted average investment portfolio for KPN's main plan PF is as follows:

	Strategic as from 2009	As of December 2008	As of December 2007
Equities	41%	37%	41%
Fixed income	40%	45%	39%
Real estate	13%	13%	12%
Other	6%	5%	8%
Total	100%	100%	100%

KPN's weighted average investment portfolio in other plans and countries at December 31, 2008 and 2007 is as follows:

	As of December 2008	As of December 2007
Equities	30%	29%
Fixed income	33%	37%
Real estate	6%	5%
Other	31%	29%
Total	100%	100%

Notes to the Consolidated Balance Sheet

Expected contributions and benefits

In 2008, the total contributions and all benefit payments for unfunded plans amounted to EUR 280 million, consisting of EUR 112 million for defined benefit premiums, EUR 20 million defined contribution premiums and EUR 148 million benefit payments for unfunded plans. For 2009, the defined benefit premiums are expected to increase by approximately EUR 120 million, mainly due to a decrease in the coverage ratio of the funded pension plans. The table below shows the approximate impact in 2009 on the total contributions and benefit payments for unfunded plans if the applicable discount rates used to calculate the coverage ratios and the equity markets in which the pension funds invest would have been different on December 31, 2008:

Amounts in millions of EUR	Change	Impact on 2009 cash contributions
Equity markets	-10%	51
	-20%	103
	+10%	-51
	+20%	-103
Discount rate	-1%	133
	-2%	267
	+1%	-120
	+2%	-120

Experience adjustments

Actuarial gains and losses are defined in IAS 19 as experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. They include changes in the fair value of plan assets other than the expected returns. Actuarial gains and losses can be large and volatile. A five-year record shows the defined benefit obligation, the fair value of plan assets and the resulting surplus or deficit, and the 'experience adjustments' in each year on the assets and liabilities.

Amounts in millions of EUR	2008	2007	2006	2005	2004
DBO	5,851	6,697	5,461	5,737	5,337
Plan assets	5,234	6,205	4,783	4,461	3,859
Deficit	-617	-492	-678	-1,276	-1,478
Experience adjustments arising on liabilities	210	-32	-1	¹	¹
Experience adjustments arising on plan assets	-1,306	-230	32	¹	¹

1) IAS 19 requires a five-year history to be disclosed, however reliable information with respect to the years 2004-2005 is not available and is therefore not required to be disclosed.

Provision for Social Plan 2001

Amounts in millions of EUR	2008	2007
Balance as of January 1	189	241
Withdrawals	-57	-60
Interest	6	8
Release	-2	-
Balance as of December 31	136	189

This provision relates to the costs for KPN employees who voluntarily left under the Social Plan agreed upon with the trade unions and Works Council in 2001. This Plan provides for the reduction of KPN's workforce in The Netherlands by at most 5,280 employees. Approximately 2,300 employees of age 55 and older were offered an early retirement scheme under conditions similar to the KPN early retirement plans. The amount and timing of the cash outflows are certain except for mortality rates. The aforementioned change in pension indexation resulted in 2008 in a release of obligations (negative past service cost) for the Social Plan of EUR 2 million which was recognized as a gain in the Consolidated Income Statements (see Note 3).

[23] Provisions for other liabilities and charges

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
Restructuring provision	238	83
Asset retirement obligations	223	249
Other provisions	152	131
Balance	613	463
– of which non-current	427	390
– of which current	186	73

Restructuring provision

The restructuring provision consists of the following components:

Amounts in millions of EUR	2008	2007
Personnel (redundancy obligations)	218	61
Contractual obligations	20	22
Restructuring provision	238	83

Of the restructuring provision, approximately EUR 131 million had a term of less than one year, EUR 89 million a term of between one and five years and EUR 18 million a term of more than five years.

The movements in the restructuring provision are as follows:

Amounts in millions of EUR	Personnel	Contractual obligations	Total
Balance as of December 31, 2006	73	17	90
– of which current portion	31	12	43
Additions	51	8	59
Usage	-77	-8	-85
Change in consolidation	14	5	19
Balance as of December 31, 2007	61	22	83
– of which current portion	33	5	38
Additions	273	9	282
Usage	-119	-2	-121
Other movements	3	-9	-6
Balance as of December 31, 2008	218	20	238
– of which current portion	120	11	131

Personnel (redundancy obligations)

During 2008 and 2007, KPN continued to substantially reduce its staff. As part of the 'Back to Growth' strategy, KPN announced plans to increase the total FTE reductions to 10,000 by 2010. For this FTE reduction a restructuring provision of EUR 207 million was recognized in 'Other' in 2008. Restructuring charges for existing restructuring plans and other restructuring plans implemented in 2008 amounted to EUR 75 million of which EUR 19 million relates to 'Other'.

During 2007, KPN recognized a restructuring provision of EUR 59 million of which EUR 19 million relates to 'Other'.

The redundancy obligation of the restructuring provision is calculated based on the Social Plan agreed upon with the trade unions and Works Council.

Notes to the Consolidated Balance Sheet

Asset retirement obligations

Amounts in millions of EUR	2008	2007
Balance as of January 1	249	250
Additions	1	12
New consolidations	2	14
Interest	12	11
Usage	-41	-9
Release	-	-29
Transferred to held for sale	-2	-
Other movements	2	-
Balance as of December 31	223	249
<i>– of which current</i>	<i>9</i>	<i>8</i>

The asset retirement obligations at December 31, 2008 amounted to EUR 223 million (2007: EUR 249 million), of which EUR 46 million (2007: EUR 15 million) has a term of less than five years.

As defined in the changed Telecommunications Act the obligation for landlords to tolerate cables which are part of a public electronic communications network terminates as soon as those cables have been idle for a continuous period of 10 years. In that situation, a public electronic communications network supplier is required to remove cables on request of a landlord. As many factors are currently unpredictable and uncertain, KPN is not able to make a reliable estimate of the impact and no provision was recognized at December 31, 2008.

Other provisions

The movements in other provisions are as follows:

Amounts in millions of EUR	2008	2007
Balance as of January 1	131	101
Additions/release via p&L	28	2
Interest	1	1
New consolidations	36	39
Usage	-42	-8
Release	-	-4
Transferred to held for sale	-2	-
Balance as of December 31	152	131
<i>– of which current</i>	<i>45</i>	<i>27</i>

Other provisions relates to various risks and commitments, claims and litigations and onerous contracts. The majority of other provisions has a term of less than five years.

[24] Other payables and deferred income (non-current)

Deferred income concerns amounts received in advance for revenues that will be recognized in the future. As of December 31, 2008, an amount of EUR 159 million (2007: EUR 187 million) is recorded as deferred income in Other payables and deferred income (non-current). The short-term portion, an amount of EUR 97 million (2007: EUR 125 million), is included in Trade and other payables (current). Other payables and deferred income as of December 31, 2008 include an amount of EUR 85 million (2007: EUR 17 million) relating to deferred purchase considerations. In addition, an amount of EUR 40 million (2007: EUR 40 million) is recorded as non-current payable with respect to the GSM 900 license for the period from April 1, 2010 up to February 25, 2013, which needs to be paid in three installments during the period from 2010 up to 2012.

[25] Trade and other payables (current)

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
Trade payables	1,424	892
Deferred income	965	1,080
Accrued interest	300	258
Social security and other taxes payable	167	240
Other payables and accrued expenses	1,424	1,667
Balance as of	4,280	4,137

At December 31, 2007 a deferred payment of EUR 12 million in relation to shares to be purchased with respect to the acquisition of Getronics was included. Reference is made to Note 30 'Business combinations and other changes in consolidations'.

[26] Derivative financial instruments

Derivative financial instruments (valued at fair value) can be broken down as follows:

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
Assets	133	11
Non-current	133	11
Current	-	-
Liabilities	-194	-357
Non-current	-192	-329
Current	-2	-28
Total derivative financial instruments	-61	-346
<i>– of which interest-bearing liabilities</i>	<i>-60</i>	<i>-346</i>
<i>– of which forward exchange contracts</i>	<i>-1</i>	<i>-</i>

The ineffective portion of the cash flow hedges during 2008 and 2007 recognized in the Consolidated Income Statement was a loss of EUR 2 million in each year.

Bonds denominated in foreign currency

All bonds denominated in foreign currencies are hedged with cross-currency interest rate swaps. The swaps are used to mitigate the exposure on currency risk and/or interest risk. For all these hedge relations, KPN meets the criteria of, and also applies, hedge accounting.

KPN determines the effectiveness of the hedges using regression analysis for all hedge relations established until 2006. Since the implementation of a new hedge accounting tool in the Treasury Management system as of January 2007, KPN determines the effectiveness of hedge relations established after 2006 using the dollar offset method.

An overview of the cross-currency interest rate swaps at December 31 is presented below

(in millions unless stated otherwise):

Nominal	Currency	Maturity date	Pay	Receive	Hedge	Fair value in Euro ¹
2008						
1,750	USD	October 1, 2010	Fixed	Fixed	Cash Flow	-2
275	GBP	March 18, 2016	Fixed	Fixed	Cash Flow	-102
250	GBP	May 29, 2019	Fixed	Fixed	Cash Flow	-88
1,000	USD	October 1, 2030	Floating	Fixed	Fair Value	133
Total						-59
2007						
175	GBP	April 11, 2008	Floating	Fixed	Fair Value	-20
1,750	USD	October 1, 2010	Fixed	Fixed	Cash Flow	-74
275	GBP	March 18, 2016	Fixed	Fixed	Cash Flow	-13
250	GBP	May 29, 2019	Fixed	Fixed	Cash Flow	-6
1,000	USD	October 1, 2030	Floating	Fixed	Fair Value	-236
Total						-349

1) Negative amounts are liabilities.

For the USD 1,750 million bond, maturing in October 2010 with semi-annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in USD to EUR 1,299 million. KPN also hedged the interest rate exposure by swapping the interest rates from US dollar fixed to euro fixed on an annual basis (approximately 7.30% per annum).

For the GBP 275 million bond, maturing in March 2016 with annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in GBP to EUR 401 million. KPN also hedged the interest rate exposure by swapping the interest rates from GBP fixed to euro fixed on annual basis (approximately 4.89% per annum).

For the GBP 250 million bond, maturing in May 2019 with annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in GBP to EUR 367 million. KPN also hedged the interest rate exposure by swapping the interest rate from GBP fixed to euro fixed on annual basis 5.12% per annum.

For the USD 1,000 million bond, maturing in October 2030 with semi-annual interest payments, KPN hedged the currency exposure by effectively fixing the counter value in USD to EUR 891 million. Also KPN hedged the interest rate exposure by swapping the interest rates from US dollar fixed to euro floating (six-month Euribor plus 2.72% margin).

Interest rate swaps

An overview of the interest rate swaps at December 31 is presented below (in millions unless stated otherwise):

Nominal	Currency	Maturity date	Pay	Receive	Hedge	Fair value in Euro ¹
2008						
700	EUR	July 21, 2009	Fixed	Floating	Cash Flow	-1
Total						-1
2007						
700	EUR	July 21, 2009	Fixed	Floating	Cash Flow	11
750	EUR	November 5, 2008	Floating	Fixed	Fair Value	-8
Total						3

1) Negative amounts is liabilities.

The EUR 700 million interest rate swap is for hedging the interest on the EUR 700 million bond, maturing in July 2009, from floating (3-month Euribor plus 0.40% margin) to fixed (4.02% per annum) on an annual basis.

The EUR 750 million interest rate swap is for hedging the interest on the EUR 768 million bond, which matured in November 2008, from fixed (4.75% per annum) to floating (6-month Euribor plus 1.24% margin). This swap was settled in November 2008.

The weighted average interest yield on borrowings outstanding at December 31, 2008 after swaps was approximately 5.4% (2007: 5.2%).

Foreign exchange contracts

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.

Amounts in millions of EUR	Contract volume 2008	Fair value 2008	Contract volume 2007	Fair value 2007
Term shorter than 1 year	12	-1	115	0
Term longer than 1 year	-	-	-	-
Total	12	-1	115	0

For further details on derivative financial instruments, reference is made to Note 29 'Financing Risk Management – Exposure to Foreign Currency Risk'.

Notes to the Consolidated Cash Flow Statement

[27] Net Cash flow used in investing activities

In 2008, the amount of acquisitions of subsidiaries, associates and joint ventures in the Consolidated Cash Flow Statement mainly relate to the acquisition of SMS Michel, Ortel Mobile, blau Mobilfunk and debitel and the cash contribution to the joint-venture with Reggefiber.

In 2007, this mainly relates to the acquisition of Getronics, Tiscali The Netherlands, Tele2/Versatel Belgium and the 51% acquisition of iBasis.

For more details about the acquisitions, see Note 30 'Business Combinations and other changes in consolidation'.

Disposals of subsidiaries, associates and joint-ventures in 2008 include the proceeds from the sale of the Getronics operations in North America (EUR 99 million) and Business Application Services (EUR 230 million).

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

[28] Net Cash flow used in financing activities

In March 2008 KPN issued under the Global Medium Term Note (GMTN) a EUR 850 million Eurobond with a seven-year maturity and a coupon of 6.50% and in June 2008 a tap of EUR 75 million was issued.

In September 2008 KPN issued under the GMTN a EUR 850 million Eurobond with a five-year maturity and a coupon of 6.25%.

In accordance with KPN's regular redemption schedule, the GBP 175 million of the Eurobond 2001-2008 and the EUR 768 million of the Eurobond 1998-2008 were redeemed in 2008.

As of 2008, the proceeds and repayments from borrowings related to temporary drawings and repayments under the credit facility are no longer included in net cash flows used in financing activities but included in net cash (see Note 17).

In November 2007 KPN issued under the GMTN a EUR 1.25 billion Eurobond with a five-year maturity and a coupon of 5.00%. The proceeds of this bond were used to redeem the drawdowns on the credit facilities and for general corporate purposes.

In May 2007, KPN issued under the GMTN a dual-tranche euro and pound sterling bond consisting of a EUR 650 million euro tranche with a tenure of seven-years and a coupon of 4.75% and a EUR 250 million GBP tranche with a tenure of 12 years and a coupon of 6%. The GBP tranche was swapped into EUR 367 million with a fixed-interest rate of 5.12%.

The remaining proceeds and repayments from borrowings in 2007 relate to temporary drawings and repayments under KPN's credit facility. As of December 31, 2007, KPN had temporarily drawn an amount of EUR 800 million under the credit facility.

[29] Financial Risk Management General

KPN is exposed to a variety of financial risks. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on KPN's financial performance. KPN uses derivative financial instruments to hedge certain risk exposures.

The financial risks are managed by KPN's Treasury department under policies approved by the Board of Management. Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group companies and business operations. The Board provides written policies covering specific areas such as:

- Credit risk;
- Liquidity risk; and
- Market risk (currency risk and interest rate risk).

In addition, KPN's Treasury department provides cash management and funding services to the Group companies and business operations.

This note presents information about the Group's exposure to each of the above-mentioned risks, the Group's objectives, policies and processes for measuring and managing risk. For the Group's management of capital, reference is made to section 'Information about the KPN share'. Further quantitative disclosures are included throughout these Consolidated Financial Statements.

The Group's risk management policies with respect to the financial risks mentioned above are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor and adherence to limits.

Other notes to the Consolidated Financial statements

The table below summarizes the Group's financial assets and liabilities:

Amounts in millions of EUR	December 31, 2008		December 31, 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Fair value through profit and loss:				
Derivatives – non-current [26]	133	133	11	11
Loans and receivables:				
Non-current receivables from financial leases [13]	9	9	14	14
Loans to associates and joint ventures [13]	-	-	5	5
Trade receivable [15]	1,468	1,468	1,673	1,673
Income tax receivables [7] and social security and other taxes [15]	134	134	179	179
Other receivables [15]	127	127	155	155
Cash and cash equivalents [17]	1,199	1,199	1,148	1,148
Subtotal	2,937	2,937	3,174	3,174
Available for sale financial assets [16]	54	54	3	3
Total	3,124	3,124	3,188	3,188
Financial liabilities				
Fair value through profit and loss:				
Derivatives – non-current [26]	192	192	329	329
Derivatives – current [26]	2	2	28	28
Subtotal	194	194	357	357
Financial liabilities measured at amortized costs:				
Borrowings [21]	12,041	11,534	11,755	12,061
Non-current payable [24]	40	40	40	40
Trade payables [25]	1,424	1,424	892	892
Income tax payables [7] and social security and other taxes [25]	295	295	278	278
Other payables and accrued expenses and interest [25]	1,724	1,724	1,925	1,925
Subtotal	15,524	15,017	14,890	15,196
Total	15,718	15,211	15,247	15,553

The estimated fair value of financial instruments has been determined by using available market information and appropriate valuation methods. The estimated fair value approximates the value at which the instruments could be exchanged in an arms length transaction between knowledgeable, willing parties, other than in a forced liquidation or sale. The following methods and assumptions were used:

- Derivatives: The fair value of derivatives is estimated by using discounted cash flow models taking into account spot rates on the balance sheet date and euro and foreign currency swap curves. Only derivative instruments with financial institutions with a credit rating of Aa2 with Moody's, or better, at December 31, 2008 were outstanding.
- Borrowings: The fair value of borrowings is estimated by using discounted cash flow models taking into account the average yield rating Baa2/BBB+ with Moody's/S&P, which is similar to the rating of KPN, and spreads for the particular tenures of the borrowings.
- Cash, cash equivalents, accounts receivable and payable: As the maturity of these financial instruments is short, the carrying value approximates the fair value.

Credit risk

KPN's financial assets are subject to credit risk. Credit risk arises from the possibility of asset impairment occurring because counterparties are not able to meet their obligations in transactions involving financial instruments.

Pursuant to the policy of managing credit risk related to financial counterparties, KPN sets limits for the maximum exposure per counterparty and investment periods primarily based on certain minimum credit ratings. Separate limits are set for some strong counterparties without credit ratings and limited credit risk such as the Dutch State. Furthermore KPN only invests in liquid securities and money market transactions.

Other notes to the Consolidated Financial statements

During 2008, KPN increased the monitoring of the counterparty risk to a daily monitor, against which the credit rating, Credit Default Swap (CDS) levels and share price movements of the counterparties were monitored closely in relation to the fair value of the derivatives.

Credit risk on trade receivables is controlled based on restrictive policies for client acceptance. Credit management is focused on mobile services as the credit risk is considered to be the highest within this part of KPN's business. Before accepting certain new clients KPN requests credit watchers to provide credit management reports. In addition, KPN keeps track of the payment performance of customers. In cases where customers fails to meet set criteria, payment issues have to be solved before a new transaction with this customer will be entered into.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large and unrelated customer base. The Board of Management believes there is no additional credit risk provision required in excess of the allowance for doubtful receivables (see Note 15). Receivables relating to integrated, outsourced and managed ICT solutions are monitored on an individual basis. Reference is made to 'Significant Accounting Policies – trade and other receivables'.

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries.

Maximum exposure to credit risk

As KPN does not provide guarantees other than to Group companies, the carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at reporting date amounts to the total of the financial assets including cash (EUR 3,124 million at December 31, 2008 and EUR 3,188 million at December 31, 2007).

Liquidity risk

All KPN's financial liabilities are subject to liquidity risk. Liquidity risk is the risk that the Group will not be able to meet its financial obligations associated with financial instruments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and the availability of financing sources at reasonable capital resource covenants.

The Group's approach to managing liquidity is to ensure sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group. In 2008 KPN improved its liquidity position with bonds issued in March and September for a total amount of EUR 1.8 billion versus EUR 1.0 billion bond redemptions. In addition, 2008 disposal proceeds (Getronics) exceeded cash spent on acquisitions. KPN's financing policy could result in temporary cash positions at the balance sheet for an additional safety margin which gives flexibility in current market circumstances. KPN has a EUR 1.5 billion syndicated Credit Facility, valid until 2013 with more than 10 banks all of which had a rating of A2 with Moody's or higher as at December 31, 2008.

The table below provides a maturity analysis of the financial liabilities based on the remaining contractual maturities as of December 31, 2008.

Amounts in millions of EUR	Borrowings				Derivatives			Trade, income tax and other payables and accrued expenses	Total
	Bonds and Loans	Interest on Bonds and Loans	Financial lease obligations	Other Debt	Derivatives inflow (including interest)	Derivatives outflow (including interest)	Non-current payable		
2009	700	596	17	449	-213	234	-	3,144	4,927
2010	1,257	590	22	1	-1,451	1,505	13	-	1,937
2011	1,425	489	18	-	-93	111	13	-	1,963
2012	1,250	425	8	5	-93	111	14	-	1,720
2013	1,700	362	6	5	-93	111	-	-	2,091
2014 and subsequent years	4,845	1,649	70		-2,437	3,064	-	-	7,191
Contractual cashflows	11,177	4,111	141	460	-4,380	5,136	40	3,144	19,829

The table below provides a maturity analysis of the financial liabilities based on the remaining contractual maturities as of December 31, 2007.

Amounts in millions of EUR	Borrowings				Derivatives		Non-current payable	Trade, income tax and other payables and accrued expenses)	Total
	Bonds and Loans Nominal	Interest on Bonds and Loans	Financial lease obligations	Other Debt	Derivatives inflow (including interest)	Derivatives outflow (including interest)			
2008	1,007	578	16	1,287	-639	656	-	2,837	5,742
2009	700	505	9	24	-221	229	-	-	1,246
2010	1,189	476	13		-1,382	1,500	13	-	1,809
2011	1,425	382	14		-99	106	13	-	1,841
2012	1,250	318	9		-99	106	14	-	1,598
2013 and subsequent years	4,895	1,712	8		-2,649	3,086	-	-	7,052
Contractual cashflows	10,466	3,971	69	1,311	-5,089	5,683	40	2,837	19,288

With regard to other purchase commitments, capital commitments reference is made to 'Commitments, contingencies and legal commitments'.

Available financing sources in 2009

Due to German capital maintenance rules, KPN is required to keep certain funds available at E-Plus. As of December 31, 2008 KPN's cash position amounted to EUR 1,199 million (including EUR 428 million in non-netted notional cash pools, of which EUR 317 million relating to E-Plus).

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

EUR 1.5 billion multi-currency revolving credit facility

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

As of December 31, 2008, there were no amounts drawn under this facility. At December 31, 2007 EUR 800 million was drawn.

Overdraft facilities

During 2008, KPN had four uncommitted overdraft facilities with four banks, worth EUR 50 million each. The overdraft facilities may be cancelled at any time and do not have a specified maturity date. In 2008 KPN drew on these facilities from time to time. As of December 31, 2008 there were no amounts drawn under any of the overdraft facilities.

Backstop facilities

KPN had a 2-year EUR 0.4 billion backstop facility with a starting date of January 2, 2009. This facility was terminated following the successful launch in January 2009 of two bonds of EUR 750 million each (see Note 33 'Subsequent events').

Global Medium Term Note Program

In April 2008 KPN updated its GMTN program. The program contains no commitment from investors to provide funding to KPN. Funding will be available subject to market conditions and other factors at the relevant time.

Other notes to the Consolidated Financial statements

Capital Resources Covenants

KPN's existing capital resources contain the following covenants as at December 31, 2008, which could trigger additional financial obligations or early redemption of the outstanding indebtedness.

All of KPN's bonds issued after January 1, 2006 adding up to EUR 6.3 billion at December 31, 2008 contain a change of control clause by means of which KPN may be required to redeem such outstanding bonds early, in the event that (i) certain changes of control occur and (ii) within the change of control period a rating downgrade to sub investment grade occurs in respect of that change of control. The change of control period ends 90 days after the change of control event occurs.

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

Market risk

KPN is exposed to various kinds of market risks in the ordinary course of business. These risks include:

- Foreign currency exchange rate risks;
- Interest rate risks; and
- Other market price risk.

KPN has established policies that deal with the use of derivative financial instruments in order to reduce foreign currency exposure and to manage the interest rate profile. KPN's centralized Treasury department matches and manages intercompany and external foreign currency reported by the various business operations and Group companies. Hedges are applied on a full coverage basis, when economically feasible.

In line with these policies, derivative financial instruments are used solely for the purpose of hedging underlying exposures to foreign currency exchange rate risk and interest rate risk. KPN does not enter into derivative financial instruments for speculative purposes. Contracts related to derivative financial instruments are entered into for periods consistent with the underlying exposures (when economically feasible) 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.

KPN's policy is to apply hedge accounting for all derivative financial instruments related to interest-bearing debt and foreign exchange risk for bonds that are not denominated in euro. Management has set up a policy to apply hedge accounting only when certain criteria are met regarding formal designation and documentation of the hedging relationship, the risk management objective, the strategy for undertaking the hedge and the effectiveness of the hedge. As a consequence, KPN tests effectiveness of the hedge relationship at inception and every quarter. Reference is made to Note 26.

Foreign currency exchange rate risks

Currency risk is the risk that the fair value or future cash flows will fluctuate because of changes in foreign exchange rates. Although KPN acquired iBasis and Getronics during 2007, the risks associated with foreign currency transactions positions arising from operating activities are limited for KPN since operating income and operating expenses are largely denominated within the eurozone. The risk mainly results from settlement of international telecommunications traffic, purchase of goods and equipment and primarily exists of pound sterling and US dollar exposure (iBasis and Getronics).

As a result of currency fluctuations, the value of subsidiaries operating outside the eurozone markets could fluctuate and affect KPN's balance sheet and equity positions from year to year.

Group companies and business operations are obliged to hedge their firm commitments and highly predictable anticipated transactions in foreign currencies with a counter value above EUR 100,000 by forward contracts transacted with KPN's Treasury department. Accordingly, Treasury matches and manages the intercompany and external exposures using forward exchange contracts. KPN does not apply hedge accounting for these hedge instruments.

As of December 31, 2008, more than 98% of cash was denominated in the functional currency of the related entities. At December 31, 2008 more than 96% of the net amount of trade receivables and trade payables was outstanding in the functional currency of the related entities.

Reference is made to Note 6 for the recognized exchange rate differences in the Consolidated Income Statement.

Interest rate risk and interest rate profile

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

With regard to interest rate risk exposure, KPN evaluates periodically the desired mix of fixed and floating interest rate liabilities. As of December 31, 2008, approximately 92% of KPN's interest-bearing debt was at fixed interest rates. With a view to existing and forecasted debt structure, KPN's Treasury department enters into additional future derivative instruments to adjust the mix of fixed and floating interest rate liabilities. For all these hedges, KPN applies hedge accounting.

Other market price risk

KPN does not enter into commodity contracts other than for its own use to meet the Group's expected usage. KPN has entered into energy contracts for own use with a nominal amount of approximately EUR 86 million at December 31, 2008 (see Note 31 'Commitments, Contingencies and legal proceedings' section purchase commitments').

Sensitivity analysis

As of December 31, 2008, KPN carried out a sensitivity analysis with regard to interest rate risk on interest-bearing assets and liabilities. Without a change in circumstances, each adverse change of 100 basis points would hypothetically not result in higher interest costs per annum (2007: EUR 21 million).

As of December 31, 2008, KPN carried out a sensitivity analysis with regard to interest rate risk and currency on the cash flow hedges. Without a change in circumstances, an adverse change of 100 basis points would hypothetically result in EUR 93 million lower hedge reserve included in the equity attributable to equity holders (2007: EUR 122 million). An adverse change of 200 basis points would hypothetically result in EUR 193 million lower hedge reserve. An adverse change of 10% of the EUR/USD rate and the EUR/GBP rate would without a change in circumstances hypothetically result in a EUR 47 million lower hedge reserve (2007: EUR 61 million). An adverse change of 20% would hypothetically result in a EUR 93 million lower hedge reserve.

For a sensitivity analysis on interest rate risk with regard to pensions, reference is made to Note 22.

Other notes to the Consolidated Financial statements

[30] Business combinations and other changes in consolidation**Changes in consolidation 2008**

(Amounts in millions of EUR)

Total acquisition of subsidiaries net of acquired cash	181
Purchase price reduction not yet received	-8

Considerations paid for business combinations acquired (net of cash)

Total cash included in acquired companies	24
Deferred considerations [25]	80

Total 277

Fair value net assets acquired 71

Goodwill paid for business combinations [10] 206

The acquisitions in 2008 were SMS Michel Communication GmbH (February 12), Applicationnet BV (February 20), Gemnet CSP BV (January 9) and IPT Medical Services BV (February 29), Ortel Mobile Holding BV (April 22), blau Mobilfunk GmbH (April 22), Station to Station BV (May 1) and the dutch operations of Debitel (December 30). KPN has performed purchase price allocations for these acquisitions of which Debitel was provisional.

The assets and liabilities arising from these acquisitions were as follows:

(Amounts in millions of EUR)	Fair value	Book value
Trade name	41	-
Customer relationships	51	-
Other intangibles	31	6
Property, plant and equipment	9	9
Other non-current assets	15	8
Inventory	13	13
Other current assets	42	44
Cash	24	24
Provisions	-18	-1
Long-term interest bearing debt	-14	-12
Deferred tax liabilities	-34	-1
Current liabilities	-89	-87
Net assets at acquisition date	71	3

Goodwill paid for Ortel (EUR 58 million) and blau Mobilfunk (EUR 60 million) reflect the strengthening of the distribution network in the cultural segments in The Netherlands and Germany, which these acquisitions are expected to deliver. The goodwill paid for SMS Michel (EUR 23 million) reflects the strengthening of KPN's position in the German mobile telecoms market in the long term through an increase in KPN's retail footprint.

If the acquisitions had occurred on January 1, 2008, KPN estimates consolidated revenues would have been approximately EUR 70 million higher. Profit for the year would have been approximately EUR 10 million lower.

Changes in consolidation 2007

(Amounts in millions of EUR)

Total acquisition of subsidiaries net of acquired cash	1,690
Total paid for other associates, not qualifying as a business combination	-6
Considerations paid for business combinations acquired (net of cash)	1,684
Total cash included in acquired companies	124
Deferred consideration Getronics [25]	12
Total	1,820
Of which for:	
– Tiscali	236
– iBasis (USD 55 million)	42
– T2 Belgium/KPN Belgium	108
– Getronics	1,349
– Other business combinations	85
Fair value net assets acquired	596
Goodwill paid for business combinations [10]	1,224

Tiscali

On May 23, 2007, the Dutch Competition Authority NMa approved KPN's acquisition of Tiscali The Netherlands with no conditions. KPN completed the acquisition of Tiscali SpA's Dutch operations for a cash consideration of EUR 236 million. The assets and liabilities arising from the acquisition of Tiscali were as follows:

(Amounts in millions of EUR)	Fair value as of June 19, 2007	Book value as of June 19, 2007
Trade name	1	-
Customer relationships and other intangibles	66	7
Property, plant and equipment	36	38
Inventory	1	1
Other current assets	12	10
Cash	7	7
Long-term interest bearing debt	-7	-7
Short-term interest bearing debt	-2	-2
Current liabilities	-21	-21
Net assets at acquisition date	93	33
Total consideration paid	236	
Total Goodwill	143	

The goodwill mainly reflects the synergies from integrating the Tiscali infrastructure into KPN's network which this acquisition is expected to deliver.

Revenues and loss as from acquisition date up to December 31, 2007 amounts to EUR 47 million and EUR 6 million respectively. If the acquisition had occurred on January 1, 2007, KPN estimates consolidated revenues would have been approximately EUR 30 million higher. Profit for the year 2007 would have been EUR 5 million higher.

iBasis

On October 1, 2007 KPN acquired approximately 40 million ordinary shares of iBasis Inc. (representing a share of 51% on a fully diluted basis and 54% on a non-diluted basis) in exchange for iBasis Netherlands (formerly known as KPN Global Carrier Services) and USD 55 million in cash. If the acquisition had occurred on January 1, 2007, Group revenues in 2007 would have been approximately EUR 340 million higher and profit would have been unchanged.

Other notes to the Consolidated Financial statements

The purchase price of the 51% interest on a fully diluted iBasis is derived as follows:

(Amounts in millions)		
iBasis number of outstanding shares of common stock on September 30, 2007		34.5 million
Market price as per September 30, 2007		10.75
Total Market Capitalization of iBasis	USD	370
Dividend payable immediately prior to closing		-58
Accrued dividend for unexercised warrants		-2
Dilution effects:		
Fair value of iBasis options		13
Fair value of iBasis warrants		5
iBasis working capital and debt adjustment		-12
Total purchase consideration		316
Estimated transaction costs		8
Total purchase price on a fully diluted basis (100%)	USD	324
51% on a fully diluted basis purchased by KPN	USD	165
Total purchase price, including transaction costs	EUR	116

The gain on the sale of the 49% interest in iBasis Netherlands to iBasis Inc. is derived as follows:

Amounts in millions of EUR	
Total purchase price of 51% interest in iBasis on a fully diluted basis (including transaction costs)	116
Deduct:	
– Total cash paid (USD 55 million)	42
– Total implied transaction costs	3
Implied market value of 49% of iBasis Netherlands as per October 1, 2007	71
Total bookvalue of iBasis Netherlands as per October 1, 2007	5
Total gain [2]	66

As the book value of the 49% interest in iBasis Netherlands at October 1, 2007 amounted to EUR 5 million, KPN recorded a non-cash gain of EUR 66 million on the sale of iBasis Netherlands to iBasis Inc. which is recorded as other income (see Note 2).

Amounts in millions of EUR	
Total purchase price iBasis (51%), including transaction costs	116
Fair value net assets acquired (51%)	26
Goodwill	90

The goodwill for iBasis reflects the increased scale in KPN's international wholesale activities and the lower costs which this acquisition is expected to deliver.

The provisional assets and liabilities arising from the purchase price allocation of iBasis were as follows:

Amounts in millions of EUR	Fair value as of October 1, 2007	Book value as of October 1, 2007
Trade names	15	-
Customer relationships and other intangibles	53	-
Property, plant and equipment	16	11
Other current assets	51	51
Cash	38	38
Long-term interest-bearing debt	-1	-1
Current liabilities	-121	-121
Net assets at acquisition date	51	-22
Minority interest KPN (49%)	25	
Net assets acquired	26	

In 2008, the purchase price allocation was finalized resulting in an addition to goodwill of EUR 2 million.

Getronics

On October 22, 2007, KPN completed the acquisition of Getronics. The total consideration consists of:

Amounts in millions of EUR	
Shares acquired	752
Redemption of convertible bonds	266
Preference shares acquired	161
Redemption of credit facility	150
Acquisition costs	8
Total consideration paid	1,337
Total deferred consideration [25]	12
Total consideration Getronics	1,349

Total revenues and net profit of Getronics for the period from October 22, 2007 up to December 31, 2007 amounted to EUR 488 million and zero respectively. If the acquisition had occurred on January 1, 2007, Group revenues in 2007 would have been approximately EUR 2.0 billion higher, and profit would have been stable. These amounts have been calculated using KPN's accounting policies and by adjusting the results of Getronics to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied from January 1, 2007 together with the consequential tax effects.

Other notes to the Consolidated Financial statements

The provisional assets and liabilities arising from the acquisition of Getronics were as follows:

Amounts in millions of EUR	Fair value as of October 22, 2007	Book value as of October 22, 2007
Trade name	42	-
Customer relationships and other intangibles	293	33
Computer software	53	33
Other financial non-current assets	31	57
Associates and joint ventures	18	17
Deferred tax asset	237	206
Property, plant and equipment	129	107
Inventory	44	66
Other current assets	529	529
Assets held for sale	91	91
Cash (net)	73	73
Long-term interest-bearing debt	-6	-6
Short-term interest-bearing debt	-50	-50
Provisions (including short-term portion) and other long-term payables	-257	-168
Deferred tax liabilities	-79	-11
Current liabilities	-706	-645
Net assets at acquisition date	442	332
Total consideration Getronics	1,349	
Total Goodwill	907	
– of which allocated to Getronics Segment	770	
– of which allocated to Business Segment	137	

The goodwill paid for Getronics reflects the cross- and up-selling opportunities to one another's client bases and expected cost synergies. In 2008, the purchase price allocation was finalized resulting in an addition to goodwill of EUR 19 million.

Other business combinations 2007

Amounts in millions of EUR	Fair value as of acquisition dates	Bookvalue at acquisition dates
Trade names	3	-
Customer relationships and other intangibles	28	-
Deferred tax asset	13	-
Property, plant and equipment	86	90
Inventory	3	3
Other current assets	28	28
Cash	5	5
Long-term liabilities	-4	-4
Deferred tax liabilities	-9	-
Current liabilities	-44	-45
Net assets at acquisition date	109	77
Total consideration paid for other business combinations including transaction costs	193	
Goodwill	84	

Other business combinations include Tele2 Belgium and Versatel Belgium. Their names were changed in 2008 to T2 Belgium and KPN Belgium. Their purchase price allocations were considered provisional per December 31, 2007 and finalized in 2008 resulting in a EUR 5 million lower goodwill.

If the other business combinations had occurred on January 1, 2007, KPN estimates consolidated revenues would have been approximately EUR 110 million higher and net profit would have been approximately EUR 5 million lower in 2007.

[31] Commitments, contingencies and legal proceedings

Commitments

Amounts in millions of EUR	Amounts due by period					
	Total Dec. 31, 2008	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years	Total Dec. 31, 2007
Capital commitments	508	369	138	1	-	367
Rental and operational lease contracts	3,027	445	703	525	1,354	3,036
Guarantees	180	8	40	8	124	66
Purchase commitments	801	495	261	37	8	840
Other	11	2	3	3	3	11
Total commitments	4,527	1,319	1,145	574	1,489	4,320

Rental and operational lease contracts

For buildings, the majority of contracts include options for renewal and rental fees that are subject to a yearly indexation. Some contracts give KPN an option to buy the property when the landlord wants to sell that property.

For site rentals and radio site contracts, the majority of agreements include an option for renewal of the contract and rental fees that are subject to a yearly indexation percentage. In addition, the majority of contracts can be cancelled by KPN only, with a notice period of 12 months.

The total costs of operating leases and rental contracts totaled EUR 369 million in 2008 (2007: EUR 318 million) and is included in 'other operating expenses' in the Consolidated Income Statement. These operating lease and rental commitments mainly relate to property, plant and equipment.

Guarantees

These commitments mainly consist of financial obligations of Group companies under certain contracts guaranteed by KPN.

KPN has guaranteed minimum revenues to the joint-venture with Reggefiber (see Note 12) which depend on coverage ratios obtained by KPN and other service providers in certain areas in which the joint-venture is active. The guaranteed minimum revenues cannot be reliably estimated and are not included in the table above.

Purchase commitments

KPN intends to continue to benefit from the telecommunication and technology expertise of The Dutch Organization for Applied Scientific Research Informatie- en Communicatie-technologie (TNO) in order to support the technological innovations required for KPN's business. In 2007, KPN extended the cooperation agreement with TNO for one year until December 31, 2011. The total remaining commitments until December 31, 2011 amount to EUR 33 million.

On February 13, 2003, KPN transferred (through its subsidiary KPN Directory Services) all its shares in Telefoongids Media (currently known as De Telefoongids B.V.). The core activities of Telefoongids Media consisted of commercial phone directories in printed form as well as in electronic form (e.g., phone directories on CD-ROMs or the Internet). KPN has a statutory obligation in The Netherlands to make phone directories available to the public until one year after the date on which KPN notifies the competent authority KPN will no longer do so. KPN agreed that its phone directory will be printed and distributed by Telefoongids Media (now De Telefoongids B.V.). De Telefoongids B.V. is entitled to combine its commercial telephone directory in printed form with KPN's directory in printed form. KPN's total commitments as at December 31, 2008 amounted to EUR 29 million (2007: EUR 42 million).

Requirements under the UMTS licenses in Germany, The Netherlands and Belgium

Germany

Under the UMTS license, operators are faced with roll-out obligations for German UMTS networks. In the first quarter of 2004, Germany's telecommunications regulator BundesnetzAgentur (former RegTP) commenced administrative procedures to verify whether coverage obligations under the UMTS license were met. As of December 31, 2008, the final minimum coverage requirement was 50%. In November 2006 BundesnetzAgentur confirmed that E-Plus met the license requirement. At the end of 2008 the coverage was over 60%.

The Netherlands

Under the UMTS license, operators must meet certain rollout obligations for UMTS networks. As of January 1, 2007, all built-up areas in municipalities with over 25,000 inhabitants, all main car, rail and water ways in between, all motorways to Germany and Belgium and the areas surrounding the Schiphol, Rotterdam and Maastricht airports should be covered at a minimum level of 144 Kb/s outdoor. The telecom agency ('Agentschap

Telecom') of the Dutch Ministry of Economic Affairs has published a system in order to verify compliance with the rollout obligations. The first monitoring based on the system started in September 2007 and results are communicated with mobile operators in April 2008. As a result an injunction by duress was imposed on Telfort for not meeting the obligations on the basis of the Telfort spectrum (see below under Legal proceedings).

Belgium

The UMTS license contains certain roll-out obligations which required a minimum of 40% population coverage by the end of 2006 which was confirmed by the Belgian regulator after verification in 2007. At the end of 2008, the minimum coverage obligation was 50% which was also met.

Contingencies

Contingent assets

On June 25, 2003, BASE initiated a damage claim against Proximus for the alleged abuse of its dominant market position by applying low on-net retail tariffs. On March 1, 2004, Mobistar voluntarily intervened in this procedure. In its preliminary decision in May 2007, the Commercial Court confirmed that Proximus had had a dominant position at the time and up until the end of 2004. The Court ordered an expert to assess whether Proximus had abused its dominance and, if so, what damages BASE and Mobistar may have suffered. This expert assessment is currently ongoing. Additional economic reports compiled by BASE and Mobistar have confirmed the existence of both Proximus' abuse of its dominant position (margin squeeze) and of the damages allegedly resulting therefrom (total damage of over EUR 1.0 billion). The experts are supposed to submit their conclusions by April 30, 2009.

Contingent liabilities

In KPN's Articles of Association and in a further decision by the Board of Management, which was approved by the Supervisory Board, KPN has indemnified the members and former members of KPN's Board of Management and Supervisory management, as well as a number of KPN's officers and directors and former officers and directors against liabilities, claims, judgments, fines and penalties incurred by such officer or director as a result of any threatened, pending or completed action, investigation or proceeding (whether civil, criminal or administrative) brought by a third party in relation to acts or omissions in or related to his capacity as officer or director. The indemnification does not apply to claims and expenses reimbursed by insurers, nor to an officer or a director that is adjudged to be liable for willful misconduct ('opzet') or intentional recklessness ('bewuste roekeloosheid').

Legal proceedings

KPN is involved in several legal proceedings, most of which are primarily related to regulatory or other ordinary course of business issues. KPN does not expect these proceedings to result in liabilities that have a material effect on KPN's financial position. Where it is probable that the outcome of the legal proceedings will be unfavorable for us, and the financial outcome of these proceedings can be reliably estimated, a provision has been accounted for in the Consolidated Financial Statements. In the following paragraphs, the main pending proceedings are described.

SOBI

On July 10, 2001, a writ of summons was served upon KPN by one of KPN's shareholders SOBI (Stichting Onderzoek Bedrijfsinformatie, or Foundation for the Research of Business Information). SOBI filed a claim with the Enterprise Chamber (Ondernemingskamer) of the Amsterdam Court of Appeal that seeks the annulment of KPN's annual financial statements for 2000.

On February 10, 2006, the Supreme Court judgment overturned the ruling made by the Enterprise Section of the Amsterdam Court of Appeal. The Supreme Court concluded that the Court of Appeal issued rulings on questions that had not been tabled (such as the classification of the gain related to NTT DoCoMo in the Consolidated Income Statement) and arguments that KPN had put forward had unjustly been ignored. With regard to the explanatory notes on the valuation of goodwill and licenses and the valuation of financial instruments issued to BellSouth, the Supreme Court ordered the Court of Appeal to reconsider and remotivate their verdict.

KPNQWEST

KPN is involved in several legal proceedings related to the bankruptcy of KPNQwest. On September 13, 2006, KPN was served with a writ of summons by Citibank N.A. and Cargill Financial Markets Plc. claiming EUR 218.9 million, excluding interest and costs, from various former officers and former shareholders, including us, of KPNQwest. Citibank and Cargill claim compensation for damages on a EUR 525 million syndicated loan provided to KPNQwest in 2002 on the basis of misrepresentation and concealment by former management and former shareholders when the loan was provided to KPNQwest. Citibank acted as agent of the syndicate and as a 14.7% principal lender of the syndicated loan. Cargill claims that it acquired

85.3% of the claim by assignments of their part in the syndicated loan by other original lenders. KPN has delivered its statement of defence on November 26, 2008. A decision by the District Court is not expected before year end 2009.

The VEB ('Vereniging van Effectenbezitters or Dutch Investors' Association') a private organization for retail investors in The Netherlands requested the Enterprise Chamber of the Amsterdam Court of Appeal to conduct an enquiry into the policy-making and the affairs of KPNQwest (in particular the relationship between KPNQwest on the one hand and Qwest and KPN on the other hand) in the period from August 30, 1999 until May 31, 2002. Various parties, including KPN, filed a defense against the request. The Enterprise Chamber granted the request and ordered an enquiry over the period from January 1, 2002 until May 23, 2002. The Enterprise Chamber may authorize the investigators to inspect relevant books, records and other sources of information and to request the production of evidence of any company closely connected with KPNQwest. After completion of the report, the Enterprise Chamber may be asked to issue a judgment as to whether there had been mismanagement ('wanbeleid') and, if so, it can take one or more further measures. The Enterprise Chamber has appointed three Investigators on December 5, 2008.

Telfort/Agentschap Telecom

On April 3, 2008, the Dutch Telecom Agency of the Ministry of Economic Affairs ('Agentschap Telecom') announced the results of its oversight of the progress of the UMTS roll-out. It concluded that Telfort's roll-out was insufficient and behind schedule according to the terms of the UMTS license under which Telfort operates. On June 11, 2008, the Agentschap Telecom formally ordered Telfort to complete its UMTS roll-out in compliance with the requirements of its UMTS license. Telfort must accomplish the roll-out within three months of June 11, 2008, or face penalty payments of EUR 5 million for each quarter during which appropriate levels have not been met (up to two years or an aggregate fine of EUR 40 million). Objections against this injunction is ongoing. In parallel KPN has set out activities to meet the requirements for the Telfort license. According to measurements, carried out by KPN, Telfort meets the requirements. An additional measurement, carried out by the Radio Agency, has not been finalized.

[32] Related-party transactions

In the normal course of business activities, KPN enters into agreements and transactions with shareholders, joint ventures and associated undertakings, for various business purposes, including the furnishing of services or financing of operating activities. KPN also enters into such transactions in the ordinary course of business with certain companies or organizations over which KPN, members of the Supervisory Board or Board of Management, may have a significant influence. The related-party transactions are described below. KPN considers none of these transactions to be material on an individual basis. Transactions within the KPN Group are not included in the description as these are eliminated in the Consolidated Financial Statements.

Transactions with shareholders

Capital Group International, Inc., and Capital Research and Management Company have notified the AFM that they hold respectively less than 5% (June 27, 2007: 4.97%) and less than 15% (July 1, 2008: 12.87%) of the ordinary shares of KPN. To KPN's knowledge, no other shareholder owned 5% or more of KPN's outstanding shares as at December 31, 2008. KPN did not enter into material agreements with either company. These companies are investment companies, which may have shareholdings in other companies with which KPN has contracts in the ordinary course of business. To the best of KPN's knowledge, such contracts, if any, were not influenced by any of these shareholders.

Transactions with joint ventures and associated companies

Associated, non-consolidated companies and joint ventures of KPN sell goods and provide services to consolidated KPN companies. In addition, consolidated KPN companies sell goods or provide services to these non-consolidated companies and joint-ventures (see Note 12 and 16).

Transactions with directors and related parties

For details of the relation between directors and the Company, reference is made to Note 3, Employee benefits.

The Company has not been, and is not now, a party to any material transactions, or proposed transactions, in which members of the Supervisory Board or Board of Management or close members of their families had a direct or indirect material interest in 2008.

The total value of sales transactions by KPN in 2008 with parties in which members of the Supervisory Board or Board of Management or close members of their families had a direct or indirect material interest amounted to approximately EUR 117 million and the total value of purchase transactions amounted to approximately EUR 75 million, all in the ordinary course of business.

Other

As of January 1, 2003, KPN and TPG sold their interest in the 50/50 joint venture TKP to AEGON Nederland. TKP deals with the administration and investments of KPN's pension funds (see Note 22). KPN's pension funds and TKP have entered into administration agreements. One of the members of KPN's Supervisory Board, Mr. Streppel, is member of the Board of Management of AEGON N.V., the holding company of AEGON Nederland. The agreements were entered into in the ordinary course of business.

[33] Subsequent events

On January 28, 2009 KPN announced the successful launch of a dual tranche Eurobond consisting of two bonds for respectively an amount of EUR 750 million, with a 5 year maturity and a coupon of 6.25% and for an amount of EUR 750 million, with a 10 year maturity and a coupon of 7.50%. These bonds have been placed with a broad range of institutional investors across Europe.

The bonds have been issued under KPN's Global Medium Term Note programme and will be listed on Euronext Amsterdam. The proceeds of this bond will be used to refinance debt and for general corporate purposes. Following the successful execution of these Eurobond transactions, KPN terminated its EUR 0.4 billion backstop credit facility which was signed on October 22, 2008.

[34] Segment reporting

Based on KPN's internal structure and internal reporting to the CEO the reportable segments are summarized below. For a description of the activities of these segments, reference is made to the section 'KPN Group – Segmental information and results'.

The Netherlands

The Netherlands consists of the following:

- Consumer Segment;
- Business Segment;
- Getronics Segment;
- Wholesale & Operations Segment, and
- The Netherlands' Other Segment.

The basis for inter-segment pricing for wireless services is as follows:

1. KPN's mobile terminating services are in some aspects regulated. The price level of the mobile terminating services to external wholesale operators has been set in consultation with and approved by the Dutch competition and telecommunications regulators. The mobile terminating tariffs are applied on a non-discriminatory basis within the segment Consumer, Business and Wholesale & Operations and to other (external) operators; and
2. Roaming tariffs between KPN's Mobile operators are based on bilateral agreements and contain generally similar terms as bilateral agreements with third parties.

The basis for inter-segment pricing within The Netherlands, other than mentioned in category 1) and 2) above can be described as follows:

3. For identical products which are also sold to external parties, KPN uses wholesale prices;
4. For non-regulated retail products which do not fall within the scope of category 3, KPN uses cost-based prices; and
5. For regulated retail products which do not fall within the scope of category 3, KPN uses external purchase costs and an additional charge which is equal to a pre-determined percentage of the difference between the gross external retail revenues and external purchase costs; this method is also referred to as 'retail-minus'.

Mobile International

Mobile International comprises:

- E-Plus Segment, Including SMS Michel and blau Mobilfunk acquired in 2008;
- BASE Segment;
- Mobile Wholesale The Netherlands Segment; and
- Mobile International Other Segment, including Tele2/KPN Belgium, Simyo, Ay Yildiz and, acquired in 2008, Ortel Mobile.

Other activities Segment

Other activities comprise mainly the results of KPN's Corporate Center (support). Due to the fact that KPN neither allocates interest expenses to all segments nor accounts for taxes in the segments, the disclosure is limited to profit for the year. As of year-end 2008, the balance sheet totals of associates and joint ventures mainly related to the Business Segment and Getronics.

The Netherlands

Amounts in millions of EUR unless otherwise stated	Consumer Segment		Business Segment		Getronics Segment		Wholesale & Operations Segment		Other (including eliminations)		Total The Netherlands	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Income statement												
External revenues ¹	3,778	3,845	3,084	3,113	1,867	482	1,397	1,138	1	-2	10,127	8,576
Other income	-	-	5	1	3	-	140	164	-1	-	147	165
Inter-division revenues	251	288	166	179	63	6	2,367	2,539	-2,621	-2,768	226	244
Total revenues	4,029	4,133	3,255	3,293	1,933	488	3,904	3,841	-2,621	-2,770	10,500	8,985
Total operating expenses excluding depreciation, amortization and impairments	-3,276	-3,426	-2,479	-2,542	-1,854	-465	-1,981	-1,824	2,645	2,763	-6,945	-5,494
EBITDA²	753	707	776	751	79	23	1,923	2,017	24	-7	3,555	3,491
Depreciation, amortization and impairments	-275	-247	-121	-109	-146	-18	-1,055	-1,180	-34	-24	-1,631	-1,578
Operating profit	478	460	655	642	-67	5	868	837	-10	-31	1,924	1,913
Balance sheet												
Total assets	2,891	3,496	2,772	4,574	2,178	2,412	10,109	5,507	-942	285	17,008	16,274
Total liabilities	2,936	3,109	2,779	4,569	2,286	2,416	10,076	5,482	-942	285	17,135	15,861
Other												
Investments in intangible assets	159	236	131	196	7	774	115	229	25	21	437	1,456
Investments in property, plant and equipment	90	123	199	137	43	8	611	586	22	7	965	861
Result associates and joint ventures	-5	-2	-2	-	-	-	-	-	-	1	-7	-1
Employees end of period (FTEs)	8,906	9,350	5,507	5,448	11,629	18,031	5,376	6,103	672	737	32,090	39,669
Employees average (FTEs)	9,128	9,003	5,477	5,417	14,830	3,606	5,739	6,504	705	782	35,879	25,312

1) External revenues mainly consist of rendering of services.

2) Earnings before interest, tax and depreciation, amortization and impairments.

Mobile International

	Mobile Wholesale The Netherlands		E-Plus		BASE		Other (incl. eliminations)		Total Mobile International	
Amounts in millions of EUR unless otherwise stated	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Income statement										
External revenues ¹	274	291	3,146	2,933	604	587	273	68	4,297	3,879
Other income	-	-	7	1	-	-	-	-	7	1
Inter-division revenues	74	53	65	29	43	26	-90	-11	92	97
Total revenues	348	344	3,218	2,963	647	613	183	57	4,396	3,977
Total operating expenses excluding depreciation, amortization and impairments	-203	-215	-1,973	-1,850	-407	-383	-215	-75	-2,798	-2,523
EBITDA²	145	129	1,245	1,113	240	230	-32	-18	1,598	1,454
Depreciation, amortization and impairments	-27	-28	-668	-676	-107	-113	-26	-3	-828	-820
Operating profit	118	101	577	437	133	117	-58	-21	770	634
Balance sheet										
Total assets	274	214	10,130	10,383	1,580	1,469	201	157	12,185	12,223
Total liabilities	115	143	29,934	30,607	310	314	195	110	30,554	31,174
Other										
Investments in intangible assets	1	2	156	50	13	49	1	-	171	101
Investments in property, plant and equipment	1	-	423	400	94	115	30	10	548	525
Employees end of period (FTEs)	46	37	2,968	2,284	732	651	420	310	4,166	3,282
Employees average (FTEs)	41	35	2,626	2,639	692	567	365	188	3,724	3,429

1) External revenues mainly consist of rendering of services.

2) Earnings before interest, tax and depreciation, amortization and impairments.

KPN Total

	Other activities Segment		Total segments		Eliminations		Consolidated	
Amounts in millions of EUR unless otherwise stated	2008	2007	2008	2007	2008	2007	2008	2007
Income statement								
External revenues ¹	2	6	14,427	12,461	-	-	14,427	12,461
Other income	21	3	175	171	-	-	175	171
Inter-division revenues	-	1	317	341	-317	-341	-	-
Total revenues	23	10	14,919	12,972	-317	-341	14,602	12,632
Total operating expenses excluding depreciation, amortization and impairments	-118	-55	-9,861	-8,073	317	341	-9,544	-7,732
EBITDA²	-95	-45	5,058	4,900	-	-	5,058	4,900
Depreciation, amortization and impairments	-2	-2	-2,461	-2,400	-	-	-2,461	-2,400
Operating profit	-97	-47	2,597	2,500	-	-	2,597	2,500
Balance sheet								
Total assets	24,765	22,327	53,958	50,824	-30,045	-26,027	23,913	24,797
Total liabilities	21,976	18,778	69,665	65,813	-49,511	-45,534	20,154	20,279
Other								
Investments in intangible assets	60	22	668	1,579	-	-	668	1,579
Investments in property, plant and equipment	1	0	1,514	1,386	-	-	1,514	1,386
Result associates and joint ventures	1	2	-5	1	-	-	-5	1
Employees end of period (FTEs)	446	580	36,702	43,531	-	-	36,702	43,531
Employees average (FTEs)	513	603	40,116	29,344	-	-	40,116	29,344

1) External revenues mainly consist of rendering of services.

2) Earnings before interest, tax and depreciation, amortization and impairments.

Geographical information

KPN's divisions mainly operate in five geographical areas. The Netherlands is the home country, also being the main operating territory. The Americas consist of the United States, including Canada and all other countries of the American continent.

Amounts in millions of EUR	Financial year	Total non-current assets ¹	Investments in intangible assets	Investments in property, plant and equipment	Revenues and other income
Regions					
The Netherlands	2008	9,022	481	941	8,544
	2007	9,174	1,389	855	8,604
Germany	2008	8,166	161	427	3,292
	2007	8,216	51	407	3,050
Belgium	2008	782	15	118	841
	2007	774	49	118	665
United Kingdom	2008	22	-	5	175
	2007	26	-	1	44
The Americas	2008	116	8	11	716
	2007	201	86	4	181
Other	2008	117	3	12	1,034
	2007	66	4	1	88
Consolidated	2008	18,225	668	1,514	14,602
	2007	18,457	1,579	1,386	12,632

1) Excluding deferred tax assets and pensions.

Corporate Income Statement

Amounts in millions of EUR	2008	2007
Income from Group companies after taxes	1,749	3,043
Other income and expense after taxes	-417	-391
Profit attributable to equity holders	1,332	2,652

Corporate Balance Sheet

Before appropriation of profit

Assets

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
NON-CURRENT ASSETS		
Financial fixed assets		
Investments in Group companies	15,442	14,904
Loans to Group companies	6,077	6,692
Derivative financial instruments	133	11
Other financial fixed assets	126	199
Total financial fixed assets [A]	21,778	21,806
Total non-current assets	21,778	21,806
CURRENT ASSETS		
Receivables [B]	2,520	2,242
Prepayments and accrued income	18	8
Cash	420	284
Total current assets	2,958	2,534
TOTAL	24,736	24,340

[..] Bracketed letters refer to the notes to the Corporate Balance Sheet.

Liabilities

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS		
Subscribed capital stock	411	443
Additional paid-in capital	9,650	11,120
Hedge reserve (net of tax)	-11	-13
Revaluation reserve (net of tax)	222	291
Cumulative translation adjustment	20	-1
Fair value reserve for available for sale financial assets	1	-
Retained earnings	-7,895	-10,002
Profit current year	1,332	2,652
Total equity attributable to equity holders [C]	3,730	4,490
PROVISIONS		
Provisions for retirement benefit obligations	741	1,035
Other provisions	28	28
Total provisions	769	1,063
NON-CURRENT LIABILITIES		
Loans [D]	11,416	10,026
Derivative financial instruments	192	329
Other long-term liabilities	18	51
Total long-term liabilities	11,626	10,406
CURRENT LIABILITIES		
Derivative financial instruments	2	28
Other liabilities [E]	8,293	8,086
Accruals and deferred income	316	267
Total current liabilities	8,611	8,381
TOTAL	24,736	24,340

[..] Bracketed letters refer to the notes to the Corporate Balance Sheet.

General Notes to the Corporate Financial Statements

With reference to the Income Statement of Koninklijke KPN N.V., use has been made of the exemption pursuant to Section 402 of Book 2 of the Dutch Civil Code.

For the principles for the recognition and measurement of assets and liabilities and determination of the result for its Corporate Financial Statements, Koninklijke KPN N.V. applies the option provided in Section 2:362 (8) of the Dutch Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as 'Accounting policies') of the Corporate Financial Statements of Koninklijke KPN N.V. are the same as those applied for the Consolidated Financial Statements under IFRS. Participating interests, over which significant influence (including control) is exercised, are stated applying the equity method. These Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the European Union. Reference is made to the notes to the Consolidated Financial Statements.

Notes to the Corporate Balance Sheet

Non-current assets

[A] Financial fixed assets

Amounts in millions of EUR	Group companies	Loans to Group companies	Other financial fixed assets and derivative financial instruments	Total
Balance as of January 1, 2007	11,848	9,718	516	22,082
Exchange rate differences	-2	-	-	-2
New consolidations	1	-	-	1
Income from Group companies after taxes	3,043	-	-	3,043
New loans	-	70	2	72
Withdrawals/redemptions	-	-3,610	-2	-3,612
Change in deferred taxes	-	-	-314	-314
Transfer from current portion	-	514	-	514
Other	14	-	8	22
Total changes	3,056	-3,026	-306	-276
Balance as of December 31, 2007	14,904	6,692	210	21,806
Exchange rate differences	20	-	-	20
Received dividends	-1,237	-	-	-1,237
Income from Group companies after taxes	1,749	-	-	1,749
New loans	-	234	-	234
Withdrawals/redemptions	-	-850	-	-850
Change in deferred taxes	-	-	-102	-102
Change in derivative financial instruments	-	-	122	122
Other	6	1	29	36
Total changes	538	-615	49	-28
Balance as of December 31, 2008	15,442	6,077	259	21,778

The loans to Group companies have with maturity dates between 2009 and 2016 and a mixture of interest rates: floating, fixed or profit depending.

Other financial fixed assets include a deferred tax asset of EUR 52 million (2007: EUR 154 million) and derivative financial instruments of EUR 133 million (2007: EUR 11 million).

Current assets

[B] Receivables

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
Short-term loans to Group companies	2,420	2,127
Income tax receivable	99	114
Other receivables	1	1
Balance as of	2,520	2,242

Equity attributable to equity holders

[C] Equity attributable to equity holders

For a break down of Equity attributable to equity holders, reference is made to the Consolidated Statement of Changes in Group Equity and the notes thereto.

Legal reserves

Movements in legal reserves, which can not be distributed freely, are presented below:

Amounts in millions of EUR	Revaluation reserve property, plant and equipment	Hedge reserve	Cumulative translation adjustments	Fair value reserve	Total
Balance as of January 1, 2007	350	-96	-	-	254
Exchange rate differences	-	-	-1	-	-1
Release to retained earnings	-59	-	-	-	-59
Additions, net	-	83	-	-	83
Balance as of December 31, 2007	291	-13	-1	-	277
Exchange rate differences	-	-	21	-	21
Release to retained earnings	-69	-	-	-	-69
Additions, net	-	2	-	1	3
Balance as of December 31, 2008	222	-11	20	1	232

As the hedge-reserve was negative, the total amount of non-distributable reserves was EUR 243 million as at December 31, 2008.

Retained earnings

Movements in retained earnings are as follows:

Amounts in millions of EUR	
Balance as of January 1, 2007	-10,205
Prior year profit	1,583
Shares sold (option exercised)	25
Shares repurchased	-1,500
Shares cancelled	1,000
Dividend	-982
Other	77
Balance as of December 31, 2007	-10,002
Prior year profit	2,652
Shares sold (option exercised)	24
Shares repurchased	-1,170
Shares cancelled	1,502
Dividend	-981
Other	80
Balance as of December 31, 2008	-7,895

Non-current liabilities

[D] Loans

Loans include loans from Group companies for EUR 676 million (2007: EUR 649 million) with maturity dates between 2009 and 2016 and with a mixture of fixed and floating interest rates.

Current liabilities

[E] Other liabilities

Other liabilities include financial current accounts and loans from Group companies for EUR 7,199 million (2007: EUR 5,850 million). They also include EUR 2 million taxes payable and social security contributions (2007: EUR 2 million).

Commitments and contingencies

Amounts in millions of EUR	Dec. 31, 2008	Dec. 31, 2007
Commitments by virtue of guarantees	143	38

KPN has issued several declarations of joint and several liabilities for various Group companies in compliance with Section 403, Book 2 of the Dutch Civil Code. These declarations of joint and several liabilities for Group companies are included in a complete list of subsidiaries and participating interests, which is available at the offices of the Chamber of Commerce in The Hague.

Directors' remuneration

Reference is made to Note 3, Employee benefits of the Consolidated Financial Statements.

The Hague, February 23, 2009

Supervisory Board	Board of Management
A.H.J. Risseuw	A.J. Scheepbouwer
M. Bischoff	M.H.M. Smits
C.M. Colijn-Hooymans	S.P. Miller
D.I. Jager	E. Blok
M.E. van Lier Lels	J.B.P. Coopmans
J.B.M. Streppel	

Auditor's Report

To the General Meeting of Shareholders of Koninklijke KPN N.V.

Report on the financial statements

We have audited the accompanying financial statements 2008 of Koninklijke KPN N.V., The Hague as set out on pages 75 to 145. The financial statements consist of the consolidated financial statements and the corporate financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2008, the consolidated income statement, the consolidated statement of changes in group equity and consolidated cash flow statement for the year then ended, and the notes to the consolidated financial statements. The corporate financial statements comprise the corporate balance sheet as at December 31, 2008, the corporate income statement for the year then ended and the notes thereto.

Board of Management's responsibility

The Board of Management of the company is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Board of Management's Report, set out on pages 4 to 55 and 61 to 72, in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board of Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the Consolidated Financial Statements

In our opinion, the consolidated financial statements, set out on pages 75 to 139, give a true and fair view of the financial position of Koninklijke KPN N.V. as at December 31, 2008, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the Corporate Financial Statements

In our opinion, the corporate financial statements, set out on pages 140 to 145, give a true and fair view of the financial position of Koninklijke KPN N.V. as at December 31, 2008, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the Board of Management's Report, set out on pages 4 to 55 and 61 to 72, is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

The Hague, February 23, 2009
PricewaterhouseCoopers Accountants N.V.

R. Dekkers RA

Proposed appropriation of result

On outstanding Class B preferred shares, a dividend is paid out equal to the average of the 12-month Euribor increased by 1%. If the 12-month Euribor is no longer determined, the dividend on preference shares will be calculated based on the yield on State loans (article 35 sub 1, Articles of Association). No Class B preferred shares were outstanding in 2008. Subsequently, 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 any Class B preferred shares will be appropriated to the reserves (article 35 sub 2, Articles of Association). The part of the profit remaining after the appropriation to the reserves shall be at the disposal of the general meeting (article 35 sub 3 Articles of Association). The Board of Management, with the approval of the Supervisory Board, may also appropriate the complete profit to the reserves.

On February 23, 2009, the Board of Management, with approval of the Supervisory Board, has appropriated an amount of EUR 312 million out of the profit to the Other reserves. The remaining part of the profit over 2008, amounting to EUR 1,020 million, is available for distribution as dividend. In August 2008 an interim dividend of EUR 0.20 was paid to all holders of ordinary shares, amounting to a total of EUR 344 million. The remaining part of EUR 676 million is available for distribution as final dividend.

The Board of Management, with the approval of the Supervisory Board, will propose to the AGM to determine the total dividend over 2008 at EUR 0.60 per ordinary share. After deduction of the interim dividend of EUR 0.20 per ordinary share, the final dividend will be EUR 0.40 per ordinary share. Subject to the provisions of Article 37 of the Articles of Association, the 2008 final dividend will become payable as of April 21, 2009, which is 8 working days after the date of the AGM. The payout ratio of this dividend amounts to 76% of the profit for 2008.

Subsequent events

Reference is made to Note 33 Subsequent events in the Consolidated Financial Statements.

Legal structure

The following table sets forth the name and jurisdiction of incorporation of, and our ownership and voting interest (if different) in, our principal operating subsidiaries and other principal interests as of December 31, 2008.

Name of Subsidiaries and other principal interests	Country of incorporation	Percentage ownership/ voting interest
KPN ICT Services B.V.:	The Netherlands	100.0
Getronics N.V.	The Netherlands	100.0
KPN B.V.:	The Netherlands	100.0
KPN EuroRings B.V.	The Netherlands	100.0
Infonet Nederland B.V.	The Netherlands	100.0
XS4ALL Holding B.V.	The Netherlands	100.0
iBasis Inc.	USA	56.3
Telfort B.V.	The Netherlands	100.0
Sympac B.V.	The Netherlands	100.0
E-Plus Nederland B.V.	The Netherlands	100.0
KPN Telecommerce B.V.:	The Netherlands	100.0
SNT Nederland B.V.	The Netherlands	100.0
SNT Deutschland A.G.	Germany	100.0
KPN Mobile Holding B.V.:	The Netherlands	100.0
E-Plus Mobilfunk Geschäftsführungs GmbH	Germany	100.0
– E-Plus Mobilfunk GmbH & Co.KG	Germany	22.5
KPN Mobile N.V.:	The Netherlands	100.0
– KPN Mobile International B.V.	The Netherlands	100.0
– BASE N.V.	Belgium	100.0
– KPN Belgium N.V.	Belgium	100.0
– T2 Belgium N.V.	Belgium	100.0
– E-Plus Mobilfunk GmbH & Co.KG	Germany	77.5

ADR

American Depository Receipt

ADS

American Depository Share

ADSL (Asymmetric Digital Subscriber Line)

With ADSL, transmissions from provider to user take place at a higher speed than from user to provider. ADSL allows high-speed digital communication, including video signals, across an ordinary twisted-pair copper phone line. An ADSL modem is required.

All-IP

IP is a technology based on the Internet Protocol. 'All-IP' refers to the transformation of KPN to an ICT- Multimedia organization which offers its customers all needs for communication. The new organization will be fully based on IP-service using a new fibre-network.

AMPU (Average Minutes Per User)

Weighted AMPU are calculated by taking the weighted average of the monthly AMPU during the year. The monthly AMPU is calculated by dividing total traffic volumes during a month by the average number of customers in that month. Each month is weighed according to the average number of customers in that month.

ARPU (Average Revenue Per User)

ARPU is the sum of connection fees, monthly fixed subscription revenues, traffic revenues and gross service provider revenues less related discounts during a one-month period, divided by the average number of customers during that month. Gross service provider revenues represent revenues generated by third-party providers. We account for the net part as gross service provider revenues. Gross service provider revenue is mainly generated by E-Plus.

ATM (Asynchronous Transfer Mode)

ATM is a transfer mode in which the information is organized into cells. It is asynchronous in the sense that the recurrence of cells containing information from an individual user is not necessarily periodic.

Backbone

Central processing point.

BiPT (Belgisch instituut voor Postdiensten en Telecommunicatie)

The Belgian Institute for Postal Services and Telecommunications is active as the telecommunications regulator in Belgium.

Bitstream access

Unbundled access to KPN's metallic local loops using DSL and ATM technology over KPN's copper infrastructure. A BitStream access connection consists of an xDSL broadband connection combined with an ATM Permanent Virtual Circuit.

Broadband

Broadband refers to telecommunication that provides multiple channels of data over a single communications medium, typically using some form of frequency or wave division multiplexing.

Bundesnetzagentur (BNetzA, former RegTP)

The Federal Network Agency is active as the telecommunications regulator in Germany.

Carrier Select

Method to opt for a different operator by entering an access code.

Churn

The number of mobile customers no longer connected to a mobile operator's network divided by the operator's customer base.

CityRing

Fiber optic access network for data and Internet traffic in and across several Dutch cities.

Co-location

The provision of space and technical facilities (such as power supply and air-conditioning) for a customer's telecommunications equipment on the service provider's premises, in the framework of interconnection or special access.

Content

The information presented on Internet sites, including its structure.

Customer base

The customer figures of mobile network operators of KPN consist of the number of registered SIM cards – excluding dual cards but including data-only PC connections and machine-based SIM cards – at the end of each reporting period. The customer base also comprises inactive prepaid users, who have had neither incoming nor outgoing traffic during a three-month period, but have not yet met the disconnection criteria (generally 12 months of inactivity).

DCS (Digital Cellular System)

Mobile telephone network based on the GSM standard.

DSL (Digital Subscriber Line)

DSL is a technology for bringing high-bandwidth information to homes and small businesses over ordinary copper PSTN lines. The widely used term xDSL refers to different variations of DSL, such as ADSL, HDSL, VDSL and SDSL.

DVB-T (Digital Video Broadcasting – Terrestrial)

DVB-T constitutes a transparent transmission channel, via which all types of digital signal can be broadcast. In addition to digitalized video and audio data, multimedia and computer data can be broadcast as well.

EDGE (Enhanced Data rates for GSM Evolution)

Enhanced data rates for GSM evolution. EDGE is a behind-the-scenes technology, pushing GPRS download speeds to above 100 kbps.

Epacity-VPN (E-VPN) or IP-VPN

Connects two or more offices using IP-VPN.

EuroRing

Fiber optic network for data and Internet traffic, running through several European cities.

Fiber to the Curb (FttC)

FttC is a fiber connection to the street and last part of the connection up to the consumers' location is a copper cable.

Fiber to the Home (FttH)

FttH is a fiber connection to the consumers' location.

Fiber to the Office (FttO)

FttO is fiber connection for business customers to the customers' office.

GPRS (General Packet Radio Service)

Particularly suited for voice, text and images. GPRS is an application that enables data packet switching via the GSM network as well as via the existing voice communication. GPRS will complement the existing CSD (Circuit Switched Data) of the GSM system. GPRS is based on the Global System for Mobile communications.

Gross churn ratio

Gross churn ratio is defined as the number of end-user relations terminated as a percentage of the average subscriber base. The ratio includes postpaid customers discontinuing the usage of our services due to involuntary churn (e.g. disconnections due to non-payment) and voluntary churn (e.g. customers switching to other operators) as well as prepaid customers whose call credits were not recharged in the past 13 months.

GSM (Global System for Mobile communications)

GSM is a second generation, digital mobile telephone system that is widely used in Europe and other parts of the world to send and receive voice and data.

Hirka

Our traditional backbone network.

HSDPA (High-Speed Downlink Packet Access)

HSDPA is a new mobile telephony protocol that, as an evolution of UMTS, is designed to increase the available data rate by a factor 5 or more.

ICT

Information, Communication and Technology.

IP-VPN (Internet Protocol – Virtual Private Network)

Offers a secured and private network using IP-based infrastructure.

ISDN (Integrated Services Digital Network)

A worldwide digital communications network evolving from existing telephone services. A standard ISDN connection consists of three channels, i.e. two B channels to carry data and voice at a speed of 64 Kbps and one D channel to carry control information at a speed of 16 Kbps.

ISP (Internet Service Provider)

A company that provides individuals and companies access to the Internet. Therefore, ISP maintains one or more connection points to the Internet for ISP subscribers. An ISP itself can be a subcontractor of an ISP that is connected with an Internet backbone.

Lambda

Our national fiber optic network in The Netherlands.

LAN (Local Area Network)

A LAN is a network designed to move data between stations within a campus.

Local Loop

The system, being a wired connection from a telephone company's central office in a locality to its customers' telephones at homes and businesses, was originally designed for voice transmission only using analog transmission technology on a single voice channel. Today, a computer modem converts analog signals and digital signals. With ISDN or DSL, Local Loop can carry digital signals directly and at a much higher bandwidth than for voice only.

Market share

Market share is the percentage or proportion of the total available market that is being serviced by KPN. These figures are based on externally available market data, which may not be completely accurate.

MDF (Main Distribution Frame)

Allows other telecommunications companies to access the local network, enabling them to connect with their customers through our main distribution frame.

MetroRings

City-level networks.

MMS (Multimedia Message Service)

MMS is the ability to send messages comprising a combination of text, sounds, images and video to MMS capable handsets.

MoU (Minutes of Use)

Minutes of Use is calculated by taking the weighted average of the monthly MoU during the year. The monthly MoU is calculated by dividing total traffic volumes during a month by the average number of customers in that month. Each month is weighed according to the average number of customers in that month.

MTA tariff (Mobile Terminating Access tariff)

The tariff, charged by mobile operators for the termination of incoming telephone traffic (originating from either a fixed or a mobile network) on their network.

MVNO (Mobile Virtual Network Operator)

A mobile operator that does not have its own spectrum, nor its own network infrastructure. Instead, MVNOs have business arrangements with traditional mobile operators to buy minutes of use to sell to their own customers.

Net line loss

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

NMa (Nederlandse Mededingingsautoriteit)

The Dutch Anti-trust Authority is the Dutch authority responsible for monitoring compliance with anti-trust rules.

OPTA (Onafhankelijke Post en Telecommunicatie Autoriteit)

The Independent Post and Telecommunications Authority operates as the telecommunications regulator in The Netherlands.

PABX

PABX is a Private Automated Branch eXchange, also expressed as PBX. It is an exchange (switch) for business customers.

PSTN (Public Switched Telephone Network)

Traditional telephone system that runs through copper cables (voice up to 64 Kbps, data up to 56 Kbps).

SIM card (Subscriber Identity Module card)

A chip card inserted into a mobile phone, which contains information such as telephone numbers and memory for storing a directory.

SMS (Short Message Service)

SMS is a service for sending messages of up to 160 characters to mobile phones that use GSM communications.

SoHo/SME

SoHo refers to Small Office/Home Office companies. SME refers to Small and Medium Enterprises.

UMTS (Universal Mobile Telecommunications System)

One of the major third generation mobile communications systems being developed. UMTS is suited to deliver voice, text, music and animated images. Data can be sent via UMTS at approximately 6 times the speed of ISDN.

VPN (Virtual Private Network)

A virtual network constructed from logic connections that are separated from other users.

VoIP (Voice over IP)

Voice traffic is transported over an IP-based data network. It enables new ways of communicating, such as combinations of telephony, messaging and videoconferencing.

WiMax (Worldwide Interoperability for Microwave Access)

WiMax is a standards-based wireless technology providing high-throughput broadband connections over long distances that can be used for a number of applications, including 'last-mile' broadband connections, hotspots and high-speed enterprise connectivity for business. It is conceptually similar to WiFi, but has certain improvements aimed at a better performance and permitting usage over much greater distances.

WLR (Wholesale Line Rental)

This system enables telecommunications providers to invoice customers for line rental and phone charges on the same bill, as opposed to having to pay for calls and line rental separately. With WLR, one can rationalize his organization's invoicing with one bill for line rental and call charges.

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Published by

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P.O. Box 30000
2500 GA The Hague
The Netherlands

Chamber of Commerce The Hague, registration number 02 04 52 00

Design and Production

Addison
www.addison.co.uk

Print

PlantijnCasparie

Print Coordination

Cendris Print Management

Photography

Frank van Delft

Paper

glives 55 silk



glives 55 is produced by an ISO 14001 accredited manufacturer and is certified as an FSC mixed sources product. It is produced with 55% recycled fibre from both pre- and post-consumer sources, together with 45% virgin elementary chlorine free (ECF) fibre sourced from sustainable forests.



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